

FUNDING THE STRATEGIC PLAN

107. PAHO is engaged with WHO in a results based budgeting approach to determine the resource requirements to carry out its work. The cost of achieving Region-wide Expected Results over a given period of time is expressed through an integrated budget comprising all sources of funding.

108. PAHO receives funding from three main sources:

- (a) the **PAHO Regular Budget**, which comprises assessed contributions (quotas) from PAHO Member States plus estimated miscellaneous income;
- (b) the **AMRO Share**, which is the portion of the WHO regular budget approved for the Region of the Americas by the World Health Assembly;
- (c) **Other Sources**, which mainly comprises voluntary contributions mobilized by PAHO or through WHO, program support-generated funds, and funding from the Master Capital Investment Fund; among other categories.

109. While funding sources (a) and (b) above are considered unearmarked, voluntary contributions (included in (c)) can be categorized as either earmarked or unearmarked. Effective financing of the Strategic Plan 2008-2012 and associated Programs and Budgets will require careful management of the different sources and types of income to ensure complete funding of planned activities. Unearmarked funding provides a flexible resource base that facilitates financing the core work of the Organization. Earmarked funding—which accounts for the majority of voluntary contributions currently negotiated—is less flexible and, thus, may not be available for use in under-funded programmatic areas.

110. Earmarked funding continues to pose a challenge for ensuring alignment between the Organization's planned activities and actual resources mobilized. Earmarked Voluntary Contributions that do not contribute to reduce the planned programmatic financial gap will not be accepted. To the extent that donor partners can be persuaded to provide increased levels of unearmarked voluntary contributions—also being referred to as 'core voluntary contributions' by WHO—the Organization will become more successful in fully financing its Strategic Plan and all Program and Budget periods, consequently increasing the probability of achieving its expected results. To this end, the Bureau fully supports WHO's efforts in actively seeking to increase the proportion of the Program and Budget financed with core voluntary contributions and will similarly continue its own efforts in this area.

111. Table 1 below summarizes the estimated resource envelope for the PAHO Strategic Plan.

Table 1

	Strategic Plan			
	PB 2006-2007	PB 2008-2009	PB 2010-2011	PB 2012-2013
PAHO	333,094,000	347,566,000	682,000,000	743,000,000
WHO	198,018,000	278,501,000		
	531,112,000	626,067,000	682,000,000	743,000,000

112. The Strategic Plan has an estimated resource envelope of just over \$2 billion for the three-biennium period ending in 2013. This projection begins with a proposed budget of \$626 million (which includes all sources of funding) for 2008-2009 and contemplates biennial increases of roughly 9%, commensurate with the proposed costing of the WHO MTSP and expectations for inflationary costs in the Region.

113. The significant increase in the cost of international transactions to U.S. dollar-based budgets is being felt worldwide, and for PAHO there is no exception. A thorough analysis of current costs and trends points to an expected cost increase of between 13% and 15% for the 2008–2009 biennium. For the PAHO regular budget, this translates to roughly \$37 million for cost increases alone, of which approximately \$24 million are related to the cost of fixed-term posts.

114. An alternative, more optimistic scenario, which considers a curbing of the U.S. dollar devaluation effect over the short term, yields a projected cost increase of about 10% for the next biennium. In a Zero Real Growth scenario, this translates to roughly \$23 million for the regular budget, of which approximately \$17 million are related to the cost of fixed-term posts. However, an additional 12 fixed-term posts have been reduced so far in the biennium (in addition to the 41 positions abolished during 2004-2005) thus containing the estimated cost increase to about \$14 million for fixed-term posts for 2008-2009, an increase of 8.3% compared with the budget component for fixed-term posts for 2006-2007.

115. Table 2 below compares the proposed budget 2008-2009 with the approved budget for 2006-2007.

Table 2. Financing of the Program and Budget 2008-2009

Source	2006-2007	2008-2009	% change
Assessed contributions from Member States	173,300,000	180,066,000	3.9%
+ Miscellaneous income	14,500,000	17,500,000	20.7%
= Total PAHO share (Regular Budget)	187,800,000	197,566,000	5.2%
+ WHO share (Regular Budget)	77,768,000	81,501,000	4.8%
= Total Regular Budget	265,568,000	279,067,000	5.1%
+ <u>Estimated Other Sources</u> *	265,544,000	347,000,000	30.7%
= Total Resource Requirements	531,112,000	626,067,000	17.9%

* Represents primarily the combined total estimated voluntary contributions from PAHO donor partners as well as from WHO.

116. The proposed budget for 2008-2009 of \$626 million represents an increase of 17.9% compared to the \$531 million budget approved for 2006-2007. The largest source of the budget increase comes from the estimated Other Sources of \$347 million, representing a 30.7% increase, of which \$197 million is budgeted to come from WHO. The \$197 million estimate was

developed jointly with WHO/HQ and the other WHO Regions by teams of staff working together globally, grouped by Strategic Objective.

117. The regular budget share of the budget of \$279 million represents an increase of \$13.5 million, or 5.1%, compared to the biennium 2006-2007, and is all attributable to the projected increase in the cost of fixed-term staff. The budget increase of \$13.5 million will largely fund the \$14 million cost increase of fixed-term staff, with the remainder \$.5 million of costs being absorbed by a nominal reduction in the proposed non-staff budget.

118. It should also be noted that the proposed budget level, in addition to not allowing for inflationary non-staff costs, does not make provision for several significant administrative costs expected to be incurred over the next few years; these include, for instance, UN mandatory implementation of International Public Sector Accounting Standards (IPSAS), PAHO's possible involvement with the Global Management System (GSM) being implemented by WHO, and expenditure related to the Master Capital Investment Plan.

119. The Bureau realizes that, in consideration of the budget reality also being faced by many Member States, budget increases must be maintained at an absolute minimum. Correspondingly, it is also important for Member States to keep in mind that additional funding for required expenditure such as IPSAS, GSM and the Master Capital Investment Plan will need to be prioritized from within the budget designated for regional program activities which is already being reduced in nominal terms and further eroded by inflation.

120. The purchasing power of the Organization's operating budget for program activities has suffered over the last several biennia given that budget approvals by Member States have only considered budget increases to meet net staff cost increases (despite continued reductions in staffing levels). The erosion is particularly acute for the regional level (such as regional centers and entities based in Washington) where the ratio of fixed-term staff costs to activity costs is typically higher than in countries because of the nature of the work. As the cost of fixed-term positions continues to rise, it becomes increasingly difficult for the Bureau to strive for further efficiencies by continuing to streamline operations and realign program areas.

121. The situation explained above is compounded by the fact that the Regional Program Budget Policy will progressively allocate a larger share of the budget to the countries over the next two biennia, as was the case for 2006-2007—the first implementation biennium of the Budget Policy. The further reduction of the regular budget for regional activities creates a challenge for the Bureau in carrying out its statutory and normative work and for the ability of regional entities to respond to backstopping needs of countries.

122. Given the regular budget situation, effective resource mobilization becomes increasingly important for the Organization. And since voluntary contributions provided by donor partners are generally earmarked for specific objectives and are less predictable, the Bureau will continue to make every effort to manage these contributions in light of the overall expected results contained in the Strategic Plan and Program and Budget documents. Thus, regular budget funds become essential for securing many of the Organization's statutory and normative core functions.

123. Finally, in consideration of the expressed position of many Member States regarding their ability to accept assessment increases, the Bureau is prepared to take the "optimistic" scenario forward in projecting cost increases for the proposed 2008-2009 Program and Budget; it should be understood, however, that the economic reality may worsen and may require significant adjustments to planned programmatic targets contained in the Region-wide expected results.

124. A breakdown of the budget by Strategic Objective and other budget details are included in the Proposed Program and Budget 2008-2009.