



PAN AMERICAN HEALTH ORGANIZATION  
WORLD HEALTH ORGANIZATION



## **52nd DIRECTING COUNCIL**

### **65th SESSION OF THE REGIONAL COMMITTEE**

*Washington, D.C., USA, 30 September-4 October 2013*

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*Provisional Agenda Item 5.4*

CD52/15 (Eng.)

11 July 2013

ORIGINAL: ENGLISH

### **REVIEW OF THE CHARGE ASSESSED ON THE PROCUREMENT OF PUBLIC HEALTH SUPPLIES FOR MEMBER STATES**

#### **Introduction**

1. The mission of the Pan American Health Organization (PAHO) is “to lead strategic collaborative efforts among Member States and other partners to promote equity in health, to combat disease, and to improve the quality of, and lengthen the lives of the peoples of the Americas.” Critical to the achievement of this mission is supporting the Member States through technical cooperation for public health programs, including the procurement of vaccines and syringes, medical supplies, diagnostic kits, medications and equipment.<sup>1</sup>

2. In 2010, PAHO’s 50th Directing Council, 62nd Session of the Regional Committee of the World Health Organization (WHO) for the Americas, adopted Resolution CD50.R1, Charge Assessed on the Procurement of Public Health Supplies for Member States, which called for the following:

- (a) Increase the 3% charge previously assessed on the procurement of all public health supplies for Member States by the Pan American Sanitary Bureau by 0.5%, to a total of 3.5%, effective 1 January 2011.
- (b) Credit the additional 0.5% to the Special Fund for Program Support Costs to defray the administrative costs of procurement activities throughout the Organization for its three main procurement mechanisms: (i) Reimbursable Procurement on Behalf of Member States, (ii) Revolving Fund for Vaccine Procurement, and (iii) Regional Revolving Fund for Strategic Public Health Supplies.

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<sup>1</sup> Document CD50/22 (2010).

3. In 2010, when the Pan American Sanitary Bureau (PASB) requested the Directing Council to increase the percentage assessed on the net cost of the goods, the Organization initially considered proposing an increase of 1%, to a total of 4%, on the assessed charge on all procurement activities. However, in light of the economic climate and the challenges that many governments were facing, it was determined that a 0.5% increase would be the most appropriate adjustment at that time. As noted above, this was accepted, but the Member States asked PASB to review further in order to assess whether this increase was sufficient to allow coverage of actual costs of the three procurement mechanisms.

4. An interim report, Document CE151/6 of 20 August 2012, was presented during the 151st session of the Executive Committee to report the preliminary findings. The report indicated that there is a critical gap between the budget needed to fund administrative, staffing, and operating costs associated with the three procurement mechanisms at PAHO and the current financing model that includes the additional 0.5% charge. PASB indicated it would review the current situation and recommend a proposal for consideration by Member States.

5. Further review confirms that the funds generated by the additional 0.5% assessment, which became effective as of 1 January 2011, do not sufficiently cover the amount needed for PASB to administer its procurement activities on behalf of its Member States. Therefore, PASB proposes to increase it by an additional 0.75% to help bridge the gap in administrative, staffing, and operating costs. This would bring the charge assessed on procurement of all public health supplies from 3.5% to 4.25%.

### **Situation Analysis**

6. PASB procurement activities have been supported by the following three PAHO procurement mechanisms:

- (a) Reimbursable Procurement on Behalf of Member States
- (b) Revolving Fund for Vaccine Procurement
- (c) Regional Revolving Fund for Strategic Public Health Supplies

7. Through its three procurement mechanisms, PAHO, on behalf of Member States, has made significant contributions to public health in the Region of the Americas. Nonetheless, there are many challenges, including an insufficient level of funding to bridge the gap in funding needed to operate these mechanisms.

8. The Revolving Fund for Vaccine Procurement (“Revolving Fund”) was established in 1977 pursuant to Directing Council Resolution CD25.R27 to facilitate timely availability of quality vaccines at the lowest prices. In 1978, pursuant to Resolution CSP20.R16, a capitalization account was established into which 3% of the net

cost of the vaccines and supplies procured through this Fund was to be deposited to provide PAHO Member States with a line of credit with which to purchase vaccines and supplies and subsequently reimburse PASB upon delivery of the public health goods. Since the inception of the Revolving Fund, 3% assessment collected from the Member States has been designated for the Fund's capitalization account in order to increase the financial resources available for advancing funds to Member States. Since the increase of the fee from 3% to 3.5%, effective 1 January 2011, 3% of the net cost is still deposited into the capitalization account and the additional 0.5% is deposited into the Special Fund for Program Support.

9. The Revolving Fund has served as a strategic mechanism for ensuring a continuous supply of safe and effective vaccines and immunization supplies at lower prices. This mechanism has facilitated the elimination of vaccine-preventable diseases and contributed to the financial self-sustainability of immunization programs in the Region. The Revolving Fund has also served as a catalyst for the rapid, equitable, and sustainable introduction of new and underutilized vaccines, thus contributing to a significant reduction in both morbidity and mortality.

10. The Regional Revolving Fund for Strategic Public Health Supplies ("Strategic Fund") was established in 1999 by the Director, pursuant to his vested authority in PAHO's Financial Regulations and Rules, following requests from PAHO Member States for assistance in the procurement of strategic supplies focused on combating HIV/AIDS, tuberculosis, malaria, and neglected diseases. At the time of its establishment through 2010, a 3% charge was assessed on the net cost of the supplies procured, similar to the other PAHO procurement mechanisms. In 2005, the Director approved the use of the 3% charge for the capitalization of the Strategic Fund, which provides the option for Member States to request advanced funding for the procurement of strategic health supplies and then reimburse PASB upon receipt of the supplies. Since 1 January 2011, 3% of the assessed charge is still deposited into the Strategic Fund capitalization account and the additional 0.5% is deposited into the Special Fund for Program Support Costs.

11. The Strategic Fund was created to promote access to high-quality, essential public health supplies in the Americas. It facilitates the acquisition of these supplies by PAHO Member States at reduced cost, taking advantage of the potential savings offered by economies of scale. In addition to ensuring a steady supply of quality products, it provides technical support to the countries in the areas of procurement planning, distribution, and product forecasting. The Strategic Fund acts as a facilitating mechanism to scale up countries' access to the key strategic public health supplies needed to prevent, control, and treat priority diseases in the Americas.

12. The Mechanism of Reimbursable Procurement on Behalf of Member States ("Reimbursable Procurement"), was established by PAHO Directing Council in 1951 pursuant to Resolution CD5.R29, with the objective of assisting the ministries of health in the procurement of medical supplies and equipment that would either be unobtainable

or subject to procurement difficulties in the respective countries. Since its inception through 2010, a 3% charge was assessed on the net cost of the items procured. The 3% charge was credited to the Special Fund for Program Support Costs. Since 1 January 2011, the additional 0.5% is also credited to the Special Fund for Program Support Costs.

13. Over the past decade, the total value of the goods procured on behalf of Member States under these procurement mechanisms has risen substantially. During the 2010-2011 biennium, PASB procured a total of US\$ 997.0 million,<sup>2</sup> which represents an increase of \$769.9 million, or 339%, over the \$227.1 million in goods procured by all procurement mechanisms during the 2000-2001 biennium.

14. For both the Revolving Fund and the Strategic Fund, 3% out of the total 3.5% assessed charge is credited to capitalization accounts and is therefore not available to cover operating costs. Thus, only 0.5% is available to defray a portion of the overall cost associated with each procurement mechanism. The total value of this additional 0.5% charge amounted to \$1.8 million in the 2010-2011 biennium which, when added to funds credited from Reimbursable Procurement, amounted to \$2.4 million for the same period.

15. Based on historical patterns and projections for future procurement activities, the estimated administrative, operating, and staffing costs needed to manage the three procurement mechanisms amounts to \$12 million to \$14 million per biennium.<sup>3</sup> A breakdown of these costs is found in Annex A. With the current 0.5% assessment charge credited to the Special Fund for Program Support Costs, an estimated \$5 million will be generated per biennium to defray overall costs. Thus, there is a critical gap of \$7 to \$9 million between the overall cost needed to administer these procurement mechanisms and funds generated under the current model.

16. The Organization is substantially cross-subsidizing these critical procurement activities, which are central to its mission, and is postponing the implementation of initiatives to strengthen the respective activities of each mechanism.

17. Several United Nations (UN) agencies facilitate procurement on behalf of their Member States, partners, and donors in support of their agencies' missions. The charges levied by several UN agencies are provided for comparative analysis in the table below. Unlike these comparator organizations, PAHO charges only 0.5% to cover operating costs.

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<sup>2</sup> Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

<sup>3</sup> The level of staffing utilized to administer the procurement mechanisms has not changed for the past 20 years despite significant increases in cost and volume in procurements, the complexity of the market for public health goods, the entrance of new strong players in the arena, and the need to support the rising service levels of our Member States so that they can successfully implement their health strategies.

### Comparison with Other United Nations Agencies

Organization	Charge	Remarks
World Health Organization (WHO)	3-7%	Money received from governments (3%), money received from Global Fund, World Bank (7%); no charge for emergency supplies.
United Nations Children's Fund (UNICEF)	3-8.5%	UNICEF is required to recover its costs for providing procurement services by charging a handling fee, which varies according to the supplies or services required.
United Nations Office for Project Services (UNOPS)	N/A	UNOPS recovers its cost by charging a handling fee.
United Nations Population Fund (UNFPA)	5%	Fee charged by UNFPA acting as procurement and supply agent for a government or other third party (the 5% applies to the total cost of supplies <i>plus</i> freight and insurance cost).

### Proposal

18. In light of the above, PASB is proposing that the 0.5% currently charged to PAHO's procurement mechanisms to cover administrative, operating, and staffing costs, be increased by 0.75%, which will bring the charge assessed on procurement of all public health supplies from 3.5% to 4.25%. If the procurement level of the 2010-2011 biennium is maintained, this 0.75% increase would contribute about an additional \$7.5 million to the Special Fund for Program Support Costs, for a total of approximately \$12 million per biennium. This would significantly close the gap in funding the actual cost to the Organization to operate these procurement mechanisms.

19. This amount will contribute to financing:

- (a) All staff at the regional level currently fully dedicated to management of the three procurement mechanisms within the following entities:
  - Procurement and Supply Management Area
  - Financial Resources Management
  - Office of Legal Counsel
  - Technical areas related to immunizations, control of diseases, and medical technology
- (b) Additional staff to support the procurement mechanisms at the subregional and country levels to guarantee sustainability of service throughout PASB.

- (c) An operational framework that allows consolidating and strengthening knowledge and awareness, increasing efficiency of the operations, and developing market intelligence.

**Biennial Reporting**

20. Every biennium, PASB will report to the Governing Bodies on the amount credited to the Special Fund for Program Support Costs.

**Action by the Directing Council**

21. The Directing Council is invited to review the information in this document and consider adopting the proposed resolution in Annex B.

Annexes

### Supporting Information

1. The Seventh Session of the Subcommittee on Program, Budget, and Administration requested a breakdown of the estimated administrative, operating, and staffing costs needed to manage the three procurement mechanisms. The tables in this Annex were presented during the Seventh Session of the Subcommittee as a response to that request.
2. The charge to defray the cost of operating the three procurement mechanisms for all public health supplies throughout PAHO has been calculated based on the following information.
3. Table 1 includes the cost (\$8.5 million) of all staff dedicated to operating the three PAHO procurement mechanisms at all levels of the Organization. This includes staff in the Procurement and Supply Management Area (PRO) who work full time operating the three mechanisms, as well as staff who operate the Revolving and Strategic Fund located in the areas of Family and Community Health (FCH), Health Systems Based on Primary Health Care (HSS), Financial Resources Management (FRM) and the Office of Legal Counsel (LEG). The level of staffing utilized to administer the procurement mechanisms has remained consistent for the past 20 years. Meanwhile, as demonstrated in paragraph 13 of this document, PASB is procuring significantly more than it did 10 years ago, and the level of complexity of transactions has vastly increased. This limits PASB in sustaining its technical programs. Table 1 also shows the estimated cost (\$1.5 million) of subregional coordinators who will be hired to support the national authorities.

**Table 1. PASB Posts in the Region for Procurement Activities Support:  
US\$ 10 million**

<b>PASB Offices</b>	<b>Estimated Cost*</b>	<b>Remarks</b>
Regional level	\$8.5 million	Current staff costs of entities such as FCH, HSS, LEG, PRO, and FRM
Subregional level	\$1.5 million	Future cost of coordinators based in each subregion that will work with both the Revolving Fund and Strategic Fund to follow up on national needs and context and support the national authorities in the use of the PAHO Revolving Funds

\* All monetary amounts in this report are expressed in United States dollars.

4. Table 2 explains the cost that PASB incurs to enable the functions needed to support PAHO procurement mechanisms.

**Table 2. Enabling Critical Functions  
to Support PAHO Procurement Mechanisms: \$3 million**

<b>Enabling Critical Functions</b>	<b>Objectives</b>
Knowledge and awareness strengthening	<p>Ensure that different stakeholders in PAHO procurement mechanisms at the ministries of health and the PAHO/WHO Representative Offices know about <i>the</i> benefits and operational procedures for optimal use of the mechanisms.</p> <p>Continuous participation of Member States in the Revolving and Strategic Funds is essential to maintaining the procurement mechanisms and achieving additional successes in our Region in the future.</p>
Efficiency and quality of service	<p>Continuously improve the capacity to deliver safe, effective, and quality health products to Member States in an affordable and timely manner to ensure uninterrupted access to life-saving products.</p> <p>With financially self-sustainable procurement mechanisms, PAHO will be in a position to invest in resources and activities to improve communications with countries and suppliers, increase identification of improvement opportunities and related actions aiming to improve service levels and “best value for health” for Member States.</p>
Market intelligence	<p>Improve tools and mechanisms to better understand health product needs and market dynamics in order to anticipate challenges and opportunities with respect to timely access to affordable, safe, and effective health products.</p> <p>The pharmaceutical market, especially the supply of vaccines and medicines, is continuously changing. Increased follow-up monitoring of these markets is required to develop procurement tactics to ensure supply, competition, and services for our Region.</p>
Strategic alliances and partnerships	<p>Leverage capabilities within the World Health Organization, United Nations procurement agencies, other multilateral and bilateral agencies, and manufacturers to create synergies with PAHO procurement mechanisms.</p> <p>PAHO will be in a position to increase communications with key stakeholders to identify and develop partnerships.</p>





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CD52/15 (Eng.)  
Annex B  
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***PROPOSED RESOLUTION***

**REVIEW OF THE CHARGE ASSESSED ON THE PROCUREMENT OF  
PUBLIC HEALTH SUPPLIES FOR MEMBER STATES**

***THE 52nd DIRECTING COUNCIL,***

Having considered the document *Review of the Charge Assessed on the Procurement of Public Health Supplies for Member States* (Document CD52/15);

Recognizing the significant contribution of the PAHO procurement mechanisms to promote access to and ensure a continuous supply of high-quality, safe, and effective essential public health supplies, to address regional priorities and reduce morbidity and mortality in the Americas;

Considering that the PAHO procurement mechanisms facilitate the development of country capacity to scale up access to critical public health supplies, in order to prevent, control, and treat priority diseases in the Region;

Noting the increase in the procurement activity and the critical gap in the budget needed to fund overall costs—administrative, operating, and staffing—associated with its management,

***RESOLVES:***

1. To increase the current three and one half percent (3.5%) charge assessed on the procurement of all public health supplies for PAHO Member States by the Pan American Sanitary Bureau by three quarters of one percent (0.75%) to a total of four and one quarter percent (4.25%), effective 1 January 2014.

2. To credit the additional charge assessed (0.75%) to the Special Fund for Program Support Costs to defray the costs of procurement activities throughout the Organization for the following three procurement mechanisms:
  - (a) Reimbursable procurement on behalf of Member States,
  - (b) Revolving Fund for Vaccine Procurement,
  - (c) Regional Revolving Fund for Strategic Public Health Supplies.
3. To review the charge assessed by the Pan American Sanitary Bureau on the procurement of all public health supplies for Member States at the end of each biennium.
4. To request the Director to present a report on this issue to the Governing Bodies at the end of each biennium.



PAN AMERICAN HEALTH ORGANIZATION

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Annex C

## Report on the Financial and Administrative Implications of the Proposed Resolution for PASB

1. **Agenda item:** 5.4 Review of the Charge Assessed on the Procurement of Public Health Supplies for Member States
2. **Linkage to Program and Budget 2014-2015\*:**
  - (a) **Categories:** C01: Communicable Diseases; C03: Determinants of Health and Promotion Health throughout the Life Course; C04: Health Systems; C05: Preparedness, Surveillance, and Response; and C06: Corporate Services/Enabling Functions.
  - (b) **Expected result:** To ensure continuous supply of high quality, safe, and effective essential public health supplies to advance universal health coverage in the Region. To scale up access to critical public health supplies, to prevent, control and treat priority diseases in the Region.
3. **Financial implications:**
  - (a) **Total estimated cost for implementation over the lifecycle of the resolution (estimated to the nearest US\$ 10,000, including staff and activities):** If the procurement level of the 2010-2011 biennium continues, the 0.75% increase in the charge would contribute US\$7.5 million per biennium to the Special Fund for Program Support Costs, which would be allocated for the operating, staffing and administrative expenses of procurement activities throughout PASB.
  - (b) **Estimated cost for the biennium 2014-2015 (estimated to the nearest US\$ 10,000, including staff and activities):** If the procurement level of the 2010-2011 biennium continues, the 0.75% increase in the charge would contribute \$7.5 million in the 2012- 2013 biennium to the Special Fund for Program Support Costs, which would be allocated for the operating, staffing and administrative expenses of procurement activities throughout PASB.
  - (c) **Of the estimated cost noted in (b), what can be subsumed under existing programmed activities?** not applicable
4. **Administrative implications:**
  - (a) **Indicate the levels of the Organization at which the work will be undertaken:** not applicable
  - (b) **Additional staffing requirements (indicate additional required staff full-time equivalents, noting necessary skills profile):** not applicable
  - (c) **Time frames (indicate broad time frames for the implementation and evaluation):** not applicable

\* Refers to the [Proposed PAHO Program and Budget 2014-2015](#) that was presented to the 152nd Session of the Executive Committee.



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Annex D

**ANALYTICAL FORM TO LINK AGENDA ITEM WITH ORGANIZATIONAL MANDATES**

**1. Agenda item:** 5.4 Review of the Charge Assessed on the Procurement of Public Health Supplies for Member States

**2. Responsible unit:** Procurement and Supply Management (PRO)

**3. Preparing officer:** Florence Petizon, Manager, PRO

**4. List of collaborating centers and national institutions linked to this Agenda item:**  
Member States that purchase through the PAHO procurement mechanisms.

**5. Link between Agenda item and Health Agenda for the Americas 2008-2017:**

This item is linked to the following Areas of Action in the Health Agenda:

- c) Increasing Social Protection and access to quality Health Services
- d) Diminishing Health Inequalities among Countries and inequalities within them
- e) Reducing the risk and burden of Diseases

**6. Link between Agenda item and the Proposed Strategic Plan 2014-2019\*:**

**Categories:**

**Program Areas**

1. Communicable Diseases

- 1.1 HIV/AIDS and STIs
- 1.2 Tuberculosis
- 1.3 Malaria and other Vector-borne Diseases (including Dengue and Chagas)
- 1.4 Neglected, Tropical, and Zoonotic Diseases
- 1.5 Vaccine-Preventable Diseases (including Maintenance of Polio Eradication)

3. Determinants of Health and Promoting Health throughout the Life Course

3.1 Women, Maternal, Newborn, Child, and Adolescent Health, and Sexual and Reproductive Health

\* Refers to the [Proposed PAHO Strategic Plan 2014-2019](#) that was presented to the 152nd Session of the Executive Committee.

4. Health Systems	4.3 Access to Medical Products and Strengthening of Regulatory Capacity
5. Preparedness, Surveillance, and Response	5.1 Alert and Response Capacities 5.2 Epidemic- and Pandemic-Prone Diseases 5.3 Emergency Risk and Crisis Management 5.5 Outbreak and Crisis Response
6. Corporate Services/Enabling Functions	6.1 Leadership and Governance 6.2 Transparency, Accountability, and Risk Management 6.3 Strategic Planning, Resource Coordination, and Reporting 6.4 Management and Administration
<b>7. Best practices in this area and examples from countries within the Region of the Americas:</b> <p>The increase of 0.75% in the charge will assist the Organization in meeting the costs associated with critical procurement activities and currently mostly funded with Regular Budget and Voluntary Contribution funding. The 0.5% available since January 2011 to defray operating, staffing and administrative costs during 2010-2011 biennium is not sufficient to meet the financial requirement associated with procurement of US\$ 997 million in public health supplies for the two year period.</p>	
<b>8. Financial implications of this Agenda item:</b> <p>If the procurement level of 2010-2011 biennium continues, the 0.75% increase in the charge will contribute \$7.5 million to the Special Fund for Program Support Costs, which could be allocated to staffing and enabling critical functions and strategic initiatives such as: knowledge and awareness strengthening, efficiency and quality of service, market intelligence and development of strategic alliances and partnerships.</p>	