



THE WHY OF POOLED PROCUREMENT

AN EVALUATION OF
PROS AND CONS

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POOLED PROCUREMENT is a term that is often used but poorly understood, subject to broad interpretation and thus confusion. To stimulate commonality through understanding and to assist policy makers and supply chain professionals in design, negotiation, and implementation of this highly effective driver of affordable access to quality commodities, this first paper in a series frames the benefits and advantages to be gained in pooling procurement (the why); the second paper describes the approaches and tactics of deployment for best impact (the how).

THE ECONOMICS



Pooled procurement is a category of supply chain models where collaboration among buyers motivates competition between vendors. Pooled procurement enables the creation of a monopsony—the economic condition where market dynamics are driven by major buyers—which is the opposite of monopoly, where market dynamics are controlled by a dominant vendor.* The power of the buyers is facilitated by the aggregation of their combined knowledge, harmonization of approach, and consequent collective demand; that power is then used to negotiate terms of supply.

Direct benefits of pooled procurement include reduction in unit prices, supply chain costs, and administrative burden. More systemic benefits include improved quality assurance, standardization in drug selection and use, shared learning, coordinated training, research, monitoring and evaluation, confidence building with suppliers, reduced opportunities for corruption, and increased supply equity across markets.

Organize the buy side to drive efficiencies on the supply side.

For buyers, the logic of pooling is straightforward, but market realities and poor design or operation can lead to unintended negative consequences. The logic is often less clear for vendors. Limited supply base and relatively small demand in hard-to-serve markets, often combined with an unwavering buyer focus on

* Vendor is used to denote any sell-side participant in a commercial negotiation or sale and can include manufacturers, importers, wholesalers, distributors, or retailers.

	 Buyers	 Vendors
Benefits	<ul style="list-style-type: none"> • Reduced unit prices, supply chain costs, and administrative burden • Standardized STGs, rational drug use, training • Harmonized registration and quality • Increased access to commodities across all participating countries at reduced risk 	<ul style="list-style-type: none"> • Increased forecast availability and accuracy • Simplified negotiation and standardization of supply and performance agreements • Increased sales revenue to previously “out of reach” customers • Improved margin due to economies of scale
Drawbacks	<ul style="list-style-type: none"> • Requires investment of time and resources to participate • Requires acceptance of agreed standards and overriding of vested interests 	<ul style="list-style-type: none"> • Reduced unit prices and possible revenue and margin (due to increased competition) • Potential competitor participation with visible head-to-head comparison • Transparent performance management and exposure to censure for failed supply

achieving the lowest unit price, provide little incentive for vendors to remain in the market with potentially disastrous effects when they do exit. It is vital to learn from previous pooled procurement efforts and the shifts in influence that were created between buyers and vendors.

NATIONAL AS WELL AS INTER-COUNTRY ADVANTAGES

Pooled procurement is often assumed to be inter-country, with aggregation across a region, or even globally. However, great benefit (with far simpler execution) can be found in intra-country pooling where fragmentation and decentralization have had negative impacts on availability, quality, and cost. Intra-country pooling can be across sub-national units (states, provinces, districts, etc.) or even in rationalizing the vertical/parallel structures of multiple donor programs. The visionary case goes even further and aggregates the public and commercial sectors' buying power within a country. Generally intra-country moves quicker than inter-country as many of the issues of regulations, customs, language, and standard treatment guidelines (STGs) are avoided. However, this is not always so. Once decentralization has been enabled, sub-national structures tend to resist relaxing their grip, and a sensitive political compromise may be necessary to rebalance the system.

Inter-country pooling really leverages scale. This can benefit small countries that may be challenged to meet minimum order quantities but can also benefit large countries, specifically for procuring small-volume commodities, which are often extremely costly and/or difficult to secure, e.g., in the areas of oncology, biopharma, and neglected tropical diseases. Equity of access is therefore a very real benefit of pooling, both for small countries and for lower volume purchases.

WHY NOW?

As empowered populations increase their demand for access and quality of care, governments spend more on health, out-of-pocket spending in the commercial sector grows, and donor-funded programs scale, the potential to achieve even greater impacts with available funding demands that every opportunity is explored to achieve the best value. Flexing aggregated buying influence is a powerful tool, and both governments and donors are well placed to drive these initiatives.

The potential impact on costs cannot be ignored. In a Center for Global Development study of a group of nine common molecules purchased by low- and middle-income countries (LMICs), the mean price across countries varied by a factor of 16 and, even within countries, showed a variation of up to 300% across procurement channels.¹ The same group showed that savings through pooling can be 50–75% compared to uncoordinated purchases.

COVID-19 has created a new level of awareness among governments and regional bodies, like the African Union (AU) and WHO, of the need for effective and efficient supply chains. The understanding and political will generated within the AU, led by the Africa CDC and now the African Medicines Agency, can create the momentum needed to progress long talked about initiatives. The nascent pooled procurement program of Small Island Developing States in Africa has a clear value for each of the members.

Significant and relevant are the Advanced Market Coalition (AMC) models of pneumococcal vaccine and now COVAX. In AMC models, aggregation of demand not only informed price and supply negotiations but also stimulated product development. In a completely uncertain landscape, through aggregation, AMC models provide a level of certainty around volume, duration, and security of funding that enables and incentivizes manufacturers in the race to deliver quality products at an affordable price.

Examples of Pooled Procurement

Regional inter-country and intra-country models include:

- Association of Central Medical Stores for Generic Essential Medicines
- European Pharmaceutical Pricing and Reimbursement Information Network
- South African antiretroviral (ARV) tender
- Gulf Cooperation Council group purchasing
- PAHO Strategic Fund and Revolving Fund
- Organization of Eastern Caribbean States Pharmaceutical Procurement Service (OECS PPS)

Global, donor-driven models include:

- Pooled Procurement Mechanism (PPM) of the Global Fund
- Global Drug Facility of Stop TB
- Gavi – UNICEF

Other agencies and contracting mechanisms:

- UNFPA Procurement Services Branch
- USAID Global Health Supply Chain Program – Procurement and Supply Management

PHARMACEUTICAL SYSTEM AND SUPPLY CHAIN BENEFITS

1. **Enabling scientific, clinical, and regulatory standards through alignment:**

Fundamental to successful pooling are a common or mutually agreed regulatory framework/registration and post-marketing surveillance processes so that products can easily be imported into multiple countries in the pool and monitored for safety and efficacy. Harmonization, when extended to formulations, packaging, and labelling, enables economy of scale for suppliers, both in production and supply management. Alignment should extend to continuing medical education, essential medicines lists and STGs, rational drug use, and drug utilization review. The OECS PPS publishes a regional formulary of essential drugs common to the member states.



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2. Better forecast accuracy and security of supply: Aggregation drives economies of scale. But it also means that minimum order quantities or batch volumes imposed by manufacturers are reached more rapidly and that forecast accuracy is significantly enhanced, allowing better matching of eventual supply to true, final demand. Providing inventory visibility across the pool enhances the ability of all countries to always be stocked. Visibility enables detection of individual members stockpiling inventory, impacting the ability of others to secure supply. In OECS PPS, member states standardized inventory management systems to maintain a visible inventory record.



Supply Chain 101

Aggregated forecasts always prove far more accurate than disaggregated forecasts.

3. Improved product and service quality: In restricted tendering models, prequalification of competing vendors is necessary to evaluate their quality standards, technical competence, financial stability, and reliability. Sharing the costs, time, and knowledge gained on this is the most important driver of improved product quality in pooled procurement. Monitoring service key performance indicators, e.g., on-time delivery, damages, and product quality, through the life cycle of a tender not only enables continuous improvement during the tender but can be used to inform vendor selection in future tenders. When failure to serve results in significant consequences across the pool, the incentive for vendors to perform is significant.



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4. Reliable supply across cash cycles: Donor or government budget/funding cycles can significantly impact supply. Providing a cash-cycle guarantee across the pool from a regional financier or aggregated buyer improves trust with vendors and enables smooth stock draws across budget periods. It can also impact price per unit by de-risking transactions for the vendor. PPS authorizes the Eastern Caribbean Central Bank to pay vendors 60 days after shipments are delivered. Gavi has been successful in addressing the short-period-commitment issues seen in donor programs and successfully worked with new vendors to increase supply and enhance competition.



Donor or government budget/funding cycles can significantly impact supply.

5. Positive market dynamics: Pooled procurement, especially with secured financing, has encouraged new vendors to join and existing vendors to stay in the market or invest in capacity. Innovative financing instruments, like volume guarantees and prepayments, are simpler to execute in pooling mechanisms. For example, Gavi's scale and security of funding enabled additional countries to grow their immunization programs, and so manufacturers were encouraged to invest in production scale.



Pooled procurement, especially with secured financing, has encouraged new vendors to join and existing vendors to stay.

WHY NOT?

The relative paucity of successful pooled procurement implementations in LMICs bears testimony to the difficulties in establishing and operating pooling models. The Southern African Development Community (SADC) Pharmaceutical Business Plan 2007-2013 prioritized pooled procurement. In 2012, SADC launched a pooled procurement situational analysis and feasibility study, which recommended that the SADC Secretariat continue investing in regional procurement cooperation, detailing a range of steps to be followed in doing so. Although the joint ministers for health adopted the report in November 2012, to date, the initiative has not reached practical application.

Barriers to implementation of pooled procurement are both overt and covert. Overt barriers include differences in language, regulatory standards, treatment guidelines, and import and customs restrictions. Covert barriers relate to vested and even nefarious interests, such as corruption, but also include misaligned incentives, such as the national drug regulatory authorities (DRAs) reliance on fees from differentiated registration for their survival. In some markets, DRAs even have a binding obligation to promote and protect local industry. Pooling can limit access to tiered pricing for some channels and/or countries.

Even in the most trusted collaboration, challenges continue, requiring constant evaluation and negotiated resolution between members. These may include opposition by suppliers, late payments by members to suppliers, purchasing outside the pool, and managing donations of commodities (and their impact on

procurement commitments). Failures are inevitable and must be anticipated and expected, with regular structured engagement of members to allow lessons learned to be shared and improvements to be agreed. Outcomes and performance must be regularly and transparently reported to allow members to agree on modifications in objectives or investments when needed.

ART OF THE POSSIBLE

The South Africa (SA) public sector antiretroviral (ARV) tender demonstrates the potential to be gained through implementation of a multifaceted intra-country pooling system. All nine provinces aggregate their demand into a central three-year national tender, with multiple awards per product, minimum volume commitments per vendor, twice monthly draws, 14-day draw-delivery lead times, and delivery to point of care with obligation to supply. All risk in expiries, thefts, and damages remains with the vendors with penalties for failure, which are punitive and enforced. Price preference is offered to new market entrants and to local manufacturers. And yet the per unit price paid by the SA National Department of Health (DOH) is lower than many multilaterals are paying, and DOH still suffers under annual procurements with six-month order-delivery lead times and ex-works incoterms, with all costs and risks assumed by the buyer.²

Common protests heard when showcasing the SA ARV example include “But it’s a big market!” “But it’s only one pack configuration per SKU!” “But the buyer is a trusted payer!” Those sound awfully like the conditions for success of a pooled procurement system. SA ARVs are a case study of an effective intra-country model. Yet even there, the tender is not used for maximum benefit because neither donors, nongovernmental organizations, nor the commercial sector are able to access the price and supply benefits of the tender.

LAST THOUGHTS

Vital Considerations



- Beneficial for equity and access
- New frontier of opportunity
- Great potentials in NCDs, MNCH fields
- Demand side transformation still necessary

Pooled procurement can be massively beneficial for equity and access. Extending its use beyond the “usual” conditions considered in pooled procurement is a new frontier of opportunity. The SA ARV example shows what can be achieved with significant aggregation in a single condition. So, in what other conditions can we find that level of aggregate? Non-communicable diseases (NCDs) and maternal, neonatal, and child health must represent great potential. NCDs affect swathes far greater than HIV. And oncology is a fast-escalating challenge in all health systems and a significant contributor to premature mortality.

Pooled procurement is not a panacea for a resilient, effective health care system. There is no silver bullet in effective pharmaceutical supply. Unfortunately, over the last decades, many donors and even national governments have focused on availability as the end game. Health care supply chains in both sectors should be optimized.

Finally, focusing only on the supply side of the equation will solve one problem, availability, but may not necessarily solve other identified health problems, or the issues of access, affordability, acceptability, or appropriate use. Integrated demand side transformation is as necessary.

Vital considerations such as these are part of [The How](#).

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