



PAN AMERICAN HEALTH ORGANIZATION  
WORLD HEALTH ORGANIZATION



## **SECOND SESSION OF THE SUBCOMMITTEE ON PROGRAM, BUDGET, AND ADMINISTRATION OF THE EXECUTIVE COMMITTEE**

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### **USE OF SURPLUS FINANCIAL RESOURCES FROM THE 2006-2007 BIENNIAL PROGRAM BUDGET: PRELIMINARY REPORT AND CRITERIA**

**Report by the Director**

#### **Introduction**

1. The Director of the Pan American Health Organization presents this document to the Subcommittee on Program, Budget, and Administration (SPBA) in order to provide a preliminary report on the surplus financial resources from the 2006-2007 Biennial Program Budget and to propose criteria for the utilization of these funds.

#### **Background**

2. The financial administration of the Pan American Health Organization is governed by the Financial Regulations of the Organization as reflected in the *Basic Documents of the Pan American Health Organization*. Financial Regulation 4.1 states, "The appropriations approved by the Conference or the Directing Council shall constitute an authorization to the Director to incur contractual obligations and make payments for the purposes for which the appropriations were approved and up to the amounts so approved."

3. The PAHO 2006-2007 Program Budget provided the Director with authority to incur contractual obligations for \$187.8 million.

4. During 2006-2007, the level of the Organization's total Biennial Program Budget income significantly surpassed the authorized appropriation of \$187.8 million. The factors which contributed to the increased income include:

- *The increase in the collection of prior biennia quota assessments which exceeded the level of the delayed 2006-2007 biennium quota assessments, thus contributing to a surplus.* The collection of the prior biennia quota assessments assists in offsetting the impact of delays in current biennium quota receipts. However, during the 2006-2007 biennium, the collection of quota arrearages exceeded not only the level of the delayed current biennium quota assessments, but also the \$41 million five-biennia average collection of quota arrearages.
- *The Miscellaneous Income figure which significantly exceeded the budgeted figure of \$14.5 million, thus contributing to a surplus of financial resources in the 2006-2007 Biennial Program Budget.* The Miscellaneous Income figure is composed of the interest earned on the Organization's available funds, currency exchange gains and losses, savings on unliquidated obligations from previous biennia, and reimbursements for charges paid by the Organization in previous biennia.
  - a) Due to the higher level of the Organization's financial resources, as well as the higher interest rates available in the financial markets during the biennium, the Organization achieved the highest level of earned interest on its available financial resources in its history.
  - b) Furthermore, two governments reimbursed the Organization for prior biennia maintenance fees associated with PAHO-administered centers in their countries, which increased the Miscellaneous Income figure.
- *The implementation of the new Expenditure Recognition Policy which directly aligned activities, services, or goods with the respective expenditure during the implementation period.*
  - a) The new Expenditure Recognition Policy, approved by the 47th Directing Council in September 2006, requires that financial liabilities be recognized in the financial period when the services or goods are rendered or delivered, rather than in the financial period when the services are contracted. Therefore, many services or goods contracted for during the 2006-2007 biennium will be charged to the 2008-2009 Biennial Workplan when the services or goods will be completed or delivered.
  - b) This alignment of activities, services, and goods with expenditure during the 2006-2007 implementation period contributed to a one time increase in the Organization's available financial resources.

## **Analysis**

5. The Financial Regulations of the Organization and the resolutions of Directing Councils and Pan American Sanitary Conferences provide direction on the utilization of the Organization's financial resources.

6. The funding of the Working Capital Fund and the Holding Account is defined in Financial Regulation 4.4 which states:

“Any balance of the appropriation not obligated by the end of the current financial period, shall be used to replenish the Working Capital Fund to the fixed level, after which any residual balance will be placed in a Holding Account for subsequent use as decided by the Conference or Directing Council.”

7. Therefore, at the end of the 2006-2007 financial period, the PAHO Working Capital Fund was increased from its 31 December 2005 level of \$14.2 million to its authorized ceiling level of \$20.0 million.

8. In accordance with Resolution CSP27.R19 of the 27th Pan American Sanitary Conference in October 2007, the new Master Capital Investment Fund's initial capitalization could derive from:

- “The respective balances as of 1 January 2008 in the existing PAHO Building Fund and the Capital Equipment Fund.
- Excess of income over expenditure from the Regular Program Budget funds at the conclusion of the 2006-2007 biennium.”

9. Therefore, in January 2008, the Director approved the transfer of funds from the excess of income over expenditure, or surplus, to the Master Capital Investment Fund in order to capitalize the new Fund to its authorized \$8.0 million ceiling.

10. The balance of the surplus from the 2006-2007 biennium was transferred to the Holding Account for a decision on the utilization of the funds by the 48th Directing Council in September 2008.

## **Proposal**

11. The Director recommends that the Subcommittee on Program, Budget, and Administration (SPBA) consider the following two criteria for determining which

activities or projects should be funded from the financial resources in the PAHO Holding Account.

***Activities or projects that will enhance the Secretariat's focus on strengthening or supporting the priority public health projects in the countries of the Americas.***

12. These activities or projects might include:

- Accelerating the pace for achieving the Millenium Development Goals (MDGs);
- Supporting the countries in achieving the Health Agenda for the Americas;
- Improving communication networks among the countries in order to implement the International Health Regulations-2005 (IHR);
- Improving the Organization's and ministries of health's ability to continue technical activities and operations during emergencies;
- Expanding institutional development activities for the countries of the Americas;
- Strengthening information systems in support of public health projects.

***Activities or projects that will contribute to strengthening the Organization, rather than addressing regular operating costs or on-going activities or projects.***

13. These activities or projects may include:

- Addressing emergency infrastructure problems or improving infrastructures not contemplated, or beyond the provisions of, the Master Capital Investment Plan;
- Relocating and modernizing the Emergency Operations Center;
- Meeting the requirements for alignment with the WHO Global Management System (GSM);
- Improving the Organization's information technologies and services which have not been contemplated previously, or which are beyond, the funding identified in the Master Capital Investment Plan;
- Implementing strategic, results-based management systems;
- Addressing critical staff development requirements;
- Funding audit requirements resulting from the transition to International Public Sector Accounting Standards.

## **Conclusion**

14. Upon the conclusion of the audit of the PAHO 2006-2007 biennial accounts, PAHO's External Auditors will certify the balance of the Holding Account. That financial figure, as well as specific recommendations for the activities or projects to be funded with the surplus financial resources, will be presented to the 142nd Session of the Executive Committee in June 2008.

## **Action by the Subcommittee on Program, Budget, and Administration**

15. The Subcommittee is invited to take note of this report and provide further guidance on the criteria for the utilization of the funds in the Holding Account.

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