

## OVERVIEW

1. PAHO, as does WHO, relies on a results-based management to develop the biennial program and budget required to carry out its work. The proposed Program and Budget 2012–2013 is the last in the current Strategic Plan: it represents the cost of achieving PAHO’s Region-wide expected results over the two-year period and is expressed through an integrated budget with multiple funding sources.

2. 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**, mainly voluntary contributions mobilized by PAHO or that come through WHO; a lesser portion of funding comes from program support-generated funds and special funds such as the Master Capital Investment Fund and the Holding Account.

3. Funding sources described in the PAHO Regular Budget and in the AMRO Share represent assessed contributions and are flexible. Voluntary contributions included in Other Sources, on the other hand, are predominantly earmarked (project-based). Effective financing of the Strategic Plan 2008–2012 and associated Programs and Budgets requires that the different sources and types of income be carefully managed, in order to fully fund planned activities. Un-earmarked voluntary contribution funding provides a predictable and flexible resource base that facilitates financing the core work of the Organization. Earmarked voluntary contribution funding—which accounts for the majority of voluntary contributions currently negotiated—is less flexible and, thus, may not be available for use in underfunded programmatic areas.

4. Earmarked voluntary contributions continue to pose a challenge for ensuring alignment between the Organization’s planned activities and actual resources mobilized. To the extent that donor partners can be persuaded to provide increased levels of unearmarked voluntary contributions—also referred to as *core voluntary contributions* by WHO—the Organization will become more successful in fully financing its Strategic Plan and its Programs and Budgets. This will also increase 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 its program and budget financed with core voluntary contributions and will similarly continue its own efforts in this regard.

5. The proposed Program and Budget of \$626.72 million represents a 2.5% (\$16.2 million) decrease compared with the approved budget for 2010–2011. It builds on lessons from the 2008–2009 biennium assessment and the 2010–2011 mid-term assessment, incorporates Member States’ ongoing guidance with respect to regional programmatic prioritization and public health trends, and takes into account the global financial climate.

6. The proposed resource levels by strategic objective (see Annexes 2 and 3) reflect the planned investment required to carry out the proposed two-year program of work. The proposed shifts among the Strategic Objectives (SOs) are commensurate with the level of work required to achieve each SO’s targets by the end of the PAHO Strategic Plan in 2013. It is also in alignment with the contribution towards attaining the Millennium Development Goals and the Health Agenda for the Americas, and the programmatic prioritization established in the PAHO Strategic Plan. As a result, increases are proposed in Strategic Objectives 1, 3, 4, 6, 7, 8, 9, 12, and 13; these are offset by

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<sup>2</sup> Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

proposed reductions in Strategic Objectives 2 and 16. Strategic Objectives 5, 10, 11, 14, and 15 remain unchanged. The proposed shifts address priorities such as maternal and child health, chronic noncommunicable diseases, social and economic determinants of health, emerging and re-emerging communicable diseases, and health systems and services. The reduction in Strategic Objective 2 reflects an adjustment to a more realistic budget based on progress made so far in achieving the 2013 targets. Hence, this should not affect the programmatic implementation in 2012–2013.

7. Securing resources to fully implement the Strategic Objectives as proposed presents a challenge. Organizations with dollar-based budgets, such as PAHO, continue to experience significant increases in the cost of its international transactions. These increases are seen in both of the major cost components of the Organization's budget required to carry out the program of work: a) the planned activities and, b) the core workforce required to carry out the planned activities. The core workforce is essentially made up of fixed-term posts (FTPs) and represents a significant part of the investment in each Strategic Objective. The estimated cost for the FTP component included in the 2012–2013 proposal is based on an update of actual costs incurred for the current biennium. Additional cost increases based on speculation of future inflation and currency exchange rates are not factored in the cost estimate. Any additional increase to FTP costs experienced during the new biennium will be managed operationally.

8. In determining the level of the proposed 2012–2013 Regular Budget, the following four funding scenarios were considered. **Scenario A** (no longer under consideration): full cost recovery, in which all inflationary and statutory costs already incurred for both FTP and non-FTP components would be compensated; this scenario considered a Miscellaneous Income estimate of \$15 million (a \$5 million reduction compared to the current biennium) and required a 10.5% increase in assessed contributions. **Scenario B** (no longer under consideration): partial cost recovery, in which costs would be recovered for PAHO-funded FTPs only and inflationary costs on the non-FTP budget would be absorbed; this scenario considered a Miscellaneous Income estimate of \$15 million (a \$5 million reduction compared to the current biennium) and required a 6.7% increase in the assessed contributions. **Scenario C**: Budget reduction, in which neither inflationary nor statutory cost compensation is included; this scenario considers a revised Miscellaneous Income estimate of \$12 million, a further reduction of \$3 million from the previous estimate, and requires no increase in the assessed contributions. Scenario C represents a net reduction of 2.8% in the total Regular Budget. Scenario D: zero nominal growth, in which the total Regular Budget remains unchanged compared with the current biennium. Scenario D considers a revised Miscellaneous Income estimate of \$12 million, which represents a reduction of \$8 million compared to the current biennium. In order to maintain zero nominal growth in the Regular Budget, a 4.3% increase in assessments is required. Note that revised scenarios C and D incorporate a further reduction of 3 FTPs for a total of 21, which represents a total reduction of \$5.8 million in the FTP budget component. Please refer to the 2012–2013 Program and Budget addendum for further details on the programmatic impact of these scenarios.

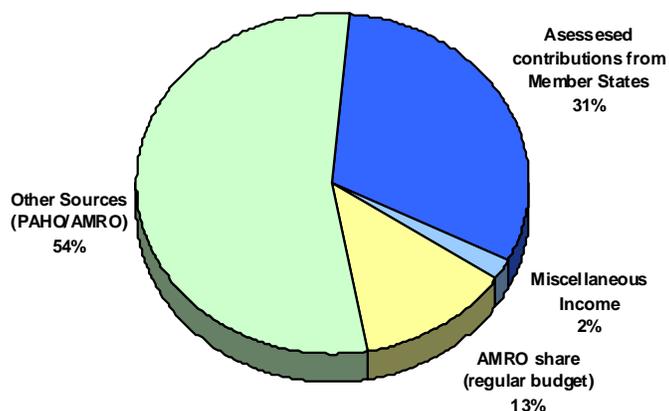
9. Table 1 compares the financing of the proposed 2012–2013 Program and Budget with the approved 2010–2011 budget. The proposed funding scenario illustrated in Table 1 is based on revised scenario D. The zero nominal growth approach takes the following factors into consideration: a) a reduction of 21 FTPs (from 764 to 743), totaling \$5.8 million; b) the absorption of mandatory and inflationary cost increases already incurred for all FTPs; and c) the absorption of non-FTP inflationary costs. The estimated \$8 million reduction in Miscellaneous Income is offset with an increase in assessed contributions of the same amount in order to hold the total Regular Budget at the same level as in the current biennium.

**Table 1. Financing of the Program and Budget 2012-2013**  
(PAHO/WHO Base Programs)

Source	2010-2011	2012-2013	% change
Assessed contributions from Member States	186,400,000	194,400,000	4.3%
+ Miscellaneous Income	20,000,000	12,000,000	-40.0%
<b>= Total PAHO share (Regular Budget)</b>	<b>206,400,000</b>	<b>206,400,000</b>	<b>0.0%</b>
+ AMRO share (from WHO)	80,700,000	80,700,000	0.0%
<b>= Total Regular Budget</b>	<b>287,100,000</b>	<b>287,100,000</b>	<b>0.0%</b>
+ Estimated Other Sources *	355,851,000	339,625,000	-4.5%
<b>= Total Resource Requirements</b>	<b>642,951,000</b>	<b>626,725,000</b>	<b>-2.5%</b>

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

**Financing of the Program and Budget 2012-2013  
by Funding Source**



10. **Assessed contributions.** The proposed increase to assessed contributions of \$8 million represents a 4.3% increase compared with the previous biennium.

11. **Miscellaneous Income.** Miscellaneous Income, which is derived predominantly from interest on investments, is combined with the assessed contributions to form the PAHO Share of the Regular Budget. At this time, based on the most recent economic indicators, the projected Miscellaneous Income is expected to be \$12 million, an \$8 million reduction compared with the 2010–2011 budgeted level. This is supported by the fact that current projections for 2010–2011 Miscellaneous Income are only slightly over \$10 million. The 2012–2013 figure of \$12 million may be further adjusted in future iterations of this document if there is a significant change in the relevant economic indicators.

12. **AMRO Share.** This is the portion of the WHO Regular Budget that is approved by the World Health Assembly for the Region of the Americas and is added to the PAHO Share to arrive at the combined PAHO/AMRO Regular Budget. At its 64th session in May 2011, the WHA approved the sum of \$80.7 million for the AMRO Share, which represents no change from the 2010–2011 biennium.

13. **Estimated Other Sources.** This figure includes primarily voluntary contributions mobilized by PAHO or through WHO, but also includes special funds such as program support-generated funds, the Master Capital Investment Fund, and the Holding Account. Estimates of voluntary contributions are driven by the needs of the Organization and are subject to both programmatic priorities and the capacity of the Organization to raise and implement additional resources. The overall level of voluntary contributions is also influenced by changing circumstances surrounding the availability of global resources. For these reasons, a 4.5% reduction in Other Sources, compared to the 2010-2011 biennium, is estimated.

14. **Total resource requirements.** The total resource requirement of \$626.7 million for 2012–2013 represents a 2.5% (\$16.2 million) reduction with respect to the previous biennium.

15. The total Regular Budget, comprised of assessed contributions, estimated Miscellaneous Income, and the AMRO Share, is essential for securing funding for the Organization's core work. In the 2012–2013 biennium, 77% of the total Regular Budget proposal is required to fund the core workforce. An analysis of actual FTP expenditure for 2010 resulted in a revised 2010–2011 FTP budget requirement of \$206.2 million, an increase of \$11.9 million, or 6.1%, compared with the budgeted amount of \$194.3 million. This increase stems primarily from the effects of the devalued U.S. dollar compared to many of the Region's currencies, combined with other inflationary and statutory cost increases. Consequently, the added costs have placed considerable pressure on the management of the Organization's scarce resources.

16. For the 2012-2013 biennium, in keeping with budgetary discipline, the Director of PASB is proposing a further reduction of 3 FTPs resulting in a total of 21 fixed-term posts by the 2012-2013 biennium. The reduction of the 3 additional posts represents extra savings of approximately 1 million in the FTP budget component. An added 2% for mandated statutory cost increases expected during the 2012-2013 biennium brings the total FTP cost to \$209.4 million.

17. The Bureau is monitoring and managing the situation carefully to ensure that the program implementation is balanced between the FTP and non-FTP components of the budget, and regular and voluntary funding sources, in order to minimize any negative impact on achieving the current biennium's expected results. (Note: Given current trends in the U.S. dollar, actual costs for 2012–2013 are likely to be higher than estimated; as mentioned previously, however, added cost increases based on speculation of future economic indicators are not factored into the budget proposal).

18. The non-FTP component of the budget also has suffered inflationary cost increases. Although U.S.-based expenditure has benefitted from a low 1.6% inflation factor, Region-wide inflation for Latin America and the Caribbean hovers at 5%, with individual country inflation rates ranging between 1.5% and 30%. Whereas a strong U.S. dollar would serve to offset or reduce the cost of this effect in a dollarized budget, the current and steady devalued U.S. dollar has worsened the situation. The total effect of the inflationary and U.S. dollar devaluation factors on PAHO's non-FTP Regular Budget for the current biennium is estimated at approximately \$3.6 million. This is a real cost that is being absorbed within the current biennium's budget.

19. In the current biennium, WHO introduced a Post Occupancy Charge (POC) mechanism. This mechanism is one of the products of a WHO internal working group established to look at cost recovery issues. The POC is designed to generate funds by charging a percentage of expenditure to post costs. These funds are used to finance common costs, such as staff security and human resources training and development, where the cost driver is the number of staff. WHO implemented

the POC mechanism Organization-wide in 2010. At PAHO, it affected the cost of AMRO-funded posts only. PAHO will be implementing a similar mechanism for PAHO-funded posts starting in 2011, which is designed to assist with the cost of the new Enterprise Resource Planning (ERP) system approved by Member States to modernize the PASB Management Information System. The effect of this mechanism increases the FTP budget component and, consequently, reduces the non-FTP component. However, the “cost increase” effect of this mechanism in the FTP budget is not considered as a “mandatory” FTP cost increase and is not included in the cost analysis that resulted in the updated 2010-2011 FTP budget of \$206.2 million.

20. In recent years, the Organization has taken significant measures to improve its management and internal control environment. In the 2006–2007 biennium, the Organization benefited from a windfall generated from income received beyond the budgeted level. The resulting “surplus” was placed in a holding account that is being used to fund several projects approved by Member States. Among others, these projects include initiatives related to the development of a PAHO health information platform for strengthening PAHO’s public health information system and the modernization of PASB’s Management Information Systems. In addition, the Organization has had to strengthen some important functions to enable better accountability and transparency, such as those related to additional internal oversight and audit, institutional and organizational development, and parts of the integrated conflict management system. These are necessary and recurrent costs that are not funded from the holding account and must be dealt with from the core budget.

21. The 2010–2011 biennium is the last two-year period targeted in the current Regional Program and Budget Policy. In light of the development of the upcoming Strategic Plan 2013–2017, the Bureau recommends that the next budget policy be developed starting with the 2014–2015 biennium. This is consistent with the recommendation made during the evaluation of the current Regional Program Budget Policy undertaken by the Internal Oversight and Evaluation Office in 2010. The 2012–2013 biennium would then serve as a transition biennium, allowing for ample discussion with Member States on the way forward for the next Policy and enabling a comprehensive and coordinated effort together with the development of the next Strategic Plan. The percentage allocation distribution of the Regular Budget ceilings for 2012-2013 would essentially remain unchanged from those of 2010-2011, although this approach poses a significant challenge to meeting regional responsibilities, given the internal shifts to country-level programs due to the requirements of the Policy.

22. Table 2 shows the allocation schedule of Regular Budget resources in accordance with the Regional Program and Budget Policy 2006–2011 as well as the proposed allocation for 2012–2013.

**Table 2. Application of the Regional Program Budget Policy**

	2006-2007	2008-2009	2010-2011	2012-2013 *
Country	38.0%	39.0%	40.0%	40.0%
Subregional	6.4%	6.7%	7.0%	7.0%
Regional	55.6%	54.3%	53.0%	53.0%
	100.0%	100.0%	100.0%	100.0%

\* Proposed

23. The current global financial climate, coupled with increasing costs, present a challenge to the Organization in fulfilling its public health mandates. Mobilizing additional resources will be difficult. However, in the ever-growing role and importance that public health plays in the global development arena, PAHO will continue to make every effort to mobilize the needed resources required to carry out its mandate.

24. The sections that follow illustrate the Program and Budget through three different views: (a) region-wide (corporate), by the 16 Strategic Objectives with their Region-wide expected results (RERs) and indicators; (b) subregional level, with respective Strategic Objectives, and; (c) country level, with respective Strategic Objectives.

25. Six tables are annexed to provide additional budget details: (a) Forty-year history of PAHO/AMRO's Regular Budget funding; (b) Proposed Program and Budget for 2012–2013, comparison with 2010–2011; (c) Proposed Program and Budget for 2010–2011 by funding source (base programs); (d) Proposed Program and Budget, all segments; (e) Regional Program Budget Policy phase-in schedule; (f) Application of Regional Program Budget Policy at the country level

26. The table in Annex 4 (Proposed Program and Budget, all segments) was first introduced in the 2010–2011 exercise. It is intended to separate the proposed budget into three segments: (a) PAHO/WHO base programs; (b) outbreak and crisis response; and (c) government-financed internal projects. This differentiation becomes necessary in light of the different budget and management requirements associated with (b) and (c), particularly given the unpredictable nature and magnitude of these other two segments in recent years.