ACE SOAS Consortium
Anti-Corruption Evidence
Making Anti-Corruption Real

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Improving the procurement of pharmaceutical products and increasing domestic production of essential drugs in Bangladesh

Towards a systemic governance reform of the procurement chain of pharmaceutical products and smart incentives for domestic producers of drugs

Research Question

The excess profits of the top companies allow them to market their drugs as 'better' drugs, by funding grey or illicit payments to doctors to prescribe these expensive drugs. Our research will map how the economics of this process works, but we will go further and use testing facilities at the London School of Hygiene & Tropical Medicine to show that from a pharmacological point of view there is no difference between the more expensive and cheaper versions of the same drugs.

Key Findings

The analysis and the evidence can then be used to provide ammunition to the next tier companies to organize collective action and lobby to add some of the widely prescribed drugs that we will test to the list of drugs that have their prices fixed by government. We will select drugs that are widely prescribed and use the research results to make the case from a public health perspective to add a limited number of drugs to the already existing fixed-price list.

Implications

If successful, this will stop the top companies paying doctors to prescribe their brands for these particular molecules because there will no longer be excess profits in these areas. In an incremental way, this strategy could expand the market for the smaller pharmaceutical companies by squeezing out a damaging type of rent seeking and thereby reducing out-of-pocket expenditures for the poor.

Project Summary

Pharmaceuticals are a complex and large sector in Bangladesh with significant corruption and health impacts. SOAS will undertake two projects and a laboratory-based experiment in the pharmaceutical sector. The motivation of the interrelated projects is to provide a joined-up analysis that seeks to increase competition in the sector as a way of reducing corruption and reducing prices for poor consumers.

The first project led by TIB will identify the weaknesses of the regulatory structure and the most feasible points of entry for regulatory strengthening. The project will map how the top four or five pharmaceutical companies have captured the regulatory processes that determine pricing. The TIB project on its own will not provide an answer because regulatory strengthening is unlikely to work even if we identify capture, given the weakness of enforcement in developing countries.

Our second project led by JPGSPH-BRAC will complement this to look at the economics of the pharmaceutical sector and map how the top companies effectively bribe doctors to prescribe particular brands whose prices are higher. Our hypothesis is that the higher prices that the top companies charge for their version of identical drugs that are available from other manufacturers allow them to pay and influence doctors to prescribe their brands, thereby closing the circuit of rent capture.

Our research question is to identify how competition can be increased in this context. In the specific case we are looking at (out of patent drugs that are assembled by local companies using almost identical active ingredients available in the international market), we believe this can be done by strengthening the bargaining power of the next

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10 companies to challenge this corruption-driven oligopoly to fix the price of these drugs using the Essential Drugs list that already exists in Bangladesh. We hope to enhance their bargaining power by providing them with independent assessments of bioequivalence of different brands of identical drugs. This evidence will be provided by doing tests of bioequivalence on a selected sample of drugs that are widely prescribed, but are provided by different brands.

Key research questions

- Mapping the extent to which the top 4 to 5 pharmaceutical companies have captured the regulatory structure in pharmaceuticals
- Mapping how excess profits in some brands of drugs are sustained by sharing part of these profits with doctors in the form of inducements to prescribe specific brands
- Identifying strategies of increasing competition by testing the bioequivalence of drugs and providing this evidence to the next tier of pharmaceutical companies and pharma sector activists to lobby the government to set prices at production cost for a small number of widely used drugs.
- If such a strategy takes off, there are likely to be implications for supporting more competition as a way of helping consumers and also strengthening the local pharmaceutical industry and foreign investors in the local market.

Methodology

Stage 1

Our core hypotheses were developed through extensive discussions during 2018 with industry insiders and pharmaceutical sector activists.

Stage 2

Review of existing evidence (literature and policies) and mapping of the regulatory processes through which prices are set and pharma company spending on influencing doctors is regulated.

Stage 3

Fieldwork, Laboratory work and Analysis:

The regulatory and market research will be based on surveys and key informant interviews, the laboratory testing will use in vitro testing of bioequivalence (this part of the project is still being finalized).

Stage 4

Strategies for using results to assist lobbying by excluded pharmaceutical companies and social activists (like Zafrullah Chowdhury of Gonoshastho Kendro) to add a few drugs to the essential price list where price differentials are shown to be unjustified on the basis of evidence

Policy and programming implications

A single strategy will not fix the multiple corruption issues in the pharmaceutical sector in Bangladesh. We believe that the demand for better regulation and more competition has to be supported with research that demonstrates its social benefits and brings in some powerful players like the second tier pharmaceutical companies and organizations like Gonoshastho to create public pressure for very specific interventions. This would be the first step in a series of steps that will seek to enhance competition in the sector and build internal support for more appropriate forms of regulation.

Research team members

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