



PAN AMERICAN HEALTH ORGANIZATION  
WORLD HEALTH ORGANIZATION



# 130<sup>th</sup> SESSION OF THE EXECUTIVE COMMITTEE

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

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*Provisional Agenda Item 5.3*

CE130/24 (Eng.)  
5 May 2002  
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## **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 37<sup>th</sup> 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 130<sup>th</sup> 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 26<sup>th</sup> 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.