



PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION



44th DIRECTING COUNCIL

55th SESSION OF THE REGIONAL COMMITTEE

Washington, D.C., USA, 22-26 September 2003

Provisional Agenda Item 5.4

CD44/20 (Eng.)

16 July 2003

ORIGINAL: ENGLISH

REVIEW OF THE AUTHORIZED LEVEL OF THE WORKING CAPITAL FUND

Introduction and background

1. At the 130th Session of the Executive Committee, the Director proposed in Document CE130/24 (Annex) an increase to the authorized level of the Working Capital Fund in order to reflect the realities and risks inherent in the current political and economic environment.
2. 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 provided for in Financial Regulation 7.4.
3. The Executive Committee's review of the proposal raised some questions regarding prompt payment of assessments, historical analysis of drawdowns, and alternatives available to the Director. The Director opined that the need to increase the Fund's authorized level would be more cogent by the time the Committee meets in June 2003.
4. The Executive Committee decided to reexamine the issue of the Working Capital Fund at its 132nd Session in 2003 (Decision CE130(D5)).

Current situation

5. Since the 130th Session of the Executive Committee, the Organization experienced two critical periods where the unencumbered balance of the Working Capital Fund was nearly exhausted. These instances were directly related to delays in the receipt of quota contributions. During these periods there was not only a risk of a negative

impact on the sustainability of program implementation, but there was no buffer available for unforeseeable and extraordinary expenses as provided for in the Financial Regulations.

6. During the period from October 2002 to March 2003, it was frequently necessary to draw on working capital resources to cover ongoing cash requirements. Furthermore, during the months of October 2002 and March 2003, the unencumbered balance of the fund was at or near exhaustion. Due to timely quota payments by a major contributor, a disruption in operations was avoided.

7. The past few months have further exposed the limitation of the current level of working capital, and without some relief, cash flow deficiencies will occur in the future. Economic uncertainties which plague our Region, inflationary pressures, and the necessary expansion of PAHO activities will increase the need for more working capital. Due to the political and economic realities facing our Member States, the current pattern of quota payments is not expected to significantly change.

Proposal

8. The Director proposes that the authorized level of the Working Capital Fund be increased from US\$ 15 million to \$20 million to reflect increasing requirements and to avoid disruptions in ongoing operations. The increase of \$5 million, when fully funded, will cover about three additional weeks of Regular Budget operations at current levels for a total of approximately 2.5 months of operating cash for the Regular Budget. The increase is expected to be sufficient to cover cash shortfalls and provide some flexibility in providing periodic funding support for other activities as set forth in the Regulations.

9. It is further proposed that the requested increase of \$5 million be gradually funded from any excess of income over expenditure resulting from the collection of arrears of contributions or efficiencies realized in the implementation of the biennial program budget, beginning with the current biennium.

Action by the Directing Council

10. The Directing Council is invited to consider the following resolution, recommended by the Executive Committee:

Proposed Resolution

THE 132nd SESSION OF THE EXECUTIVE COMMITTEE,

Having considered the report of the Director on the authorized level of the Working Capital Fund (Document CE132/24);

Noting that the provisions of Financial Regulation 7.1 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 activities expand; and

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

RESOLVES:

To recommend to the 44th Directing Council the adoption of a resolution along the following lines:

THE 44th DIRECTING COUNCIL,

Having considered the recommendation of the Executive Committee, concerning an increase to the authorized level of the Working Capital Fund, and recognizing that increasing demands require additional working capital to ensure that the Organization's program of technical cooperation 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 US\$ 15 million to \$20 million.
2. To authorize the Director to finance the increase to the Working Capital Fund from any excess of income over expenditure resulting from the collection of arrears of contributions or efficiencies realized in the implementation of the biennial program budget, beginning with the 2002-2003 biennium.

3. To request that the Secretariat:
 - (a) Review the status of the quota payments of all Members States with approved payment plans to strive for compliance with those plans by 31 December 2003 or, in case of Members in noncompliance, to negotiate new payment plans with the goal not to exceed a payment period of five years;
 - (b) Inform the Executive Committee Members as of 1 January 2004 whenever the month-end deficit of the Organization exceeds \$10 million, including the names of the Member States that are not in compliance with their payment plans, and to provide those Member States with copies of the letter notifying the Executive Committee Members;
 - (c) Establish payment plans, with the goal of not exceeding five years, with Member States subject to Article 6.B as of 1 January of each year.
4. To review the status of the Working Capital Fund and the payment plans of the Member States in June 2006.

Annex



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130th SESSION OF THE EXECUTIVE COMMITTEE

Washington, D.C., USA, 24-28 June 2002

CD44/20 (Eng.)
Annex

Provisional Agenda Item 5.3

CE130/24 (Eng.)
5 May 2002
ORIGINAL: ENGLISH

FINANCIAL REPORT OF THE DIRECTOR AND REPORT OF THE EXTERNAL AUDITOR FOR 2000-2001

WORKING CAPITAL FUND

1. Introduction

In accordance with Financial Regulation 6.2, the Working Capital Fund was established by the Directing Council for the primary purpose of providing funds as required to finance the Regular Budget and other exigencies pending receipt of assessed contributions from Member and Participating States, as well as for the Organization's Centers pending receipt of their quota contributions.

In addition, the Working Capital Fund serves as a guarantee for the loan of US\$ 5 million to the Pan American Health and Education Foundation (PAHEF) for the Textbook and Instructional Materials Program. A reserve of an amount equal to the outstanding balance of the loan is kept separate from the unencumbered balance of the Working Capital Fund.

The 37th Directing Council, noting that the regular budget had increased from \$64.8 million in 1978-1979 to \$152.6 million in 1994-1995, authorized the Director to increase the level of the Fund from \$11.0 million to \$15.0 million.

In accordance with Financial Regulations 6.3 and 6.6, title to the funds of the Working Capital Fund remains with PAHO and any investment income earned on invested balances would be credited to Miscellaneous Income, which is made available to finance the Regular Budget.

2. Background

Since 1994-1995, PAHO's Regular Budget expenditure has increased to \$173.9 million for the 2000-2001 biennium and is budgeted at \$186.8 million for 2002-2003, representing an overall increase of 17%. Meanwhile, total WHO expenditure under PAHO has decreased from \$113.7 million to \$95.9 million in 2000-2001 and is projected to be around \$90.0 million for 2002-2003, reflecting a decrease of 21%. Furthermore, total PAHO expenditure, including procurement and other extrabudgetary activities, has increased by 75.4% since 1994-1995 to \$573.3 million for the 2000-2001 biennium and is expected to exceed \$600 million for the 2002-2003 biennium.

Financial Regulation 6.5 and Financial Rules 118.2 and 118.3 stipulate that the unforeseen and extraordinary expenses to be financed by the Working Capital Fund include expenses of a program that were not foreseen when original estimates were made and expenses outside the original scope of the budget estimates. As such, during the past three biennia, PAHO has drawn on the resources of the Working Capital Fund several times to fund regular budget deficits arising from a delay in the collection of contributions; extraordinary expenses related to the building renovation; unforeseen requirements in the Revolving Fund for the Expanded Program on Immunization; and, financing the temporary deficits in two of the Centers administered by the Organization. During the 1994-1995 biennium, the unencumbered balance of the Working Capital Fund was totally depleted as the result of an unfavorable judgment by the International Labour Organization (ILO) Tribunal.

3. Current Situation

Although the Working Capital Fund is fully funded at \$15 million, the unencumbered balance is \$12.1 million. This represents less than two month's expenditure or approximately 6% of the 2002-2003 biennial program budget, of which more than 50% is financed by the contributions of one Member State. Delays in the receipt of contributions can impede the Organization's ability to effectively implement priority programs.

Furthermore, Miscellaneous Income comprised approximately 10% of the income for the 2000-2001 biennium, the majority of which was investment income. Initial estimates of miscellaneous income included in the 2002-2003 biennial budget were made during an expansionary time for the United States economy. However, as a result of the aggressive actions taken by the Federal Reserve Open Market Committee over the past year, as well as the economic fallout from the terrorist attacks in the United States, achieving these budgeted levels for miscellaneous income has become challenging. While economists believe that the United States economy has begun to improve and anticipate that interest rates might begin to rise again, future fluctuations in interest rates

are inevitable and could result either in a reduction in program implementation or an even draw down from the Working Capital Fund.

4. Proposal

The Director proposes an increase to the authorized level of the Working Capital Fund to reflect the realities and risks inherent in the current political and economic environment. The Bureau reviewed the working capital/reserve levels of other Organizations of similar size or structure and found that a Working Capital Fund level of \$23 million, or approximately three months of PAHO regular budget expenditure, would more adequately position the Organization to manage the uncertainties of the income and budgeting cycles. The requested increase of \$8 million would gradually be funded from any excess of income over expenditure resulting from the collection of arrears of contributions, which totaled \$49.2 million as of 31 December 2001, or efficiencies realized in the implementation of the biennial program budget.

5. Action by the Executive Committee

The Executive Committee is invited to consider the following resolution:

Proposed resolution

THE 130th SESSION OF THE EXECUTIVE COMMITTEE,

Having considered the report of the Director on the status of the Working Capital Fund (Document CE130/24);

Noting that the provisions of Financial Regulation 6.2 stipulate that the amount and uses of the Working Capital Fund will be determined from time to time by the Directing Council;

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

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

RESOLVES:

1. To take note of the report of the Director on the status of the Working Capital Fund (Document CE130/24).
2. To recommend to the 26th Pan American Sanitary Conference that it approve an increase in the authorized level of the Working Capital Fund from US\$ 15 million to \$23 million.
3. To recommend that, in accordance with Financial Regulation 6.2, the Conference authorize the Director to finance the increase to the Working Capital Fund from any excess of income over expenditure resulting from the collection of arrears of contributions or efficiencies realized in the implementation of the biennial program budget, beginning with the 2002-2003 biennium.

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