



PAN AMERICAN HEALTH ORGANIZATION  
WORLD HEALTH ORGANIZATION



## **40th SESSION OF THE SUBCOMMITTEE ON PLANNING AND PROGRAMMING OF THE EXECUTIVE COMMITTEE**

*Washington, D.C., USA, 20-22 March 2006*

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*Provisional Agenda Item 6*

SPP40/INF/1 (Eng.)  
6 February 2006  
ORIGINAL: ENGLISH

### **FINANCIAL PERFORMANCE OF THE PAN AMERICAN HEALTH ORGANIZATION FOR 2004-2005**

#### **OVERVIEW OF FINANCIAL RESOURCES AND TRENDS**

##### **Introduction**

1. During the ten-year period ending 2004-2005, the Pan American Health Organization (PAHO) saw a significant increase in its financial resources, which contributed to an increase in the funding available for technical cooperation. Some of the additional funding came from Member States' quota contributions to the Organization. The most significant increases, however, resulted from funding provided by the donor and partner community for specific pre-negotiated projects and programs, and from Member States for national programs and procurement activities.

##### **Financial Overview**

2. The Program Budget grew from US\$168.6 million in the 1996-1997 biennium to \$186.8 million in the 2004-2005 biennium, reflecting a total increase of 10.8% over the ten years, or an average of 2.2% per biennium. During the same period, PAHO's donor- or partner-funded projects increased from \$103.2 million to \$137.1 million, reflecting the growing commitment of PAHO's partners to support projects related to HIV/AIDS, disaster preparedness and emergency assistance, immunization and vaccine development, maternal and child health, and other public health initiatives.

3. The most striking increase was in the level of PAHO's procurement activities. Through extensive international bidding, PAHO is able to purchase vaccines, public health supplies and equipment, and publications on behalf of Member States, government and international institutions at affordable prices.

4. Funding for vaccine procurement, processed through the Revolving Fund for the Expanded Program on Immunization, established by the 25th Directing Council in 1977, increased from \$53.4 million in 1996-1997 to \$302.2 million by the end of the 2004-2005 biennium, an increase of \$248.8 million in ten years. During the same period, funding for the purchases of medical supplies (i.e., syringes, HIV/AIDS diagnostic kits, etc.), medical equipment, and publications, processed through the Advances from Governments and Institutions Fund, increased from \$10.9 million to \$26.3 million.

5. The Regional Revolving Fund for Strategic Public Health Supplies was created in 1999 in order to reduce the cost of strategic public health supplies, make them continuously available to Member States, and to support Member States in improving their planning capabilities to use these supplies, and broadening the scope of their public health programs. Funding for purchases placed through the Strategic Fund rose to \$10.2 million during the 2004-2005 biennium.

### **Quota Assessments and Payments**

6. The total biennium quota collections varied from a low of \$160.0 million in 1996-1997 to \$180.8 million in the 2004-2005 biennium. Although the Organization utilized internal borrowing twice in 2005 owing to delays in quota payments, by the end of the biennium, every Member and Participating State had made a payment, towards their assessed contributions the first time that had occurred since 1990. This encouraging situation is the reflection of the measures introduced following the discussions in Document CD45.R4. That commitment to the payment of assessed contributions directly contributed to the Organization's sound financial position at the end of the biennium.

### **Program Budget Implementation**

7. Throughout the ten-year period, the overall Program Budget implementation rate was 95% reflecting the Directors' commitment to conservative financial management: the allotment of program funds was only approved on the basis of quota payments received or projected and Miscellaneous Income projections for the biennium. In order to achieve the optimal balance between conservative financial management and full implementation of technical cooperation programs, the Director regularly reviewed the Organization's financial position, as well as the projections for quota receipts and Miscellaneous Income, in order to determine whether to increase or if necessary to decrease allotments. In an effort to decrease expenditures during delays in quota receipts, posts remained vacant for longer periods of time, seminars or courses were postponed, staff members' rotations were delayed, and posts were eliminated.

## **WHO Allocations to the Regional Office for the Americas**

8. The Pan American Health Organization serves as WHO's Regional Office for the Americas and administers WHO's activities throughout the Region. WHO's regular budget allocations to the Region of the Americas fell from \$82.7 million in 1998-1999 to \$72.7 million in 2004-2005 as a result of Resolution WHA51.31 "Regular Budget Allocation to Regions." WHO's Voluntary Contributions and other income allocations initially decreased from a high of \$18.1 million in 2000-2001 to \$13.0 million in 2002-2003, but increased significantly, to \$31.0 million, in the biennium 2004-2005.

## **Preliminary Financial Position for the Program Budget 2004-2005**

9. During the 2004-2005 biennium, total quota payments received amounted to \$180.8 million. After deductions for tax reimbursement, the net quota payments amounted to \$169.7 million, \$8.4 million more than in 2002-2003. Miscellaneous income rose to \$11.5 million, or \$1.8 million more than in 2002-2003. Preliminary figures show expenditures (including disbursements and pending obligations) totaling \$175.2 million, which is approximately 2.4% higher than in 2003. After a transfer of \$3.4 million to the Capital Equipment Fund, the excess of income over expenditure for the Regular Budget stood at approximately \$2.6 million. The projected Working Capital Fund balance is \$14.3 million, which would provide funding for approximately two months of Regular Program Budget activities. This end-of-biennium financial position reflects an improved financial performance over the 2002-2003 biennium.

## **Working Capital Fund**

10. The Working Capital Fund was established for the primary purpose of providing funds as required to finance the Organization's Program Budget pending receipt of quota contributions from Member and Participating States. The level of the Organization's Working Capital Fund varied from a low of \$154,874 in 1994-1995, as a result of an ILO Tribunal judgment, to \$14.3 million as of 31 December 2005.

11. The 37th Directing Council (1993), noting that the Organization's Program Budget had risen from \$64.8 million in 1978-1979 to \$159.5 million in 1994-1995, authorized the Director gradually to increase the level of the Working Capital Fund from \$11 million up to a maximum authorized level of \$15 million. The 44<sup>th</sup> Directing Council in 2003 increased the authorized level of the Working Capital Fund again, from \$15 million to \$20 million, in order to ensure the availability of adequate financial resources during challenging financial periods. At the implementation rate envisioned by the Program Budget 2006 - 2007, the \$20 million authorized level would be sufficient funding for 2.6 months of approved Program Budget activities.

### **The Expanded Textbook and Instructional Materials Program (PALTEX)**

12. In February 1979 the Director, under the authority vested in him by Resolution CE81.R1 of the 81<sup>st</sup> Session of the Executive Committee, signed a contract with the Inter-American Development Bank (IDB) to guarantee a \$5 million loan to the Pan American Health and Education Foundation (PAHEF) for the Expanded Textbook and Instructional Materials Program. The Directing Council, noting that the Working Capital Fund served as a guarantee for the IDB loan, approved the allocation from the Working Capital Fund of a reserve amount equal to the outstanding loan balance, which would be reduced as the loan was repaid. PAHEF commenced repayment in August 1989. The outstanding PALTEX loan balance decreases by \$333,333 each biennium as a result of PAHEF's monthly payments to the IDB. The loan amount outstanding as of 31 December 2005 is \$2.26 million.

### **Investments**

13. The funds which the Organization receives, but which are not required for immediate payment of Program Budget activities, donor- or partner-funded projects, procurement activities, etc., are placed in conservative investment instruments. The interest earned on these investments constitutes the majority of the Miscellaneous Income category of PAHO's regular budget. The increase in the Organization's donor- and partner-funded projects and procurement activities contributed to the growth of the average portfolio balance from \$101 million to a high of \$192 million in 2002 and an average of \$184 million in 2005. PAHO's Investment Committee approves the investment instruments in order to ensure the protection of capital while attempting to enhance the return on investments.

14. The return on the portfolio has fluctuated in tandem with the United States' economy, as all investments are denominated in US dollars. The interest earned on the investments has been as follows:

1996-1997	\$12.5 million
1998-1999	\$17.0 million
2000-2001	\$18.2 million
2002-2003	\$ 8.8 million
2004-2005	\$11.5 million

15. The current investment portfolio consists of: long-term investments of approximately \$40 million which represent PAHO's long-term financial commitments on the balance sheet (terminal entitlements, etc); intermediate funds of approximately \$25 million which earn a higher rate of interest than the short-term funds and serve as additional liquidity; and short-term funds of approximately \$120 to \$140 million, which

represent the weekly disbursement needs of the Organization, and six months' payroll funds.

### **PAHO's Share of the Retirees' Health Insurance Contribution**

16. In 2003, PAHO and the World Health Organization introduced a new algorithm for the calculation of PAHO's share of the retirees' health insurance contribution, basing it on the Region's payroll expenses as a percentage of the total global payroll costs for both PAHO and WHO, rather than on the number of PAHO and WHO retirees residing in the Americas, many of whom have never worked in the Region. This change resulted in a savings to PAHO of approximately \$2.0 million in the 2004-2005 biennium.

### **Future Challenges**

17. The 2006-2007 and 2008-2009 biennia will present significant challenges for certain financial aspects of the Organization, including,

- Alignment of PAHO's Financial Regulations and Rules to include conformity with WHO's amended Financial Regulations and Rules.
- The nomination and selection of the Organization's External Auditors for 2008-2011 (two biennia).
- A possible transition to the International Public Sector Accounting Standards (IPSAS) effective 1 January 2010 if approved by the United Nations General Assembly in June 2006. The most significant impacts of the implementation in January 2010 would include:

Annual audited financial statements;

Accrual of all incurred expenditures, including staff benefits;

Capitalization and depreciation of non-expendable assets;

“Mark-to-market” of the Organization's investments—i.e. adjusting the values of bonds, certificates of deposit, etc. from the original purchase price to the market rate.

Alignment with WHO's Global Management System, an Oracle Enterprise Resource Planning system (ERP), either through implementation of the Oracle ERP by PAHO or PAHO's interfacing with the new system to ensure provision of full financial information to WHO for WHO-funded activities.

**Action by the Subcommittee on Planning and Programming**

18. The Subcommittee is requested to provide comments and suggestions on the financial topics discussed in this document, especially on future challenges.

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