



PAN AMERICAN HEALTH ORGANIZATION  
WORLD HEALTH ORGANIZATION



## 146th SESSION OF THE EXECUTIVE COMMITTEE

Washington, D.C., USA, 21-25 June 2010

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*Provisional Agenda Item 5.6*

CE146/28, Rev. 1 (Eng.)

7 June 2010

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.

#### Background

2. During the last ten years, the Organization has experienced significant growth in the financial resources entrusted to it by the Member States for the procurement of public health supplies to improve the health of the people. These procurement activities have been supported by the following three PAHO procurement mechanisms:

- Reimbursable Procurement on Behalf of Member States
- Revolving Fund for Vaccine Procurement
- Regional Revolving Fund for Strategic Public Health Supplies

3. During the 2008-2009 biennium, the total income for procurement services on behalf of Member States increased to US\$ 745.7 million<sup>1</sup>, compared with \$254.6 million in 1998-1999, an increase of \$491.1 million, or 293%. Through extensive international bidding, the Pan American Sanitary Bureau (PASB) is able to purchase vaccines,

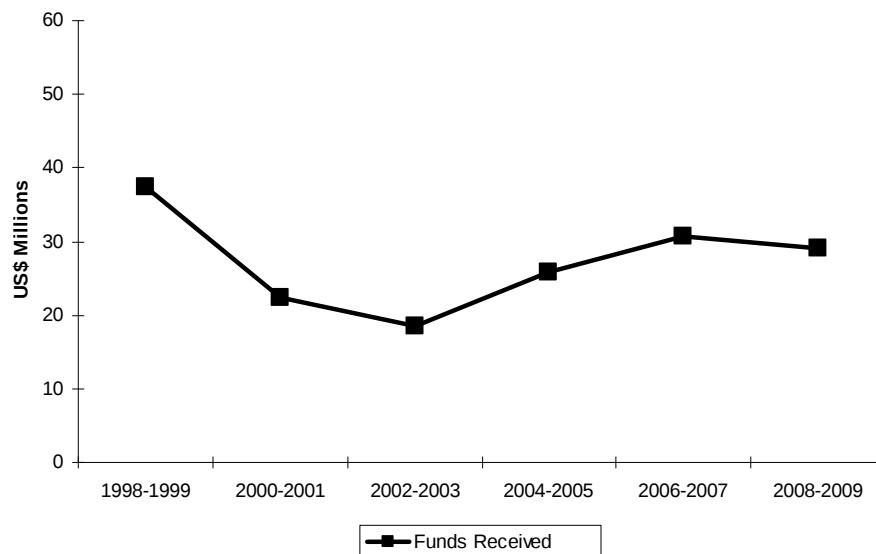
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<sup>1</sup> Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

medications, public health supplies and equipment on behalf of the Member States at the lowest prices.

4. The Mechanism of Reimbursable Procurement on Behalf of Member States 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 (i.e., microscopes, malaria drugs and diagnostic kits, insecticides, etc.) and equipment, which would be either unobtainable or subject to procurement difficulties in the respective countries.

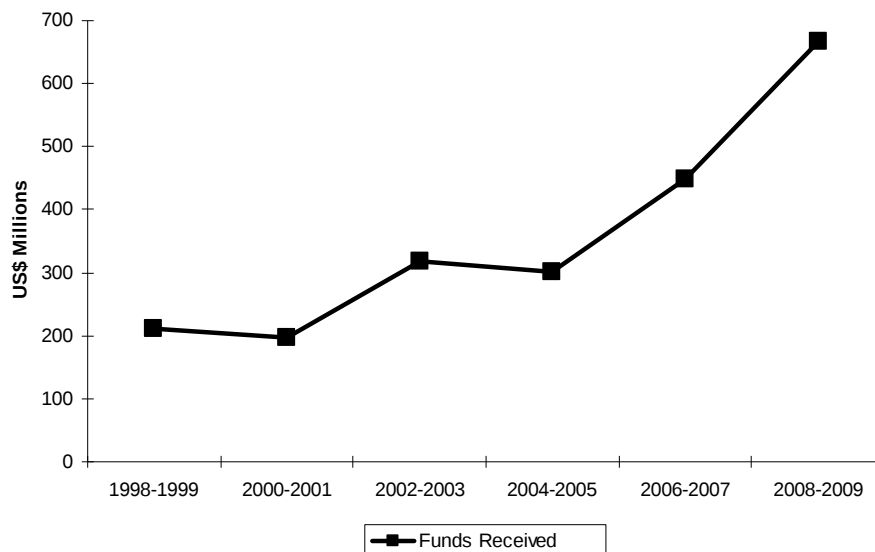
5. During the 2008-2009 biennium, funding received for purchases through the Reimbursable Procurement mechanism reached \$29.2 million, as compared to \$37.5 million in the 1998-1999 biennium. The decrease of \$8.3 million, or 22%, is mainly due to the establishment of the Regional Revolving Fund for Strategic Public Health Supplies during the 1998-1999 biennium.



6. Since the inception of the Reimbursable Procurement mechanism in 1951, a 3% charge has been assessed on the net cost of the items purchased, not including freight and insurance costs. During the 2008-2009 biennium, this charge amounted to \$750,361. In accordance with Resolution CD28.R36 (1981) this 3% charge has been credited to the Special Account for Program Support Costs and used to defray a portion of the costs related to the management and administration of this procurement mechanism.

7. The Revolving Fund for Vaccine Procurement was established pursuant Directing Council Resolution CD25.R27 in 1977 to facilitate timely availability of quality vaccines and supplies at the lowest prices. In 1978, pursuant 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 the PASB upon delivery of the public health goods. This enabled the Revolving Fund for Vaccine Procurement to formally commence operations in 1979.

8. During the 2008-2009 biennium, the funding available for the procurement of vaccines and supplies via the Revolving Fund increased to \$666.0 million, from \$212.1 million in 1998-1999, an increase of \$453.9 million, or 314%. Through this significant support to the vaccination programs of the Member States, the Organization contributes to the challenges of improving the health of the most neglected, vulnerable, marginalized, and excluded populations in the Americas.



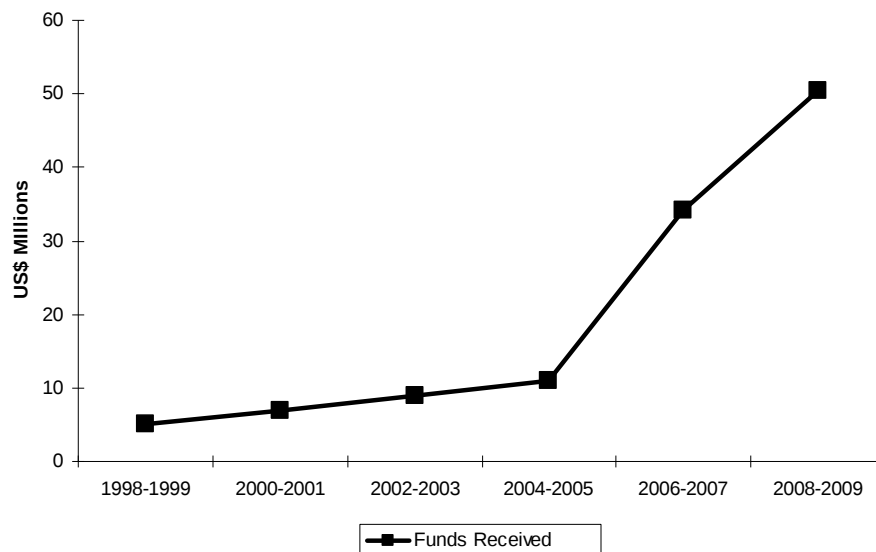
9. Since the inception of the Revolving Fund for Vaccine Procurement, the 3% charge collected from Member States has been designated for the Fund's capitalization account in order to increase the financial resources available for advancing funding to Member States for the procurement of vaccines and supplies and subsequent reimbursement to the PASB upon delivery of the public health goods. The cumulative capitalization reached \$60.9 million as of 31 December 2009. During the 2008-2009 biennium, this 3% net charge amounted to \$17.24 million. Due to the 3% charge being credited to the capitalization account of the Revolving Fund, no portion of this 3% charge

is used to defray any of the associated costs, including staff, related to these procurement activities.

10. The Regional Revolving Fund for Strategic Public Health Supplies was established in 1999 by the Director, pursuant to the authority vested in him/her by PAHO's Financial Regulations and Rules, following requests from PAHO Member States for assistance in the procurement of strategic supplies focused on combating malaria, tuberculosis, leishmanial disease, dengue, and HIV/AIDS. The objectives of the Fund include:

- (a) reducing the cost of strategic public health supplies;
- (b) making these supplies continuously available to the Member States;
- (c) assisting the Member States in improving their planning capabilities to use these supplies;
- (d) broadening the scope for the Member States' public health programs.

11. During the 2008-2009 biennium, the Fund received \$50.5 million for the purchase of strategic supplies, as compared to \$5.0 million in 1998-1999, the biennium when this procurement mechanism was initiated. The increase of \$45.5 million reflects the success of the Regional Revolving Fund for Strategic Public Health Supplies.



12. As with PAHO's other procurement mechanisms a 3% charge is assessed on the net cost of the strategic public health supplies which are procured, not including freight

and insurance charges. On 1 August 2005, the Director approved the use of the 3% charge for the capitalization of the Regional Revolving Fund for Strategic Health Supplies. The Strategic Fund capitalization account provides the option for Member States to request advanced funding for the procurement of these strategic supplies and then reimburse the PASB upon receipt of the supplies. This capitalization reached \$937,546 during the 2008-2009 biennium. As with the Revolving Fund for the Procurement of Vaccines, due to the fact that the full 3% charge is credited to the capitalization account of the Regional Revolving Fund for Strategic Public Health Supplies, no portion of this 3% charge is used to defray the associated costs, including staff, related to these procurement activities.

### Challenge

13. As seen in the chart below, during the 2008-2009 biennium the 3% charges for the three procurement mechanisms amounted to \$18.9 million; however, \$18.2 million of this amount was credited to the capitalization accounts of the Revolving Fund for Vaccine Procurement and the Regional Revolving Fund for Strategic Public Health Supplies. Thus, only \$750,361 was available to contribute to the administrative and staffing costs associated with these procurement activities.

| <b>Fund Name</b>                                                              | <b>3% Charge Amount</b> | <b>Crediting of 3% Charge</b>                    |
|-------------------------------------------------------------------------------|-------------------------|--------------------------------------------------|
| Reimbursable Procurement on Behalf of Member States                           | \$750,361               | Special Fund for Program Support*                |
| Revolving Fund for Vaccine Procurement                                        | \$17.24 million         | Capitalization Account of Vaccine Revolving Fund |
| Regional Revolving Fund for Strategic Public Health Supplies (Strategic Fund) | \$937,546               | Capitalization Account of Strategic Fund         |

\* The 3% charge is deposited in this fund and is available to defray administrative costs related to procurement.

14. The \$750,361 available to defray administrative costs during 2008-2009 did not meet the financial requirements associated with procurement of \$745.7 million in public health supplies for the two-year period. Therefore, the Organization is cross-subsidizing these critical procurement activities, which are central to the Organization's mission, with PAHO Regular Budget funds. The Organization recognizes that these procurement activities are essential for improving the health of the peoples of the Americas.

Furthermore, the PASB recognizes that the Member States, who fund the Regular Budget through their assessed contributions, are also many of the Member States who benefit from the PASB procurement activities.

### **Proposal**

15. In light of the dramatic growth in the Organization's procurement activities from \$254.6 million in 1998-1999 to \$745.7 million in the 2008-2009 biennium, this situation has become unsustainable. Therefore, the PASB is proposing that the fee of 3% currently charged to PAHO's procurement mechanisms be increased to 3.5% with the additional .5% (i.e., one-half of 1%) being credited to the Special Fund for Program Support Costs to defray the administrative costs of all procurement activities. If the procurement level of the last biennium continues, this .5% increase would contribute \$3.6 million to the Special Fund for Program Support Costs which could be allocated to finance additional posts throughout the PASB regional, subregional and country level that support the procurement activities.

16. The PAHO areas which contribute to the procurement processes and related activities include:

- Procurement and Supplies Management
- Financial Resources Management
- Office of Legal Counsel
- Human Resources Management
- Internal Oversight and Evaluation Services
- Program, Budget and Resource Coordination
- Technical areas related to Immunizations, Control of diseases and Medical Technology

17. The positions which are involved in the PAHO procurement processes are located at the PAHO Headquarters (HQ) in Washington, D.C., and throughout the country offices. Currently, there are 31 permanent and temporary posts in the Area of Procurement and Supplies Management in the Regional Office, as well as Procurement Focal Points in the country offices. Furthermore, as stated previously, other PASB areas support the procurement activities, and would benefit from additional financial resources to cover for the additional positions required by the increased procurement activity.

18. An independent assessment of the procurement functions and processes, which is being conducted by a well-known international consulting firm, has estimated an optimal level of approximately 37-40 full-time staff for the Area of Procurement and Supplies Management, in light of the current level of procurement transactions, their complexity, and the financial resources for which the Area is responsible.

### Comparison with United Nations Agencies

19. Several United Nations agencies facilitate procurement on behalf of their Member States, partners and donors in support of their agencies' missions. The charges of some of the United Nations agencies are provided for comparative analysis:

| Organization | Charge                    | Remarks                                                                                                                                                                                  |
|--------------|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| WHO          | 3 – 7%                    | Money received from Governments (3%), money received from Global Fund, World Bank, etc. (7%), no charge for emergency supplies.                                                          |
| UNICEF       | 3 – 8.5%<br>(See Annex A) | 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.                      |
| UNOPS        | N/A                       | UNOPS recovers its cost by charging a handling fee.                                                                                                                                      |
| 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). |

### Action by the Executive Committee

20. In light of the dramatic increase in the procurement activities entrusted to the PASB by the Member States and the resulting increase in administrative costs, the Executive Committee may wish to consider the adoption of the proposed resolution in Annex C.

### Annexes

## UNICEF

### What does it cost to use Procurement Services?

UNICEF does not make any profit, but is required to recover its costs from providing Procurement Services, by charging a handling fee. This handling fee is incorporated into the cost estimate and is calculated as follows:

| Commodity Groups           | Handling Fee | Handling Fee |
|----------------------------|--------------|--------------|
|                            | LDCs %       | Non-LDCs %   |
| Vaccines EPI               | 4            | 4.5          |
| New Vaccines               | 3            | 3.5          |
| AD syringes                | 4            | 4.5          |
| Cold Chain                 | 8            | 8.5          |
| Bednets                    | 8            | 3.5          |
| Antimalarials              | 3            | 4.5          |
| Antiretrovirals            | 4            | 4.5          |
| Diagnostic Test Kits       | 4            | 4.5          |
| Laboratory                 | 8            | 8.5          |
| Medical Equipment/Kits     | 8            | 8.5          |
| Pharmaceuticals            | 8            | 8.5          |
| Nutrition                  | 8            | 8.5          |
| Transport                  | 8            | 8.5          |
| Education                  | 8            | 8.5          |
| Printing                   | 8            | 8.5          |
| Water, Sanitation, Hygiene | 8            | 8.5          |
| Communication              | 8            | 8.5          |

LDCs: Least Developed Countries.

In addition:

- A 10 per cent buffer to cover market and foreign exchange fluctuations is added to the cost estimate when non-stock items are purchased. Any unused balance is returned to the customer after the accounts are finalized.
- Freight and insurance is charged at cost price, using UNICEF-contracted freight forwarders, which offer very competitive prices.
- Upon request, we can offer a separate package of technical, logistical or managerial support. The cost is determined on a case-by-case basis.

Source: UNICEF's website



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Annex B

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

**1. Agenda item:** 5.6. Review of the Charge Assessed on the Procurement of Public Health Supplies for Member States

**2. Responsible unit:** Financial Resources Management (FRM)

**3. Preparing officer:** Sharon G. Frahler

**4. List of collaborating centers and national institutions linked to this Agenda item:**

Member States.

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

- Strategic Objective 1. To reduce the health, social and economic burden of communicable diseases.
- SO 1 supports five Areas of Action of the Health Agenda for the Americas 2008-2017:
  - (a) Strengthening the National Health Authority;
  - (d) Diminishing Health Inequalities among Countries, and Inequities within Them;
  - (e) Reducing the Risk and Burden of Disease;
  - (g) Harnessing Knowledge, Science, and Technology;
  - (h) Strengthening Health Security.

**6. Link between Agenda item and Strategic Plan 2008-2012:**

- RER 1.1 Member States supported through technical cooperation to maximize equitable access of all people to vaccines of assured quality, including new or underutilized immunization products and technologies; strengthen immunization services; and integrate other essential family and child health interventions with immunization.
- RER Indicator 1.1.4 Number of countries that purchase the vaccines for their National Immunization Program through the PAHO Revolving Fund for Vaccine Procurement.

**7. Best practices in this area and examples from countries within the Region of the Americas:**

The increase of .5% in the charge will assist the Organization in meeting the costs associated with the critical procurement activities with PAHO Regular Budget funds. The \$750,361 available to defray administrative costs during 2008-2009 did not meet the financial requirements associated with procurement of \$745.7 million in public health supplies for the two year period

**8. Financial implications of this Agenda item:**

If the procurement level of the 2008-2009 biennium continues, the .5% increase in the charge would contribute \$3.6 million to the Special Fund for Program Support Costs which could be allocated for additional posts throughout the PASB which support the procurement activities.



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## 146th SESSION OF THE EXECUTIVE COMMITTEE

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Annex C  
ORIGINAL: ENGLISH

### ***PROPOSED RESOLUTION***

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

#### ***THE 146th SESSION OF THE EXECUTIVE COMMITTEE,***

Having considered the Director's presentation on the "Charge Assessed on the Procurement of Public Health Supplies for Member States" (Document CE146/28);

Noting the significant increase in the procurement of public health supplies through the Pan American Sanitary Bureau's three procurement mechanisms on behalf of PAHO's Member States;

Taking note of the progressive insufficiency of adequate financial resources for the administrative services which support the procurement activities;

#### ***RESOLVES:***

To recommend to the Directing Council that it adopt a resolution along the following lines:

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

#### ***The 50th DIRECTING COUNCIL***

Having considered the document "Charge Assessed on the Procurement of Public Health Supplies for Member States" (Document CD50/\_\_\_), and

Noting the significant increase in the procurement of public health supplies through the Pan American Sanitary Bureau's three procurement mechanisms on behalf of PAHO's Member States and the progressive insufficiency of adequate financial resources for the administrative services which support the procurement activities;

***RESOLVES:***

1. To increase the current three percent (3%) charge assessed on the procurement of all public health supplies for Member States by the Pan American Sanitary Bureau by one-half of one percent (0.5%) to a total of three and one-half percent (3.5%);
2. To credit the additional 0.5% of this charge to the Special Fund for Program Support Costs to defray the administrative costs of procurement activities throughout the Organization for the following three procurement mechanisms:
  - Reimbursable Procurement on Behalf of Member States
  - The Revolving Fund for Vaccine Procurement
  - The Regional Revolving Fund for Strategic Public Health Supplies



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 Annex D

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

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Agenda item:</b> 5.6: Review of the Charge Assessed on the Procurement of Public Health Supplies for Member States                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>2. Linkage to Program Budget 2008-2009:</b><br><br>(a) <b>Area of work:</b> N/A<br><br>(b) <b>Expected result:</b> N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>3. Financial implications</b><br><br>(a) <b>Total estimated cost for implementation over the lifecycle of the resolution (estimated to the nearest US\$ 10,000, including staff and activities):</b> If the procurement level of the 2008-2009 biennium continues, the .5% increase in the charge would contribute \$3.6 million per biennium to the Special Fund for Program Support Costs, which could be allocated for additional posts throughout the PASB which support the procurement activities.<br><br>(b) <b>Estimated cost for the biennium 2010-2011 (estimated to the nearest US\$ 10,000, including staff and activities):</b> If the procurement level of the 2008-2009 biennium continues, the .5% increase in the charge would contribute \$3.6 million in the 2010-2011 biennium to the Special Fund for Program Support Costs, which could be allocated for additional posts throughout the PASB which support the procurement activities.<br><br>(c) <b>Of the estimated cost noted in (b), what can be subsumed under existing programmed activities?</b> N/A |
| <b>4. Administrative implications</b><br><br>(a) <b>Indicate the levels of the Organization at which the work will be undertaken:</b> N/A<br><br>(b) <b>Additional staffing requirements (indicate additional required staff full-time equivalents, noting necessary skills profile):</b> N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

**(c) Time frames (indicate broad time frames for the implementation and evaluation):**  
N/A

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