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Pharmaceutical expenditure – how much are we spending?

2014

MINISTRY of Health

Shaping Fiji's Health

Policy and Planning Division – Ministry of Health

TITLE

Pharmaceutical expenditure – how much are we spending?

EXECUTIVE SUMMARY

In Fiji private pharmaceutical expenditure has increased faster than public (Government) pharmaceutical expenditure. This means that households are spending more *out-of-pocket* on pharmaceuticals even though pharmaceuticals dispensed from public health facilities are free. Since 2008, public pharmaceutical actual expenditure has surpassed budgeted allocations. This policy brief suggests that there is a need for increased monitoring and reporting of pharmaceutical expenditure from the private sector, including an analysis of current drug utilization, stock-outs and pharmaceutical surpluses in the public health system to improve Government budget allocation to pharmaceuticals in 2015 and beyond.

STATEMENT OF PROBLEM

How much should Fiji spend on pharmaceuticals[1] and is current spending sufficient?

BACKGROUND

How much is Fiji spending on pharmaceuticals?

In Fiji there is both government and private spending on pharmaceuticals. Government spending refers to expenditure incurred by the Ministry of Health (MoH) to supply generic medicines as per Ministry of Health Essential Medicine List to public[2] health facilities. These medicines are provided free of charge to patients using health services provided at government operated health facilities. Private expenditure on medicines pertains to expenditure generated from private pharmacies and private health facilities which includes both generic and branded medicines. This expenditure is mainly funded from individuals and households through out-of-pocket (OOP) payments and may include private insurance payments. Figure 1 shows government, private and total expenditure on pharmaceuticals for the period 2007 to 2012.

Government expenditure on pharmaceuticals has remained fairly constant over the period 2007 to 2012 however private expenditure has increased over the same period. Total drug expenditure has increased but this is largely driven by the private sector. While this increase does not tell us the volume of medicines consumed or if the population is getting sicker and thus requiring more medicines, it does show a thriving pharmaceutical private market and a possible increase in OOP expenditure on health.

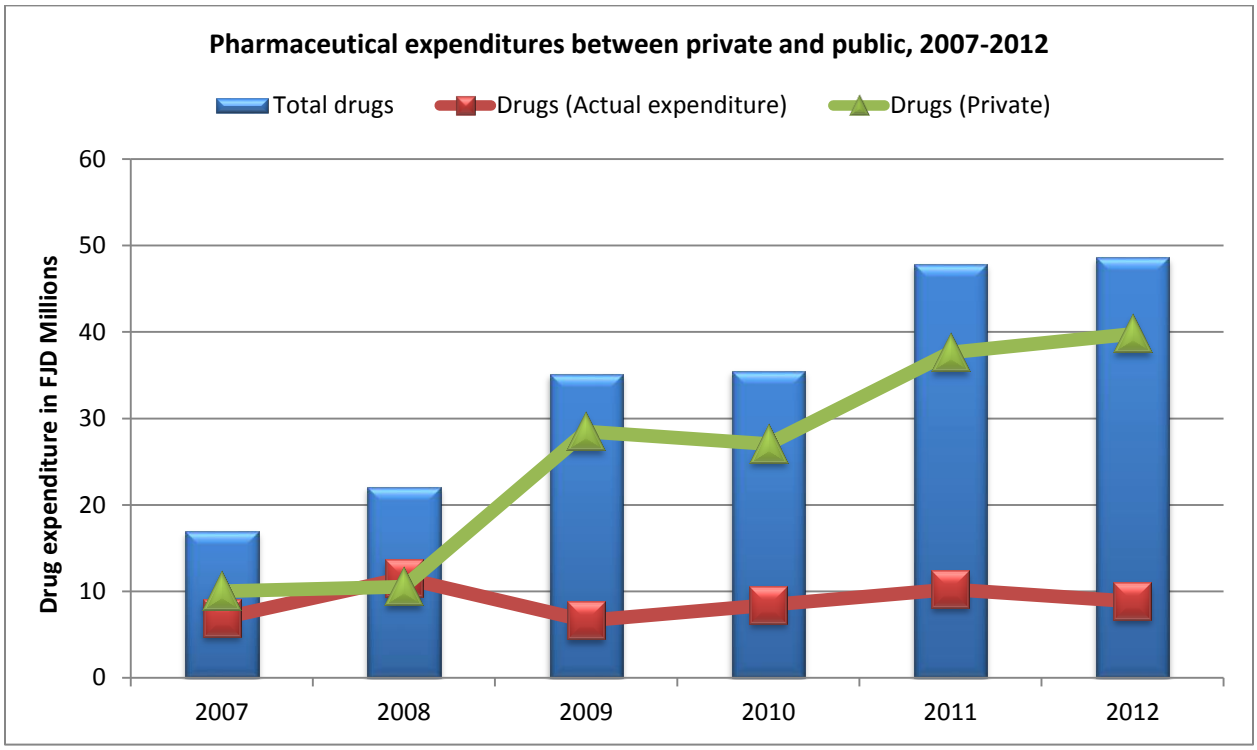
In the private sector, pharmaceutical expenditure is reported to be largely prescribed medicines rather than over the counter medicines. In 2011 and 2012, prescribed medicines accounted for more than 60% of total private pharmaceutical expenditure.

[1] Pharmaceutical used in this document refers to medicines only. The word medicines and pharmaceuticals are used interchangeably throughout the document.

[2] Public health facilities in this document refer to those health facilities that are funded, operated and managed by the government.

This Policy brief was developed by the Policy and Planning Division of the Ministry of Health in conjunction with the Centre for Health Information Policy and Systems Research (CHIPSR) at the Fiji National University. Funding was provided by the World Health Organization. For any questions please contact Mr Idrish Khan on email ikhan001@health.gov.fj |

Figure 1: Pharmaceutical expenditure private and public, 2007-2012



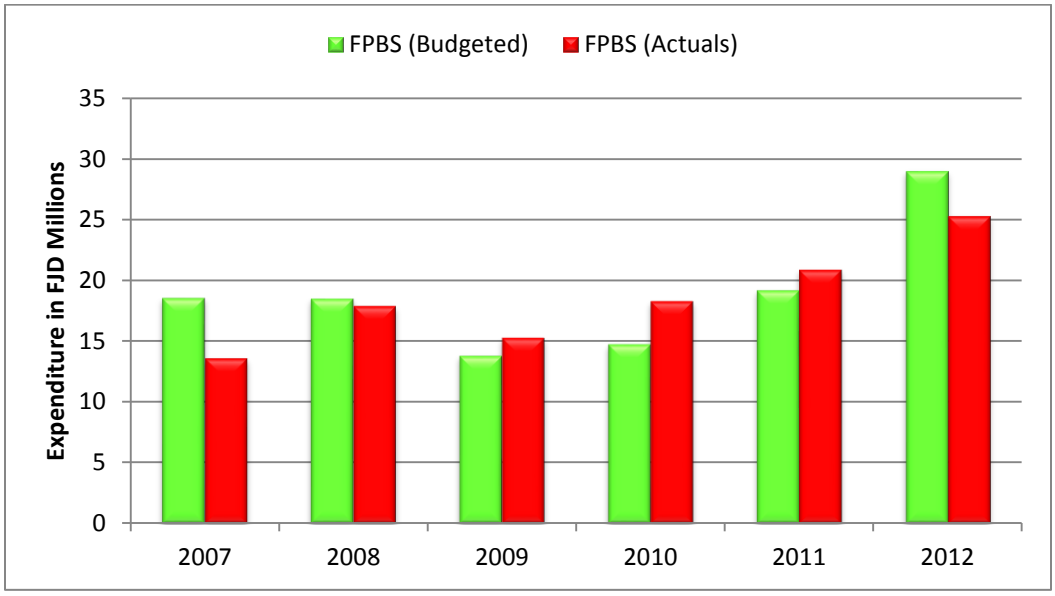
Source: National Health Accounts 2007-2012

Government spending on pharmaceuticals

The Fiji Pharmaceutical and Biomedical Services (FPBS) is the department of the Ministry of Health that purchases and distributes pharmaceuticals to all government health providers. Figure 2 shows the actual and budgeted expenditure of FPBS over the period 2007 to 2012. It is evident that actual expenditure of FPBS exceeded the amount budgeted from 2009 to 2011. In 2012 the increased budgeted amount pertains to the addition of the biomedical and dental equipment incorporated into the FPBS budget (this was in a separate budget allocation in previous years). This increase was not for medicines.

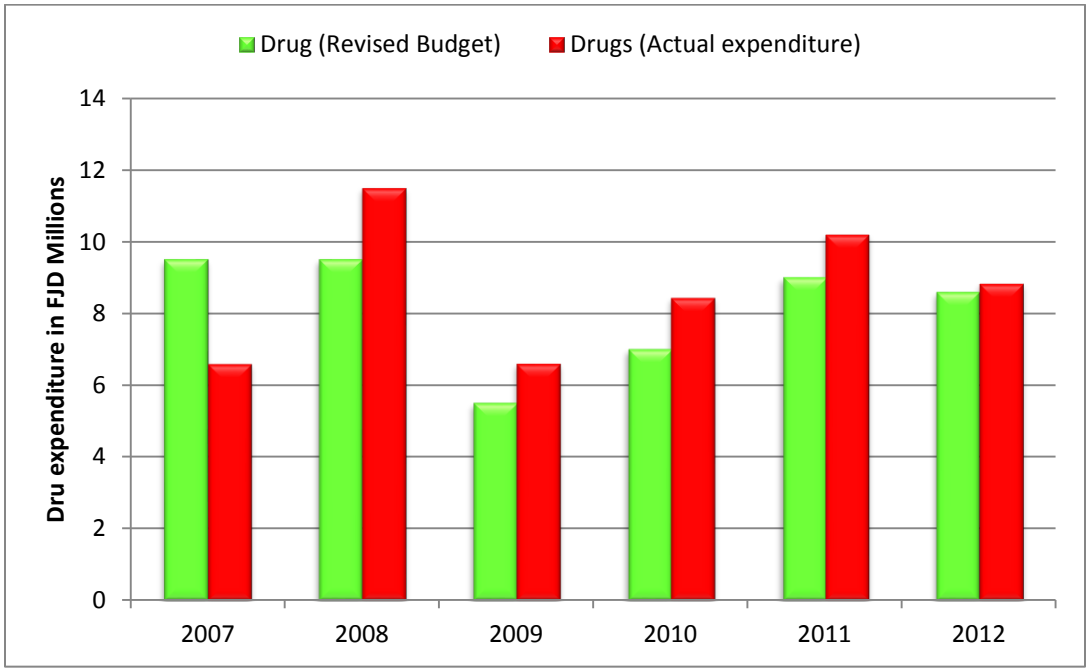
However FPBS is also responsible for non-medical goods, consumables, and bio-medical equipment. Only a proportion of FPBS expenditure is allocated to pharmaceuticals. In Figure 3 we look at the pharmaceutical budget and actual expenditure incurred. Apart from 2007 all other years showed actual expenditure exceeding budgeted amount. Pharmaceutical actual expenditure was highest in 2008 where the expenditure of $FJD 11.5 million accounted for 64% of FPBS total expenditure. Pharmaceutical actual expenditure was lowest in 2009 (FJD 5.5 million).

Figure 2: FPBS budget and actual expenditure



Source: National Health Accounts 2007-2012 and FMIS

Figure 3: Government pharmaceutical spending: Actual vs. Budgeted



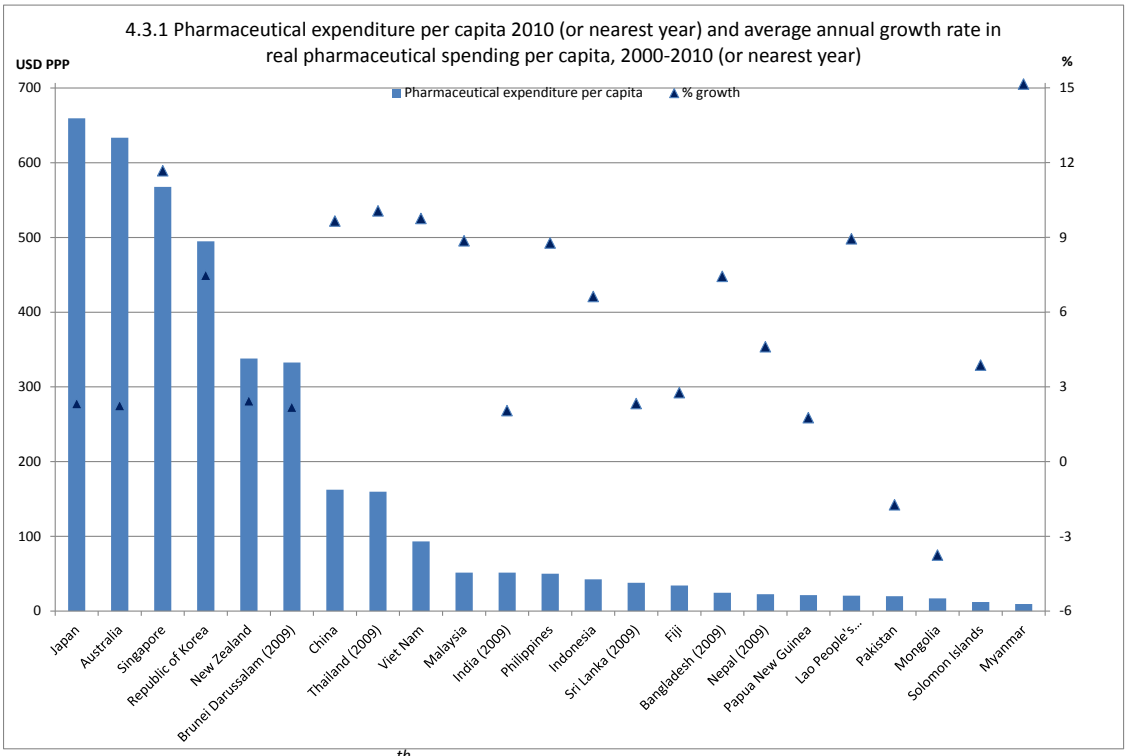
Source: National Health Accounts 2007-2012 and FMIS

Over the period 2009 to 2012, budget allocation for pharmaceuticals has slowly increased but still remains less than budgets allocated in the years 2007 and 2008. Furthermore despite the increasing budget trend from 2009 to 2012, actual expenditure still exceeds budgeted amount during this period.

Country Comparison

There are no benchmarks for how much a country should spend on pharmaceuticals since this expenditure is driven by a variety of factors. However it is often useful to compare expenditure with other countries to provide some indication of relative medicine spending. Figure 4 shows that Fiji spends less per capita on pharmaceuticals when compared with most other countries[3]. Fiji however spends more on pharmaceuticals per capita than Solomon Islands and Papua New Guinea, the only other Pacific Islands Countries shown in Figure 4.

Figure 4: Health spending on pharmaceuticals in Fiji relative to other countries



Source: OECD presentation at the 10th APHNAN meeting in Busan – Korea on June 2014

[3] Countries shown include only those for which data was available

Is government spending enough on pharmaceuticals?

This unfortunately is a question this brief cannot answer. But using the findings from National Health Account reports, three things can be concurred that suggests some policy change:

1. The private sector spending is higher than what the public sector spends on pharmaceuticals (despite the health sector being largely public)
2. The annual actual expenditure (public - government) on pharmaceuticals continue to surpass allocated government budgeted amounts
3. Fiji spends less per capita on pharmaceuticals than most other countries

POLICY OPTIONS

Here we identify three policy options that may be considered in trying to ascertain whether an increase in pharmaceutical expenditure is required.

Policy Option One

Problem – Private expenditure on pharmaceuticals is comparatively higher that of Public (Government)

While this scenario is common to most countries, it is unique to Fiji where the health system is largely a public health system and where medicines are largely free of charge. A large private pharmaceutical expenditure indicates two possible situations: (1) Government is not spending enough, or (2) the private sector medicine prices are high. If the reason is the latter case (situation 2) then this leads to a greater burden on households in terms of out-of-pocket expenditure on pharmaceuticals. However as of March 2011, the Fiji Commerce Commission has reviewed the prices of pharmaceuticals. The prices of seventy five essential medicines have been fixed (price control) and the overall mark-up on medicines has been significantly reduced. Certainly continuous monitoring and evaluation of the private sector to ensure that these price controls are adhered to is required. Improved data reporting from private pharmaceuticals is also necessary to have some indication of the volume of medicines consumed in the country and segregated by public and private sectors. Improved data reporting will also shed light on the prescribing habits both in the public and private sectors.

However if Government is not spending enough (situation 1) then evidence to substantiate this claim needs to be provided and validated. A study to look into medicine utilization patterns of public health facilities, including some research into medicine stock outs and un-used expired medicines will assist in determining whether an increase of funds is required for pharmaceuticals. Regardless if the situation is 1 or 2, the government needs to undertake this exercise to ensure that a right budget (neither excessive nor insufficient) is allocated annually to pharmaceuticals.

Policy Option Two

Problem – Public actual expenditure on pharmaceuticals surpass budgeted funding allocation

Similar to policy option 1, the Ministry needs to assess whether current budgeted allocations are insufficient to meet the pharmaceutical needs of the public health facilities. OECD countries on average spend approximately 20% of their total health spending on pharmaceuticals (OECD, 2011). Over the period 2007 to 2012, Fiji averaged public spending on pharmaceuticals at 6.8%. While we perhaps should not compare ourselves with more developed economies, it does provide a benchmark as to where we see ourselves.

At the first instance, pharmaceutical budgets need to return to budgeted levels of the past years (2007 and 2008). The increasing budget trend from 2009 to 2012 shows that this is perhaps what is already happening. However with the double disease burden, the epidemic of NCDs and the escalating medicine prices globally, an increase in pharmaceutical expenditure is most likely. Again a thorough assessment of current pharmaceutical utilization in the public sector, including medicine stock outs and surpluses and pharmaceutical purchasing is necessary to determine what budget should be allocated in 2015 and beyond.

Policy Option Three

Problem – Lack of complete information on both public and private pharmaceutical data

In policy options 1 and 2 above, part of the recommendations has been to improve pharmaceutical data reporting in areas such as utilization, purchasing, and medicine stock-outs. A solution to this would be to look at obtaining a warehouse management system that will be able to track pharmaceutical data in all these areas. At the time of writing this brief, it was told that the Ministry had considered this and arrangements were underway to have such a system included in budgets for 2015. This is certainly recommended.

References

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