



Centralised Procurement: The Missing Piece in India's Healthcare Puzzle

This editorial is based on [“Centralised procurement as a powerful health idea”](#) which was published in The Hindu on 18/10/2023. The article talks about the benefits of centralised procurement of drugs for the health-care system in India. It argues that pooled procurement by the central government can reduce costs, ensure quality, and prevent stockouts of life-saving drugs. It also cites a recent study that provides empirical evidence for this idea.

For Prelims: Pooled Procurement, [Central Government Health Scheme \(CGHS\)](#), [Pradhan Mantri Jan Arogya Yojna \(PMJAY\)](#), [Employees' State Insurance Scheme \(ESI\)](#)

For Mains: Issues with India's Healthcare Procurements and How Pooled Procurement can help India's Health Sector

Many countries and international organizations have shown that a pooled buyer model for drug procurement addresses many issues that are related to price efficiency, stockouts and quality concerns. But for reasons that have remained mysterious for decades, the central government chooses to ignore the merits of pooled procurement when it comes to schemes such as the [Central Government Health Scheme \(CGHS\)](#), the [Pradhan Mantri Jan Arogya Yojna \(PMJAY\)](#) and the [Employees' State Insurance Scheme \(ESI\)](#). We have lots of successful examples of centralized procurement across why should hospitals be any different when it comes to drug procurement?

What is the Meaning of Pooled Procurement?

▪ Definition:

- Pooled procurement, also known as **collective procurement or group purchasing**, refers to a procurement strategy in which **multiple organizations, typically from the public or private sector, come together** to jointly purchase goods or services.

▪ Benefits:

- Access to competitive market terms and prices
- Elimination of procurement delays
- Support for timely grant expenditure
- Improved quality assurance
- Reduction or elimination of procurement corruption
- Rationalized choice through better-informed selection
- Improvement of procurement efficiency and quality standards by sharing technical capacity and human resources
- Reduction in unit prices, supply chain costs, and administrative burden

The Vada Pav Example

Imagine, there is an entrepreneur planning to take on a global fast-food giant like McDonald's in the Indian market. He's convinced that India's beloved street food, vada pav, can outshine the iconic burger. To achieve this, he devises a strategy to establish thousands of vada pav franchises across the country. His vision is to serve millions of clean, hygienic, and delicious vada pavs in the years to come. It's a brilliant concept, and he hopes someone brings it to life.

However, a crucial question arises:

- Should each franchise independently buy their own potatoes, or would it be wiser to set up a centralized procurement system?
 - This scenario revolves around solving two fundamental challenges: price and quality.
 - **Price:** When it comes to price, if each franchise negotiates with potato suppliers individually, it can lead to inefficiencies. The combined potato requirement for the entire business is much larger than what each franchise would need. It means a **centralized procurement system will have more bargaining power**. Moreover, procurement through a centralized system will have a **uniformity in price**.
 - **Quality:** If each franchise manages its own potato procurement, there's a risk that different franchises will have varying ideas of what constitutes acceptable quality. Additionally, each franchise may have different preferences for what makes a good potato. This **divergence in quality and taste could result in inconsistent vada pav offerings, which is a problem when operating under a franchise model where customers expect uniformity**. While a centralized procurement system can ensure **uniformity in potato quality as well**.

What are the Issues with India's Healthcare Procurements?

- **Lack of a Comprehensive and Uniform Legislation for Public Procurement:** India **does not have a central law that regulates the procurement of goods and services by the government**. Instead, there are various administrative rules, guidelines, manuals and state-specific laws that create a complex and fragmented procurement framework.
 - This leads to inconsistencies, inefficiencies, delays and disputes in the procurement process.
- **Lack of Centralized and Pooled Procurement Models:** India has not adopted a **centralized or pooled procurement model for purchasing drugs and medical equipment**, unlike many other countries. This means that **each government authority or hospital has to negotiate with suppliers individually**, resulting in higher prices, lower quality and stockouts.
 - On the other hand, corporate hospital chains have leveraged their bargaining power to obtain significant discounts from pharmaceutical companies, but they do not pass on these savings to the patients.
- **Lack of Transparency and Accountability:** India's health care procurements are often **marred by corruption, fraud, collusion and favoritism**. There is no effective mechanism to monitor and evaluate the procurement performance, outcomes and impact.
 - There is also no grievance redressal system or independent oversight body to address the complaints and disputes of the suppliers and the beneficiaries.
- **Inconsistent Coverage:** Different healthcare schemes, such as the [Central Government Health Scheme \(CGHS\)](#), [Employees' State Insurance \(ESI\)](#), and [Pradhan Mantri Jan Arogya Yojana \(PMJAY\)](#), **may cover different categories of beneficiaries and offer varying levels of coverage**. This results in inconsistencies in access to healthcare services and creates complexities in procurement processes.
- **Limited Integration of Public Sector Units (PSUs):** India has several pharma Public Sector Units (PSUs) that can play a significant role in benchmark pricing and ensuring competition. However, the **integration of these PSUs into procurement strategies is not fully realized**, which can result in missed opportunities for cost savings.

Is the Government Unaware of Pooled Procurement?

- It is not that the central government is unaware of the benefits of pooled procurement and price discovery.
- When the government (through the National Aids Control Organization) procures male contraceptives, it invites tenders from private manufacturers and then offers to buy from all those who are willing to match the lowest price.

How does the Government Prevent Suppliers from Colluding to Raise Prices?

- HLL Lifecare Ltd., a public sector unit (PSU), with the highest manufacturing capacity in India, provides a benchmark price. All the bidders know that if they are not competitive on price, the government will just procure all its requirements from HLL and they will be left with unused manufacturing capacity — and as a result, face huge fixed costs and overheads.

How can Pooled Procurement Help India's Health Sector?

- **Cost Savings:** Pooled procurement allows **multiple healthcare institutions to come together and negotiate bulk purchases** of pharmaceuticals and medical supplies. This collective bargaining power enables them to secure substantial discounts from suppliers. These cost savings **can then be passed on to patients**, making healthcare more affordable.
- **Efficient Resource Utilization:** By centralizing procurement efforts, healthcare organizations can **reduce redundancy and streamline the procurement process. This efficiency in resource allocation ensures that funds are used more effectively** and can be redirected to other critical areas of healthcare, such as infrastructure, staff training, or expanding healthcare services.
- **Increased Availability of Medicines:** Cost savings from pooled procurement can contribute to a **more stable supply of medicines and medical supplies**. When healthcare institutions can procure essential drugs at a lower cost, they are more likely to maintain sufficient stock, reducing the risk of drug shortages, which can have life-threatening consequences.
- **Better Quality Assurance:** Pooled procurement **allows healthcare organizations to independently test supplies, rather than relying solely on government drug regulators**. This extra layer of quality assurance ensures that patients receive safe and effective medications, enhancing overall healthcare quality.
 - **Standardized Contracts:** Pooled procurement often involves standardized contracts for supplies. **These contracts help eliminate ambiguities and ensure that healthcare institutions receive consistent and high-quality products**, reducing the risk of counterfeit or substandard medicines entering the market.
- **Reduced Administrative Burden:** Centralized procurement simplifies the administrative processes associated with procurement. This **reduces the administrative burden on individual healthcare facilities**, allowing them to focus more on patient care and improving healthcare services.
- **Equality and Consistency:** Pooled procurement can help **ensure equality and consistency in the availability of healthcare services across different regions and for various beneficiary categories**. This can **address the existing disparities in healthcare coverage** by providing consistent access to essential medicines and supplies.
- **Empowering Public Sector Units (PSUs):** By involving public sector units in benchmark pricing and competition, the **government can strengthen these PSUs**, making them more competitive and cost-effective. This approach ensures that private manufacturers face competition, which can result in better pricing for the government.

Conclusion

- Centralized procurement, or pooled procurement, is **a simple yet powerful idea that has the power and the potential to reduce costs, ensure better deployment of funds** in other

areas related to health care, and ensure availability of life-saving drugs in this country. It is an idea with both theoretical backing, and now empirical validation. It is an idea that India can implement at scale, and as soon as possible.

Drishti Mains Question:

Q. India's healthcare procurement system faces several challenges. In this context, discuss the advantages of a centralized procurement system and how it can address the existing issues in the healthcare procurement landscape.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. "Besides being a moral imperative of a Welfare State, primary health structure is a necessary precondition for sustainable development." Analyse. **(2021)**

PDF Reference URL: <https://www.drishtias.com/printpdf/centralised-procurement-the-missing-piece-in-india-s-healthcare-puzzle>

