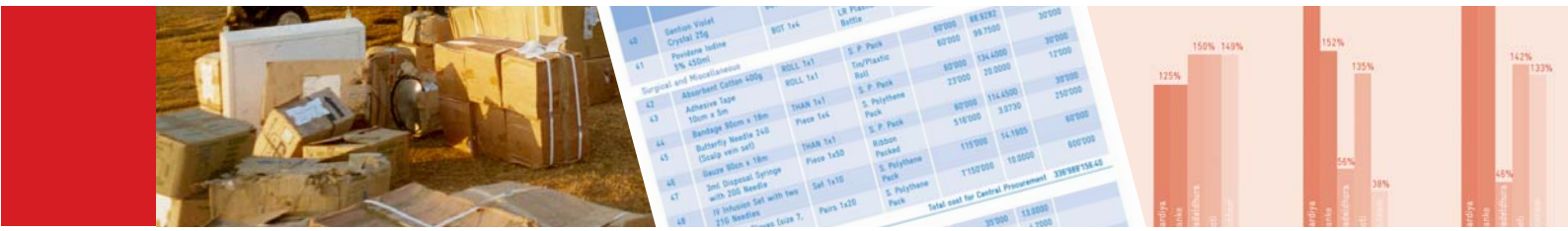

Essential Drug Procurement and Management in Nepal

Current Challenges and How to Address Them

Introduction

Ensuring access to affordable and appropriate medicines is an important goal for all health systems. In Nepal, the current three-year health plan (2007-2009) sets a target of 95 percent availability of essential drugs in health facilities. Provision of free essential drugs is also an important component of the newly announced free basic health care programme, which from January 2009 has been rolled out to all people at district and below level. Under this initiative, selected essential drugs (22 for SHP and 32 for HP) are made freely available.

This study examines the current system of drug procurement and management in Nepal. It makes recommendations for increasing its efficiency. These recommendations take on a particular urgency in the light of the free health care policy, which impacts on drugs financing and poses a risk of rapidly increasing and irrational drug consumption. The upgrading of 1,000 sub health posts to health post level also adds to drug supply challenges.

Study Methodology

The findings in this study are derived from the following research components:

- Secondary analysis of reports on essential drugs in Nepal
- Analysis of financial data from national health budgets
- Interviews in Kathmandu with officials of Logistics Management Division (LMD)/Department of Health Services (DoHS) and other resource persons
- Field visits to five districts in the mid-western and far-western regions in autumn 2008
- Interviews and data analysis at district level with District Health / Public Health Officers and other resource persons
- Interviews with in-charges and data analysis at primary health facilities (PHC, HP, SHP)
- Interviews with patients (exit interviews) and community members

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Ministry of Health and Population (MoHP) – Nepal
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Key Issues Arising from the Study

While the total cost of all 49 essential drugs procured at central level was NRS 584 million, the total budget provision for 2008-2009 was approximately NRS 816 million. Therefore, the budget was found to be adequate, even allowing for cost increases with district level procurement. However, the following findings raise concerns:

1. District procurement is not operating efficiently

At present districts budget to procure essential drugs at a cost ranging from 133 to 278 percent of the procurement cost of a comparable quantity at central level (compared to the Logistics and Management Division purchasing prices). This suggests that there is a substantial loss of efficiency in decentralising procurement responsibilities to the district level (Figure 1).

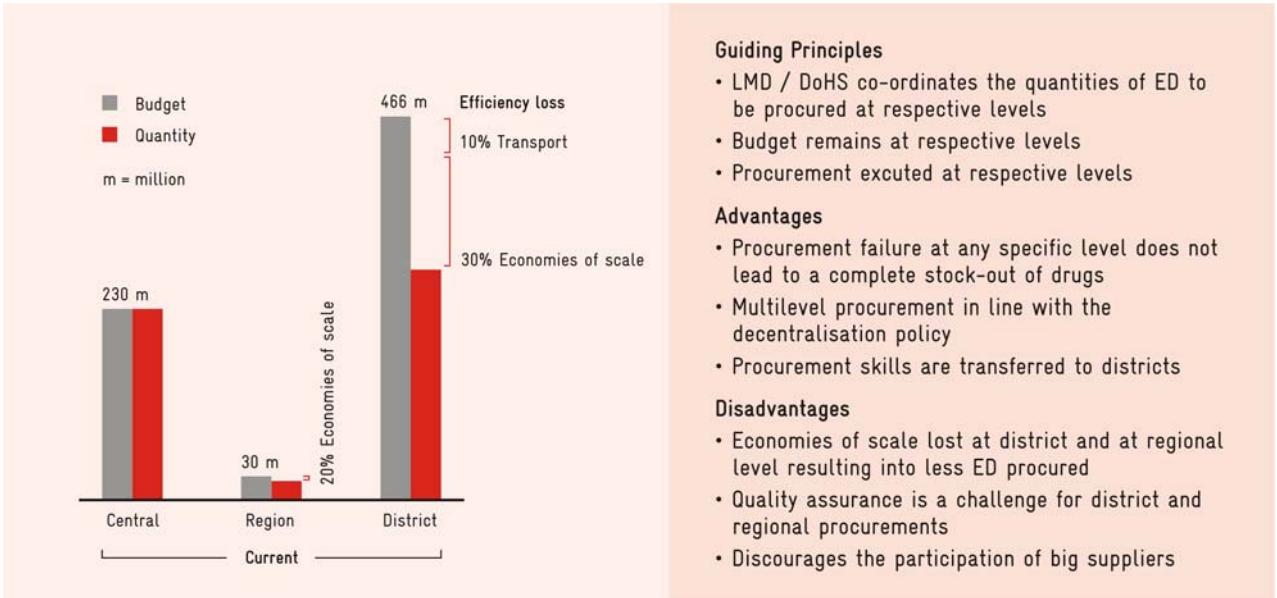
The present budget allocations result in a loss of efficiency of an estimated NRS 46.6 million due to additional transport costs and NRS 139.8 million due to economies of scale, compared to centrally managed procurement.

This may be linked in part to the practice of the districts awarding "single-contracts" to only one pharmaceutical company for the provision of all essential drugs in the district. Better value could be gained by splitting contracts to select the lowest cost items from different suppliers.

2. District capacity is low

Linked to this first finding, districts, especially in the far-western region, were found not to have adequate capacity in handling simple procurement issues. No basic tender documents were available to them. They did not have adequate capability for quality assurance. It was judged that poor management capability at the district had contributed more to procurement inefficiency and higher drug prices than the remoteness of the districts.

Figure 1. Central procurement is 20-40% cheaper due to economies of scale



3. The pattern of drug consumption could enable large savings, if economies of scale were pursued

A relatively small number of drugs constitute the bulk of the costs at all levels. One single item (Amoxycillin tablets) constitutes almost 30 percent of the national procurement cost. Similarly, the top 6 items consume 50 percent of the national procurement budget, and 9 additional items consume a further 25 percent of the national procurement budget. These patterns hold true for lower levels too. These findings show that huge amounts of money could be saved through utilising economies of scale at the centre, if applied to these core items.

4. The free health care policy makes efficient and rational drug supply an urgent priority

Findings at health facility and community levels (Box 1.) suggest that the free health care policy is effective but that it is already causing a strain on drug supplies, with potential adverse consequences for health and financial access. This makes improvements to efficiency and ways of strengthening the rationality of drug use a greater priority than ever before.

Box 1. Summary of perceptions on drugs supply at district, health facility, community level

For the **district** level managers, the preference for central tendering with district payment responsibilities is quite strong. One of the central concerns expressed was that the districts do not have means at their disposal for ensuring appropriate quality control. At the district level, it is difficult to attain economies of scale in drug procurement due to the small quantities tendered and limited supplier competition. Improvements are not only required in the area of essential drug procurements but also in a number of other service areas (e.g. X-ray facilities).

Health facility In-charges emphasize that the policy of free health care services is received very positively, but the precondition for it to work is that the supply of essential drugs needs to be sustainable. The outpatient number has increased considerably, especially along highways and public roads. The health facility in-charges are worried that unnecessary use of health services may be encouraged in the new setting, although they have not experienced this so far. A major concern is the frequent stock-out of essential drugs, especially for antibiotics and paediatric products. The health facilities have reacted to this situation with rationing of antibiotics, providing only a two-days' dose and counting on patients not coming back for further doses. This situation potentially creates severe public health problems. The out-patient reports might be inflated due to the regulation of the Government paying NRS 5 per patient to the health facility.

The **communities** themselves report that their access to health services has improved. People do seek help earlier, which may be due to the free health care policy. However, problems occur when certain drugs are not available, especially antibiotics. In hilly districts, access to health facilities is difficult and drugs are sometimes bought privately because of large distances and the corresponding transaction costs. There is a risk of adverse effects if the drug supply fails to keep up with the new level of demand.

Recommendations

Analysis clearly shows that considerably higher quantities of essential drugs could be procured with the available budgets by shifting the responsibility for essential drug procurement towards the centre, and thus utilising economies of scale. Therefore:

1. The DoHS may consider a gradual re-orientation of procurement activities to achieve efficiency gains without jeopardising the spirit of decentralisation. This should include central bidding and price negotiation, especially for the main essential drugs
2. The centre may take over the responsibility for quality assurance of drugs.

In addition:

3. At district level, a split-contracts approach is recommended, with districts selecting the cheapest items among all offers.
4. Frequent monitoring from the districts and also orientation/training of health facility staff on rational use of drugs seems imperative to ensure that drugs are being used properly, particularly given the upward pressures introduced by the free health care policy.

Recommendations for future research

Given the changing context, a series of follow-on studies are recommended, including:

- A study on the essential drug prescribing behaviour of health workers, particularly after the implementation of 'Free Health Care Policy'.
- A full-scale study to assess the cost implications of decentralisation of essential drug procurement at the district level. This is especially important in the wake of the MoHP policy of extending free health care services to the district hospitals.

- A national level study on pricing of all essential drugs (at least for those drugs which are supplied for free).
- Further investigations into the potential effects of fixing prices for essential drugs by the government.
- An exploration of the ways in which the districts can be supported in achieving the quality assurance of essential drugs.
- Further data collection on the cost levels of essential drug contracts in the districts, as compared to central procurement.
- An assessment of the impact of requiring a Good Manufacturing Practice (GMP) certification for potential suppliers both on price and quality of drugs and services.

For further details, see: Stoermer M, Sharma SS, Napierala C and Silwal PR (2009). Essential Drug Procurement and Supply Management System in Nepal – Options for Improvement, GTZ/GFA Consulting Group GmbH, Health Sector Support Programme, Department of Health Services, Kathmandu.

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