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PAN AMERICAN
HEALTH
ORGANIZATION

XXXIII Meeting

Washington, D.C.
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regional committee

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1988-1989 PROGRAM BUDGET SITUATION

At the 101st Meeting of the Executive Committee, the Director of PASB presented the 1988-1989 Program Budget situation as of that meeting (Document CE101/27), contained in Annex I. From an originally approved program budget for the biennium 1988-1989 of \$183,803,000, the Director projected a potential reduction in regularly funded programs by an estimated \$23 million or 12.5%. Of this amount, \$4,940,000 is attributable to reductions in the funds available through WHO, \$15,000,000 from projected decreases in quota collections from the United States of America to PAHO and an additional \$3 million in reduced quota payments to PAHO from other Member Countries. The situation will be reviewed again immediately prior to the XXXIII Meeting of the Directing Council in September 1988, and the projections revised accordingly.

If realized, in full or substantial part, a reduction of this magnitude, however, predictably would have a severe impact on the Organization and its programs. Although it is hoped that the situation might improve over the coming months by a renewed commitment by all Member Countries to meet their financial obligations, there is no other prudent option than to share with the Directing Council an analysis of the impact that such reductions would have on PAHO's programs. This analysis is provided by the Director in Annex II.

In order for the Organization to continue to function within its projected income, criteria are proposed by the Director, consistent with the existing mandates of the Governing Bodies, for effecting the necessary cuts in the budget by which the Organization would operate for the current biennium. Also described are a series of cost cutting mechanisms that would make it possible to defray up to US\$14.0 million of the projected income deficit. These steps include freezing vacant regular budget posts, reducing the Regional Director's Development Program by 50%, and substantially reducing non-post costs and expenditures. The balance of the income deficit, up to US\$9.0 million, would have to be met by additional, more onerous, reductions or by borrowing from the Working Capital Fund of the Organization.

In sum, these reductions will force the Organization to lose its flexibility to adapt to the ever changing situation in the Region as a whole and in its Member Countries, preventing it from starting new activities even in the face of emerging problems that may require an urgent response and reducing or eliminating activities of the current programs. Furthermore, serious repercussions will be felt through a diminished capacity to mobilize extrabudgetary resources as the capacity to manage the flow of additional funds is reduced. Thus, at a time when the needs of the Member Countries are increasing and excellent opportunities, especially through the subregional initiatives, are being presented, the capability of the Organization to respond is being weakened.

Given the seriousness of the budget situation, the Directing Council is requested to provide its views as to the measures proposed by the Director to respond to the projected income shortfalls for the current biennium.

Annexes

*executive committee of
the directing council*



PAN AMERICAN
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*working party ANNEX I
the regional committee*

WORLD
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101st Meeting
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1988-1989 PROGRAM BUDGET SITUATION AS OF JUNE 1988

The Organization's two regular-funded program budgets, PAHO and WHO, have experienced serious reductions in recent years, despite the smallest appropriation increases in recent history. During the 4-year period 1986 through 1989, this Region's WHO Regular funds have been reduced by \$9,317,000, or 7.7% of the original allocations.

During 1986 and 1987, the PAHO Regular program budget was reduced by over \$10 million, or 9.1%, due to the lowest quota collection rate in the past 10 years. The forecast of PAHO Regular quota collections for 1988 and 1989 is even more pessimistic. Quota collections from the Organization's largest contributor, the United States of America, are expected to be reduced by \$8,400,000 in 1988 and \$6,600,000 in 1989 for total reductions of \$15 million, or almost 20% of its obligation. These expected reductions, while drastic to an organization the size of PAHO, do not include the 1987 quota arrears of the United States of over \$11 million.

Quota reductions by other Member Countries are expected to exceed \$3 million. Despite severe debt problems, Brazil has already paid its 1987 arrears of almost \$4,700,000, and it is expected to contribute its 1988 obligation of \$5,056,000, but nothing in 1989. Its net reduction, then, is expected to be approximately \$360,000.

Countries such as Chile, Cuba, Mexico, Suriname, and Venezuela, which have had good payment records in the past, are experiencing payment problems since the last biennium. Reductions in payments from these countries for 1988 and 1989 are expected to exceed \$2 million. Various other countries are expected to have payment difficulties exceeding \$500,000. Argentina made great efforts during the last biennium to meet its obligations, as evidenced by its being completely up to date in its

payments at the end of 1987. Despite the economic crisis which affects the country, it is expected that it will maintain its payments in 1988 and 1989, although no payments have been received thus far this year.

Canada has traditionally met its obligations to the Organization in full and is expected to continue this tradition in the future.

In summary, PAHO quota reductions are expected to exceed \$18 million for 1988 and 1989, or almost 15% of its effective working budget. The additional WHO Regular reduction of \$4,940,000 means that the Organization's program will suffer total reductions of almost \$23 million, or 12.5% of the originally approved program. To these drastic reductions, inflation must be added, which increases the magnitude of the real impact upon the Organization's programs and its technical cooperation with countries.

Even though the Organization has been successful in increasing its efficiency and attracting increasing amounts of extrabudgetary funds, its regular-funded core is being severely eroded and, consequently, its ability to manage, progress, and cooperate in making a better and healthier life for the peoples of the Americas is in danger. Reductions of this magnitude jeopardize all the efforts being made to increase the usefulness and efficiency of the Organization, and its capacity to carry out vital programs approved by the Governing Bodies.

Between now and the September meeting of the Directing Council, the financial forecast will be updated and the impact upon the Organization's programs will be studied and reviewed in detail. A further report will be given to the Directing Council at that time.

IMPACT OF POSSIBLE REDUCTIONS IN THE PAHO PROGRAM BUDGET
FOR THE BIENNIUM 1988-1989

The possible scenario of a reduction of almost US\$23 million in the Organization's program for the biennium 1988-1989 poses the threat of a potentially severe impact on the PAHO program of work and on the institutional solidity of the Pan American Sanitary Bureau since it would be necessary, over all, to deal with a cutback of approximately 12.5% in the program and resources originally approved by the Directing Bodies in the XXXII Meeting of the Directing Council in September 1987.

The following pages describe the consequences that this reduction in resources would have on the programs of the Organization; the criteria that would have to be used in curtailing activities and resources vis-à-vis decisions taken by the Governing Bodies on program priorities; and, finally, the mechanisms that up to now have been brought into play in the effort to deal with the reductions, which will be increasingly put into effect, each time at greater cost to the institution, if the bleakest scenario of cutbacks in the resources available for the biennium should become a reality.

A) Analysis of the overall impact of the reduction on the program of the Organization for the biennium 1988-1989

The fundamental consequence of a reduction in resources such as the one that could take place during the current biennium is a contraction in the volume of technical cooperation activities being carried out by the Organization in response to the needs of its Member Countries. Inevitably, if there are less resources, it will be necessary to carry out fewer activities.

Unfortunately, the margin available for adjusting to program cutbacks is quite limited when there are lines of action that have been approved by the Governing Bodies and have already given rise to fixed commitments at the beginning of the biennial period.

This means that non-fixed, or non-programmed, lines of expenditure for specific technical cooperation activities will necessarily bear the a very high proportion of the impact--much greater than the overall percentage of reduction.

The greater the cutback, the greater will be the operational paralysis in the Organization's program activities. Initial estimates have revealed that resources to cover operational expenditures for the delivery of technical cooperation, both at the country and at the Regional level, will be reduced by an average of 30%, with variations depending on the type of expenditure programmed under each of the 17 approved program headings.

The foregoing situation would lead to such a loss in the flexibility of the Organization to adapt to changing situations, both in the Region as a whole and in the Member Countries, that it would be virtually impossible to take on any new commitments for cooperation to deal with emerging problems that might require an urgent response.

In addition to constraining the volume of activities already planned for the biennium, the possible reduction would seriously impair the Organization's capacity to mobilize extrabudgetary resources to augment the operational base financed with regular funds. A cutback in programmable resources for project development, coupled with the institution's reduced capacity to promote and administer the flow of additional contributions, would mean a loss of excellent opportunities to capture supplementary funds and mobilize financial resources which could have a synergistic effect for activities under the approved biennial program budget financed with regular funds.

Finally, it should be pointed out that a reduction in resources such as the one foreseen would mean losing the capacity to develop and apply administrative measures aimed at increasing the degree of efficiency in the Bureau's operations, since it would increase the proportion of resources allocated for fixed expenditures (personnel and infrastructure) relative to that of programmable resources for the implementation of technical cooperation projects.

We are confident, however, that the Member Countries will meet their financial commitments to the Organization and that activation of an administrative mechanism of the type indicated in section C will cover, insofar as possible, the deficit expected in the biennial budget for 1988-1989. But in the event that it is not possible to deal with the problem in its entirety, it would be necessary to make some painful decisions to further curtail cooperation activities and possibly even go to the unwanted extreme of applying measures of reduction in force.

Decisions of this kind cannot, nor should they, be unilateral administrative or technocratic measures undertaken by the PAHO Secretariat; rather, they must be integrated into a policy that is agreed to by the Member Countries, beginning with guidelines and criteria for program priorities and budget policy which have been decided on by the Governing Bodies of the Organization, as well as a detailed examination of the implications for the Member Countries themselves of a cutback in the technical cooperation activities that have been agreed to as the PAHO program of work for the current biennium.

B) Criteria to be followed in effecting cuts in the program budget for the biennium 1988-1989 in light of the possibility of a reduction in resources available for its implementation

Listed below are the criteria which, based on the foregoing considerations, may be identified for orienting the difficult task of

curtailing the volume of operations of the Bureau in view of the reduction in available resources.

1. Such cuts as may be necessary should be made in keeping with the program priorities set by the Governing Bodies, in particular the decision of the XXII Pan American Sanitary Conference which laid down the guidelines and program priorities for the quadrennium 1987-1990. Thus the integrity of the program originally approved in the program budget should be preserved for the three broad areas of action established by the Conference, which are the necessary vehicles for bringing about change in the national health systems of the countries in the Region, namely:

- Development of the health services infrastructure with emphasis on primary health care;
- Attention to priority health problems in vulnerable human groups, with specific programs implemented through the health services system; and
- Management of the knowledge needed in order to carry out the two aspects above, in consonance with the management strategy for the optimum utilization of PAHO/WHO resources.

2. The cuts that have to be made should be fully in keeping with the Regional Budget Policy approved by the Governing Bodies, which establishes a balance between allocations for programs at the country level (not less than 35% of the regular budget of the Organization) and allocations for intercountry activities, center activities, and technical and administrative management of the Bureau (not more than 65% of the Organization's resources for the biennium).

In the application of this principle, no more than 30% of the cuts should be made in country programs and no less than 70% should be applied to the Organization's other levels of action.

3. The integrity of approved resources should be safeguarded in the case of certain specific programs which, either because of the critical nature of the problems they address or because of an explicit decision by the Governing Bodies to grant them a high degree of priority, will have to remain unchanged despite the reduction in available resources. This is the case of the Expanded Program on Immunization, especially the efforts to eradicate wild poliovirus; the program for AIDS prevention and control; activities for the strengthening and development of local health systems; the Program on Women, Health, and Development; activities to promote and support subregional initiatives; the Program of Health Research Promotion; cooperation activities in the area of sectoral leadership; the Program for Health Training and Research; the Staff Training and Development Program; and efforts to enhance and develop the Organization's financial management system.

4. It will be necessary to strike a balance between the existing priorities that have received approval by the Governing Bodies and new lines of action proposed by the Member Countries (for example, drug abuse, control of Aedes albopictus) in view of the shortage of funds (particularly program resources) resulting from the budgetary reduction. This means that virtually no additional commitments and no new lines of work may be undertaken unless they are urgent and essential.

5. Consideration will have to be given to the constraints imposed by the fixed costs associated with the Organization's commitments with regard to staff salaries and general operating expenses.

6. All possible administrative measures will be implemented to promote the rationalization and/or containment of expenditures and to increase productivity in an effort to mitigate, insofar as possible, the impact on programs of a cutback in resources during the biennium. This will include the cautious management of vacant posts, even though it may often mean a sacrifice in operating capacity for some of the programs; containment and/or cuts in the cost of cooperation activities; and maximum possible rationalization of current expenditures.

C) Proposed application of criteria for cuts to be made in the event of a possible budgetary deficit

Below is a brief description of the nature of the actual reduction and the impact of activating the cost-cutting mechanisms that have been being put into effect:

1. Management of Vacant Posts

In this regard, it will be established for the rest of the biennium that vacant posts financed from the regular budget--those already vacant or those that will become so--which are not essential to the continuity of priority activities shall be frozen. Moreover, it shall be the policy to wait an average of six months to fill any regular budget posts that may become vacant during the rest of the biennium. Exceptions to these rules will only be made in the case of posts that are essential to the continuity of a high-priority program.

The institutional and program cost of this measure is considerable, since it means, particularly in the case of professional posts, reduced capacity to make the interventions, through Bureau personnel, that were originally provided for in the program budget, as well as less capacity to manage available resources. The savings that would be effected through this difficult measure would represent approximately US\$6.2 million.

2. Reduction in the Regional Director's Development Program (DGP)

The volume of resources originally approved at the program budget under the specific heading of the Regional Director's Development Program

will be reduced by 50%. This means a savings of \$1,550,000, to be added to the other lines being used to offset the budgetary deficit. It should be pointed out that adoption of this measure takes away from the flexibility for dealing with non-programmed activities and makes it virtually impossible to allocate resources to support any new activity that may be proposed during the biennial period.

3. Reduction of the Annual Operating Budgets to 90%

Both for the 1988 operating year and in the exercise of formulating the annual operating program budget for 1989, a restriction of 10% will be applied to non-post lines of expenditure. This means keeping operating program expenditures at a functional level of 90% in all the organizational units of the Bureau, both in the field and at Headquarters.

The savings effected by this measure are approximately US\$6,300,000 for the biennium. However, the program impact of this measure is severe, since it means an overall reduction of 10% in activities originally programmed for the biennium (fellowships, seminars, etc.) at the Organization's different levels of action.

4. Rationalization of the Cost of Cooperation Activities

This line of action, which the Organization has been implementing over the last five years, will continue to be applied wherever possible in order to offset the effect of the budgetary reduction on programs. In this regard, there will be cuts of virtually 100% in expenditures for hospitality; steps will be taken to hold regional, subregional, and national meetings at less expensive sites; resources will be reduced to the indispensable minimum; an effort will be made to expand the use of consultants provided by the Member Governments working for national salaries so as to limit contract expenditures to the cost of maintenance and relocation; and steps will be taken to streamline expenses for travel, operations, communications, and overtime to the utmost possible in the different field units and at Headquarters. The savings effected under these headings will make it possible, up to a point, for the Organization's operating units to offset the reductions imposed by the foregoing measures (1, 2, and 3) while at the same time stimulating the ongoing search for mechanisms that will reduce costs and increase productivity.

5. Summary

With the measures described above, it would be possible to make up for US\$14.0 million of the US\$23 million that might in fact be the deficit for the biennium, leaving an amount of approximately US\$9.0 million that would have to be covered through additional cuts in the Organization's program of work for the biennium 1988-1989, or else through a loan from the Working Capital Fund of the Organization.