

LATIN AMERICA

64% savings by essential drugs revolving fund: the FORMED experience

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

Start-up funding...

In an effort to make the most efficient use of economic resources, particularly scarce foreign exchange, and faced with reduced purchasing power, an essential drugs revolving fund (FORMED) was established in 1986 to facilitate drug procurement at substantial savings. The Fund permits prompt payment of suppliers and allows countries a period of grace in which to make reimbursements. The Government of the Netherlands donated US\$4 000 000 to finance the joint purchase of a selected number of drugs, while a contribution of US\$277 000 from the Government of Sweden funded the technical cooperation necessary to implement the programme. Additional Swedish contributions of US\$330 000 in 1988 and 1989 have been used to improve the infrastructure at provincial and local levels in order to provide better storage capacity and controlled distribution.

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 cost. It also seeks to enhance regional collaboration, improve intersectoral coordination and management of the purchase process, and promote participation by local industry in the purchases made.

Selecting 16 essential 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 required to treat the most prevalent diseases should be included;
- the drugs should be part of specific health care programmes for the control of priority health problems;
- they should be single drugs of good quality and recognized effectiveness although FORMED accepts combinations if therapeutically justified;
- 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.

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

Significant savings...

A cost comparison of some of the products acquired through FORMED with prices paid by the countries in 1985 demonstrates the fund's ability to achieve significant savings (Table 1). These ranged from 26% to 75%, reflecting the varying efficiency and negotiating capacity of the different purchasing systems within the subregion.

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.



Cartoon WHO/F. Gallart

FORMED was able to make these savings through: (1) competitive international bidding, (2) prompt payment in dollars, (3) purchases packaged in economical units, (4) bulk buying, and (5) selection of the most economical method of transportation.

Initial operational problems...

The first round of purchasing in 1986 revealed a number of specific operational problems, such as unacceptable expiry 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 custom 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 WHO/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.

In June 1987 a meeting of the national coordinators reviewed the criteria for selection of FORMED drugs and started joint planning for the next round of purchases. Orders for 1988 purchases totalled approximately US\$1 million, substantially less than the US\$3.3 million of 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 future rounds of purchases is threatened by failure of some of the participating countries to settle their obligations from the first round. The Government of the Netherlands has offered to increase the initial capital to help alleviate the problem, provided that the countries pay their debts and show clear interest in the fund's expansion.

Will FORMED survive?

FORMED has undoubtedly met its goals of promoting regional cooperation. Its capacity 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 which participating countries face in obtaining foreign exchange for prompt reimbursement. In an attempt to overcome the problem WHO/PAHO, early in 1989, initiated discussions with the Central American Bank for Economic Integration to explore alternative mechanisms that can be instituted through the Bank. FORMED participants are hopeful that solutions will be found and that this cooperative venture will become a permanent force in Central American drug purchasing. □

