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Expanding PAHO's Role in the Procurement of
Critical Supplies



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REVOLVING FUND AND OTHER MECHANISMS FOR THE ACQUISITION OF CRITICAL HEALTH INPUTS

Expanding PAHO's Role in the Procurement of Critical Supplies

In response to **Resolution XXIII** approved by the Directing Council at its XXVII Meeting, the Secretariat undertook a preliminary study of the issues involved in establishing a revolving fund or other mechanisms for the acquisition of critical health supplies.

The Governing Bodies have chosen an opportune time to increase the Organization's role in the procurement of critical supplies in view of the growing demand for such products and the magnitude of the potential savings to be achieved by pooled purchases. However, the development within the Organization of a considerably expanded procurement operation may not be the most appropriate use of its limited resources due to:

- a) Financial constraints that significantly reduce the advantages to Member Countries that are presently provided by the revolving funds for the Expanded Program on Immunization (EPI) and the Expanded Textbook and Educational Materials Program (ETEMP);
- b) The desirability of promoting technical cooperation, rather than procurement per se, as the central HFA/2000 role of the Organization vis-à-vis Member Countries.

The study to date suggests that PAHO, acting in concert with the appropriate international agencies, can effectively contribute to improving the availability of essential supplies in Member Countries through a Regional Program for Critical Health Supplies based on the following strategies:

- a) Development and strengthening of national and subregional procurement systems;
- b) Dissemination of information on sources of supply, prices, quality, etc;
- c) Increased utilization of the Organization's present procurement system;
- d) Establishment of a Special Fund for Lesser Developed Countries, and Emergencies.

INTRODUCTION

The Directing Council at its XXVII Meeting approved Resolution XXIII instructing the Director to submit to the 86th Meeting of the Executive Committee the results of studies on the issues involved in establishing a revolving fund and/or other mechanisms for the acquisition of critical health supplies.

The resolution resulted from the conviction of the Member Governments that a reliable supply of pharmaceuticals and other items is essential for the successful implementation of priority programs. The Governments in the Region of the Americas, in defining national and regional strategies for attaining health for all by the year 2000, had already highlighted the urgency of formulating strategies "that will ensure the availability of critical supplies and equipment whose quantity, quality, technology, and cost are geared to the requirements and possibilities of each country".¹ This urgency stems from the fact that the extension of programs for the prevention and control of disease frequently has been limited by the scarcity of appropriate supplies.

In response to a recent PAHO survey, Member Governments have identified the following factors as major constraints in obtaining critical inputs:

- Lack of adequate and timely estimates of supply requirements;
- Budgetary restrictions;
- Complexity and delay of the administrative procedures;
- Lack of current information about international markets.

Surprisingly, only a few countries appear to consider payments in convertible currency to be a significant problem.

The Organization can make a significant contribution to the national strategies of HFA/2000 by incorporating into its corresponding Plan of Action a program of technical cooperation that would assist Member Governments in overcoming the above difficulties by developing mechanisms at the national, subregional and regional levels to facilitate the expeditious purchase and proper use of supplies considered critical for primary health care. The program would also promote the standardization of products used in the Region and ensure conformity to international quality specifications.

¹PAHO Official Document 173, P. 204

As recognized in Resolution XXIII of the XXVII Meeting of the Directing Council, the Organization has successfully implemented other regional supply actions, such as the revolving fund for the Expanded Program on Immunization (EPI) and the Expanded Textbook and Educational Materials Program (ETEMP), as well as, its ongoing but relatively small-scale procurement activities on behalf of Member Countries, which is based on a system using advance payment in US dollars for the supplies to be purchased.

The total effective demand for critical health supplies by Latin American countries is currently in the order of US\$8 billion a year and growing at 14 per cent annually. Thus, it is estimated that total regional savings from more efficient and more comprehensive centralized purchasing systems could easily amount to several hundred million dollars a year. It should be remembered that there is a very large variation in the manufacturing capabilities and needs of Latin American countries, ranging from those with virtually no production facilities for pharmaceuticals and other health products to those with sophisticated capabilities. Thus, supply needs in the Region would range from raw materials to finished products. In many Latin American countries it is believed that significant economies in expenditures for critical health supplies could be effected, and have a profound impact on the achievement of HFA/2000.

FINANCING MECHANISMS

As requested in Resolution XXIII, the Secretariat undertook a preliminary study of possible financing mechanisms for the acquisition of critical health supplies.

1. Revolving Fund

Initially, given the successful experience with the EPI revolving fund, it was envisaged that a similar financial mechanism might be used by PAHO on behalf of its Member Governments for the international procurement of drugs and other critical health supplies.

Unfortunately, the very difference in the contemplated scale of the operations between the EPI and a relatively large scale regional procurement program for critical supplies would appear to preclude the use of the same type of financial and purchasing mechanisms. For example, under the EPI it is anticipated that annual procurements may in the future range from US\$6 to \$8 million a year (1980: \$3.3 million) whereas, under a regional critical supplies program, procurements might very quickly range from \$15 to \$50 million a year. Full capitalization of the EPI is projected at \$5.4 million; currently it is \$2.3 million, of which \$1.8 million represents working capital made available by the PAHO Governing Bodies. It is virtually impossible to project long-term capitalization

needs for a revolving fund for critical supplies, but it is foreseeable that even short-term needs could rapidly escalate to \$15-\$25 million. Thus, PAHO would be unable to capitalize a revolving fund for critical supplies from its existing resources.

Initially, it was also hoped that under a revolving fund approach it would be possible for countries to repay the Organization using local currencies, but in this respect it should be noted that in the past PAHO has only been able to absorb limited amounts of local currencies (e.g. in the EPI program) for goods procured with hard currencies in so far as it could effectively use the local currency in its ongoing country programs. Given the magnitude of the amounts that may be involved with critical supplies, it is unlikely that PAHO would be able to do this.

Nevertheless, if PAHO could find qualified institutions willing to provide the necessary guarantees, it might be possible for the Organization to borrow the required funds. It is very unlikely, however, due to the nature and intended use of the funds, that any single external financial source would be willing to provide the entire amount needed. Thus, it would be necessary to resort to co-financing, whereby funds from one source, e.g. IDB or IBRD, are associated with funds from other sources. However, the time delays and legal problems involved in PAHO trying to develop a broadly based co-financing program are such that this type of approach probably would not be responsive to PAHO's immediate objectives, although the Organization may wish to pursue a detailed consideration of such an approach as it pursues some of the other alternatives and suggestions made below. The currency conversion problem, however, would not be resolved by this approach and some countries would therefore continue to experience exchange and other financial difficulties in terms of repayments. In addition, interest payments on the borrowed funds would have to be prorated and added to the cost of the supplies procured for Member Countries.

2. Line of Credit

Another possible approach or solution would be the development of credit. Thus, if PAHO could obtain a sufficiently large line of credit from development or commercial banks, it might be possible for the Organization to avoid some of the difficulties involved in establishing and capitalizing a revolving fund. For example, it might be possible for PAHO to obtain a pooled line of credit from several regional development banks and have the Governments of its Member Countries or other appropriate institutions act as guarantors, or it might be possible for PAHO

to obtain a line of credit from a US commercial bank or similar establishment, either using its equity in capital assets (real estate holdings) as collateral or by getting one or more foundations to act as guarantor(s). However, it may be more difficult to get foundations and similar institutions to act as "guarantors" of a line of credit than it would be to get them to act as donors or lenders, partly because they have more experience serving in the latter roles. Moreover, as with the revolving fund approach, currency conversion problems would continue to exist for some countries.

An alternative would be for those Governments wishing to participate to borrow the initial start-up funds from multilateral or bilateral development agencies. To facilitate this, PAHO would offer to draft copies of the aid proposals which the participating Governments would need to submit to potential external sources of finance, but this is not believed to be a very viable and attractive alternative. Again, there would be considerable time delays involved and interest on the borrowed funds would affect the potential savings.

3. Advance Payment

Undoubtedly, the most expedient way for PAHO to establish an expanded regional procurement system for critical supplies would be to establish one that relies very heavily on advance payment using convertible hard currencies.

Thus, if at approximately the same time as placing their purchase requests countries were normally required to pay the estimated C.I.F. cost (including service charge) of the supplies they wanted, then the capitalization needs would be extremely modest and could probably be met from PAHO's existing resources. This is, in effect, the way the Organization currently purchases on behalf of Member Governments in accordance with Resolution XXIX of the V Meeting of the Directing Council in 1951.

4. Special Fund for LDC's

The special needs of some of its lower income Member Countries is one of the reasons PAHO wished to be able to use an approach similar to that of the EPI, that is, to develop a revolving fund that accepts country payments in local currencies. However, if a small additional mark up (e.g. 1 per cent) for emergency and extreme financial difficulties were to be imposed on the prices charged by PAHO to all countries above a certain income level, then over time the Organization should be able to build up some reserves which could be used at the Director's or Directing Council's discretion. Another way of obtaining reserves for use under special circumstances would be for PAHO to establish a special voluntary fund for critical health supplies and to actively solicit contributions

from Governments (especially net oil exporters) banks, foundations, non-governmental organizations and individuals. The Latin American Pharmaceutical Industry, through its association (FIFARMA), has said that it would be willing to cooperate with PAHO in countries of the Region having no manufacturing capability.

In view of the complexity of the issues concerning financing mechanisms, the time required to resolve them and for the Organization to be as responsive as possible to the needs of the countries in the Region, a program for critical health supplies that can be initiated without major delays is outlined below. It must be realized, however, that it will require a long-term effort for such a program to reach its full potential, both in terms of savings and other benefits.

SCOPE OF THE PROPOSED PROGRAM

It is essential that any regional procurement plan designed to obtain for Member Governments favorable prices, high quality, and improved reliability of supply must, at the same time, advance the process of self-reliance to which the Organization and its Members are committed. Therefore, the program must contribute to the strengthening of existing infrastructures and capabilities. As a result of this basic consideration, it would not be appropriate for PAHO to assume responsibility for procurement activities that are rightfully being undertaken by Member Countries.

Thus, it is proposed that the main thrust of the regional program be to develop and strengthen national and subregional procurement systems responsible for the selection, acquisition, distribution, and use of critical health supplies and, whenever possible, to do this in concert with the appropriate international agencies. The Organization can further assist by serving as a clearinghouse for information on sources of supply, prices, quality, etc. Also, pooling of information on annual requirements for the Region would allow PAHO to establish master contracts with the most favorable suppliers, contracts that can be used by the national procurement services of interested Member Governments.

Recognizing the special conditions and difficulties experienced by many Member Governments in procuring limited amounts of certain supplies and the advantages to be derived from purchasing them through the Organization, the services of the PAHO Procurement Office (APO) would, of course, continue to be available, and indeed expanded, through the improved scheduling of purchase orders. Finally, the proposed program envisages the establishment of a special fund such as that mentioned previously to help satisfy the needs of lesser developed countries and for use in emergencies.

The elements of the program are further elaborated below:

1. Development and Strengthening of National and Subregional Procurement Systems

The benefits and potential savings to be derived by many countries from a PAHO-managed regional procurement scheme for selected items may be much more restricted than if Member Countries establish or expand their own centralized purchasing systems to cover all national needs. Thus, it would probably be more expedient in terms of HFA/2000 for PAHO, in collaboration with other international agencies, to help individual countries or groups of countries to establish their own procurement systems.

It is believed that PAHO could provide invaluable technical cooperation to many of its Member Governments and do much to promote TCDC/ECDC in helping countries make objective and knowledgeable decisions about the most advantageous ways to meet their HFA/2000 needs for critical supplies. In this respect it cannot be stressed too strongly how crucial, well-designed protocols for undertaking in-country assessments are to the successful launching and operation of any procurement system, whether operated under international or national auspices.

Thus, the Organization would collaborate with interested Member Governments in undertaking objective and in-depth country assessments of needs, existing supply and distribution mechanisms (including relevant administration and management systems). This assessment should include current and projected information on the effective demand for essential drugs and other critical supplies by source of finance and level of care (i.e., primary, secondary, tertiary). From the very outset of this endeavor, it is essential to have very reliable information concerning the probable and potential volume of purchases that the system will generate. The involvement of the responsible national authorities in all stages will be crucial to the successful implementation of national and regional programs.

In passing, it should be noted that many national drug procurement systems are managed or coordinated by agencies other than the Ministry of Health, e.g., by the Ministries of Finance and Ministries of Commerce. However, Resolution XXIX of the V Meeting of the Directing Council currently restricts PAHO's procurement activities "only to nonprofit institutions and agencies under the jurisdiction of the Minister and/or Director of Health."

Should PAHO decide that, by assisting Governments to establish their own bulk purchasing systems, it would be making better use of its scarce resources as well as be more in keeping with the Organization's mission and scientific/technical advisory capacity, it would also continue to help countries undertake the following activities:

- Development of standardized formularies (these are powerful instruments for cost reductions because they can considerably shrink large numbers of close substitutes to one or two products);
- Establishment of information systems;
- Implementation of rational quality control mechanisms;
- Design of purchasing and distribution systems for supplies;
- Training of national personnel to manage systems.

It should be recalled that the analysis of many extinct central procurement systems for drugs shows that among the main reasons for their failure have been inadequately trained personnel, poorly conceived management information systems, badly designed warehouse, stocking and distribution systems, and lack of understanding of the needs of physicians and other health personnel.

If it is decided that PAHO should assign priority to assisting countries to establish their own procurement system, such schemes would not necessarily have to cover all of a country's drug and other critical supply needs for health products nor have to cover all public and private segments of the health delivery system. For example, a country's procurement system could start by covering just the 40 or 50 most essential drugs which are used by the Ministry of Health in public hospitals, and subsequently expand. In this respect, centralized procurement systems in agencies other than the Ministry of Health (e.g., social security institutions) are functioning well in some countries of the Region. In such cases, the feasibility of utilizing existing systems to strengthen and complement the capabilities of the Ministries of Health would be explored. As mentioned, the potential savings from centralized procurement systems throughout Latin America are estimated to be several hundred million dollars a year. But even in countries with a relatively restricted demand, the savings can be significant, e.g., in 1978 Guyana was able to effect a saving in foreign exchange of US\$1.7 million by bulk

purchasing 192 common drugs. This represented over half of public sector allocations for drugs (Source: UNCTAD/TT/35, p.30). In this respect it should be noted that CARICOM has been operating a "master contract system" for the procurement of drugs for its Member Countries and is considering moving towards a more efficient pooled procurement system covering more products and countries within the community. A center for drugs will probably be set up in Guyana later this year following two important subregional meetings dealing with this subject in June and July, the first being a Meeting of Technical Experts on the Pharmaceutical Industry; the second, the Conference of Ministers Responsible for Health. At the latter meeting, a number of preliminary decisions will be finalized (UNCTAD/TT/41/Rev., p.8).

2. Distribution of Information on Sources of Supply and Prices

At the regional and international level, PAHO can serve as a mechanism for obtaining and disseminating information concerning potential sources of supply and prices. The Organization could also act as a clearinghouse for scientific and technical information concerning drugs and other supplies, as well as advising countries on appropriate technologies, etc. Moreover, undertaking such activities will permit PAHO to promote programs of technical cooperation among developing countries (TCDC), since the standardization of treatment regimens, diagnosis, and control would facilitate exchange of knowledge and experience, as well as the coordination of subregional and regional programs. Also, in relation to economic cooperation among developing countries (ECDC), every effort would be made to identify qualified national producers in the countries of Latin American and the Caribbean and to solicit their participation.

To assist the Organization in identifying basic needs for selected products, a preliminary questionnaire was sent through the PAHO field offices to all Member Governments, requesting information on the most recent annual purchases (price and quantity) of certain products by the health ministries and their interest in obtaining them through a regional procurement system.

Not all countries responded and the data submitted were often incomplete and inconsistent. Nevertheless, the responses provided adequate confirmation of the existence of wide intercountry variations in the price of the products surveyed that cannot readily be explained by normal market fluctuations, and the need for improved procurement systems. The following are examples of the lowest and highest prices reported:

PRODUCT, UNIT	In \$US		
	LOWEST PRICE	HIGHEST PRICE	RATIO HIGH/LOW
Chloroquine, 150 mg tablet	0.010	0.045	4.5
DDT, Kg	1.20	2.80	2.3
Isoniazid, 100 mg tablet	0.0043	0.01	2.3
Rifampicin, 150 mg capsule	0.17	0.67	3.9
Pirazinamide, 500 mg tablet	0.99	0.44	4.4
Clofazimine, 100 mg tablet	0.16	0.50	3.1
Oral rehydration salts, sachet	0.10	0.23	2.3

To minimize variations such as those noted above, the Organization should explore, in conjunction with other UN agencies (WHO, UNIDO, UNCTAD, UNICEF), the sponsorship of a joint technical publication (e.g. a quarterly bulletin on critical health supplies) addressing prices, quality, and other issues relevant to the procurement and use of critical health supplies.

3. Increased Utilization of PAHO's Present Procurement System

The mission of the Procurement Office (APO) is to procure supplies, equipment and services in support of PAHO Headquarters and its field operations, and for Member Governments under the reimbursable procurement program and the Expanded Program on Immunization. The value of the commodities acquired in 1980 exceeded US\$17 million, of which vaccines, drugs and pesticides accounted for approximately \$3.7, \$2.1 and \$1.3 million, respectively. Excluding those for EPI purposes, procurements made by PAHO at the request of Ministries of Health totaled \$4.9 million. By rationalizing the submission and processing of purchasing requests from Member Governments it may be possible to increase the volume of purchases presently handled by PAHO's existing procurement staff.

4. Establishment of a Special Fund for Lesser Developed Countries, and Emergencies

PAHO should continue to explore the possibility of capitalizing a designated critical health supplies fund through one or more long-term loans from intergovernmental and/or private financial institutions. In addition, the Governing Bodies may wish to authorize the Organization to add 1 per cent to the service charge for procurements for Member Governments, earmarking the funds thus obtained for the special fund. Finally,

the establishment of a special voluntary fund for critical HFA supplies would allow the Organization to mount a campaign to solicit donations from the public and private sectors.

5. International Cooperation

The Director has written to a number of multilateral organizations and private foundations requesting their advice and collaboration in defining the most appropriate mechanisms for financing and implementing a regional procurement scheme.

The majority of the institutions have indicated that a senior officer will contact the Organization to discuss the matter in greater detail. Thus, the Organization has already had preliminary discussions with representatives of a number of these institutions, e.g. OAS, IDB, PAHEF. Of special interest was a letter from the World Bank stating that they have undertaken a study of the potential role of the Bank in financing essential drug supplies. The study is expected to be completed in spring 1981 and its conclusions and recommendations will be closely studied by the Director for its relevance to PAHO activities in this area.

PAHO will increase its collaborative and liaison activities with other UN agencies with significant programs in the pharmaceutical sector, so as to avoid duplication of efforts and ensure a consistent approach. Of special relevance are the activities of UNIDO (pharmaceutical production), UNICEF (procurement) and UNCTAD (international pricing, patents, and transfer of technology). National and international pharmaceutical manufacturers and their associations will also be approached to seek their collaboration and advice.