

# Reducing Anti-Retroviral Drugs Prices in Indonesia

by Indonesia AIDS Coalition - 2020



## Executive Summary

Despite recent price reductions, the prices being paid by the government of Indonesia (GoI) for anti-retroviral therapy (ART) drugs are still considerably higher than global prices. For example, the current GoI E-Catalogue price for TLE is twice that offered via the Global Fund for AIDS, TB, and Malaria (GFATM) Pooled Procurement Mechanism (PPM) even after adjustment is made for distribution and related costs.

It should also be noted that the recent successes in lowering prices resulted from an emergency taken by the highest level of government (e.g., the Office of Vice President and the President) vs. significant procurement system improvements. Procurement at prices that are closer to market prices consistently will require adjustment in policies, regulations, and/or in the procurement process.

A large number of factors contribute to the high costs of ART drugs in Indonesia. Among the more important of these are:

- Laws, policies, and regulations related to procurement, product registration, importation, and domestic production of ART drugs,
- Demand planning processes,
- Procurement and distribution planning processes, and
- Procurement execution processes.

There are several quite feasible policy options available to the GoI to reduce ART prices by increasing transparency and allowing for greater price competition. These include:

- **Provide owner estimates (OE) of ART prices that are more reflective of global market prices.** This might be accomplished by forming a participatory taskforce (MoH Farmakes, Sub-Directorate AIDS, pharmaceutical companies, KPPU, International Agencies - UNDP, WHO, patients group, etc.) that would engage with and supplement the Farmakes ULM Working Group in the price calculations to better suit the needs and aspirations of multiple stakeholders.



- **Open up a listing in the E-Catalogue for competitive bidding as is done for E-Tendering.** Allowing multiple companies to list in the E-Catalogue for any given product would increase price competition.
- **Itemize tender items to increase the number of eligible bidders.** While bundling of items to be procured into single, large procurements reduce the administrative costs of procurement, it does not ensure that the Gol is getting the lowest overall price for the package of commodities being procured. Itemizing the goods to be purchased in any given procurement would allow the Gol to choose the lowest price for each good.
- **Negotiate with vendors for lower prices for high volume purchases.** Volume discounts for large procurements could be more aggressively pursued in setting acceptable prices for E-Catalogue and E-Tender procurements.

## The Problem

There has been a longstanding problem with the pricing of anti-retroviral (ART) drugs (among others) in Indonesia. To its credit, the Government of Indonesia (Gol) has made significant progress in reducing drug costs in recent years. For example, current government E-Catalogue prices represent a 49% price reduction for TLE and a 68% reduction for TDF/FTC. The savings from reduced drug prices will permit the Gol to provide for an additional 45,000 persons in need of treatment.

Despite recent price reductions, the prices being paid by the Gol for ART drugs are still considerably higher than global prices. For example, the Gol E-Catalogue price for TLE is IDR 6,800/pill (IDR 204,000 per bottle of 30 pills) while TLE is offered via the Global Fund for AIDS, TB and Malaria (GFATM) Pooled Procurement Mechanism (PPM) for IDR 2,590/pill (IDR 77,700 per bottle). The latter, of course, does not include “handling” costs.

An unpublished report prepared for UNDP<sup>1</sup> estimated that warehousing, bank interest, distribution and company margin (for the local distributor) added about 20% to the costs of importing Tenofovir from Mylan (India) in 2017.

In one condition, if we take this figure as a reference and even escalate it to 30%, the Gol E-catalogue price at IDR 204,700 per bottle is still more than twice the GFATM PPM price with 30% added for handling costs (IDR 101,010 per bottle). While this represents an improvement from earlier years when the price premium paid by Indonesia was even larger (e.g., 3-5 times available global prices), it nevertheless has serious implications as Indonesia transitions from international financing for the National AIDS Program (NAP) and needs to function as efficiently as possible given the formidable competition for Gol funds.

<sup>1</sup> Report on a Meeting on Improving Community Access to ARVs. 18 July 2017. Sponsored by UNDP. Attended by TNP2K, BPOM, Binfar.



It should also be noted that the recent successes in lowering prices resulted from emergency taken by the highest level of government (e.g., the Office of Vice President and the President) more so than large-scale “system” improvements, although there have been some of the latter as well (e.g., establishment of an E-Catalogue system with fixed prices).

Procurement at prices that are closer to market prices basis consistently will require adjustment in policies, regulations, and procurement procedures.

## **The GoI Procurement Process: Factors Underlying High Prices**

A large number of factors contribute to the high costs of ART drugs in Indonesia. Among the more important of these are:

- Laws, policies and regulations related to procurement, product registration, importation and domestic production of ART drugs,
- Demand planning processes,
- Procurement and distribution planning processes, and
- Procurement execution processes.

All procurement is done under the umbrella of relevant laws, policies and regulations. In summary, the ART procurement process begins with Demand Planning by the MoH Sub-Directorate for AIDS and STIs.

At this stage, the numbers and types of products that need to be procured are forecast and communicated to the Procurement Service Unit (ULP) of the MoH Directorate General for Pharmacy and Health Equipment (Farmalkes), which undertakes Procurement and Distribution Planning activities.

It is at this stage that proposed product pricing is determined by a ULP Working Group (Pokja ULP). Two lists of products and quantities to be purchased are then forwarded to the National Public Procurement Agency (LKPP) for Procurement Execution – one list of products that are available through the GoI E-Catalogue and a second list of products that are not available in the GoI E-Catalogue and must thus be procured either via E-Tendering or a Special Access Scheme (SAS) arrangement.

There are elements falling under each of these headings that could be modified/improved that would contribute to lower prices. In this Policy Brief, we focus on issues falling under the heading of Procurement and Distribution Planning that we believe are amenable to short-term “fixes” that will have significant impact.

**Procurement packaging:** Most of the time the MoH packages ARV procurements in one large procurement package that might also include additional commodities responding the irregular needs or stockout conditions. Larger procurement packages increase the MoH's bargaining position with potential suppliers. However, requiring bidders to bid on packages that contain many products may create barriers for potential bidders that are not able to supply all products in the package, thus reducing competition.



**The tender schedule** can impact ARV prices by reducing market competition. Tenders that are set with very tight timelines for registration and/or submission of proposals/quotations might limit the number of bidders to those with more resources and experience and thus the capacity to respond quickly, thus reducing price competition.

**ARV product specification** is initially done by the “user” (that is, the MoH AIDS Sub-Directorate), but may be refined during procurement planning. At the procurement planning stage, it is essential to ensure that the required specification can be supplied by the market. Ideally, product specification should be supported by a market analysis so that market opportunities and risks for specific commodity can be identified.

**Owner price estimate.** In the GOI procurement regulation (Perpres 54/2010), it is stated that every tender process should be based upon an owner price estimate (OE). The OE is used as a reference during proposal evaluation to avoid buying over-priced products either via the E-Catalogue, E-Tender or SAS arrangements. It would appear that ARV OEs are typically based on the ARV price from the previous year. The impact of this is evident from in the divergence of Indonesian and global ARV prices up the 2018. While there was little change in Indonesian ART prices, global prices declined significantly.

**The evaluation criteria** of for assessing bidder proposals is set during procurement planning for use by the procurement executing agency – National Public Procurement Agency (LKPP). Usually, proposals are evaluated regarding administrative, technical and commercial standards. However, some tenders require evaluation on price only, especially for a standard product procurement. Other tenders focus on technical aspects (quality based), especially complex and high-risk procurements. Different evaluation criteria can lead to different winners during the tender process and thus different prices.

## Policy Options

There are several quite feasible policy options available to the GoI to reduce ART prices by increasing transparency in the procurement planning process and allowing for greater price competition. These include:

- **Provide owner estimates (OE) of ART prices that are more reflective of global market prices.** One weakness of the current system is that it lacks involvement from relevant stakeholders to assist the Ministry of Health to calculate a transparent, accountable, and reasonable price. The consequences of this became evident in 2018 when lobbying by civil society organizations representing ART beneficiaries over the TLE prices (then IDR 13,500/pill) led to a reduction in the tender price to IDR 6,800/pill. However, national pharmaceutical companies objected to the proposed tender price and the tender failed.



This proposed objective might be accomplished by forming a participatory taskforce (MoH Farmakes, Sub-Directorate AIDS, pharmaceutical companies, KPPU, International Agencies - UNDP, WHO, a patients group, etc.) that would engage with and supplement the Farmakes ULM Working Group in the price calculations to better suit the needs and aspirations of multiple stakeholders.

- **Open up listing in the E-Catalogue for competitive bidding as is done for E-Tendering.** Allowing multiple companies to list in the E-Catalogue for any given product would increase price competition. Further simplification of the product and E-Catalogue registration processes would help facilitate this. Under the current multi-winner mechanism, consideration might also be given to allowing the GoI to procure products at the lowest available price despite existing contracts by offering existing contractors the option of reducing their prices for the remainder of their contracts in response to new lower price offers available in the E-Catalogue.
- **Itemize tender items to increase the number of eligible bidders.** While bundling of items to be procured into single, large procurements reduces the administrative costs of procurement, it does not ensure that the GoI is getting the lowest overall price for the package of commodities being procured.

Itemizing the goods to be purchased in any given procurement would allow the GoI to choose the lowest price for each good. The key is balancing higher administrative costs vs. price savings accruing from increased competition and choosing the option that is most advantageous to the GoI.

- **Negotiate with vendors for lower prices for high volume purchases.** Volume discounts for large volume procurements could be more aggressively pursued in setting acceptable prices for E-Catalogue and E-Tender procurements. Strengthening the demand planning/forecasting process would facilitate making this policy action more feasible and effective.
- **Support the development of Indonesian pharmaceutical companies capable of producing ARTs that are globally competitive on both quality and price.** Many of the issues leading to historically high ART prices in Indonesia would be mitigated by having a more globally competitive pharmaceutical industry in the country. The GoI can facilitate such an outcome by (1) encouraging price and quality competition through its purchasing behaviors and (2) taking/supporting actions to advance production capacity and efficiency of Indonesian pharmaceutical companies. The latter might include (1) technical support from international development partners and (2) the development of partnerships and joint ventures between national and international pharmaceutical manufacturers.