ANALYSIS OF THE CHARGE ASSESSED FOR PROCURING PUBLIC HEALTH SUPPLIES ON BEHALF OF MEMBER STATES

Introduction

1. In 2010, PAHO’s 50th Directing Council, at the 62nd Session of the Regional Committee of 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:

- To increase the current three percent (3%) charge assessed on the procurement of all public health supplies for PAHO 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%), effective 1 January 2011.

- 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,
  - Revolving Fund for Vaccine Procurement,
  - Regional Revolving Fund for Strategic Public Health Supplies.

2. At the same time, the Member States asked the Pan American Sanitary Bureau (PASB) to carry out further analysis to assess the level of all operating costs related to managing these three main procurement mechanisms—all three of which bolster the activities of regional health programs. This document contains the preliminary results of said analysis.
Situation Analysis

3. Through the three established technical cooperation mechanisms, PAHO’s procurement of health supplies on behalf of Member States has led to significant contributions in and made a meaningful impact on public health in the Region of the Americas.

4. The Revolving Fund for Vaccine Procurement (‘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 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 additionally served as a major catalyst for the rapid, equitable, and sustainable introduction of new and underutilized vaccines—thus contributing to a significant reduction in both morbidity and mortality.

5. The Regional Revolving Fund for Strategic Health Supplies (‘Strategic Fund’) was created to promote access to quality essential public health supplies in the Americas. It facilitates the acquisition of strategic public health supplies by PAHO Member States at reduced cost, taking advantage of the potential savings offered by economies of scale. The Strategic Fund is a mechanism geared towards ensuring the continuous supply of medicines to treat HIV/AIDS, tuberculosis (TB), malaria; neglected diseases, and chronic diseases. Its aim is to provide participating countries with added value by providing focused technical support for the countries in the areas of procurement planning, distribution, and product forecasting—while always ensuring a steady supply of quality products. 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.

6. The total value of the goods procured on behalf of Member States during the 2010–2011 biennium rose to a total of US$ 997.0 million. This represents an increase of $769.9 million, or 339%, when compared to the $227.1 million in goods procured during the 2000–2001 biennium. Through extensive international bidding, PASB has been able to purchase vaccines, medicines, public health supplies, and equipment on behalf of PAHO Member States at the lowest possible prices.

7. During the 2010–2011 biennium, funding received via the Revolving Fund rose to $904.7 million; this represents an increase of $706.9 million, or 357%, when compared to the $197.8 million received during the 2000–2001 biennium. For purchases of strategic supplies during the 2010–2011 biennium, funding received via the Strategic Fund rose to $70.3 million; this represents an increase of $63.4 million when compared to the $6.9

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1 Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.
million spent during the 2000–2001 biennium, the start-up date of this procurement mechanism—thus reflecting its success. During the 2010–2011 biennium, purchases made through the Reimbursable Procurement mechanism amounted to $22.1 million, which has more or less held steady since the 2000–2001 biennium, when purchases amounted to $22.4 million.

8. Pursuant to Resolution CD50.R1, “Charge Assessed on the Procurement of Public Health Supplies for Member States,” made by PAHO’s 50th Directing Council, an increase of 0.5% was approved over the previously established 3%. This 0.5% increase has been credited to the Special Account for Program Support Costs and used to defray a portion of the overall costs—administrative, operating, and staffing—associated with each procurement mechanism. During the 2010–2011 biennium, this half-percent surcharge contributed S$ 2.4 million to overall operations.

**Challenge**

9. As previously indicated, the amount recovered through the 0.5% surcharge amounted to $2.4 million. Current organizational practice calls for using these funds to defray overall costs—administrative, operating, and staffing—associated with these procurement activities during the subsequent biennium, i.e., 2012–2013. Based upon historical patterns related to overall costs and on projections for future procurement activities, the estimated administrative, operating, and staffing costs for the three procurement activities will amount to anywhere from $10 million to $12 million per biennium.

10. Based on the analysis performed, there is a critical gap between the budget needed to fund overall costs—administrative, operating, and staffing—associated with the three procurement mechanisms and the current financing model that includes the 0.5% surcharge.

11. At the current rate of 0.5%, an estimated $5 million will be raised per biennium to defray the overall costs—administrative, operating, and staffing—incurred by each of the three mechanisms. At this level, our initial analysis indicates this will not be sufficient to meet the financial requirements associated with an estimated procurement of $900 million in public health supplies over the two-year period. In view of this, the Organization is 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.

**Recommendation**

12. During the 2013 Governing Bodies cycle, the Secretariat will present a more detailed analysis of the overall costs—administrative, operating, and staffing—associated
with each of the three procurement mechanisms and recommend a proposal for consideration by the Member States.

**Action by the Executive Committee**

13. The Executive Committee is invited to take note of this interim report.