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# Tendering for pharmaceuticals as a reimbursement tool in the Cyprus Public Health Sector



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## KEYWORDS

Pharmaceutical;  
Tendering;  
Technology  
Procurement;  
Pricing

## Abstract

**Background:** Cyprus has been procuring medicines for the public sector through tendering and is one of a few EU member states with this policy both in outpatient and inpatient health sector.

**Objectives:** The aim of this paper is the assessment of financial benefit from tendering and evaluation of its operational framework.

**Data and methods:** We compare value (weighted price) reduction, from a public payer's perspective, by using tendering prices compared with official pharmacy procurement prices, for the same volume of products (strength and package). Moreover, we assess mean price reduction of official pharmacy procurement prices as an effect of tendering, for the same sample. We perform the same analysis for the total sample and for 3 overlapping subcategories: branded, generics and Top twenty products in value. Products were selected based on clinical importance, volume and value. Sample includes 176 products, corresponding to 49.3 million euro cost and relevant data were extracted from Public Pharmaceutical sales of 2011 and the official 2011 pricelist of Ministry of Health.

**Results:** 60.6% value reduction and 39.39% mean price reduction have been achieved with tendering system. Generics demonstrated the greatest reduction both in value (94.8%) and in mean price (62.97%). Branded products reached 33.4% value and 25.99% mean price reduction, while top twenty products achieved 29% value and 23% mean price reduction.

**Conclusion:** Tendering is emerging as a sustainable and potent solution to a fast expanding pharmaceutical sector and it is a context sensitive cost containment approach. It must be implemented within a transparent, strict and specific framework.

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## Introduction

Procurement of medicines in the context of tight health budgets, steadily increasing demand and introduction of expensive products has been a great challenge, aggravated by the number of stakeholders involved and the highly regulated environment [1,2]. An optimum drug procurement

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system is still an unmet need even among EU countries [3,4] and a diverse spectrum of reimbursement and pricing policies were developed in order to bridge this gap [5].

Tendering, an aggressive form of pricing and a cost containment approach, [6] has been primarily established as the mainstay for medicines procurement in hospitals setting across Europe, and its rate of adoption accelerated especially among bail-out countries [7] who reported unprecedented savings for in-hospital pharmaceuticals. This euphoria was not duplicated in out-patient sector and only a few countries applied tendering for outpatient sector medicines, albeit confined to a small number of products' categories. Variable context specific tendering approaches have been applied to meet demands and needs of each country, either granting full market exclusivity to the winner or by elaborating a preferential list in which prescribing of the winning product provides some incentives both to prescribers and patients, as in the case of Belgium, where the winner of the simvastatin tender was awarded a 75% reimbursement rate in contrast to the 50% reimbursement rate of other simvastatins [9]. The Netherlands have introduced the preference policy which reimburses the cheapest product and all products that have a price in the range of 5%, with significant savings.

Despite its potent cost reduction ability through promoting competition, further dissemination of tendering in out-patient sector in Europe, was hindered by legal issues, competition rights and lack of expertise [10]. Belgium experienced the reallocation of demand when patient switched from cheap generic simvastatin to branded atorvastatin and rosuvastatin [11]. Belgium faced another adversity which had to do with the ability of the winner of the tender to adequately provide the requested quantity as in the case of amlodipine. This led to termination of tendering [12]. Moreover despite short term savings, [13] long term decrease in pharmaceutical investments was observed in countries that applied tendering, such as Denmark, [14] with consecutive negative consequences, such as less taxes and unemployment increase (Table 1).

Therefore, establishment of tendering as a long-term approach remains tentative for many countries. As a result, it comes to no surprise that among European countries only Cyprus, Malta and Iceland apply tender as their primary medicine procurement method and so far, only scarce data exist for tendering in these countries.

Cyprus features two fragmented pharmaceutical segments: private and public sector, which total up to 210 million euro in 2011, contributing just 0.1% to total EU pharmaceutical market [15,16]. In August 2013, massive reforms in eligibility criteria for provision of public health care and amendments in health laws and regulations occurred after the bail-out agreement with Troika was reached. One significant policy is the introduction of co-payment for pharmaceuticals in the form of a fixed and capped amount of 0.5 euro per product dispensed, applicable only within public sector. Public sector procures all medicines, for both inpatient and outpatient use, through tendering. In the private sector, pricing is done through external price referencing (EPR). EPR sets a wholesale price, on which a 37% pharmacist mark-up profit is added [17].

A tendering procedure begins only after a positive recommendation from a Health technology Assessment is issued. According to the results of the assessment, tender is released either by International Non proprietary Name (INN) sole, INN group (preferential) or INN alternative (Table 2) [18]. INN sole tender asks for only one product. INN group tender asks for several products (usually more than three) and based on the outcome of the tender prices, a protocol is constructed. This means that cheapest product is set as first line therapy, second cheapest as second, given that products are equivalent, such as anti-Tumor Necrosis Factors agents in Rheumatoid Arthritis. INN alternative ask for only one product among several competitive, more than three and even up to six, as in the case of Angiotensin Receptor Blocker (ARB) for hypertension. Therefore one critical task is to define competitive and equivalent products [19] which can be quite controversial especially in cases where there is no established class effect [20].

Ministry of Health (MOH) is legally bound to buy the requested tender quantities at the bidding price and has also enforced a series of binding agreements as a defense line against unreliable bidders such as performance guarantee (10% of the total value). Free of charge goods are accepted only if they are included in the requested quantity.

Tender is published in the official journal of Cyprus Government [21] and all participants are informed of the outcome, supporting the importance of transparency as a vital pillar of the tendering process. Opacity in tendering may lead to elimination of a proper tender candidate as observed in other countries [8].

**Table 1** Advantages and disadvantages of tendering [8].

Advantages of tendering	Disadvantages of tendering
It enhances competition between suppliers, therefore maximizing return on investment (money spent)	Leading suppliers may not tender thus leading to supply of inferior products (mainly in products massively promoted in private sector)
It alleviates corruption and preferential treatment	Poor quality products (partly applicable in pharmaceuticals due to heavily regulated environment)
Equal treatment of all participants	Slow process
Significant price reductions	Inability of successful bidder to fulfill the contract Massive switch of patients to another product in a short period of time Sustainability of Industry

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