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PAHO/WHO 2006-2007 PROGRAM BUDGET SCENARIOS

1. During the 39th Meeting of the Subcommittee on Planning and Programming of the Executive Committee (SPP) in March 2005, Member States expressed their desire to be presented with several options for regular budget funding levels and their programmatic implications for the 2006-2007 period.

2. Accordingly, three scenarios have been prepared for different funding levels of the regular budget. As explained in the Introduction to the Biennial Program Budget Proposal for 2006-2007 (OD317, paragraphs 27 and 28), the level of voluntary contributions is not expected to change under different levels of regular budget funding and is, therefore, not a factor in these budget scenarios.

3. In each scenario, the funding for the PAHO/WHO regular budget from WHO is \$77,768,000, as approved by the Fifty-eighth WHO World Health Assembly in May 2005, and PAHO miscellaneous income is estimated at \$14,500,000.

Budget parameters common to all scenarios (US\$ thousands)

	2004-2005	Increase	2006-2007	Change
PAHO quotas	173,300	*	*	*
Miscellaneous income	13,500	1,000	14,500	7.4%
WHO/AMRO regular budget funding	72,730	5,038	77,768	6.9%
Total PAHO/AMRO Regular Budget	259,530	*	*	*

* level varies depending on budget scenario

4. The 2006-2007 program budget is the first to follow the approval by the 45th Directing Council of the Regional Program Budget Policy (RPBP). As such, there are a number of new conditions that impact this program budget and the implications of different budget levels.

5. At the country level, a series of new factors determines the actual level of country allocations. In accordance with the RPBP, the total country allocation envelope is being gradually increased over three biennia, from 37.1% in 2004-05 to 40% in 2010-2011; the share for 2006-2007 is 38.1%. At the same time, for 2006-2007, a one-time adjustment is needed to establish the new variable portion for country allocations, set at 5% of the total country allocation envelope. At the individual country core allocation level, there are increases or decreases to the individual country core allocation envelopes depending on the results of the RPBP. (See Annex 4 of OD317 to see this dynamic country by country.) Finally, there are also changes in international post costs, which have an impact on the residual level of funding available for country level activities. Post costs, and indeed, all operating costs at country level, have experienced an exceptionally high rate of increase since the 2004-2005 budget was prepared in late 2002 and early 2003, mainly due to the decline in the value of the US dollar relative to the major currencies of

the Region. Holding the 2004-2005 budgeted posts constant, international post costs within country allocations have increased by \$5.2 million or close to 10%.

6. The subregional level now has its own budget envelope being phased in under the RBPB. Although this did not officially exist in 2004-05, a number of units and centers that are subregional in nature have been identified.¹ Using their respective budget allocations as a baseline for 2004-2005, this functional level is gradually being increased from 6% in 2004-2005 to 7% in 2010-2011. This level of the budget, however, must also fund new modalities of subregional cooperation. New initiatives with integration mechanisms in subregions not previously addressed by PAHO need to be resourced, that is, in Central America, the Andean, and the Southern Cone. In addition, a pilot program is foreseen in subregional cooperation in Human Resources for Health.² International post costs have also increased significantly in the units and centers now under the subregional functional level; holding all other factors constant, the subregional international posts have also experienced a cost increase of over \$1 million in the last biennium, or almost 12%.

7. The regional budget is also significantly impacted by the Regional Program Budget Policy in a number of ways. While the country and subregional levels will be gradually gaining in their share of total regular budget resources over the next three biennia, the regional level will see its share gradually reduced from 57% in 2004-2005 to 53% in 2010-2011. For 2006-2007 the share is set at 55.6%; holding all other factors constant, this percentage change alone translates into a \$3.1 million reduction of funding for the regional level in 2006-2007.

8. The regional level has the majority of the increase in post costs in dollar terms, as this is the functional level with the greatest number of international posts; holding the

¹ Caribbean Program Coordination Office, Caribbean Epidemiology Centre (CAREC), Caribbean Food and Nutrition Institute (CFNI), Institute of Nutrition of Central America and Panama (INCAP), United States / Mexico Border Office.

² The objective of this pilot program is to test a new modality of cooperation designed to strengthen the technical support provided to countries. Previously, a country giving priority to the development of human resources for health in their program of cooperation with PAHO would typically be assigned an international post in this area located in the country. The cost of this post, along with other international posts assigned to the country office, was budgeted separately from the non-post activity and operating funds of the country. Now, under the RBPB, a total core country allocation envelope is established by the RBPB, and some countries with declining resources will not be able to afford to maintain the international post staffing that they had in the past. At the same time, the need for support has not diminished. Under this new modality, such countries would provide activity funds and national counterparts in an area such as human resources for health; an international post would then be assigned to the subregion to oversee a coordinated program of work with national counterparts in the subregion. In principle, this should result in a stronger level of PAHO technical support to countries at a lower cost, and be of special benefit to those countries which will experience a decline in their relative share of PAHO core regular budget resources under the new RBPB.

2004-2005 budgeted posts constant, the cost increase at regional level would have been \$10.2 million, an increase of more than 11%. The posts under the regional level of the budget are located mainly in Washington, DC, although a number are also located in countries in the region as part of the strategy to decentralize and improve country focus; the costs in both have risen to an extraordinary extent since the preparation of the 2004-2005 budget. In Washington, DC, they have risen due to statutory adjustments, and as already mentioned, those in countries have been particularly affected by currency factors. Thus, at the same time that the share of the regular budget for the regional level is declining, the regional level is experiencing the greatest cost increase.

9. Fully absorbing the high increase in post costs at the regional level from within non-post budget is simply not possible. Non-post funds, which cover activity and other operating funds as well as some kinds of human resource contracts, have been steadily eroded over the last several biennia as a share of the regional budget; further reduction would be counterproductive. Thus, significant adjustments to the regional program are unavoidable, and especially a reduction in the level of international posts.

10. In this light, a regular budget based on 797 international posts is being proposed, 34 fewer than the level of 831 in the 2004-2005 approved program budget. This is an unprecedented and difficult reduction. The first line of action has been to reduce costs related to the support of the technical program, at all levels of the organization, especially in regional and country offices. Infrastructure and logistics costs have been reduced in some specific areas at regional level, such as print shop operations. Some administrative processes have been reengineered and wherever possible, posts have been reduced. However, considering that the support budget has been particularly scrutinized and tightly managed over the last several biennia, and that it is essential to not reduce beyond a level which ensures that internal controls and statutory functions are still effective, the room for reduction has been very limited.

11. Thus, further reductions are proposed to the technical program at the regional level, most significantly, the disestablishment of Pan American Institute for Food Protection and Zoonoses (INPPAZ) and the redefinition of the food safety program, decentralizing it to Brazil. In addition, some reduction has been achieved through the decentralization of the regional work in Reproductive Health and Making Pregnancy Safer and its consolidation with the Latin American Center for Perinatology and Human Development (CLAP) in Montevideo, Uruguay; and through the decentralization of the regional work in basic sanitation and its consolidation with the Pan American Center for Sanitary Engineering and Environmental Sciences (CEPIS). Particularly difficult reductions are also proposed in information technology and publications.

12. It is important to note, therefore, that all budget scenarios proposed are already based on this significantly streamlined level of international posts and prioritization of the program at the regional level. International posts under the regular budget have been reduced by 34 for a net savings of \$5.2 million compared to the 2004-2005 baseline, and are being applied to offset the total increase in international post costs. Of this, 12 posts costing the equivalent of \$1.2 million are at country level, and thus free up non-post resources of the same amount under their respective country core allocation envelopes. The balance, 24 posts costing the equivalent of \$ 4.0 million, are at regional level. The post savings at regional level are partially compensated by a total \$1.7 million increase in non-post funds in those same areas. Total net savings at regional level are thus \$2.3 million, of which \$0.5 million relates to administrative and other support functions, and \$1.8 million relates to technical cooperation.

Scenario A

13. Scenario A is based on zero real growth in the overall 2004-2005 regular budget. For this scenario, the regular budget level is \$279,747,000, implying an 8.2% increase in quotas. This increase of \$20,217,000 is the level required to cover the cost of the equivalent posts in the 2004-2005 approved program budget, while also maintaining the purchasing power of the activity / operations budget at the overall level. Considering the new budget dynamics under the RBPB outlined above, however, budget increases are not necessarily applied to where cost increases are incurred; thus, this budget increase would still be insufficient to maintain the existing program at the regional level.

14. Once the Director's proposals for international post and other reductions are taken into account, remaining international posts would have their cost increases covered at all functional levels. Country core allocation non-post funds would grow by \$2.4 m, about 4.9% on average over their 2004-2005 levels, and in addition, the variable component of the country allocations, some \$5 m, could be established. The subregional program would have an increase of almost \$980,000, which would enable the funding of the new cooperation with sub-regional integration mechanisms without reducing the operating funds of the existing subregional units. The regional program would see a modest decrease in non-post funds after taking into account the need to partially compensate those areas hit hardest by reductions in their international posts.

Scenario A, By Functional Level (US\$ thousands)
8.2% PAHO quota increase; 7.8% overall regular budget increase

Breakdown of adjustments								
	2004-05 approved Regular Program Budget	Retirees Health Insurance	Recosting of international posts (reduced level)	Special adjustments *	Increase / (decrease) to core non-post budgets	Total increase	2006-07 proposed Regular Program Budget	Share of total Regular Program Budget
Country	96,323	(327)	2,699	5,220	2,389	9,981	106,304	38.0%
Subregional	15,688	(42)	1,279	-	979	2,216	17,904	6.4%
Regional	147,519	(631)	7,262	1,716	(327)	8,020	155,539	55.6%
Total	259,530	(1,000)	11,241	6,936	3,040	20,217	279,747	100.0%

* At country level, this figure represents the one-time adjustment needed to introduce the 5% variable component into country allocations. At regional level, \$1.7 m in non-post funding is needed to partially compensate programs for reductions in international posts valued at \$4.1 m.

Scenario B

15. Scenario B is based on a zero real growth in the current 2004-2005 international post budget only, excluding cost increases in the non-post budget. For this scenario, the regular budget level is \$275,490,000, implying a 5.7% increase in PAHO quotas. This was the budget level presented at the SPP in March 2005, although at that time the quota increase would have been lower as the funding anticipated from WHO was greater. Under Scenario B, bearing in mind the dynamics outlined above and the package of international post and other reductions proposed by the Director, country core allocations would grow by about \$850,000, 1.7% on average, even after taking into account the establishment of the variable component of the core allocations. Funding at the subregional level would increase by some \$700,000. However, the regional program would have to be scaled back beyond the specific package of reductions described above, with non-post budgets reduced by about 10% over the 2004-2005 levels after taking into account fixed costs³ and the special adjustment related to the abolition of international posts.

³ Fixed costs at regional level is comprised mainly of the cost of infrastructure and the current informatics operating budget. Although both continue to be tightly and creatively managed with a constant eye toward improving their efficiency and effectiveness, neither can realistically absorb across-the-board cuts. The cost of external audit is also included in this category.

Scenario B, By Functional Level (US\$ thousands)
5.7% PAHO quota increase; 6.1% overall regular budget increase

	Breakdown of adjustments						2006-07 proposed Regular Program Budget	Share of total Regular Program Budget
	2004-05 approved Regular Program Budget	Retirees Health Insurance	Recosting of international posts (reduced level)	Special adjustments *	Increase / (decrease) to core non-post budgets	Total increase		
Country	96,323	(327)	2,699	5,139	852	8,363	104,686	38.0%
Subregional	15,688	(42)	1,279	-	706	1,943	17,631	6.4%
Regional	147,519	(631)	7,262	1,716	(2,693)	5,654	153,173	55.6%
Total	259,530	(1,000)	11,241	6,855	(1,136)	15,960	275,490	100.0%

* At country level, this figure represents the one-time adjustment needed to introduce the 5% variable component into country allocations. At regional level, \$1.7 m in non-post funding is needed to partially compensate programs for reductions in international posts valued at \$4.1 m.

Scenario C

16. Scenario C is the basis for the budget proposal which has been fully elaborated in OD317. The regular budget level is set at \$272,500,000, implying a 4.0 % increase in quotas, the same level as the WHO budget increase recently approved. Under this scenario, country core non-post allocations decline marginally by some \$200,000 overall, -0.5% on average, after taking into account international post cost increases at country level, and the need to establish the variable component of the country allocations. Funding for subregional operations altogether, covering both new and existing modes of cooperation, increases by about a modest \$500,000. The regional level is hardest hit, with most regional units bearing an across-the board reduction in non-post funding of about 16% (after setting aside fixed costs)⁴, in addition to the specific cuts in the base package of reductions.

17. Although none of these scenarios are ideal, this scenario has been selected for presentation in order to limit the level of quota increase for PAHO Member States.

⁴ See footnote 3 on previous page.

Scenario C, By Functional Level
4.0% PAHO quota increase; 5.0% regular budget increase

Breakdown of adjustments								
	2004-05 approved Regular Program Budget	Retirees Health Insurance	Recosting of international posts (reduced level)	Special adjustments *	Increase / (decrease) to core non-post budgets	Total increase	2006-07 proposed Regular Program Budget	Share of total Regular Program Budget
Country	96,323	(327)	2,699	5,082	(227)	7,227	103,550	38.0%
Subregional	15,688	(42)	1,279	-	515	1,752	17,440	6.4%
Regional	147,519	(631)	7,262	1,716	(4,356)	3,991	151,510	55.6%
Total	259,530	(1,000)	11,241	6,798	(4,069)	12,970	272,500	100.0%

* At country level, this figure represents the one-time adjustment needed to introduce the 5% variable component into country allocations. At regional level, \$1.7 m in non-post funding is needed to partially compensate programs for reductions in international posts valued at \$4.1 m.

18. Any further reduction will create great difficulties to a number of programs at country and subregional level as well as begin to jeopardize programs at regional level. Country core allocations, on average, would only be partially compensated for international post cost increases, despite decreases in their number; this would cause particular constraints for countries already experiencing a reduction in their share of the total country core allocation, in accordance with the RPBP. At the subregional level, existing subregional programs would have to be further scaled back to make room for new subregional programs. At the same time, the regional level would not be able to offset any of these reductions at other levels, and in fact, would have insufficient operating resources to function effectively.

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