Brief 12: The Vaccine Market – Pooled Procurement

Pooled procurement combines several buyers into a single entity that purchases vaccines on behalf of those buyers. For example, several countries within a region could combine as a single buying bloc, combining their resources and total request for doses. The countries together could purchase a greater number of doses than each could individually and, because of larger volumes in a pooled procurement, there is generally a lower price per dose. Furthermore, taken as a whole, the group of countries represents a greater proportion of a given manufacturer’s business than a single country, increasing negotiating leverage.

There are several examples of pooled procurement in the purchase of vaccines. The oldest is UNICEF Supply Division, which procures on behalf of lower and lower-middle income countries through a public tender system. Since 1977, the Pan American Health Organization (PAHO) has operated a regional pooled procurement system, working with Latin American and Caribbean (LAC) countries. The Revolving Fund is critical for several small island states and territories in the Caribbean. The Gulf Cooperation Council has been working with six countries in the Middle East since 1978 to buy a range of goods, including vaccines. The Eastern Mediterranean Region of WHO (EMRO) is beginning an effort to coordinate vaccine procurement more broadly, and the WHO African Region (AFRO) and European Region (EURO) have also explored the idea.

How does pooled procurement work?

Pooled procurement can cover a range of different activities. When combining their resources, as described above, countries can use an external provider as procurement agent or set up the structure themselves. However, traditionally, the concept of pooled procurement has been linked to associated activities such as currency exchange, technical assistance, financial support, and forecasting expertise. In general, a request for proposals (RFP) is developed which specifies the specific type of vaccine, time period, and number of doses to be delivered. Manufacturers are requested to submit an offer meeting these requirements. In some cases, a range of dose and price combinations will be provided. Manufacturers traditionally give lower prices as volumes increase. Manufacturers usually make significant up-front costs and, as these are spread over larger numbers of doses, prices will fall. In addition, price reductions are related to market uncertainties and whether suppliers are dealing with multiple antigens or a simpler vaccine.

What are some examples of pooled procurement mechanisms?

- **UNICEF:** UNICEF procures vaccines for between 80 and 100 countries annually. The majority of its vaccine purchases are made through donor funding, although a small number of countries pay in full for their vaccine purchases through national budgets. Those countries that pay for their own procurement use UNICEF as a procurement agent, gaining access to its skills and expertise, along with its market leverage. Countries are requested to pay UNICEF an administrative fee of between 3% and 6% to cover operating costs. UNICEF buys approximately 40% of the global volume of vaccine doses, although this represents only 5% of the market revenues,
given the relatively low cost of vaccines procured. Vaccines procured by UNICEF must be prequalified by the WHO. UNICEF usually purchases vaccines on a multi-year tender, considering length of contract and type of procurement arrangement for each vaccine, to optimize the process.

- **PAHO Revolving Fund**: Forty Latin American and Caribbean countries and territories procure vaccines through the PAHO Revolving Fund (RF) created in 1977. Member States have designated a 3.5% recapitalization fee in addition to the price of the vaccine. This recapitalization builds a funding pool that provides a line of credit to allow countries to place orders in a timely manner and to pay suppliers (with national currency when needed) 60 days after delivery of vaccine. In 2009, the RF purchased US$304.7 million of vaccines. The Revolving Fund generally buys vaccines on an annual tender. The existence of the Revolving Fund has been cited as a critical component in the success of immunization across LAC, as PAHO countries have consistently introduced new vaccines earlier and more widely than is the case in other developing countries. The RF is an attempt to promote competitive conditions and lower prices through earlier entry of new suppliers.

The objectives and methods of PAHO’s Revolving Fund and UNICEF’s Supply Division are broadly similar, with some exceptions.

- UNICEF procures mainly for lower-income countries globally whereas the Revolving Fund procures primarily for middle-income countries in LAC.
- The Revolving Fund is financed almost entirely from national budgets, whereas UNICEF is primarily donor-funded.
- UNICEF may procure using multi-year tenders (though not always), while PAHO purchases annually.

**What are the benefits of pooled procurement?**

Pooled procurement has a price-reducing effect. For instance, Hepatitis B was introduced in the 1980s, but recent evidence suggests that prices have fallen more dramatically since the creation of the GAVI Alliance and the PAHO Revolving Fund, as the pooling of vaccines has increased. Pooled procurement has additional benefits.

- Strengthens the negotiating position of countries when operating as a single bloc
- Reduces the need for specialized skills required for national vaccine procurement (such as forecasting demand, defining vaccine specifications and requirements, and preparing appropriate bid documents) that may not be available in all countries but may be easier to build through a combined entity
- Allows for greater stability in vaccine supply through pooled resources and purchasing
- Results in lower unit prices, generating cost savings for countries

**What are the drawbacks of pooled procurement?**
Pooling vaccine procurement does present some challenges.

- Capacity is not always built up within countries for purchasing of vaccines and this can create long-term dependence on an external body for expertise. Countries typically do have some capacity for forecasting, budgeting and planning which are critical activities in the overall procurement process.
- Reporting and record-keeping may need to be maintained according to procedures determined externally rather than using national processes.
- National procurement legislation is required and this must be aligned across participating countries.
- The range of products procured through the pooled mechanism may be limited and not completely tailored to country needs.
- The buying power of pooled procurement can shift market balances and result in a shrinking supplier base overall.

**Table 12.1 Assessment of the value of pooled procurement for immunization financing**

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<tr>
<th>Characteristic</th>
<th>Assessment</th>
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<tr>
<td>Predictable</td>
<td>If the structure is set up with a working capital to bridge shortfall, this type of instrument can smooth over potential interruptions and allow for a stable flow of funds.</td>
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<td>Additional to government financing</td>
<td>Depends upon the structure of the financing flow.</td>
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<td>Equitable</td>
<td>Provides low-income or small countries with access to quality and affordable vaccines that otherwise would be very difficult to obtain.</td>
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<td>Efficient</td>
<td>By combining resources, cost savings can be achieved through efficiencies in procurement operations and a lower vaccine cost.</td>
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<tr>
<td>Feasible</td>
<td>Requires initial capitalization of a fund and fund management. Also requires national procurement legislation.</td>
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<td>Sustainable</td>
<td>If properly constructed, it can be used over the long-term.</td>
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<td>Promotes self-sufficiency</td>
<td>Depends upon the structure of the system; those that rely on donor funds for vaccine purchase do not promote self-sufficiency.</td>
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<td>Fosters greater accountability</td>
<td>Accountability may be increased as information is shared among countries using standard reporting formats and procedures.</td>
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