Global Pharmaceutical Policies to Curb Corruption: Do they Matter?

Combating Corruption in Health Care and Pharmaceuticals
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Highlights

- What is Governance
- What is Good Governance
- The Health Sector and Corruption
- Why Pharmaceuticals Matter
  - Pricing Transparency
  - Procurement
- Take-Aways
What Is Good Governance?
What is Good Governance?

- Consensus Oriented
- Accountable
- Transparent
- Participatory
- Responsive
- Follows the rule of law
- Effective & Efficient
- Equitable & Inclusive

Transparency in Focus

• Requires that citizens are fully informed as to how and why public policy decisions are taken
• Understanding how decisions are made requires information about procedures and criteria used by policy-makers to reach decisions
• Understanding why decisions are made requires disclosure of the information drawn on by policy-makers and revelation of the arguments for or against a decision.

But is Transparency Enough?
Accountability

- Accountability cuts across financial, performance and political/democratic domains

- Includes processes that require institutions or organizations to answer to those who will be affected by decisions or actions taken by them

- Accountability also requires measurement of goals and results, justification for results to internal and external monitors, and sanctions for nonperformance or corrupt behavior

What is Accountability?

• Accountability is government's obligation to demonstrate effectiveness in carrying out goals and producing the types of services that the public wants and needs
• **Lack of accountability creates opportunities for corruption**
• Three components of accountability:
  – measurement of goals and result;
  – justification or explanation of those results to internal or external monitors; and,
  – punishment or sanctions for non-performance or corrupt behaviour.

What is Corruption?

- Corruption is used to mean different things in different contexts (Pranab Bardhan, 1997)
- World Bank defines corruption as “…behavior on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed”
- Robert Klitgaard (2000) argues that systemic corruption distorts incentives, undermines institutions, and redistributes wealth and power to the under-serving
What Motivates Corruption?

- A lack of money
- Greed
- Poor institutional checks and balances
- Passiveness
- Power abuse
- Non-transparency
- Poor incentive structures for honest performance
Corruption Hurts...

- Efficiency in national health budgets
- Credibility and civic trust of public institutions
- Value of donor funds for development
- Access to safe medical products
- It is INEQUITABLE

Why the Health Sector is Vulnerable to Corruption
Why is the Health Sector Vulnerable?

- Complex sector – uncertainty prevails throughout
- Asymmetric information between providers, patients, and suppliers
- Complex interaction of many stakeholders with different intensities of accountability
- Standard enforcement limited due to limited financial and human resources
- Regulatory agencies often not impartial
- *Corruption versus inefficiency line often blurred*
Transparency and Accountability

• In Pharmaceutical Prices

• In the Procurement of Pharmaceuticals
Pricing Transparency

• Pharmaceuticals typically account for about 10 to 30% of health budgets in low-income countries
• Appeal of finding ways to push down prices is obvious
• A well-tried approach is to improve transparency in the pricing of pharmaceuticals (e.g. Medicines Transparency Alliance (MeTA))
• Public intelligence can reveal potential areas of abuse, avoid price variations caused by inefficiencies, and eliminate price differences caused by asymmetrical information among medicine suppliers and purchasers
Banco de Preços em Saúde (BPS)

• In 1998 Brazil’s Federal Government implemented the Banco de Preços em Saúde (BPS)
• Mandatory for all federally funded hospitals (with 320 beds or more) to publish purchasing prices of medical supplies on the Ministry website
• Free and open online information system that records, stores, and makes available the prices of medicines and health products purchased by public and private institutions
The BPS (2)

• While the BPS has increased access to information on drug purchasing in Brazil, not shown to lead to consistent reductions in drug purchase prices for some of the most widely used medicines within a five-year time span
• Price reductions not necessarily an outcome of transparency only
• Need additional measures with pricing transparency such as competitive tendering to reduce prices

Source: Kohler et al 2015
Pricing Transparency Necessary but Insufficient Condition

• In 2001, Schargrodsky et al. analyzed the effects of the mandatory report of purchasing prices paid for medicines and medical supplies by 33 hospitals in Buenos Aires (August 1996 - December 1997).
• The study found that drug prices significantly decreased a month after the mandatory purchase price policy in place.
• Bottom line – strong initial impact – decline in time.
• Transparency not enough to improve efficiency.
• Need accountability measures in place as well – Savedoff (2008) consequences for malpractice.
Medicine Price Observatory: Peru

- MeTA turned to price transparency as a mechanism for decreasing drug prices and increasing access to medicines
- The Medicine Price Observatory (MPO) was established at the end of Phase I of MeTA in January 2010
- The MPO is an online, “real time” source available on the Ministry of Health website and requires all public and private medicine sellers in Peru to publish their retail prices
- Each month pharmacies and drug stores are obliged to send pricing data for all of their medicines to the MPO
- The private, public and CSO sector all participate in the collection and monitoring of drug pricing data.
Procurement of Pharmaceuticals

- Goals of procurement is to ensure the right quantity and quality is purchase at a cost-effective price
- When comprised can lead to medicine shortages, inflated prices, and distribution of falsified and substandard medicines
- WHO estimates 10 percent to 25 percent of global spending on public procurement in health lost to corruption
Corruption Opportunities

• The procurement of publicly funded drug supplies is susceptible to corruption because drug volumes are usually large and unit costs are high, thereby making such contracts lucrative for suppliers
• Domestic or international suppliers may pay public officials bribes to gain monopoly positions in the tender process
• Biased procurement methods can also be employed, such as the use of a restricted tender or direct purchase when there is no emergency to justify it
• Promote “institutional bypass” could be + or -
Health Procurement Corruption

- **Isolated** procurement corruption – limited number of persons, small in scale
- **Systemic** procurement corruption is deeply embedded in state
- Corruption can happen at pre-bidding stage (e.g. bid-rigging), bidding stage (e.g. a bidder wins regardless of bid) and post-bidding stage (change in contract terms)
Creating a Transparent Market

• Most medicines not sold in competitive commodity markets
• The pharmaceutical market is oligopolistic with few competitors (producers and suppliers) who are able to drive up prices given the informational asymmetry that exists between themselves and their purchasers
• Governments have introduced public sector procurement as an opportunity to create increased competition among suppliers
Benefits to Procurement Transparency

• Increase in accurate information should allow policy makers and procurement managers to bid on fair prices, track prices over time, and more accurately estimate budget requirements.

• Can expose irregular price mark-ups, assist in the avoidance of drug shortages through accurately forecasting quantities of essential supplies, enhance quality of suppliers.
Transparency Counts

• A recent study (Cucciniello et al (2016) examined 187 studies on government transparency 1990 – 2015

• The authors found that transparency is indeed useful in achieving objectives such as improving participation, financial management, and reducing corruption.

Take-Aways

• How medicines are priced and purchased matters for public expenditure efficiency

• Transparency and accountability need to be context specific

• Anti-corruption Interventions need monitoring and evaluation on a regular basis to determine if objectives are being reached
Thank You

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