Innovative financing mechanisms for South East Asia

POLICY BRIEF 9: POOLED PROCUREMENT

Description

Pooled procurement contracts allow buyers (countries and/or multilaterals) to collectively negotiate lower prices from developers by combining their bulk purchasing power into a larger purchase commitment on behalf of the group.

The contract sets the price and volume to be supplied over a set timeframe. Pooled procurement contracts are designed to provide:

- Lower pooled price than could be negotiated by countries on their own
- Security of price and supply for the buyer over a defined time period
- Security of demand for the developer over a defined time period

Status

Various forms of pooled procurement purchase contracts are already in place, including:

	Aim	Host/manager	Negotiator	Supplier	Product	Results
GSK- Brazil pneumococcal vaccine contract	Provides GSK with guaranteed sales and both GSK and Brazil security on price and volume	n/a	Government of Brazil and GSK	Single	Single	Prices higher than the GAVI negotiated price. But ~65% lower than European counterparts, plus further price drops over duration of contract
PAHO Revolving Fund (39 countries and territories in Latin America and Caribbean)	To provide guarantees of quality, safety and adequate supplies, plus lower prices	PAHO serves as the Secretariat. Each time they make a purchase from the Revolving Fund, the country contributes 3.5% of the net purchase price back into the Fund (3% to be used as working capital, line of credit; 0.5% for administration costs)	PAHO Revolving Fund	Multiple	Multiple	At least 11% savings in comparison to direct purchases from producers 'Most favoured nation' clause, whereby suppliers provide PAHO Revolving Fund the lowest available price

Volume of potential revenue

Nil. Pooled procurement does not raise funds – instead, it allows existing money to go further.

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Pros & Cons

Pros	Cons
• Easy to set up with minimal operational and governance requirements and a short lead time	• Difficult to determine the ***best*** terms of the contract: price, time, volume
• Provides clarity for both purchaser and developer on price and volume over a defined time period. Purchasers can negotiate a lower price from developers	• Can be difficult to manage unintended consequences of contracts: ○ Potential negative impact on competition ○ The first contract can set a price benchmark that companies subsequently follow, potentially artificially inflating future prices
• Compatible with most financing mechanisms	• Industry has resisted the PAHO Revolving Fund's 'most favoured nation' clause, which provides all member countries, including middle-income countries, with the lowest available global price

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