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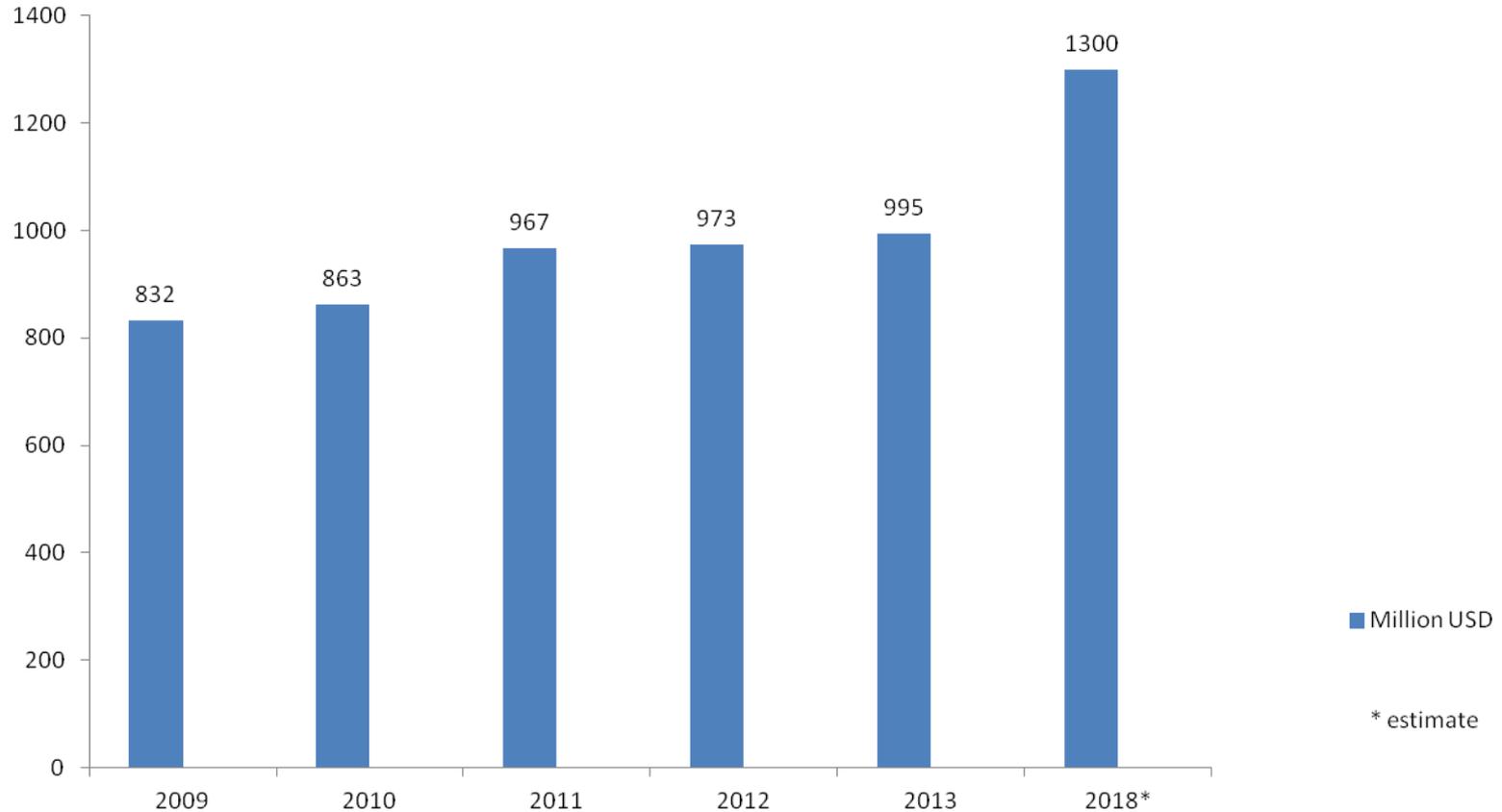
**Creating  
a Competitive Pharmaceutical Market  
through Strategic Centralized  
Procurement of Medicines  
- Examples from Western Balkans**

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# Global Spending on Pharmaceuticals will reach \$1.3 trillion by 2018!



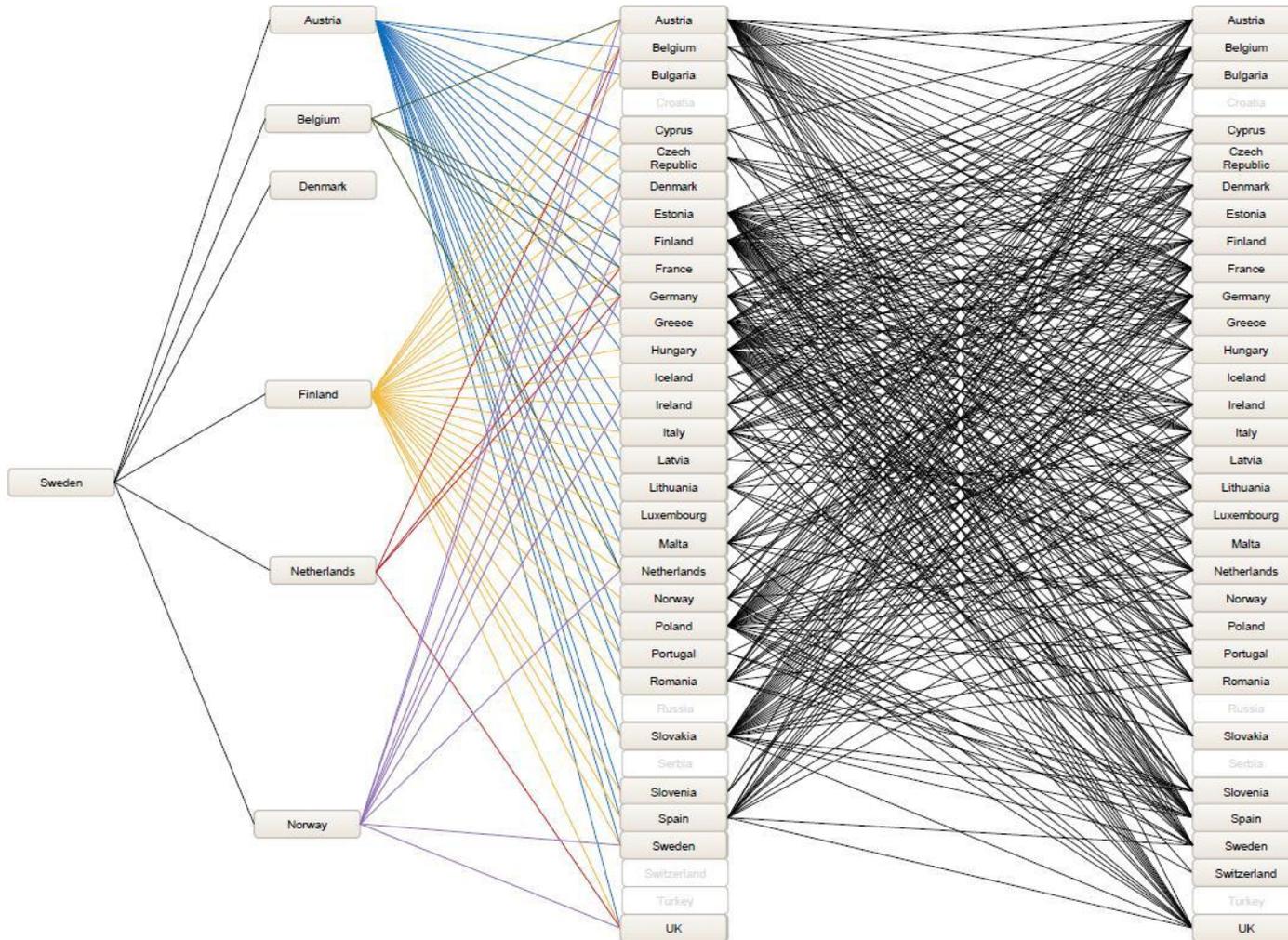
Source: IMS Health Market Prognosis

# Cost Drivers

<b>Inevitable/acceptable</b>	<b>Unwanted</b>
Aging population, multi-morbidity	Price increases, often due to currency devaluation
Innovation, more and better treatment options	Marketing tactics, shift from cheaper to more expensive alternatives
Improved diagnosis and treatment of chronic conditions (patient compliance)	Corruption, fraud, abuse by health professionals, patients; collusion on supplier side
Better patient education, demanding better treatment quality	Non-rational use, overuse
	Incentives for pharmacists to dispense more expensive medicines
	Political or legal pressures to pay for expensive medicines even if not cost-effective

Source: World Bank, Andreas Seiter and Anooj Pattnaik

# Price Competition on Pharmaceutical Market vs. External Reference Pricing (ERP)



# Price Competition on Pharmaceutical Market vs. External Reference Pricing (2)

- Comparing pharmaceutical prices is difficult because **published list prices** may differ substantially from **effective prices**.
- Little price transparency - “**hidden**” price changes
- **Volume competition by manufacturers**, who try to incentivize wholesalers, pharmacists, and hospitals to buy/sell more of their product by offering generous rebates or in-kind “bonuses.”

# Price Competition on Pharmaceutical Market vs. External Reference Pricing (3)

- The industry negotiates **discounts with distributors** of pharmaceuticals, which leaves listed prices unaffected;
- The industry may adapt strategically and continuously to ERP by **launching products in countries with high pharmaceutical prices first**;
- The industry signs **confidential “managed-entry”** and/or other forms of **risk-sharing agreements** with payers.

## ... More Barriers to Competition on Pharmaceutical Market

- **Exclusive relationships** - a tactic used by a seller (often a wholesaler) to deter new entrants and **limit competition** by contracting with manufacturers and retailers to only sell to, or only buy from, the company in question;



# Rationale for Competition Protection and Price Regulation

- **Protecting consumers** (vulnerability in the case of illness)
- Staying within **limited budget**
- Getting more **value/volume for the money**
- Improving **access for the poor**
- **Protecting domestic industry**, stimulating R&D investment)

# Centralized public procurement (CPP) - A Tool for Competition Protection

- CPP = **Pooled Procurement**: Purchasing done by one central purchasing body (CPB) on behalf of a group of facilities, health systems or countries.
- The main rationale for establishing a CPB - large procurement volumes generate better prices!
- With larger procurement volumes, an **increasing competition in the market** normally follows, affecting prices and other terms in ways that are favourable to the purchaser.

# Centralized public procurement (CPP) - A Tool for Competition Protection

- A substantial benefit of CPP is that it **increases the transparency of prices;**
- Significant **reduction in the prices;**
- **Reduced incentives for corruption;**
- **Increased certainty** – legal, technical, economic and contractual;
- **Increased simplicity.**



# Serbia

## - Tendering for Most Expensive Drugs

- Drug supply chain, involving manufacturers, wholesalers, and healthcare facilities, was expensive, and inefficient, and that it ultimately led to the healthcare facilities owing to **334 suppliers** more than EUR 40 million at the end of 2012, which was converted into public debt.
- This debt was generated despite the fact that the Health Insurance Fund (HIF) has settled the invoices of health care facilities for medicines on a regular basis.
- **166 most expensive medicines** were included in the first round of CPP tenders published by the HIF.



## CPP in Serbia - Results

- Results were savings around EUR 32 million (**27%**) on centralized procurement in hospitals and primary healthcare centers in 2014.

The savings were intended for inclusion of new medicines into Reimbursement Drug List.





## Croatia – tendering for multi-source (generic) drugs

- In 2012, Ministry of Health introduced new regulations promoting the **procurement of generics** and centralizing procurement using competitive tendering and framework contracts for county hospitals.
- Under the agreement, the **responsibility** for the procurement of various types of material was **allocated to different hospitals**.



## CPP in Croatia - Results

- **The Clinical Hospital Centre in Zagreb** was tasked with the centralized procurement of **medicines with generic alternatives** (multi-source drugs).
- As a direct result of the first round of tenders, the estimated cost savings have been EUR 24.5 million (**44.7%**).



# Montenegro

## -Tendering for Preferred Brand

- **Small market** (population 0.7 million);
- Montenegro is not a reference country for any other country;
- CPB - state-owned wholesaler “Montefarm”;
- Tendering for **all reimbursement medicines** listed by International Nonproprietary Name (INN);
- **The winner takes it all** – only one brand wins!
- **Results:** very low prices for high-volume generics (the lowest in region).

# Western Balkans' Lessons Learnt: Success and Risk Factors

- Careful **analysis of the market and products** to be centrally procured, to achieve competition and avoid single bids (monopoly);
- The **key people** - well trained and highly motivated;
- Transparent and fair **relationship with bidders** in order to build trust and encourage their participation in centralized tenders;
- **Monopsony commitment** - reliable payment and good financial management by dominant buyer (CPB).

# Conclusion and Discussion: Ensuring Affordable Prices and Supply Security

- For developing competition, preventing, restricting, and eliminating monopolistic activity, each country should seek a **combination of pharmaceutical policies**, and to **regularly adjust it**.
- Efficient procurement involves more than just obtaining the lowest price – it is about creating a healthy market where **high-quality products** are available **at the right time** at **affordable prices** and at the **right quantity**.
- **Supply sustainability!**

Thank you for your attention!

