

# 166th SESSION OF THE EXECUTIVE COMMITTEE

*Virtual Session, 22-23 June 2020*

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*Provisional Agenda Item 5.9*

CE166/14  
10 June 2020  
Original: English

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

### Background

1. Technical cooperation activities of the Pan American Health Organization (PAHO) have been supported over the years by three procurement mechanisms: the Revolving Fund for Access to Vaccines (Revolving Fund); the Regional Revolving Fund for Strategic Public Health Supplies (Strategic Fund); and reimbursable procurement on behalf of Member States. The Revolving Fund was established in 1977 pursuant to Directing Council Resolution CD25.R27 in order to facilitate the timely availability of quality vaccines at the lowest prices. The Strategic Fund was established in 1999 following requests from Member States for assistance in the procurement of strategic supplies focused on combating HIV/AIDs, tuberculosis, malaria, and neglected infectious diseases. Since 2013, the Strategic Fund has incorporated medicines to prevent and treat noncommunicable diseases. The reimbursable procurement mechanism was established in 1951 pursuant to Directing Council Resolution CD5.R29 to support the procurement of health program items that are unobtainable or difficult to obtain in the Member States. For the 2018-2019 biennium, the total value of goods procured through these three mechanisms was approximately US\$1.64 billion.<sup>1</sup>

2. In 2013, the 52nd Directing Council adopted Resolution CD52.R12, Review of the Charge Assessed on the Procurement of Public Health Supplies for Member States (1). This resolution called for an increase in the charge assessed on the procurement of all public health supplies from 3.50% to 4.25% effective 1 January 2014. It also requested the Director to review the charge assessed and present a report on the use of the 1.25% for administrative costs at the end of each biennium. The first progress report for the period 2016-2017 was presented at the 56th Directive Council (Document CD56/INF/22) (2).

3. This document is the second progress report on Resolution CD52.R12. It provides an update on the progress made by the Pan American Sanitary Bureau (PASB) during 2018-2019 on the use of the 1.25% for administrative costs, and proposes changes in the

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

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composition of the overall 4.25% fee to ensure sufficient revenue to cover all operating costs and support requirements.

### Analysis of Progress Achieved

4. The biennium 2018-2019 was the second biennium under Resolution CD52.R12 during which a systematic process of defraying the costs of activities associated with the three procurement mechanisms was sustained. Financial resources generated from the 1.25% for administrative costs, from these three mechanisms in the 2016-2017 biennium totaled approximately \$15.97 million, an increase of approximately 8% over the \$14.7 million reported in the prior biennium.

5. A work plan and budget for 2018-2019 was approved by the Director of PASB. The work plan supported financing staff dedicated to the management of the three mechanisms and their corresponding operational frameworks. Approximately \$14.5 million was disbursed during the biennium, as shown in Table 1, representing an increase in expenditures of approximately 74% from the period covered by the first progress report. This increase resulted from the expansion of technical cooperation activities and from the implementation of investment projects aimed at improving value to Member States. Approximately \$9.7 million, or 67%, was used to meet staffing expenses in core areas including immunization, quality assurance, demand planning, procurement, finance, legal, and operations of the Revolving Fund and the Strategic Fund. At the end of the biennium, there was an available balance of approximately \$1.47 million.

**Table 1. Resources Available for the Revolving Fund and Strategic Fund and Expenditures during 2018-2019**

Financial resources generated in 2016-2017 <sup>2</sup>		\$15,969,741
Expenditure in 2018-2019 <sup>3</sup>		\$14,495,232
Staff	\$9,715,196	
Activities	\$2,313,494	
Investment projects	\$2,466,542	
Balance		\$1,474,509

6. To further strengthen the value of the three procurement mechanisms for Member States, PASB staff collaborated in a cross-cutting manner to address four priority areas of work, namely *a)* increasing the efficiency and quality of support, *b)* gathering market intelligence, *c)* strengthening knowledge and awareness, and *d)* strengthening strategic alliances and partnerships.

<sup>2</sup> According to PAHO Financial Regulations, funds generated in one biennium cannot be utilized until the subsequent biennium.

<sup>3</sup> Information on expenditure is current as of 19 March 2020, including information on actuals.

7. During the 2018-2019 biennium, PASB achieved considerable success in strengthening access to vaccines and strategic public health supplies. Through negotiations and strategic tendering activities, PASB continued to ensure access to quality lifesaving vaccines at significant cost savings. This in turn supported national immunization programs in sustaining access to new vaccines like pneumococcal conjugate (PCV), rotavirus, and human papillomavirus (HPV) vaccines. Similarly, a price reduction of 48% for hepatitis C antivirals was made possible by PASB technical cooperation with Member States to ensure availability through the Strategic Fund of pre-qualified biosimilars, among others.

8. Given the increasing demand from Member States for access to vaccines and strategic public health supplies, PASB also embarked on a series of transformational projects that resulted from an external independent assessment of the Revolving Fund that was conducted between June 2017 and December 2018. These projects included improving demand and supply management tools; leveraging technology to simplify and automate processes and improve quality and speed; establishing digital platforms to deliver real-time information to Member States; and conducting market-shaping initiatives.

9. In collaboration with PAHO/WHO Country Offices (PWR) and Member States, PASB initiated and processed more than 4,500 purchase orders (POs) and the corresponding logistics associated with each shipment. These represented more than \$1.63 billion for the cost of goods, freight, insurance, and service fees; for delivery of vaccines, syringes, and cold chain equipment for national immunization programs; and for essential medicines for HIV/AIDs, tuberculosis, malaria, and noncommunicable diseases.

10. The Revolving Fund and Strategic Fund operate Capital Accounts into which is deposited 3% of the net cost of procured supplies. The Funds use the Capital Accounts to advance lines of credit to support timely procurement of vaccines and strategic public health supplies. At the end of 2019, the capital generated from the 3% of net cost amounted to approximately \$215.8 million for the Revolving Fund and \$20.3 million for the Strategic Fund. During this period, 38 countries and territories utilized the Capital Account of the Revolving Fund, while 11 benefitted from the Capital Account of the Strategic Fund.

11. A comparison of the available financial resources, expenditures, and operations for the 2016-2017 and 2018-2019 biennia is shown in Table 2.

**Table 2. Change in Financial Resources Available, Expenditures, and Number and Value of Procurement Orders (POs) Processed since Previous Report (Document CD56/INF/22)**

	2016-2017*	2018-2019	Change (%)
Funds generated in previous biennium	\$14,725,217	\$15,969,741	8%
Expenditures	\$8,346,264	\$14,495,232	74%
Number of POs processed	3,938	4,537	15%
Value of POs processed	\$1.415 billion <sup>4</sup>	\$1.637 billion <sup>5</sup>	15.6%

\* Figures presented in document CD56/INF/22

### Action Necessary to Improve the Situation

12. The operational costs for the three procurement mechanisms were calculated through 2018-2019 considering only the costs of Headquarters personnel who devoted at least 70% of their time to the operations of the three mechanisms. During 2019 an internal analysis was conducted to gain a better understanding of the full cost of actual personnel time both at PAHO Headquarters and in the PWR Offices, recognizing that many personnel contribute to these operations at rates ranging from 10% to 100% of their time. This analysis indicated that the actual personnel costs for operations of the procurement mechanisms reached approximately \$20.5 million during the 2018-2019 biennium.

13. In order to fully fund these costs from the administrative service charge revenue, as well as to ensure the full costs of technical cooperation activities and investments to improve the quality and efficiency of service, total revenue of at least \$24.8 million per biennium on a recurring basis would be required to at least maintain the current service level. In order to generate this level of revenue, an increase in the administrative component of the service charge from 1.25% to 1.75% would be required.

14. Given the need to accommodate the actual cost of operations while maintaining the overall level of the service charge and value of the Revolving Fund and Strategic Fund for Member States, an adjustment to the internal composition of the 4.25% fee is recommended.

<sup>4</sup> Source: PMIS report "PAHO-PRO-508 Consolidated Procurement (POs) by Unit". Total value of POs created during 2016-2017 including freight, insurance, and service fee.

<sup>5</sup> Source: PMIS report "PAHO-PRO-508 Consolidated Procurement (POs) by Unit". Total value of POs created during 2018-2019 including freight, insurance, and service fee.

## **Proposal**

15. Within the 4.25% fee structure overall, it is proposed that the administrative component increase from 1.25% to 1.75%, based on the analysis referenced above, with a corresponding change to the capitalization component from a 3.00% contribution to 2.50%.

## **Action by the Executive Committee**

16. The Executive Committee is invited to take note of this report, provide the recommendations it deems pertinent, and consider approving the proposed resolution presented in the Annex.

Annex

## **References**

1. Pan American Health Organization. Review of the charge assessed on the procurement of public health supplies for Member States [Internet]. 52nd Directing Council of PAHO, 65th Session of the Regional Committee of WHO for the Americas; 2013 Sep 30-Oct 4; Washington, DC. Washington, DC: PAHO; 2013 (Resolution CD52.R12). Available from: [https://www.paho.org/hq/index.php?option=com\\_docman&task=doc\\_download&gid=23351&Itemid=270&lang=en](https://www.paho.org/hq/index.php?option=com_docman&task=doc_download&gid=23351&Itemid=270&lang=en).
2. Pan American Health Organization. Review of the charge assessed on the procurement of public health supplies for Member States: progress report [Internet]. 56th Directing Council of PAHO, 70th Session of the Regional Committee of WHO for the Americas; 2018 Sep 23-27; Washington, DC. Washington, DC: PAHO; 2018 (Document CD56/INF/22-J). Available from: [https://www.paho.org/hq/index.php?option=com\\_docman&task=doc\\_download&gid=45817&Itemid=270&lang=en](https://www.paho.org/hq/index.php?option=com_docman&task=doc_download&gid=45817&Itemid=270&lang=en).

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Annex  
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### ***PROPOSED RESOLUTION***

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

##### ***THE 166th SESSION OF THE EXECUTIVE COMMITTEE,***

(PP) Having considered the *Review of the charge assessed on the procurement of public health supplies for Member States* (Document CE166/14),

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

(OP) To recommend that the 58th Directing Council adopt a resolution in the following terms:

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

##### ***THE 58th DIRECTING COUNCIL,***

(PP1) Having considered the *Review of the Charge Assessed on the Procurement of Public Health Supplies for Member States* (Document CD58/\_\_\_);

(PP2) Recognizing the increasing demand from Member States for access to vaccines and strategic public health supplies, and noting the transformational projects that PASB has undertaken to improve demand and supply management tools, to leverage technology that can simplify and automate processes and improve quality and speed, and to establish digital platforms that deliver real-time information to Member States;

(PP3) Noting that the expenditures on operation of the three procurement mechanisms of the Pan American Health Organization (PAHO)—the Revolving Fund for Access to Vaccines (Revolving Fund), the Regional Revolving Fund for Strategic Public Health Supplies (Strategic Fund), and reimbursable procurement on behalf of Member States— reported for the 2018-2019 biennium represented a 74% increase over the prior

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period, and that an internal analysis of the full cost of personnel time, both at PAHO Headquarters and in PWR Offices, estimated the actual personnel costs for operation of the procurement mechanisms at approximately \$20.5 million;

(PP4) Noting with concern that there is an ongoing need to ensure sustainability of the three procurement mechanisms, considering the full costs of technical cooperation activities and investments to improve the quality and efficiency of service;

(PP5) Recognizing the need to adjust the internal composition of the 4.25% fee to increase the administrative component of the service charge from 1.25% to 1.75% and decrease the capitalization component from 3.00% to 2.50%,

***RESOLVES:***

(OP)1. To authorize the Director to do the following:

- a) adjust the internal composition of the 4.25% fee to increase the administrative component of the service fee to 1.75% and decrease the capitalization component to 2.50%, effective 1 January 2021. This change will apply to the 4.25% fee on net purchases made by the Revolving Fund, the Strategic Fund, and the reimbursable procurement mechanism.
- b) credit the increase in the administrative component (0.50%) to the Special Fund for Program Support Costs to defray the operating and management costs generated throughout the Organization by the Revolving Fund, the Strategic Fund, and the reimbursable procurement mechanism;
- c) decrease by the same percentage (0.50%) the credit to the Capital Accounts of the Revolving Fund, the Strategic Fund, and the reimbursable procurement mechanism.

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