



Optimization of public procurement of pharmaceuticals and medical commodities for Georgia

Materials for discussion

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Private and confidential

Davit Sergeenko

Minister of Health, Labor and Social Affairs of Georgia

Dear Sir,

We thank you for the opportunity to submit our understanding of scope on providing consulting services.

This material includes a high level description of possible approach, potential timeline and budget for optimization of public procurement of pharmaceuticals and medical commodities for Georgia.

We will be glad to cooperate with you. We are confident that the approach and experience of KPMG will help You to better realize the potential of healthcare costs on pharmaceuticals and medical commodities optimization as well as identify target public procurement model.

I hope to continue and strengthen the current cooperation of KPMG and the Ministry of Labor, Health and Social Affairs of Georgia as well as the Ministry of Finance of Georgia.

Sincerely,

Alexey Nazarov

Partner

Strategy & Operations Group

KPMG Russia and CIS

Irina Gevorgyan

Director

Head of Advisory

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Our understanding of background and main goals of the Project

Our approach

Our timeline and budget

Our understanding of background and main goals of the Project

Background

- In 2013, Government of Georgia launched the Universal Health Care programme to improve population access to health care and strengthen financial protection
- Between 2010 and 2014, the share of the population entitled to publicly financed coverage rose from around 30% to 93% and the share of the population without any form of health coverage fell from 70% to less than 1%
- The main challenge remains in disproportionately large share of patients' health spending on pharmaceuticals, which is around 40% in Georgia vs. 17% in OECD countries
- Managing pharmaceutical expenditures will require reformation of public sector purchasing and improvement of pharmaceutical sector regulation

Main goals of the Project

The key objectives of the potential project include:

- Identification of opportunities for consolidated purchasing with other countries
- Assessment of the current procurement system
- Gap analysis of the procurement system based on international benchmarking
- Development of target procurement models, evaluation of these models and recommendation of the optimal model
- Preparation of an implementation roadmap and budget

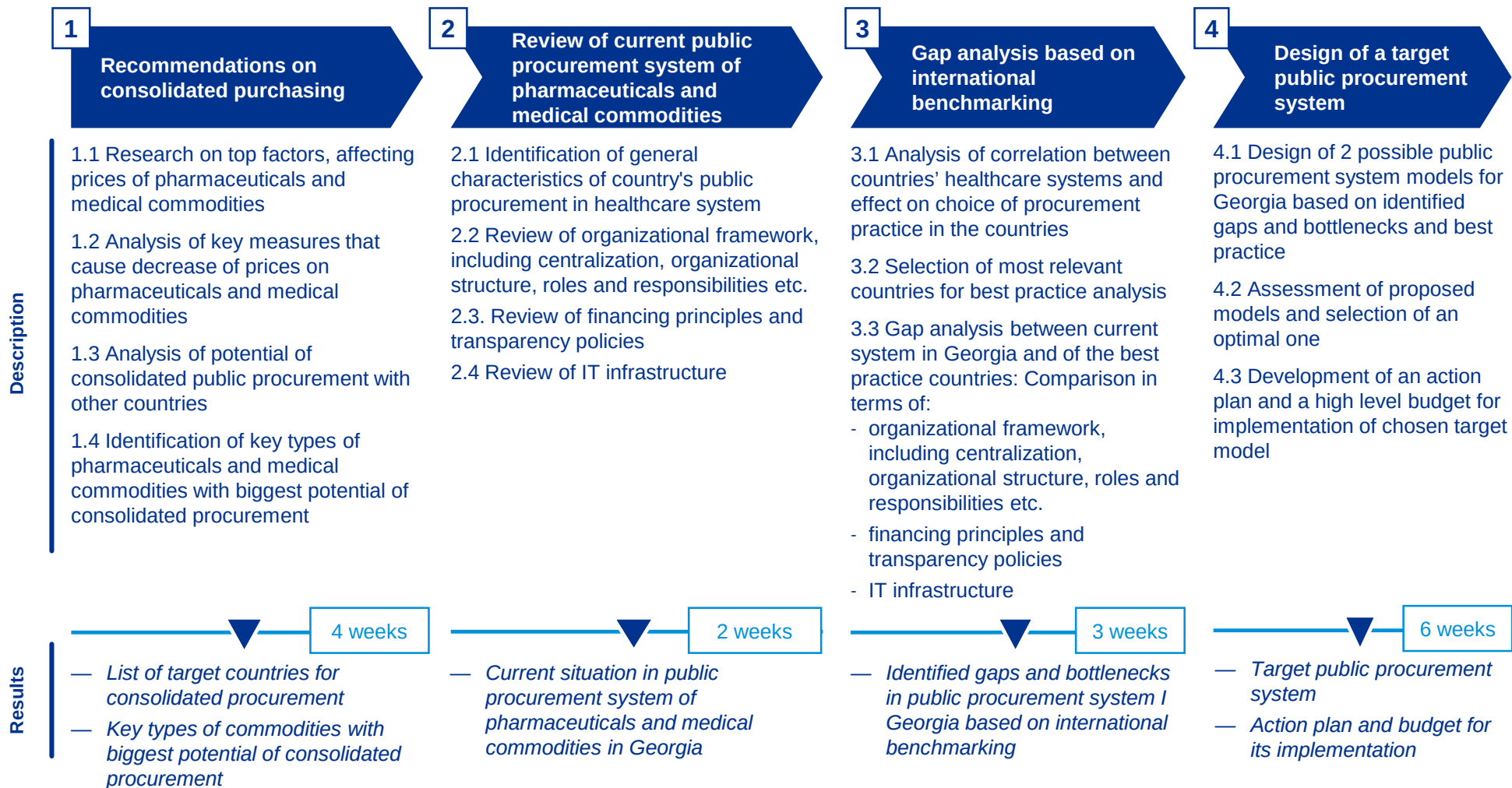
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Our approach consists of four key stages



Stage 1: Recommendations on cost reduction of pharmaceuticals and medical commodities



1. Recommendations on consolidated purchasing

1.1 Research on top factors, affecting prices of pharmaceuticals and medical commodities

1.2 Analysis of key measures that cause decrease of prices on pharmaceuticals and medical commodities

1.3 Analysis of potential of consolidated public procurement with other countries

1.4 Identification of key types of pharmaceuticals and medical commodities with biggest potential of consolidated procurement

Description of work

1.1 Research on top factors, affecting prices of pharmaceuticals and medical commodities

- Analysis of purchasing value chain in Georgia
- Analysis of market regulations and high level comparison with other countries

1.2 High-level analysis of key measures that might cause decrease of prices on pharmaceuticals and medical commodities

- Pricing and import regulations
- Support of cheap producers
- Development of local pharmaceutical clusters
- Consolidation of procurement within a sector or a multinational region

1.3 Analysis of potential of consolidated public procurement with other countries

- Identification of possible partners for consolidated procurement
- Suggestion of a basic mechanism for cooperation
- Identification of potential effect of consolidated procurement

1.4 Identification of key types of pharmaceuticals and medical commodities with biggest potential of consolidated procurement

- Identification of pharmaceuticals and medical commodities for purchasing with identified partners

Results

- *List of target countries for consolidated procurement*
- *Key types of commodities with biggest potential of consolidated procurement*

Stage 2: Review of current public procurement system of pharmaceuticals and medical commodities in Georgia



2. Review of current public procurement system of pharmaceuticals and medical commodities

2.1 Identification of general characteristics of country's public procurement in healthcare system

2.2 Review of organizational framework, including centralization, organizational structure, roles and responsibilities etc.

2.3. Review of financing principles and transparency policies

2.4 Review of IT infrastructure

Description of work

2.1 Identification of general characteristics of country's public procurement in healthcare system

- Analysis of specifics of overall healthcare system
- Analysis of effect on choice of procurement practice in the country

2.2 Review of organizational framework, including centralization, organizational structure, roles and responsibilities etc.

- Review of level of (de)centralization of procurement – municipal, regional or country-wide
- Analysis of current organizational design in procurement system and key processes
- Identification of roles and responsibilities of the parties involved in procurement system

2.3. Review of financing principles and procurement policies

- Review of financing principles of country's procurement system
- Review of procurement and tendering transparency and monitoring policies
- Analysis of approach to distribution

2.4 Analysis of IT infrastructure currently in use

- Analysis of current IT systems, e.g. E-procurement, E-tendering

Results

- *Current situation in public procurement system of pharmaceuticals and medical commodities in Georgia*

Stage 3: Gap analysis based on international benchmarking



3. Gap analysis based on international benchmarking

3.1 Analysis of correlation between countries' healthcare systems and effect on choice of procurement practice in the countries

3.2 Selection of most relevant countries for best practice analysis

3.3 Gap analysis between current system in Georgia and of the best practice countries

Description of work

3.1 Analysis of specifics of overall healthcare systems and effect on choice of procurement practice in the countries

- Analysis of specifics of overall healthcare systems
- Analysis of effect on choice of procurement practice in benchmarking countries

3.2 Gap analysis concerning organizational framework, including centralization, organizational structure, roles and responsibilities

- Comparison of level of (de)centralization of procurement – municipal, regional or country-wide – given cost cutting targets and specifics of healthcare system
- Comparison of organizational designs in procurement system (government or private entities, list of agencies involved for identified combinations of healthcare and procurement systems)
- Comparison of roles and responsibilities of the parties involved in procurement system

3.3. Gap analysis touching financing principles and policies

- Comparison of financing principles for countries procurement systems
- Comparison of procurement and tendering transparency and monitoring policies
- Comparison of approaches to distribution

3.4 Analysis of IT support

- Comparison of IT supporting systems, e.g. E-procurement, E-tendering

Results

- *Identified gaps and bottlenecks in public procurement system / Georgia based on international benchmarking*

Stage 4: Design of a target public procurement system



4. Design of a target public procurement system

4.1 Design of 2 possible public procurement system models for Georgia based on identified gaps and bottlenecks and best practice

4.2 Assessment of proposed models and selection of an optimal one

4.3 Development of an action plan and a high level budget for implementation of chosen target model

Description of work

4.1 Design of 2 possible public procurement system models.

Following components are identified within models:

- Level of (de)centralization of procurement
- Target organizational design in procurement system
 - Identification of roles and responsibilities of the parties involved in procurement system
 - High level processes description of the parties involved (their key processes)
- Target approach to distribution
- Financing principles and reimbursement schemes
- Procurement & Tendering transparency and monitoring policies
- IT landscape of the procurement systems (E-procurement, E-tendering)

4.2 Assessment of proposed models and selection of an optimal one

- SWOT analyses of proposed models
- High-level risk-benefit analysis

4.3 Development of an action plan and a high level budget on implementation of chosen target model

- Design of a detailed roadmap for implementation of target procurement and tendering strategy, including key milestones
- Evaluation of a budget and resources needed for implementation of chosen target model

Results

- *Target public procurement system for Georgia selected*
- *Action plan and budget for its implementation*

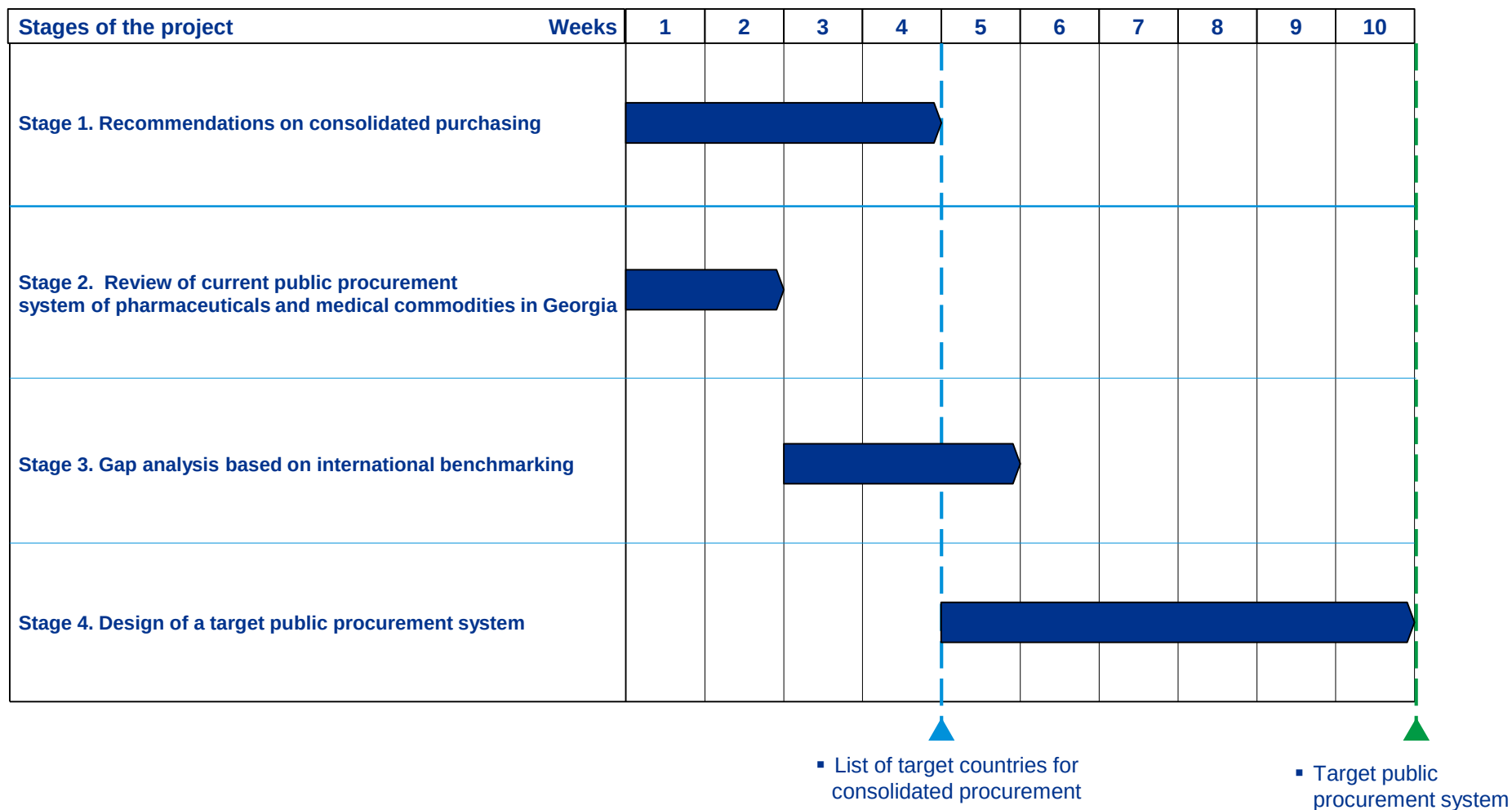
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Project execution may take up to 10 weeks



Project budget

Stage	Weeks ^(a)	Cost estimate, not including VAT (US dollar)
Stage 1. Recommendations on consolidated purchasing	4	40 000
Stage 2. Review of current public procurement system of pharmaceuticals and medical commodities	2	10 000
Stage 3. Gap analysis based on international benchmarking	3	25 000
Stage 4. Design of a target public procurement system	6	75 000 – 105 000
Total	10^(a)	150 000 – 180 000

- The preliminary evaluation of costs of work is based on the estimated amount of working hours that will be spent on project execution. It is also based on the assumption that the Customer will provide us with all available information and will render necessary assistance in accordance with our initial understanding of the requirements of the Project
- The preliminary cost of works does not include VAT and other taxes, applicable in accordance with Georgian legislation on the date of the invoice
- We will be able to begin work on the project only after it is approved in accordance with internal risk management procedures of KPMG and after signing the contract

Note: (a) Some of the project stages can be completed in parallel

A man in a dark suit and white shirt is shown in profile, looking out over a city at night. The background is a blurred cityscape with lights from buildings and streets, creating a bokeh effect. The overall tone is professional and sophisticated.

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