

## Pooled Procurement of Essential Medicines: A Practical Business Model for Delivering Medicine to Low Income People

Kenya has made major strides in access to quality assured medicines on the production or supply side. On the consumer or demand side, however, there is a long way to go to ensure that Kenya's working poor have the right medicines available at the right price and right quality. From previous studies by the Private Sector Innovation Programme for Health (PSP4H), lower income people often pay more for health services than those with higher income – the "Poverty Penalty". Despite an increase in production of generic medicines which has led to a dramatic decline in overall medicine prices, this has not yet translated to reduced prices for lower income people; their prices for medicine are still very high due to a fragmented supply chain.

According to primary research done by PSP4H on the commercial pharmaceutical market, in order to reverse the challenges of a fragmented retail distribution chain, **Pooled Procurement** (otherwise called bulk purchasing or joint purchasing) is regarded as an efficient and sustainable business model to resolve challenges such as high medicines prices, unreliable quality, high procurement processing costs and unreliable distribution systems.

From the market systems perspective in which PSP4H operates, pooled procurement creates a market where there is concentrated buyer power. Although there is a need to balance the increase in buyer power so other market players are not disfavored, the advantages of pooled procurement outweigh the disadvantages when designing a system that will reduce costs and promote more efficient healthcare delivery.

*Pooled Procurement is defined by WHO as "Purchasing done by one procurement office on behalf of a group of facilities, health systems or countries. Members of the group agree to purchase certain drugs exclusively through the group." (WHO 2007)*

### Pooled Procurement Modelling

Pooled procurement has been used as a key strategy for a number of initiatives in the healthcare sector which serve an estimated 1.7 billion people globally who lack access to essential medicines. Case examples are the Pan American Health Organization Strategic Funds and the WHO Global Drug Facility for Tuberculosis Medicines, where pooled procurement has been shown to have significant impact

in lowering medicine costs, improving procurement processes, and improving quality of medicines distributed. In Kenya, the public health sector has embraced this model with organizations like the Kenya Medical Supplies Agency (KEMSA) and the Mission for Essential Medicines (MEDS) competing for medicines supplies at the county level with their pooled procurement systems.

However, our focus is on the commercial retail pharmaceutical market where over 60% of the Kenyan population seeks treatment

from retail chemists as their first point of care. PSP4H is exploring how a pooled procurement business model can create a compelling value proposition for the working poor as well as a sustainable business model for their providers. PSP4H is conducting action research through a number of market interventions on pooled procurement of essential medicines utilizing existing health provider networks, e.g. primary health providers and professionally-run pharmacy networks. The table below depicts the four

stages/models of pooled procurement models and their specific advantages and disadvantages; the first two methods are basically information exchange and the actual pooled procurement activities are group and central contracting.

In summary, pooled procurement of medicines is not a panacea for essential medicines supply, but is regarded as one of the best options to address the challenges of delivering low-cost, high-quality medicines to low income people.

**Table 1: Pooled Procurement Stages/Models**

Model	Description	Pros & Cons
<b>Informed Buying</b>	Sharing of information on prices and suppliers of medicines, and procurement is done by individual health providers or pharmaceutical outlets	<ul style="list-style-type: none"> <li>i. Low administrative costs</li> <li>ii. Limited management capacity on procurement or finances required</li> <li>iii. May not achieve significant volume savings</li> </ul>
<b>Coordinated Informed Buying</b>	Joint networks conduct joint market research and share information on supplier performance and prices	<ul style="list-style-type: none"> <li>i. Greater coordination required to manage shared information</li> <li>ii. Can assist in quality assurance and reliability of supply though information sharing</li> <li>iii. The other pros/cons are same as above</li> </ul>
<b>Group Contracting</b>	Joint networks negotiating for prices and select suppliers and purchase from them. Procurement is done individually	<ul style="list-style-type: none"> <li>i. Requires capacity and commitment to coordinate negotiation, selection and purchasing</li> <li>ii. Can achieve volume savings though negotiations</li> <li>iii. Prequalification of suppliers may improve quality and reliability of supplies</li> <li>iv. Requires some degree of harmonization of medicines</li> </ul>
<b>Central Contracting</b>	Joint network procures on behalf of other networks	<ul style="list-style-type: none"> <li>i. Greatest potential for savings and can achieve efficient savings in administrative costs though central procurement</li> <li>ii. Requires significant capacity in procurement, financing, contracting, tendering</li> <li>iii. Requires harmonized medicines list</li> <li>iv. Model can be used to pool financial resources like revolving funds</li> </ul>

\*\* Adapted and modified from EAC Situational and Feasibility Study on Regional Pooled Procurement of Medicines, 2007



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