



PAN AMERICAN HEALTH ORGANIZATION
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PROGRAM BUDGET POLICY OF THE PAN AMERICAN HEALTH ORGANIZATION

This document reviews historical developments of the current PAHO program budget policy which was approved by the Directing Council in 1985. It highlights recent developments relevant to the decision to revise the policy including the adoption, by the World Health Assembly, of a formula to redistribute WHO funds to regions which resulted in a reduction of the allocation to the Region of the Americas.

The document also includes an assessment of selected features of the current program budget policy and a summary of the experience using "formulas" for PAHO country budget allocations.

The general context against within which a revised policy is to be developed is reviewed and the issues and trends in the external and internal environments are summarized. Basic principles that should guide the formulation of a revised PAHO program budget policy are proposed.

The Subcommittee on Planning and Programming is asked to consider and discuss the following: (a) the adequacy and relevance of the principles recommended for guiding the development and evaluation of the revised program budget policy; (b) the relevance and timing of the initiative to revise the regional program budget policy; (c) the context for consideration when developing a program budget policy at this time; and (d) the approach being used by the Secretariat.

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Annex

1. Background

The subject of program budget policy has been discussed intermittently by the Governing Bodies of PAHO since 1976 but it was not until 1985 that the 31st Directing Council approved the current PAHO Program Budget Policy (Resolution CD31.R10). The Directing Council urged the immediate implementation of the policy as set out in Document CD31/29. The long period of gestation from 1976-1985 reflects the complexity of the issue and the indepth study that the matter has received. The first evidence of direction to the Secretariat to change the method of allocating funds was in 1983 when the Directing Council explicitly urged the Director to take into account the recommendations contained in the study "Distribution of the Financial Resources of PAHO" (CE90/17) for establishing ceilings for the 1986-1987 budget. The Director was also urged to report on the impact of the recommendations on the implementation of the 1986-1987 program budget.

The study mentioned above was a statistical inquiry regarding what variables explain the actual distribution among recipient countries of the country program budget. Using the 1980-1981 budget as a base and focusing on the distribution of country program resources, a series of linear regression analyses had been performed for a set of variables in several combinations. The variables were: population, per capita gross domestic product (GDP), infant mortality rate, physicians per 1,000 population, and hospital beds per 1,000 population. The analysis found that population was the most significant variable explaining the distribution of the country program budget. When controlling for population, the only other statistically significant variable was infant mortality.

The study recommended that, in determining the planning ceilings for countries for the 1986-1987 budget, funding beyond the 1984-1985 levels be allocated in the first instance on the basis of combined indicators, weighting relative levels of infant mortality and population.

The approved regional program budget policy (1985) did not include the specifics of that recommendation and the subject has not been presented to the Governing Bodies since.

2. Recent Developments

In May 1998, the Fifty-first World Health Assembly approved Resolution WHA51.31, on "Review of the Constitution and regional arrangements of the World Health Organization - Regular budget allocations to regions." This resolution changed the methodology for the allocation of future program budgets approved by World Health

Assembly for the regional, inter-country, and country levels to one to be guided, “for the most part” by a model that:

“3. ...

- (a) draws upon UNDP’s Human Development Index, possibly adjusted for immunization coverage;
- (b) incorporates population statistics of countries calculated according to commonly accepted methods, such as “logarithmic smoothing”;
- (c) can be implemented gradually so that the reduction for any region would not exceed 3% per year and would be spread over a period of three bienniums”.

It should be noted that in paragraph 4 of the resolution the Director General was requested to present an evaluation of that model to the Fifty-seventh World Health Assembly in 2004.

Implementation of the above resolution has resulted in a redistribution of funds among WHO regions. The allocation to the Region of the Americas was reduced by over US\$ 10 million over three biennia, from \$82.6 million in 1998-1999.

Following the spirit of this resolution, in 1999 the Regional Committee of WHO Western Pacific Region approved, in Resolution WPR/RC50/SR/4, that the formula approved by the World Health Assembly be applied only to 60% of the country budget while the remaining 40% be determined based on the following criteria:

- the adjustment of the allocations should be spread out in a period of three biennia;
- LDCs should not receive less than before;
- a "minimum" allocation should be considered for countries which, when the formula was applied, would be zero;
- the specific health needs of individual countries.

In the Region of the Americas, the Director of the Pan American Health Organization charged the Office of Analysis and Strategic Planning (DAP) to undertake a review of the PAHO Program Budget Policy (PPBP) and established a Working Group in October 1999 to assist. The Working Group comprised representatives of DAP, the Budget Office (ABU) and the Special Program for Health Analyses (SHA); a

PAHO/WHO Country Office Representative; and two members of the Subcommittee on Planning and Programming (Ecuador and Canada). The aim of the Working Group was to develop a proposal for revising the current PAHO program budget policy. The full Working Group met once in the Washington Office and maintained the group discussions on the subject through electronic means, consulting as well with other members of the SPP. To date the Working Group has undertaken retrospective analyses of actual budget allocations and assessed the extent of application of the policy, reviewed results of similar past exercises and researched the program budget policy approaches used by similar agencies in the recent past.

3. Overview of the Current Policy

The current PAHO Regional Program Budget Policy includes four sections which are listed below; a detailed overview is given of the substantive Section 2.

- Section 1. Background of regional program budget policy
- Section 2. Planning, programming and budget preparation: Describes the PAHO planning processes and provides guidelines for the elaboration of the program budget based on the principles within the “Managerial Strategy for the Optimal Use of PAHO/WHO Resources in Direct Support of Member Countries”, approved by the Directing Council in 1983.

The guidelines on the allocation of resources between region and countries and among countries are as follows:

- (a) The fundamental priority of the Organization remains the country programs whose overall allocation shall not be less than 35% of the total regular budget. Efforts shall be made to increase that portion.
- (b) The allocation of regional program funds should be justified on two fundamental bases: providing direct support to country program objectives and priorities, and fulfillment of regional and collective mandates.
- (c) The determination of the distribution of country and regional program funds among the countries should be in accord with the following criteria:
 - The *commitment shown by the countries in complying with the mandates* adopted by their collective decisions at regional and global levels and in their application of national resources in response to those mandates;

- The level of health needs within the various countries reflected in such indicators as *infant mortality*, in *population size* and in the *availability of national resources*;
- The *level of technical cooperation activities previously authorized will be sustained in each country from year to year* in the absence of unusual circumstances reducing the need or expanding available resources.”

Key principles of the Managerial Strategy included were: (a) the need to visualize the budget as a flexible instrument; (b) the Organization’s fundamental obligation to mobilize additional national resources in support of national goals and, to this end, the use of the Organization’s program budget (PB) as a catalyst; (c) the use of PAHO funds to directly support technical cooperation among countries at this stage, in addition to helping countries to identify the opportunities for this; and (d) securing complementary action among the different levels of the Organization, including the Centers.

This section also outlines the policy regarding the mobilization and use of extra-budgetary funds, and promotes the use of flexible and innovative administrative mechanisms in order to maximize resources.

- Section 3. Execution and evaluation. Describes the AMPES processes, highlights the joint responsibility of Member States and PAHO/WHO in the execution and evaluation of the country programs and identifies the need to establish a system of international monitoring and evaluation.
- Section 4. Mechanisms for implementing the guidelines. This section addresses the need to strengthen current structures and mechanisms.

4. Assessment of the Utilization of the Current Policy

The quantitative assessment of the policy is hindered by the limited use of measurable objectives or operational specificity on how to apply the established guidelines. While quantitative parameters such as population, infant mortality rate and availability of national resources are identified there are few specific indicators.

4.1 Country Allocations

One measurable objective given is that a minimum of 35% of the total be allocated to countries. This has been achieved and over the period 1982-2001, that portion of the budget has grown from 36.3% to 47%, increasing from \$48.8 million in 1982-1983 to \$106.4 in 2000-2001. It should be noted that the rate of increase in country

allocations was often higher (seven of the nine biennia under review) than that approved for the overall budget allocation (see Table 1).

Table 1. Percentage Increase in Country Allocations and Total Budget

From:	1982-83	1984-85	1986-87	1988-89	1990-91	1992-93	1994-95	1996-97	1998-99
To:	1984-85	1986-87	1988-89	1990-91	1992-93	1994-95	1996-97	1998-99	2000-01
Country	19%	11%	5%	7%	15%	14%	6%	3%	2%
Total	15%	10%	6%	8%	15%	9%	2%	1%	2%

Another criterion that appears to have been applied is the requirement that "the level of technical cooperation activities previously authorized will be sustained ...". Analyses of the actual country allocations within the budget for the past 20 years reveal that, overall, the distribution of the funds among the countries has remained the same from one biennium to the next (see Annex). In a few instances the reason for changes are evident; for example, in 1994-1995, the establishment of an office in Puerto Rico, the inclusion of the Field Office for El Paso under country allocations, and a shift of the responsibility for Turks and Caicos Islands.

There is no evidence that the "75% population: 25% IMR" recommendation of the 1983 study was applied.

4.2 Regional Allocations

Trends in the use of the above framework for distribution of allocation at the regional level are difficult to assess. The analysis of the funds allocated to regional programs over the last six biennia identified minor changes which resulted from addition of new programs to support new priorities such as Women, Health and Development and Tobacco and Health, or structural changes such as the new designation of HRC, HRE and HRP for HMA, HMC, and HME.

4.3 Implementation of other Guidelines of Current Policy

It must be noted that the programming and budgeting has followed almost to the letter the qualitative framework of the policy. For example:

- The Directorate and PWRs have continuously stressed the technical cooperation nature of the Organization's work.

- On the other hand the wide range of technical activities within and among countries speaks to the achievement of responsiveness and flexibility of the programming and by extension budgeting process.
- With respect to TCC, PAHO has been recognized as a leader in the use of this modality of TC. The amount budgeted increased from \$1,798,464 in 1988-1989 to \$4,001,100 in 1998-1999, an increase of 122%. All country program budgets now have a TCC component.
- The Secretariat, in collaboration with countries, has an impressive record of mobilization of resources over the past 15 years, increasing from \$69.7 million in 1982-1983 to \$156.8 million in 1998-1999, with a peak of \$170.1 million in 1988-1989. In 1998-1999, extrabudgetary funds represented approximately 40% of the total budget. The Organization has built capacity at the country and Secretariat levels to ensure that the projects respond to the national or regional priorities within the SPOs. The range of partners at the country level has increased significantly within and outside of the health sector.

5. Context for the Revised Policy

Complex trends affect PAHO's governance, strategic direction, organizational structure, relationship with stakeholders and its technical cooperation products. A revised program budget policy for PAHO needs to consider key elements in the external and internal environment which shape the Organization. As the budget is the instrument that demonstrates the coherence between the mission, the vision and the strategic and operational plans it must be sensitive to shifts in the global, regional and national environments as well as be aligned to the Organization's values.

Major issues will shape the quantum of PAHO's budget as well as the policies for its allocation. These include:

5.1 External

Globalization is the most paradoxical driver of change and its effects on the economy, trade, work, lifestyles and society are still to be weighed. Stronger interregional trade and subregional initiatives will increase pressure for quick and comprehensive responses to shared concerns. These might include the development of guidelines and norms to facilitate cooperation among countries through flexible and effective mechanisms (e.g., movement of health professionals; reciprocity of health insurance coverage; and common regulation of pharmaceuticals or medical devices).

Communications are more mobile, interconnected, personal, miniaturized. Internet leads the digital economy for some and wireless communication is breaching some disparities. Virtual reality will bring together organizations and people anywhere in the world. The impact of these trends is already affecting PAHO, where investment in its corporate communications technology and skills requires constant planning and great foresight and with a noticeable demand for the increased use of the Internet for the delivery of TC.

The changing demographics and polarized epidemiological shifts have already exacerbated the predicament of the governments for competing public resources. In spite of gains in years of life expectancy and reduction of infant mortality rates as well as general mortality, threats of new or re-emerging diseases with immune or resistant microorganisms coexist with a greater importance of chronic diseases. In fact, according to the Global Burden of Disease¹ study, coronary heart conditions, depression and vehicular accidents will take the lead worldwide in the next 20 years. PAHO's budget, as an instrument of resource allocation, is confronting similar issues since the needs are increasing in variety and weight, and resources must be used where they produce the greatest health gains.

At the same time, the national capacity for responding to public health problems has increased and the support they expect from international organizations in technical cooperation programs present new challenges not only for the modalities of technical cooperation but for the allocation of resources to those programs.

The experts' forecast calls for increased frequency of natural disasters. The devastation caused by some of those that affected Latin America and the Caribbean in the past two years was unparalleled and threatened the social and economic progress made over the last decade. Cooperation among countries in response to disasters has increased but PAHO will need to continue to have the flexibility and capacity to support the timely mobilization of experts, provision of information, and installation of technical systems.

Ecological movements have achieved gains in behavioral and policy changes, and in health there is greater emphasis on wellbeing, self-care, healthy communities, and integrated health systems. Health providers will need to incorporate new paradigms to prevent and forecast potential health threats with multisectoral approaches to personal and public health, early detection, and optimal management of those problems that do occur. Advances in science and technology have implications for policy and resource allocation; they will change medical practice, hospital organization, teaching, people's beliefs and behaviors and therefore the pattern of technical cooperation in health.

¹ Source: Global Burden of Disease Summary CJ.L. Murray, A.D. Lopez, p. 4, 1996

Advances that recently seemed only possible for the “better off” countries are finding a place in the rest of the countries and the possibilities of their use for reducing inequalities may be greater than expected as costs decrease and applications widen rapidly. For example, telemedicine to link providers and patients; drugs redesigned in response to advances in genetics; DNA vaccines to prevent and cure some forms of chronic and infectious diseases. These conditions will considerably increase the demands for different types of cooperation, and in order to keep the commitment to our mission and goals, the organization needs to invest in the development work required to bring the advantages to the public health arena in a timely fashion.

The persistent call for international organizations to reform has affected the level of funding available to these organizations. The major contributors have been insisting on zero nominal growth in budgets. In the case of PAHO this policy has resulted in a 16.6% reduction in funds available for technical cooperation programs during the last decade. This continuous reduction in resources requires that international organizations review their strategic approaches and internal policies for allocating resources.

With respect to extrabudgetary funds, while analysis of trends in Official Development Aid (ODA) reveals an increase of 30% from the United States of America between 1997 and 1998, the general trend among the 10 major donor countries is a steady decrease in the ODA budgets, including that for health to the Americas. While the face of the private foundations is changing and there has been a bumper period for the social sector in the recent past, there is little history on which to base a more targeted forecast. On the other hand, there continues to be an increase in funds channeled through the NGO sector.

PAHO has had a long history of collaboration with NGOs. In Latin America, NGOs played a key role in the transition process to full democracy in many countries. Further NGOs have become a force to be reckoned with at the global and regional levels, as demonstrated by the recent experience in Seattle. In this regard, the review by PAHO of its relations with NGOs is timely.

The United Nations reform is affecting PAHO in a variety of ways and it may affect it further in terms of structure, objectives and modalities of cooperation. The implementation of the reform will cause stress if agencies are not prepared to function in a new development cooperation framework, with shared resources, objectives, authority and accountability. It is yet early to forecast the advantages or disadvantages of the recent move of WHO to join the UNDG.

5.2 Internal

5.2.1 *Relevant Policies Approved by Directing Council: Strategic and Programmatic Orientations*

The most important current mandate relevant to the development of the program budget policy is the Strategic and Programmatic Orientations (SPOs), approved by the Pan American Sanitary Conference in September 1998. The current SPOs are inspired by the goal of health for all. They commit the countries to specific regional goals and define the work of the Secretariat in five priority areas: health in human development, environmental protection and development, disease prevention and control, health promotion and protection, and health systems and services development. These priorities must therefore not only be evident in the budget structure but must influence the allocation of resources at all levels.

5.2.2 *Current Values of the Organization: Pan-Americanism and Equity*

The search for equity among and within countries is one of the core values of the Organization. The existing social, economic and now technological gaps are expected to widen among genders, people of different ages, cultures, and religious beliefs. PAHO will need to orient its work towards closing the gaps, and therefore a considerable amount of resources will need to be allocated to those countries and areas that suffer the most inequities.

The other core value, Pan-Americanism, is critical to the discussion about the development of a regional program budget policy. To quote the Director, the critical issue in Pan-Americanism “is that the countries should ‘buy into’ the concept of sharing and being of mutual assistance and support.” The discussion on the budget must therefore anticipate and entertain the concept of a shifting of resources to support those countries that require more resources to achieve the same level of equitable health others have achieved.

5.2.3 *Management Priorities*

The current philosophy is one that places a value on the transparency of the decision-making process and due process as well as an emphasis on a results-management approach. Further priority has been given to strengthening the logic of the project designs and improving efficiency of project management, including accountability for ensuring that expenditures are justified against the approved project activities. This will eventually facilitate financial reporting to demonstrate effective and efficient use of resources to produce the agreed expected results.

6. Basic Principles of the Revised Program Budget Policy

Taking into consideration the experience with the current program budget policy, the recent developments in the WHO and the context that the Organization faces in the new millennium, the Working Group has identified some basic principles to guide the development of the revised program budget policy.

1. Given the nature of PAHO as a technical cooperation agency as opposed to that of a financial institution, the allocation of regional and country funds must respond, in a timely manner, to current and emerging regional technical priorities and changing country needs. This level of responsiveness, especially in the case of countries, cannot be achieved through the sole application of a mathematical formula.
2. If more than one quantifiable criterion is used, a formula for their application should be explicit in the policy. The choice of indicators should attempt to orient the distribution towards inequities in health.
3. The program budget policy must identify mechanisms to allow flexibility and facilitate responsiveness to rapidly changing needs such as the strengthening a fund like the Regional Director's Development Fund.
4. The policy must balance consideration of the allocation methodology approved by the World Health Assembly, of which the Member States of PAHO are a part, with the need to reorient PAHO's program and therefore budget, to support its focus on assisting countries to reduce inequities in health. However any consideration of the WHO methodology needs to recognize that it has yet to be evaluated, as called for in Resolution WHA51.31.
5. The regional program budget policy, while being a framework, must be coherent with the strategic direction and approaches agreed upon in the strategic plan—SPOs in the current period.
6. The policy should support the principle of maintaining the Organization's comparative advantage of a country presence, to cooperate technically with Member States and facilitate the cooperation among them in support of Pan-Americanism and TCC.
7. The amount of resources allocated to different levels in the Organization should correspond to the nature of their functions: i.e. *country level*: technical cooperation with national programs; *regional technical level*: normative function and support to technical cooperation; *regional management and coordination*: support to the other two. A revised

policy, while allowing for changes in promoting distribution between regional and country level in response to the prevalent circumstances, should protect the gains of the current policy.

8. The policy should support a culture of prioritization in the Organization.
9. The structure of the budget should be rationalized to streamline the management process and facilitate reporting of achievement of expected results, including but not limited to a rationalization of the Classified List of Programs.

7. Issues for the Consideration of the Subcommittee

The following issues are identified with a view to prompting the discussion on this work in progress in its early stage:

1. The SPP might comment on the relevance and timing of the initiative to revise the regional program budget policy.
2. Has the Working Group identified the full context for consideration when developing a program budget policy at this time?
3. Are the principles recommended for guiding the development and evaluation of the revised program budget policy adequate and relevant?
4. The SPP might wish to comment on the approach being used by the Secretariat.

Annex

