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**INTERIM ASSESSMENT OF THE IMPLEMENTATION
OF THE PAHO BUDGET POLICY**

Introduction

1. The 28th Pan American Sanitary Conference, in Resolution CSP28.R10 (2012), adopted the new PAHO Budget Policy (Document CSP28/7) to become effective with the 2014-2015 Program and Budget. The new PAHO Budget Policy defined and introduced an updated model to allocate the Regular Budget among the functional levels of the Organization and to individual countries.
2. Resolution CSP28.R10 requested the Director, among other things, to present to the Directing Council or to the Pan American Sanitary Conference an interim assessment of implementation of the PAHO Budget Policy at the conclusion of the first biennium. The assessment should aim to highlight possible challenges and/or success factors to further improve the PAHO Budget Policy. This document presents the results of that interim assessment.

Background

3. An evaluation of the previous PAHO Budget Policy (2006-2011, extended through 2013) determined that although the policy was correctly applied, there were challenges ensuring adequate budgetary levels for all countries and for the regional entities. This was attributed to the Country Budget Allocation (CBA) model that used mathematical methods such as *population smoothing* and *progressivity*, which resulted in a significant redistribution of resources among countries. While some countries benefitted significantly from the particular allocation of resources, others with a relatively better health status, as measured by the Health Needs Index *expanded* (HNI_e), saw their budgets reduced—in some cases to levels insufficient to support a minimum presence.
 4. The current policy was built on the fundamental principles of the previous policy but with adjustments and new elements to address inherent weaknesses. Specifically, in the revised CBA model, changes were made in allocation concepts, as well as in the
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underlying criteria in the formula. These adjustments strove to maintain and improve upon fairness, transparency, and equity in the distribution of resources, while ensuring that the policy was realistic and practical.

5. The new PAHO Budget Policy has addressed only the allocation of the Regular Budget to entities across the three levels of the Organization. The policy has not addressed the allocation of externally mobilized resources, such as Voluntary Contributions and Other Sources, which make up nearly half of the total Program and Budget. Voluntary Contributions and Other Sources were deemed to fall outside the absolute control of an internal budget policy and Member States.

6. Nevertheless, the Organization must mobilize resources from additional sources to fully finance its Program and Budget. Compared with other regions of the world, the predominance of middle-income countries makes the Americas less attractive for many international donors. This reality places a greater level of stress on PAHO's core budget for ensuring that all programs and offices at all levels are adequately funded.

Resource Allocation Criteria in the Current PAHO Budget Policy

7. According to the PAHO Budget Policy, the Organization's scope of work is reflected in its Program and Budget through three interrelated perspectives: programmatic categories, functional levels, and organizational levels. The programmatic categories constitute the highest-level programmatic classification and reflect the response to global and regional health needs. These categories (1 through 6) are derived from the WHO General Program of Work and adapted for regional specificities in the PAHO Strategic Plan. The distribution of resources among programmatic categories is determined by Member States through their approval of the Program and Budget.

8. The functional levels represent the scope of technical cooperation activities that the Organization undertakes in support of its mandates. There are four functional levels – regional, subregional, country, and inter-country. The PAHO Budget Policy allocates 40% of Regular Budget to the country level, 7% to the subregional level, and 53% to the inter-country and regional levels. The subregional, country, and inter-country levels together are referred to as direct technical support to countries.

9. The organizational levels are entities that constitute the organizational structure of PAHO. These levels are responsible for delivering results and for accountability. Organizational and functional levels are interrelated; functional levels and entities are part of the organizational structure.

10. The Budget Policy divides the allocation to countries into three components: core, results-based, and needs-based. The core component is 90% of the allocation of funds to countries; the results-based and needs-based allocations are 5% each of the country's allocation. The core component is allocated to individual countries using the index HNI *expanded* as a composite.

11. The PAHO Budget Policy was applied in the formulation and implementation of the 2014-2015 Program and Budget and in the formulation of the 2016-2017 Program and Budget. To implement, monitor, and evaluate the Budget Policy, a series of mechanisms have been put in place to ensure that funding supports the organizational levels and programs in an efficient, equitable, and effective manner. Annual reviews of all the Organization's biennial workplans are conducted to make proactive adjustments to program implementation and to address emerging or changing priorities of the Organization.

Interim Assessment of the PAHO Budget Policy for 2014-2015

12. The initial, unaudited results for the 2014-2015 biennium show a high level of compliance with the PAHO Budget Policy in terms of allocation of regular budget to the functional levels. The Regular Budget allocation to functional levels in biennium 2014-2015 was 57.5% at the country and inter-country levels, and 42.5% at the subregional and regional levels.

13. A minimum level of country presence was ensured by increasing the level of funding to countries, mainly from sources other than the Regular Budget, which no longer covers the needs of all countries. The territories of Aruba, Curaçao, and Sint Maarten have become Associate Members of the Pan American Health Organization since the Budget Policy was adopted in 2012.

14. Funding levels for the key countries (Bolivia, Guatemala, Guyana, Haiti, Honduras, Nicaragua, Paraguay, and Suriname) were increased in the context of the key country cooperation strategy despite the progressive reduction of budget allocation that resulted from the application of the Budget Policy formula.

15. Funding for a results-based component – 5% of the 40% overall country allocation – was provided to support countries in attaining specific targets, to build upon positive and demonstrated progress, or to encourage inter-programmatic activities.

16. Variable funding and accumulated savings were made available to support countries with unforeseen and one-time needs for priority programs. Key countries were considered first in the allocation of variable funds.

Observations Ahead of the 2016-2017 End-of-biennium Evaluation of the Budget Policy

17. The initial results of the interim assessment of the PAHO Budget Policy support the decision to continue its application for the 2016-2017 Program and Budget, but extended to the integrated budget as applicable. A thorough evaluation of the PAHO Budget Policy is scheduled for 2018, following two biennia of its implementation, to ensure that it continues to respond to changing health needs and that it consistently allocates resources in an equitable manner.

18. Several changes in policy and practice that may affect the Budget Policy have taken place since its implementation. They include the following:

- a) WHO adopted an integrated budget starting with the 2014-2015 biennium and thus the allocation of its Regular Budget Appropriation to the Region of the Americas, which was subject to the PAHO Budget Policy, is no longer indicated in the WHO Program Budget.
- b) Similarly, PAHO adopted an integrated budget starting with the 2016-2017 Program and Budget. The approved budget level indicated total resource requirements, independent of the source of financing and therefore no longer has the Regular Budget Appropriation, which the Budget Policy uses to allocate resources to countries. Nevertheless, the underlying intent of the policy was applied when distributing the integrated assets in the 2016-2017 biennium. The evaluation of the Budget Policy at the end of 2016-2017 may analyze the effect of broadening the policy to all sources of financing the Program and Budget.
- c) The integrated budget facilitates strategic allocation of PAHO's most flexible funds to programs or offices based on funding gaps, emerging needs, and priorities. Assessed contributions from Member States are the main source of flexible funding, which does not have a prescribed usage. Other flexible funds include WHO assessed contributions, WHO Core Voluntary Contributions, and to a lesser extent, overhead earnings on voluntary contributions (WHO Program Support Costs).
- d) Further, a Strategic Plan Advisory Group of 12 Member States was established to refine the programmatic prioritization stratification methodology in Strategic Plan 2014-2019. That revised methodology will be presented to the Executive Committee and Directing Council for approval in 2016 to become applicable to the 2018-2019 Program and Budget. The revised prioritization methodology may be considered in the evaluation of the PAHO Budget Policy.
- e) In 2015, WHO convened a Member State working group on Strategic Budget Space Allocation to develop a methodology to apportion budgets for technical cooperation among the six regions, based on the aggregated needs of countries of those regions. The approved methodology showed that the Americas Region was under-budgeted based on the measurement of relative need. The revised allocation formula will be implemented over a period of three biennia, resulting in a gradual increase of the WHO budget allocation to the Region of the Americas. Although PAHO and WHO allocation methodologies share several criteria, a more in-depth comparison can be done as part of the evaluation of the PAHO Budget Policy to determine if the formulae can be further aligned.
- f) Three Associate Members joined the Organization since adoption of the current policy in 2012.

19. The above factors will be considered in the evaluation of the PAHO Budget Policy at the end of the 2016-2017 biennium.

20. Overall, implementation of the new Budget Policy in 2014-2015 had the intended effects of allocating the greatest share of funding to countries for direct technical cooperation and giving priority to funding key countries with the highest need. Furthermore, the Budget Policy successfully ensured that all country offices could maintain the prescribed minimum presence and foster subregional support to countries as well as inter-country collaboration.

21. Based on this analysis, the Pan American Sanitary Bureau recommends that no changes be made to the Budget Policy until the evaluation is conducted at the end of the biennium taking into consideration the impacts of changes to policies and practices that have taken place since the inception of the Budget Policy.

Action by the Subcommittee on Program, Budget, and Administration

22. The Subcommittee is invited to take note of this report and make any recommendations it might consider pertinent.

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