

Pooled Procurement

KEY POINTS

- * Countries can cooperate on vaccine procurement in several ways, ranging from information sharing to pooling of demand, joint tendering, and joint contracting with suppliers. Pooled procurement is usually done through an external agent.
- * Pooled procurement can help participating countries bargain for lower prices and can ensure more secure supplies by offering suppliers larger and more predictable orders. Gains from pooled procurement are typically greatest for small countries and can vary by vaccine.
- * UNICEF Supply Division and PAHO's Revolving Fund do pooled procurement on a large scale. The Revolving Fund procures a broad range of vaccines on behalf of countries in the Americas, while UNICEF procures on behalf of Gavi as well as many middle-income countries.
- * For pooled procurement to work well, participating countries need to have reliable demand forecasts and secure, long-term financing; they must also work to harmonize regulatory requirements and product preferences. Regional cooperation in procurement outside the Americas has proven challenging, but efforts continue.

THE POOLING OF demand for vaccines by multiple countries—acting in concert or through an external procurement agent—can bring a number of benefits, including lower prices. The best-known pooled procurement schemes are those of UNICEF Supply Division and the Pan American Health Organization (PAHO) Revolving Fund. This brief examines different types of pooled procurement, outlines some of their potential benefits and drawbacks, and summarizes the experiences of UNICEF and PAHO. It also discusses challenges involved in setting up and reaping the benefits of pooled procurement and reviews the status of some efforts to expand its use.

TYPES OF POOLED PROCUREMENT

In the most fully developed form of pooled procurement, projected demand from participating countries (along with funding or commitments of funding) is aggregated by a procurement agent and presented in a single tender to suppliers, who can then bid to supply all or part of the total demand. The procurement agent then chooses suppliers, contracts and pays them, and ensures that each country receives the amount of each vaccine it requested.

In practice, the process can be more complicated because the products and terms offered by suppliers can differ and countries can have differing preferences. The agent might have to make choices if the offered supply is inadequate to meet all of the demand or if not all country preferences can be met. In awarding contracts, the agent might also want to take into account longer-term considerations, such as ensuring supply security and keeping markets competitive.

The World Health Organization distinguishes four levels of pooled procurement, which range from information sharing to the type of joint tendering and contracting described above.

PROS AND CONS OF POOLED PROCUREMENT

Pooled procurement can offer substantial benefits to countries as well as suppliers. In some circumstances, it can help participating countries obtain lower prices by allowing suppliers to manufacture on a larger scale, which usually means lower costs, and by giving participating countries greater bargaining power. The benefits are greatest for small countries that buy in small volumes and

have little bargaining power on their own, but larger countries can benefit too. Countries that participate in procurement pools managed by UNICEF and PAHO also benefit from these agencies' procurement expertise and technical assistance.

For suppliers, a big advantage of pooled procurement is dealing with a single agent rather than many individual countries. This is particularly important for developing-country suppliers, which often do not have many country offices or experience in dealing with governments in many regions. Multinational firms, with their broader reach and greater marketing resources, may prefer to deal with countries directly in some cases. In addition, UNICEF and PAHO, whose rules require them to have cash in hand before purchasing, offer suppliers certainty of payment.

Countries that participate in pooled procurement may have to cede some flexibility. In some cases, they may have to accept a more limited set of product options; pooling is more effective when product preferences can be harmonized. Participating countries must also meet the payment requirements of the particular pooling scheme. Finally, not all vaccines that a country requires may be available through a pooled procurement mechanism.

Some countries may see procurement through UNICEF or PAHO as a temporary measure, with self-procurement as the long-term goal, despite the advantages of pooling. Participation in the Revolving Fund and the use of UNICEF's procurement services have been quite stable, however.

UNICEF SUPPLY DIVISION

UNICEF Supply Division has procured the bulk of Gavi-funded vaccines since the creation of Gavi in 2000. This procurement is pooled: UNICEF aggregates projected demand for each Gavi-supported vaccine and issues periodic tenders. Most Gavi countries also procure their co-financed doses of Gavi vaccines through UNICEF, and these doses are included in the aggregated demand presented to suppliers.

In addition to its procurement for Gavi and Gavi-supported countries, UNICEF also procures vaccines for some non-Gavi-eligible middle-income countries. For traditional vaccines and vaccines with relatively competitive markets (such as pentavalent), for which suppliers do not generally try to apply tiered pricing, UNICEF can pool demand and make flexible use of long-term framework agreements to accommodate country demand. (Tiered pricing is discussed in Brief 11.)

In the case of three more expensive, newer vaccines—human papillomavirus (HPV), pneumococcal conjugate, and rotavirus—which are supplied by only two multinational firms each, tiered pricing is more of an obstacle to pooling. In 2012, UNICEF conducted a tender intended to gain some of the benefits of pooled procurement for middle-income countries while acknowledging the constraints imposed by the firms. This initiative was not as successful as UNICEF had hoped, primarily because relatively few firms submitted bids. Manufacturers cited uncertainty in country demand forecasts and concerns over making

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prices for middle-income countries public as reasons for not participating. UNICEF plans to further explore the potential of pooled procurement for middle-income countries while continuing to procure vaccines for interested countries on an individual basis.

PAHO REVOLVING FUND

PAHO established the Revolving Fund in 1979 to help countries in the Americas obtain stable and affordable supplies of vaccines for their national programs. The Revolving Fund consolidates demand from participating countries and issues annual tenders. Unlike UNICEF, which requires that countries pay in advance, PAHO pays manufacturers from a fund established for this purpose; countries are expected to repay the fund within 60 days. The Revolving Fund is thus both a pooled procurement mechanism and a short-term financing facility like UNICEF's Vaccine Independence Initiative. (See Brief 13.) More than 40 countries and territories participate in the fund.

Historically, the Revolving Fund has been able to translate large volumes, assured payment, and bargaining power into low prices and secure supplies of most vaccines. Although participating countries—many of which are classified as upper-middle-income—pay somewhat more than Gavi countries do for a few newer vaccines, Revolving Fund prices are still far lower than those paid by high-income countries.

OTHER POOLED PROCUREMENT INITIATIVES

Regions outside the Americas have attempted to develop pooled procurement mechanisms. In particular, WHO's Eastern Mediterranean Region, which includes many non-Gavi-eligible middle-income countries, has been working toward this goal

for several years. On a smaller scale, seven countries in the Persian Gulf region, working through the Gulf Cooperation Council, issue joint tenders for some vaccines. Countries then contract with manufacturers individually.

These efforts have revealed some challenges with implementing pooled vaccine procurement. To reap the benefits of aggregating demand, participating countries must harmonize their product preferences and regulatory

requirements as much as possible, improve their demand forecasts (including introduction dates for new vaccines), and secure long-term financing. The willingness of suppliers to offer low prices will depend on all of these factors.

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CONCLUSIONS

In principle, pooled procurement can bring important benefits, including more secure and affordable supply, as the examples of UNICEF and the Revolving Fund have demonstrated. Establishing pooled procurement mechanisms in other regions has proven challenging. But countries that want to do so can take important steps toward this goal by improving cooperation, including by sharing information, while working with UNICEF to address some of the challenges that hindered its recent pooled procurement initiative for middle-income countries.

SOURCES AND FURTHER READING

Pan American Health Organization. PAHO Revolving Fund. Archived at: <https://perma.cc/QR8D-M65C>

UNICEF [Internet]. Vaccine procurement services. Available from: http://www.unicef.org/supply/index_54052.html