



## 154th SESSION OF THE EXECUTIVE COMMITTEE

Washington, D.C., USA, 16-20 June 2014

*Provisional Agenda Item 5.5*

CE154/24, Rev. 1\*

30 May 2014

Original: English

### STATUS AND AUTHORIZED LEVEL OF THE WORKING CAPITAL FUND

#### Introduction

1. In accordance with Financial Regulation VII, the Working Capital Fund was established by the Directing Council for the primary purpose of providing funds as required to finance the PAHO Regular Budget and other exigencies pending receipt of assessed contributions from Member and Participating States.

#### Background

2. In light of the increase in the PAHO Regular Budget, the 37th Directing Council in 1993 approved an increase in the authorized level of the Working Capital Fund from US\$ 11.0 million<sup>2</sup> to \$15.0 million. Subsequently, the 44th Directing Council in 2003 approved an increase in the authorized level of the Fund from \$15.0 million to \$20.0 million due to continued increases in the PAHO Regular Budget.

3. The proposal for the additional Working Capital requirement was based on increasing requirements, along with the need to provide for unforeseeable and extraordinary expenses as stipulated in Financial Regulation 7.4.

#### Current Situation

4. PAHO Regular Budget expense has increased from \$171.1 million in 2002-2003 to \$194.6 million in 2012-2013. In 2013, PAHO Regular Budget disbursements averaged \$8.1 million per month. As of 1 January 2012, the Working Capital Fund balance available for PAHO Regular Budget activities was \$15.4 million, representing \$4.6 million below its authorized level of \$20.0 million, as a result of a budgetary deficit in 2010-2011. As of 31 December 2013, the Working Capital Fund balance totaled \$15.9 million as a result of the net budgetary surplus for the 2012-2013 biennium.

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\* Editorial changes have been made to Annex A.

<sup>2</sup> Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

5. Since the 44th Directing Council, the Organization has experienced critical periods in which the unencumbered cash balance of the Working Capital Fund was exhausted. These instances were directly related to delays in the receipt of assessed contributions. During these periods, not only was there risk of a negative impact on the sustainability of program implementation, there was no buffer available for unforeseeable, extraordinary expenses as provided for in the Financial Regulations.

6. During the 2012-2013 biennium, it was frequently necessary to draw on Working Capital cash resources to cover ongoing cash requirements. Furthermore, during this period the unencumbered cash balance of the Fund was depleted on several occasions, resulting in the use of other unrestricted internal resources to fund the cash deficit of the Organization, potentially impacting planned programs funded from these other internal resources. Although the unencumbered Working Capital Fund balance totaled \$15.9 million as of 31 December 2013, the cash balance of the Fund was fully depleted to meet the disbursement requirements of the PAHO Regular Budget pending the receipt of \$38.7 million in assessed contributions.

7. Therefore, in April 2014 the Director replenished the Working Capital Fund to its current authorized level of \$20.0 million utilizing \$4.1 million from the repayment of the \$10.0 million loan made in 2009 to the Revolving Fund for Vaccine Procurement (Annex A).

### **Proposal**

8. The Director proposes that the authorized level of the Working Capital Fund be increased from \$20.0 million to \$25.0 million to reflect the realities and risks inherent in the current political and economic environment. The proposal for the additional Working Capital requirement is based on increasing cash needs as a result of the increase in PAHO Regular Budget expense and the delay in payment of assessed contributions. An increase of \$5.0 million will raise the authorized level of the Working Capital Fund to \$25.0 million. The resulting increase represents approximately three months of PAHO Regular Budget disbursements, which would position the Organization to manage the uncertainties of the cash and budgetary cycles. The increase is expected to be sufficient to cover temporary cash shortfalls and provide some flexibility in ensuring periodic funding support for other activities as set forth in the Regulations.

9. It is further proposed that the requested increase of \$5.0 million be gradually funded from any surplus of revenue over expense as a result of efficiencies realized in implementation of the Program and Budget, beginning with the current 2014-2015 biennium.

### **Action by the Executive Committee**

10. The Executive Committee is invited to review this document and consider the possibility of approving the proposed resolution in Annex B.

### **Annexes**

**Annex A****Funding Proposals and Potential Sources of Funds**

<b>Fund</b>	<b>Funding Status</b>	<b>Funding Requirements US\$ millions</b>	<b>Potential Source(s) of Funding</b>	<b>Funding Allocated/ Proposed for Allocation</b>	<b>Funding Recommended in Future</b>
<b>Working Capital Fund</b>	Current balance is \$15.9 million, which is <b>\$4.1 million</b> below current authorized ceiling of \$20.0 million.	\$4.1 million	Funding provided from the repayment of the \$10 million PAHO loan to the Revolving Fund for Vaccine Procurement	\$4.1 million	N/A
	Proposal to increase authorized ceiling by <b>\$5.0 million</b> to \$25.0 million.	\$5.0 million (to reach assumed \$25 million ceiling)	Budgetary surplus when available and after funding the Master Capital Investment Fund	N/A	\$5.0 million
<b>PASB Management Information System (PMIS)</b>	The current forecast of the budgetary requirements for the PMIS show a <b>potential \$2.2 million deficit</b> . The actual deficit will depend on unbudgeted but necessary costs associated with implementing PMIS.	<b>\$2.2 million current forecasted budgetary deficit</b>	Unspent balance of approved, completed projects from the Holding Account	\$0.1 million	N/A
			Funding provided from the unappropriated balance of the International Public Sector Accounting Standards (IPSAS) surplus	\$2.1 million	TBD
<b>TOTAL REQUIREMENTS</b>				<b>\$6.3 million</b>	TBD (Dependent on PMIS requirements)
<b>AVAILABLE SOURCES</b>					
Unappropriated Balance of IPSAS Surplus				\$4.4 million	
Unspent Balance of Projects Approved in the Holding Fund				\$0.1 million	
Reimbursement of PAHO Loan to the Revolving Fund for Vaccine Procurement				\$10.0 million	
<b>TOTAL AVAILABLE SOURCES</b>				\$14.5 million	



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Annex B

### ***PROPOSED RESOLUTION***

#### **STATUS AND AUTHORIZED LEVEL OF THE WORKING CAPITAL FUND**

***THE 154th SESSION OF THE EXECUTIVE COMMITTEE,***

Having considered the report of the Director *Status and Authorized Level of the Working Capital Fund* (Document CE154/24, Rev. 1);

Noting that the provisions of Financial Regulation VII stipulate that the amount and purposes of the Working Capital Fund will be determined from time to time by the Pan American Sanitary Conference or the Directing Council;

Noting, with concern, the increasing demands placed on the Working Capital Fund as the Organization's Regular Budget activities expand; and

Noting the need to adequately position the Organization to manage the uncertainties of the cash and budgeting cycles,

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

To recommend to the 53rd Directing Council the adoption of a resolution along the following lines:

#### **STATUS AND AUTHORIZED LEVEL OF THE WORKING CAPITAL FUND**

***THE 53rd DIRECTING COUNCIL,***

Having considered the report of the Director *Status and Authorized Level of the Working Capital Fund* (Document CD53/\_\_\_);

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Having noted that the Director has replenished the Working Capital Fund to its current authorized level of US\$ 20.0 million;<sup>1</sup>

Having considered the recommendation of the Executive Committee concerning an increase in the authorized level of the Working Capital Fund, in recognition of increasing demands placed on the Working Capital Fund as the Organization's Regular Budget activities expand, as well as the need to ensure that the Program is carried out in an efficient and orderly manner,

***RESOLVES:***

1. To approve an increase in the authorized level of the Working Capital Fund from \$20.0 million to \$25.0 million.
2. To authorize the Director to finance the increase in the Working Capital Fund from any surplus of revenue over expense as a result of efficiencies realized in the implementation of the Program and Budget, beginning with the current 2014-2015 biennium.

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

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

<b>1. Agenda item:</b> 5.5 - Status and Authorized Level of the Working Capital Fund
<b>2. Linkage to Program and Budget 2014-2015:</b>
<ul style="list-style-type: none"> <li>a) <b>Categories:</b> 6, Corporate Services/Enabling Functions</li> <li>b) <b>Program areas and outcomes:</b> <ul style="list-style-type: none"> <li>6.2 - Transparency, Accountability and Risk Management PAHO Operates in an accountable and transparent manner, and has well-functioning risk management and evaluation frameworks.</li> <li>6.3 - Strategic Planning, Resource Coordination and Reporting Financing and resource allocation are aligned with priorities and health needs of the Member States in a results-based management framework.</li> <li>6.4 - Management and Administration Effective management and administration across the three levels of the Organization.</li> </ul> </li> </ul>
<b>3. Financial implications:</b>
<ul style="list-style-type: none"> <li>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> US\$5.0 million to be funded from future budgetary and revenue surpluses.</li> <li>b) <b>Estimated cost for the 2014-2015 biennium (estimated to the nearest US\$ 10,000, including staff and activities):</b> No cost.</li> <li>c) <b>Of the estimated cost noted in (b), what can be subsumed under existing programmed activities?</b> Not applicable.</li> </ul>
<b>4. Administrative implications:</b>
<ul style="list-style-type: none"> <li>a) <b>Indicate the levels of the Organization at which the work will be undertaken:</b> No administrative implications.</li> <li>b) <b>Additional staffing requirements (indicate additional required staff full-time equivalents, noting necessary skills profile):</b> None.</li> <li>c) <b>Time frames (indicate broad time frames for the implementation and evaluation):</b> Funding and implementation will be dependent on future availability of budgetary and revenue surpluses.</li> </ul>



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

- 1. Agenda item:** 5.5 - Status and Authorized Level of the Working Capital Fund
- 2. Responsible unit:** Financial Resources Management/Financial Services and Systems (FRM/FS)
- 3. Preparing officer:** Mrs. Linda S. Kintzios
- 4. List of collaborating centers and national institutions linked to this Agenda item:** None.
- 5. Link between Agenda item and Health Agenda for the Americas 2008-2017:** None.
- 6. Link between Agenda item and the PAHO Strategic Plan 2014-2019:** None.
- 7. Best practices in this area and examples from countries within the Region of the Americas:**  
It is the secretariat's fiduciary responsibility to manage the implementation of the PAHO Regular Budget within the resources available. An adequate and fully funded Working Capital Fund is critical to ensure that the Organization mitigates the risk of impacting the implementation of programs funded by other internal unrestricted sources of funds.
- 8. Financial implications of this Agenda item:** The Director has replenished the Working Capital Fund with proceeds from the repayment of the loan previously made to the Revolving Fund for Vaccine Procurement. The balance of the \$10.0 million loan has been credited to a Revenue Surplus Account, which in accordance with Financial Regulation 4.6, shall be available for use in subsequent periods to cover the unfunded portion of the Strategic Plan, as determined by the Director and with the concurrence of the Subcommittee on Program, Budget, and Administration. If the proposed increase to the authorized level of the Working Capital Fund (\$5.0 million) is approved, any future surpluses (budgetary or revenue) could be made available to fund the Working Capital Fund to the new authorized level. However, there is no requirement to do so within any specific timeframe.

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