

ABSTRACTS AND REPORTS

ESSENTIAL DRUGS REVOLVING FUND FOR CENTRAL AMERICA AND PANAMA

In 1984 the provision of essential drugs was identified as one of seven priority areas under the Plan for Priority Health Needs in Central America and Panama. Since that time, the countries, with assistance from PAHO/WHO, have directed significant international financial and technical resources toward strengthening drug supply and quality control systems, promoting national production of drugs, supporting the formulation of national drug policies and their standardization throughout the subregion, and setting up a revolving fund for the joint purchase of essential drugs.

The availability and use of drugs in Central American countries is limited by numerous socioeconomic, technical, and administrative factors, as well as by the structure of the drug industry and the international and national pharmaceutical markets. An analysis done by PAHO of one of these factors, government procurement of drugs, confirmed that the prices paid by the governments not only varied greatly from country to country but also were considerably higher than prices obtained through PAHO or UNICEF.

In an effort to make the most efficient use of economic resources, particularly scarce foreign exchange, and faced with reduced purchasing power, in 1984 the ministries of health in the subregion proposed the establishment of a technical and financial mechanism to assist in the procurement of drugs at a substantial savings. A revolving fund was established in 1986. It was initiated with a donation of US\$4,000,000 from the Government of the Netherlands to finance the joint purchase of a selected number of drugs, and a contribution of US\$277,000 from the Government of Sweden to finance the technical cooperation necessary to implement the program. The Essential Drugs Revolving Fund (FORMED) permits prompt payment of suppliers and allows the countries a grace period in which to reimburse the fund.

Economical large-scale purchases make it possible to acquire a greater quantity of drugs and, consequently, to extend coverage to groups in need while keeping costs low. However, the objectives of this initiative go beyond reducing costs: It aims to encourage joint actions between the countries of the subregion in response to common problems, thus promoting a Central American spirit of cooperation. It also seeks to improve intersectoral coordination and management of the purchasing process. Finally, FORMED can help promote participation by the Central and Latin American pharmaceutical industry in the purchases made by the countries.

Selection of Drugs

In the initial phase of the project, 16 essential drugs were selected on the basis of the following criteria:

- The small number of basic drugs used to treat diseases that are prevalent in the population should be included.
- The drugs should be part of specific health care programs for the control of such priority health problems as acute respiratory infections, parasitic diseases, diarrhea and dehydration, malaria, tuberculosis, and others.
- They should be single drugs of good quality and recognized effectiveness.
- Their purchase should represent a sizable public sector expenditure and/or consumption and utilization of foreign exchange.
- They should be listed in the latest report of the WHO Expert Committee on Essential Drugs.

In addition to the selected essential drugs, FORMED covers the purchase of raw materials for the production of drugs that meet the above criteria. The selections are reviewed periodically by PAHO and the countries so that they can be adjusted to reflect changes in the morbidity and mortality profiles of the countries in order to meet their real priority needs.

First Joint Purchase (FORMED 1987)

A manual of guidelines and procedures for FORMED was prepared by PAHO and was subsequently reviewed and approved by national coordinators designated by the participating countries. The manual includes forms for preparing bids on drugs and raw materials and other guidelines pertaining to drug quality.

The interested countries submitted their orders in August 1986 to the PAHO Procurement Office, where they were consolidated for an international bidding process that took place in September 1986. The orders received amounted to US\$3,345,000 (including US\$680,000 for raw materials); 139 suppliers were contacted, 33 bids were received, and 12 were awarded.

A comparison of the cost of some of the products acquired through FORMED with purchase prices paid by the countries in 1985 demonstrates the fund's ability to bring about significant savings (Table 1). The levels of savings to the countries ranged from 26% to 75%, reflecting the varying efficiencies and negotiating capacities of the different purchasing systems within the subregion. Some of the characteristics of FORMED that gave rise to the savings over the 1985 prices are (1) competitive international bidding, (2) prompt payment in dollars, (3) purchases packaged in economical units, (4) large volume of purchases, and (5) selection of the most economical method of transportation.

TABLE 1. Comparison of costs to four Central American countries of products on FORMED list, based on prices paid in 1985 and those obtained through FORMED purchases.

Country (purchasing agency)	Cost based on purchase price in countries in 1985	Cost based on purchase price through FORMED	Savings (%)
Costa Rica (MSP ^a)	US\$ 215,589	US\$ 160,060	US\$ 55,529 (26%)
El Salvador (MSP)	710,360	272,564	437,796 (62%)
El Salvador (ISS ^b)	42,955	16,098	26,857 (63%)
Honduras (MSP)	1,255,571	513,747	741,824 (59%)
Honduras (ISS)	134,434	45,734	88,700 (66%)
Guatemala (MSP)	1,409,500	346,154	1,063,346 (75%)
Total	US\$3,768,409	US\$1,354,357	US\$2,414,052 (64%)

^a Ministry of Health.

^b Social Security Institute.

The first round of purchasing revealed a number of specific operational problems, such as unacceptable expiration dates, inadequate external packaging, wrong language on the labels, delays in receiving analysis results from reference laboratories, and incorrect shipping documents. More important were the delays caused by long delivery times (which made programming difficult and necessitated emergency purchases) and by slow customs clearances. In addition, some countries had regulations limiting the procurement and importation of drugs through FORMED or hindering prompt reimbursement of the fund. However, because they are motivated to make the FORMED mechanism work, the countries have succeeded in overcoming most, if not all, of these obstacles. And PAHO, based on the experience of the first purchase, has adjusted its purchasing process, particularly the selection of suppliers, in order to ensure maximum compliance with the terms of the bidding process.

Second Joint Purchase (FORMED 1988)

In June 1987 a meeting of the national coordinators was held in order to review the criteria for selection of FORMED drugs and to begin joint planning of the 1988 purchases. It was agreed that the list should include drugs that are difficult to obtain and those whose procurement would have a considerable economic impact on the participating institutions and whose joint purchase would bring about considerable savings. Based on these criteria, an expanded list containing 25 drugs and 16 raw materials was approved, and the delegations indicated the products they had interest in procuring in the next purchase.

At this meeting the participants proposed various technical, administrative, and financial changes in the fund. One such proposal was that the countries be given 90 days after the product's arrival to make payment, rather than 60 days after the notification of shipment. Although this change would impede the semiannual rotation provided for under the fund, several delegations pointed out that their countries' budgetary systems made annual purchases more desirable.

The countries submitted orders for the 1988 purchase totaling approximately US\$1 million, substantially less than the US\$3.3 million ordered in the first round. This decline mainly reflects the availability from government agencies of products acquired either through their own mechanisms or during the first FORMED purchase, and the fact that there is limited foreign exchange for reimbursing the fund.

Completion of the second round of purchases is threatened by failure of some of the participating countries to settle their obligations from the first round. The delays in reimbursements have meant that the fund cannot be utilized to its full potential. In November 1987, a progress report was sent to the Government of the Netherlands, which then offered to increase the initial capital, provided that the beneficiary countries paid their debts and showed interest in such expansion.

The first year Swedish funds were used to help promote, coordinate, and supervise the joint procurement of essential drugs through such activities as the generation of procedures, guidelines, and the list of specific drugs to be purchased and the laboratory testing of those drugs. Two other areas financed were direct technical assistance in drug supply management, including quality control, and improvement of warehousing and hospital pharmacy capacity. The second year Swedish funds (US\$330,000) are being used to improve the physical infrastructure at the provincial and local levels in order to provide better storage capacity, warehousing, and controlled distribution at the small hospitals, clinics, health centers, and health posts that comprise the local health services system. The same concentration of efforts on the periphery of the distribution system will be present in the third year of the program, for which Sweden has committed an additional US\$330,000.

Conclusions

FORMED has proven to be an instrument that permits resolution of a problem shared by the countries of the Central American Isthmus, thus promoting cooperation within the subregion. The capacity of the fund to reduce the cost of procuring priority drugs has been widely documented, although this advantage was somewhat diminished by operational problems during the first round of purchases—problems that will be solved as PAHO and the countries acquire experience and better mastery of the processes and transactions involved. However, the rotation of the fund, and thus the future of the initiative, is threatened by the difficulties the participating countries face in obtaining foreign exchange for prompt reimbursement. This problem can be solved only at the highest government levels through measures to ensure the solvency of the fund.

Sources: Pan American Health Organization; Technical Cooperation Among Countries (TCC) in Subregional Initiatives (SPP9/5), Annex II: Essential Drugs Revolving Fund for Central America and Panama (FORMED); Washington, D.C., 13 November 1987; and Pan American Health Organization; Priority Health Needs in Central America and Panama: Analysis of Priority Areas; Washington, D.C., December 1987.