NATIONAL HEALTH SECTOR MEETING BRIEF

March 27-28, 2019, Cagayan de Oro City

Influencing Drug Prices through Pricing and Procurement Strategies

BACKGROUND

- Universal Health Care is not achievable without good access to medicines. Access to medicines in the country has been limited by their affordability, accessibility and availability.
- Fifty-four percent (54%) of the total health expenditure is paid out-of-pocket by Filipinos. Of the 54%, half is spent on Medicines.
- Based on the 2016 report of IQVIA, the market is dominated by branded generics while unbranded generics have a negligible market share in terms of both volume and value share.
- Despite low GDP per capita, the Philippines has higher wholesale prices compared to neighboring ASEAN and OECD countries. For the public sector, innovator brands and their generic equivalent had a significant decrease in their median price ratio (MPR) between 2002 and 2017. However, for the private sector, MPRs of branded products of already off patent essential medicines remain high. New and innovator medicines are often not included in the Philippine National Formulary since the government is unable to subsidize exorbitantly-priced medicines.
- The Medicine Access Program of the DOH is one of the methods employed to improve access to affordable medicines, but this has been negatively affected by supply chain issues.
- Medium-term reforms of the DOH for drug pricing will include revival of the Botika ng Bayan for far-flung areas and GIDA, procurement and framework agreements, PhilHealth outpatient drug benefits development, price regulation, and central price negotiation.

CURRENT ISSUES TO BE ADDRESSED

- Drug prices remain generally high, with extreme variations in procurement prices and markups still observed. Affordability of medicines as a whole is limited, and government agencies are unable to procure the same medicines at the same prices.
- Hospitals are known to experience bid failures due to loss of economies of scale and inefficiencies in forecasting and procurement. This adversely affects the supply and therefore access of people to medicines.
- Because of these issues, government spending on medicines needs to improve to ensure a sustainable supply of essential medicines throughout the country.

RECOMMENDATIONS

1. **Step up efforts at Drug Price Regulation**
   Despite ongoing reforms of the DOH to ensure better affordability of drugs, the escalating costs of new medicines have made it challenging for the government to reduce out-of-pocket spending. To address this, the **Drug Price Advisory Council** was created to recommend list of medicines and their prices for **Maximum Drug Retail Prices (MDRPs)** and to assist the DOH in making sound decisions on the implementation of RA 9502, or the Cheaper Medicines Act of 2008. As provided in the law, the President of the Philippines upon the recommendation of the Secretary of Health, can impose maximum retail prices over any or all medicines. There is currently limited use of the MDRPs to regulate prices; MDRP use can be extended to more medicines, especially in light of the criteria that would justify its imposition.

   The criteria to impose MDRPs are the following:
   (1) conditions that address public health priorities especially those that account for the leading causes of morbidity and mortality;
   (2) drugs that have high price differentials compared to international prices;
   (3) lack of market access particularly for the poor; &
   (4) limited competition with their generic counterparts.

2. **Strengthen Pooled Procurement through Framework Contracts**
   Pooled procurement can create economies of scale and can help small contracting authorities. Further, it increases the purchasing power of the government which is important for price negotiations; improves the safety, efficacy, quality of medicines, and supplier monitoring; allows for the harmonization of standard treatment guidelines; and reduces transaction costs and overall administrative costs. In the Cheaper Medicines Act, there are provisions to conduct pooled procurement as one of the cost containment measures of DOH and PHIC. PPPI is a recognized government entity that may conduct pooled procurement for both public and private health facilities.

According to the 2016 Revised IRR of RA 9184, the **Philippine Pharma Procurement Inc (PPPI)** is allowed to act as a procurement agent for government entities, and it has in fact been able to reduce prices of medicines. For example, it was able to reduce the procurement price of medicines for breast cancer and acute lymphocytic leukemia by 30-50% for 15 PhilHealth-contracted hospitals. In 2013, it was also able to generate Php 70M savings for the DOH from its procurement of the influenza polyvalent vaccine, with its cost being 50% lower than retail costs. It is also foreseen that pooled procurement would allow for easier compliance to the Drug Price Reference Index.

Current limitations of the PPPI is the lack of stockpile, leading to unreliable availability of medicines. Some stocks also have shorter shelf-lives since suppliers import the entire quantity in one shipment. In addition, existing systems of some hospitals hinder the procurement process (e.g., tailor-fitting to favor certain brands, poor forecasting of quantities etc.). Finally, non-compliance to ordering agreements by some suppliers due to stock-outs and increase in acquisition costs were also identified.

To improve the current system, a proposed Executive Order is aimed at establishing a pooled procurement facility for medicines (PPFM) with the PPPI receiving funding support worth Php 500M for stockpiling, and information system for inventory and ordering, and other ancillary services. Other improvements include capacity building of government agencies on forecasting of appropriate quantities; setting up of an efficient quality assurance system; use of **multi-year contracting or framework** contracts to ensure stable source of supply; use of parallel importation; and initiating partnerships with local manufacturers for direct sourcing.

3. **Employ Price Negotiation**
Another proposal to consider in reducing the prices of medicines is for government to negotiate prices with pharmaceutical manufacturers. Centralizing negotiation prices for new technology, innovator, and single-sourced drugs can reduce rising pharmaceutical expenditures. This strategy is stated in the Universal Health Care Act in Section 28 on "Affordability," wherein an independent price negotiation board, composed of representatives from the DOH, PhilHealth, DTI, among others, shall negotiate prices on behalf of DOH and PhilHealth.

Price negotiation is to be done provided that the negotiated price in the framework contract should be applicable for all health care providers under DOH, and that the price negotiation board should adhere to the guidelines issued by the Government Procurement Policy Board. This however should be accompanied by an increase in financing. In addition, assistance from the Food and Drug Administration (FDA) and Philippine Competition Commission (PCC) is also needed to increase competition in the market to improve drug prices.

The **NHSM BRIEF** is a background document/reference material for discussion during the 3rd National Health Sector Meeting and prepared by the Health Policy Development and Planning Bureau in collaboration with the Health Regulation Team.

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