



## “PRIORITIES OF HEALTH ECONOMICS IN AFRICA”

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### **Parallel session 5: Drugs / Medicines: economics and policy**

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#### **PS 05/8**

#### **Providing affordable essential medicines for African households: The missing policies and institutions for price containment**

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Medicines are integral of any healthcare system, and limited access to medicines undermines health systems' objectives of equity, efficiency and health development. In African countries, where it is estimated that 50–60% of the populace lack “access” to essential medicines, health problems associated with limited drug benefits are more damaging. However, there is no single solution to medicine access problem given its multiple dimensions: availability, acceptability, affordability and accessibility.

The paper explores affordability dimension of medicine access and concentrates solely on price regulatory policies and institutional structures that national and international policy makers may consider in making prices of essential drugs compatible to the purchasing power of African households. The main theme is the application of the concept of bilateral dependence in creating price-sensitive purchasers to exert countervailing market power on drug price setting in African healthcare systems.

The thesis of the paper is that “hard-bargaining”, country-specific, price-sensitive procurement agencies represent a more sustainable mechanism for making essential medicines affordable to African households; in contrast to external multinational buying cooperatives who may find their usefulness restricted to a selective group of “similar” African nations with regards to medicinal needs, epidemiology, macroeconomic conditions, regulatory procedures, language and cultural backgrounds.

The paper adopts the following methodology: the first part, through literature research and qualitative analysis on price regulatory policies, notes that current state of drug pricing in African health systems can best be characterized as “unconstrained free pricing” with its attendant inflation in pharmaceutical expenditures that African households cannot afford. It notes that considering significant administrative and organizational costs and difficulties in implementing price controls, the next pricing regulatory option is “constrained free pricing” that relies on creating and maintaining

price elastic demand conditions to control drug prices: an approach adopted by pharmacy benefit managers (PBMs) in the US.

The paper argues that the business activities of PBMs in the US are consistent with economic model of bilateral monopoly, and theories of price competition and price discrimination. It goes on to develop the bilateral dependence concept and discusses relatively less cumbersome means of market segmentation needed to make price discrimination feasible. The second part looks at applying the bilateral dependence solution to procurement process in African nations and highlights to some extent similarities and consistency with recommended procurement practices elsewhere, for which empirical evidence shows appreciable lowering effects on drug prices.