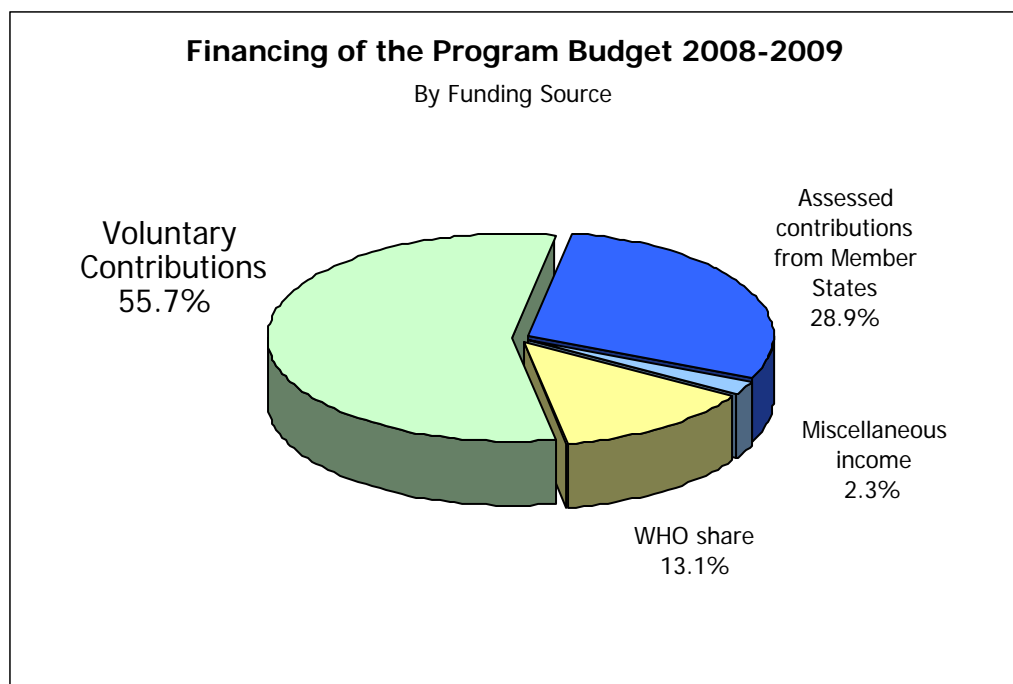


5. Table 1 below compares the financing of the proposed budget 2008-2009 with the approved budget for 2006-2007.

Table 1. Financing of the Program 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 | 14,500,000 | 0.0% |
| = Total PAHO share (Regular Budget) | 187,800,000 | 194,566,000 | 3.6% |
| + WHO share (Regular Budget) | 77,768,000 | 81,501,000 | 4.8% |
| = Total Regular Budget | 265,568,000 | 276,067,000 | 4.0% |
| + Estimated Voluntary Contributions * | 265,544,000 | 347,000,000 | 30.7% |
| = Total Resource Requirements | 531,112,000 | 623,067,000 | 17.3% |

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



6. The proposed budget for 2008-2009 of \$623 million represents an increase of 17.3% compared to the \$531.1 million budget approved for 2006-2007. The largest source of the increase comes from the estimated voluntary contributions of \$347 million, representing a 30.7% increase, of which \$197 million is estimated to come from WHO and was developed jointly with WHO/HQ and all of the other regions by teams of staff working together globally and grouped by Strategic Objective.

7. The regular budget share of the budget of \$276 million represents an increase of \$10.5 million, or 4.0%, compared to the biennium 2006-2007, and is all attributable to the projected increase in the cost of fixed-term staff. This increase is proposed to be funded by an increase to the portion from PAHO assessed contributions of 3.9%, and the remainder from the 4.8% increase in the AMRO share of the regular budget (\$81.5 million for AMRO included in the WHO regular budget presented to the World Health Assembly in May 2007).

8. The significant increase in the cost of international transactions to U.S. dollar-based budgets is being felt world-wide, and for PAHO it is no exception. A thorough analysis of current costs and trends points to an expected cost increase of between 13% - 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 staff.

9. 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 staff. However, an additional 12 fixed-term positions 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 staff for 2008-2009, an increase of 8.3% compared with the budget component for fixed-term staff for 2006-2007.

10. Furthermore, the proposed increase to assessments of 3.9% considers only the cost increase to fixed-term positions; it does not make provision for inflationary costs in the non-staff component of the program budget of \$6.5 million. This translates into a real reduction in purchasing power in comparison to the 2006-2007 biennium.

11. It should also be noted that the proposed budget level, in addition to not allowing (purposely) for inflationary non-staff costs, does not make provision for several significant 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 expected involvement with the Global Management System (GSM) project being implemented by WHO, and expenditure related to the Master Capital Investment Plan.

12. 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.

13. The purchasing power of the 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 Secretariat to strive for further efficiencies by continuing to streamline operations and realign program areas, despite efforts made to reduce fixed-term positions.

14. 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 carrying out the statutory and normative work and for the ability of regional entities to respond to backstopping needs of countries.

15. To better understand these dynamics and their effect on the budget, Table 2 below serves to illustrate the interplay among the principle attributes of the budget; namely, its financing, its major cost types, and its distribution among functional levels as stipulated in the Regional Program Budget Policy.

Table 2. Distribution of the Proposed Regular Budget 2008-2009

| | In thousand of U.S. dollars | | | |
|------------------------------------|-----------------------------|---------------|------------------|-------------------|
| | <u>2006-2007</u> | <u>Change</u> | <u>2008-2009</u> | <u>Percentage</u> |
| <u>To be Financed from:</u> | | | | |
| Assessed Contributions | 173,300 | 6,766 | 180,066 | 3.9% |
| Miscellaneous Income | 14,500 | - | 14,500 | 0.0% |
| WHO/AMRO | 77,768 | 3,733 | 81,501 | 4.8% |
| Total | 265,568 | 10,499 | 276,067 | 4.0% |
| <u>By Major Cost Type:</u> | | | | |
| Post | 168,802 | 13,998 | 182,800 | 8.3% |
| Non-post | 91,766 | (3,499) | 88,267 | -3.8% |
| Retirees' Health Insurance | 5,000 | - | 5,000 | 0.0% |
| Total | 265,568 | 10,499 | 276,067 | 4.0% |
| <u>By Functional Level:</u> | | | | |
| Regional | 144,876 | 2,313 | 147,189 | 54.3% |
| Sub-regional | 16,676 | 1,485 | 18,161 | 6.7% |
| Country | 99,016 | 6,700 | 105,716 | 39.0% |
| Subtotal | 260,568 | 10,499 | 271,067 | 100.0% |
| Retirees' Health Insurance | 5,000 | - | 5,000 | |
| Total | 265,568 | 10,499 | 276,067 | |

16. In the present proposal, as illustrated in Table 2, the non-post component of the budget is being reduced by \$3.5 million (to offset the reduction in the expected funding from the AMRO share from \$85 million to \$81.5 million) in order to keep the assessment increase at no greater than the 3.9% originally presented to the SPBA. When added to the \$6.5 million of inflationary costs to non-post costs that are not being provided for in the proposal, the total real reduction in the non-post component of the budget amounts to \$10 million (\$3.5 million + \$6.5 million), or about 10% of the total non-post budget.

17. 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 Secretariat will continue

to make every effort to manage these contributions in light of the overall expected results contained in the Strategic Plan. Thus, regular budget funds become essential for securing many of the statutory and normative core functions.

18. Finally, in consideration of the expressed concern of several Member States regarding their ability to accept budget increases, and in trying to keep budget increases to an absolute minimum, the Secretariat is prepared to take the “optimistic” scenario forward in constructing the proposed 2008-2009 program budget with the understanding that the economic reality may be different and may require significant adjustments to planned programmatic targets contained in the Region-wide expected results.

19. The Annexes provide different region-wide views of the program budget by the 16 Strategic Objectives, as well as additional details on the distribution of the Country Allocation by country as stipulated by the Regional Program Budget Policy. Where there are comparisons made to the 2006-2007 budget, it should be noted that a crosswalk methodology (developed by WHO) has been applied to convert the 2006-2007 budget from 38 Areas of Work to 16 Strategic Objectives.