

## 58th DIRECTING COUNCIL

### 72nd SESSION OF THE REGIONAL COMMITTEE OF WHO FOR THE AMERICAS

*Virtual Session, 28-29 September 2020*

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*Provisional Agenda Item 4.4*

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#### **CURRENT FINANCIAL SITUATION AND ADJUSTMENTS TO THE PAN AMERICAN HEALTH ORGANIZATION STRATEGIC PRIORITIES**

##### **Background**

1. At the Special Session of the Executive Committee held on 29 May 2020, the Director of the Pan American Sanitary Bureau (PASB) presented the document Current Financial Situation and Adjustments to the Pan American Health Organization Strategic Priorities (CESS1/2) (1). This document presented the precarious financial situation of the Pan American Health Organization (PAHO) due to the US \$164.6 million<sup>1</sup> balance owed in assessed contributions as of 30 April 2020.
2. Member States acknowledged that, in the “worst-case” financial scenario described in the document, PAHO would need to undertake sweeping cost-containment measures. These in turn would affect the Organization’s ability to perform its core work of providing technical cooperation to Member States.
3. Accordingly, the associated Resolution CESS1.R2 (2) mandated the establishment of a Member State Working Group (MSWG) with the following objectives, set out in the terms of reference annexed to the resolution:
  - i. To provide input and advice to the Director of the Pan American Sanitary Bureau (PASB) regarding strategic priorities for the Pan American Health Organization (PAHO) in the “worst-case” funding scenario described in the Current Financial Situation and Adjustments to the Pan American Health Organization Strategic Priorities (Document CESS1/2). Revisions to priorities as a consequence of the COVID-19 crisis may also be considered.
  - ii. To prepare a set of written recommendations to the 58th Directing Council regarding revised strategic priorities for the Organization.
4. Resolution CESS1.R2 also asked the Director of PASB to report to the 58th Directing Council as follows:

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<sup>1</sup> Unless otherwise indicated, all monetary figures in this document are expressed in United States dollars.

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- i. To request that the Director, in consultation and coordination with the Member State Working Group, prepare a broad package of austerity measures, including a review of the organizational structure of the Pan American Sanitary Bureau and of the salaries of Executive Management, to be submitted for consideration by the next Directing Council of the Organization.
- ii. To request that the Director of PASB provide a report on the status of the Organization's financial situation and the measures implemented to effect cost savings, as well as a detailed outline with the consequences if the Organization does not receive the assessed contributions nor has access to external borrowing, to the 166th Session of the Executive Committee in June 2020 and the 58th Directing Council in October 2020.

### **Current Financial Situation**

5. During July 2020 the financial situation of PAHO improved considerably. With the receipt of a large portion of the assessed contributions arrears from 2019, as well as a portion of 2020 contributions, the worst-case financial scenario described at the Special Session of the Executive Committee held on 29 May was averted.

6. With the significant improvement in the Organization's financial situation, the Member State Working Group reoriented its work. The deliberations and recommendations of the Working Group to the 58th Directing Council are detailed in the Report of the Member State Working Group to Review PAHO's Strategic Priorities for 2020-2021(Annex A).

7. The internal orientation of PASB also evolved, focusing less on immediate short-term cost reductions and more on ensuring a sustainable financial future for PAHO. This includes keeping prudent cost-containment measures in place pending receipt of additional assessed contribution payments. These measures and the current financial situation are detailed in the Report on the Status of Financial Situation of PAHO and Austerity Measures Implemented (Annex B).

8. The detailed outline with the consequences if the Organization does not receive the assessed contributions nor has access to external borrowing requested in Resolution CESS1.R2 is not included in this document, as it is no longer applicable.

### **Action by the Directing Council**

9. The Directing Council is invited to take note of this report and provide any comments it deems appropriate.

Annexes

## References

1. Pan American Health Organization. Current Financial Situation and Adjustments to the Pan American Health Organization Strategic Priorities [Internet]. Special Session of the Executive Committee of PAHO; 2020 May 29; Washington, DC. Washington, DC: PAHO; 2020 (Document CESS1/2). Available from:  
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2. Pan American Health Organization. Current Financial Situation and Adjustments to the Pan American Health Organization Strategic Priorities [Internet]. Special Session of the Executive Committee of PAHO; 2020 May 29; Washington, DC. Washington, DC: PAHO; 2020 (Resolution CESS1.R2). Available from:  
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3. Pan American Health Organization. COVID-19 Pandemic in the Region of the Americas [Internet]. 58th Directing Council of PAHO, 72nd Session of the Regional Committee of WHO for the Americas; 2020 Sep 28-29; Washington, DC. Washington, DC: PAHO; 2020 (Document CD58/6). Available from:  
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## Annex A

### Report of Member State Working Group to Review PAHO's Strategic Priorities for 2020-2021

#### Introduction

1. At the Special Session of the Executive Committee on May 29, 2020, the Current Financial Situation and Adjustments to the Pan American Health Organization Strategic Priorities (Document CESS1/2) (1) was presented. The document informed the Executive Committee of the precarious financial situation of the Pan American Health Organization (PAHO) for the biennium 2020-2021 due to the delay in payment of a large portion of assessed contributions owed by Member States. The document further outlined the potential effects that this situation could have on the delivery of technical cooperation to Member States by the Pan American Sanitary Bureau (PASB).
2. Accompanying Resolution CESS1.R2 (2) requested the Director of PASB to “establish a Member State Working Group to review PAHO’s strategic priorities for 2020-2021.” The objectives of this group were to “provide input and advice to the Director of PASB regarding strategic priorities for PAHO in the ‘worst-case’ funding scenario” and to consider “revisions to priorities as a consequence of the COVID-19 crisis.” The present report responds to this resolution.
3. The terms of reference approved in the resolution stated that the Member State Working Group (MSWG) would be composed of the members of the Executive Committee and any other Member States expressing interest. Accordingly, the President of the Executive Committee sent a *note verbale* in early June 2020 to all Member States soliciting indications of interest and nominations of individuals to participate in the Working Group. After all nominations were received, the MSWG was composed of 18 Member States<sup>1</sup>.
4. The MSWG met three times using virtual platforms to review and deliberate on the Organization’s financial situation, its current strategic priorities as defined in the Strategic Plan of the Pan American Health Organization 2020-2025, the outcome budget allocations approved for the Program Budget of the Pan American Health Organization 2020-2021, and the effects of COVID-19 on the Region and on PAHO technical cooperation to Member States.
5. In mid-July 2020, PAHO received a large assessed contributions payment totaling over US\$ 65 million. With this payment, the worst-case financial scenario presented at the Special Session of the Executive Committee was averted for the biennium 2020-2021. Subsequently, the MSWG determined that the revision of the Organization’s strategic priorities with a view to cost savings was no longer needed. Instead, the Working Group

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<sup>1</sup> The members of the MSWG were Argentina, Bahamas, Barbados, Belize, Brazil, Canada (chair), Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Haiti, Jamaica, Mexico, Panama, Paraguay, Peru, and the United States of America.

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decided to focus on the implications of the COVID-19 pandemic for the Organization's technical cooperation priorities during the biennium.

### **Deliberations**

6. From June to July 2020, the MSWG worked in collaboration with PASB to complete the deliverables defined under the terms of reference approved in Resolution CESS1.R2. During the first meeting, the Working Group agreed on a road map that defined its scope of work, timelines, and deliverables pursuant to the resolution. During the second meeting, PASB presented an update on the financial situation and the austerity measures that the Organization had been implementing up to that point in time. The MSWG reviewed the strategic priorities for the 2020-2021 biennium and discussed how to make adjustments to the prioritization of health outcomes against the backdrop of the worst-case funding scenario. At that point, Member States requested additional financial information from PASB in order to review outcome budget allocations for the biennium.

7. Before the scheduled third meeting, a large payment of assessed contributions was made to the Organization. After this payment was credited, the balance due of assessed contributions returned to a more manageable level, and the Organization avoided the worst-case financial scenario as described in Resolution CESS1.R2. With the alleviation of financial pressure, the MSWG agreed to focus its deliberations on reviewing PAHO technical cooperation priorities in view of the COVID-19 crisis.

8. Consequently, during the third meeting of the MSWG, PASB presented information on the potential public health and economic impacts of COVID-19 for the Region of the Americas and the corresponding opportunities and challenges for PAHO technical cooperation during and after the pandemic. The Bureau described the adjustments to the delivery of technical cooperation that were being made in this situation with reference to COVID-19 Pandemic in the Region of the Americas (Document CE166/5).

### **Recommendations**

9. The MSWG recognizes the major challenges facing the Region. The urgent response to COVID-19, with corresponding redirection of human and financial resources, must be balanced with the need to strengthen health systems, deliver essential services, and protect the significant health gains of the past decades (high immunization and service coverage, among others). PASB technical cooperation has adapted to meet these challenges and must continue to do so based on evidence and data analysis of the most effective health interventions during the COVID-19 crisis and immediately thereafter.

10. The MSWG welcomes the improved situation of assessed contributions for the Organization and avoidance of the worst-case financial scenario referred to in the

Special Session of the Executive Committee. The MSWG also notes that, pursuant to Resolution CESS1.R2, the Director of PASB will provide a report to the 58th Directing Council on the financial situation and related austerity measures.

11. The MSWG acknowledges that the Director of PASB has the authority to make financial and personnel decisions concerning the Organization's structure and finances and to enact organizational changes to ensure that PASB is "fit for purpose" to meet the changing technical cooperation needs of Member States. The Working Group reiterates its confidence in the Director to implement such changes in the context of preparation of the next Program Budget 2022-2023, to be considered by Governing Bodies in 2021.

12. With the above in mind, the MSWG makes the following recommendations to the 58th Directing Council:

- In view of the improved financial situation and removal of the urgent need for cost reduction in the 2020-2021 biennium, further deliberations on the strategic priorities of the Organization and budget allocations in support of those priorities should be deferred to the usual corporate planning and budgeting instrument, that is, the Program Budget 2022-2023.
- Any adjustments to the provision of technical cooperation to Member States in the 2020-2021 biennium in the context of the COVID-19 crisis, and any redirection of human and financial resources, should be implemented under the delegated authority of the Director, with information to Member States as per standard reporting practices (3).
- Formation of a working group on the impacts of COVID-19, composed of experts from Member States and PASB, with appropriate assistance from academia and centers of public health leadership in the Americas, should be considered. Such a group could productively contribute to the analysis of current and future technical priorities for the COVID-19 response, as well as associated public health challenges. This informal, ad hoc group would serve as a discussion space to enhance collaboration among Member States and other relevant entities in the Region.

13. With submission of these recommendations to the 58th Directing Council, the Member States Working Group concludes its work.

## **Annex B**

### **Report on the Status of PAHO's Financial Situation and Austerity Measures Implemented**

#### **Introduction**

1. The Current Financial Situation and Adjustments to the Pan American Health Organization Strategic Priorities (Document CESS1/2) (1), was presented to the Special Session of the Executive Committee in May 2020. The document informed the Executive Committee of the precarious financial situation of the Pan American Health Organization (PAHO) for the biennium 2020-2021 due to the delay in payment of a large amount of Member States' owed assessed contributions, and it outlined the effects this would have on the delivery of PAHO technical cooperation to Member States. The present report responds to the associated Resolution CESS1.R2 (2), specific paragraphs 7 and 8.

2. During 2019 and the first six months of 2020, the Pan American Sanitary Bureau (PASB) experienced an unprecedented level of unpaid assessed contributions from several of its Member States. As of July 2020, this situation had improved significantly, and the "worst-case" financial scenario presented at the Executive Committee was averted.

3. Under the guidance and leadership of PAHO Executive Management, several initiatives are underway to ensure that PAHO is fit for purpose to meet the needs of our Member States during the COVID-19 crisis and in the post-COVID period, while ensuring financial sustainability for the foreseeable future. At the same time, in view of fiscal uncertainty due to the impact of COVID-19 on Member States' economies and in preparation for the 2022-2023 biennium, appropriate cost-containment measures remain in place across the Organization.

#### **The Financial Situation of the Organization**

4. As presented to the Executive Committee, the financial challenges affecting the Organization were due almost entirely to the delay in payment of assessed contributions (Member State quota payments) along with the uncertainty regarding new voluntary contributions. While not fiscally desirable, prior shortfalls and/or delays in payments of assessed contributions had been manageable.

5. Since the Special Session of the Executive Committee, the situation has changed significantly. At the end of April 2020, PAHO Membership owed outstanding assessed contributions<sup>1</sup> in the amount of US \$164.6 million.<sup>2</sup> By 18 August 2020, however, the amount owed was \$90.0 million. This significant reduction (\$74.6 million) was due to receipt of a large portion of the assessed contributions arrears from 2019, as well as a portion of 2020 contributions.

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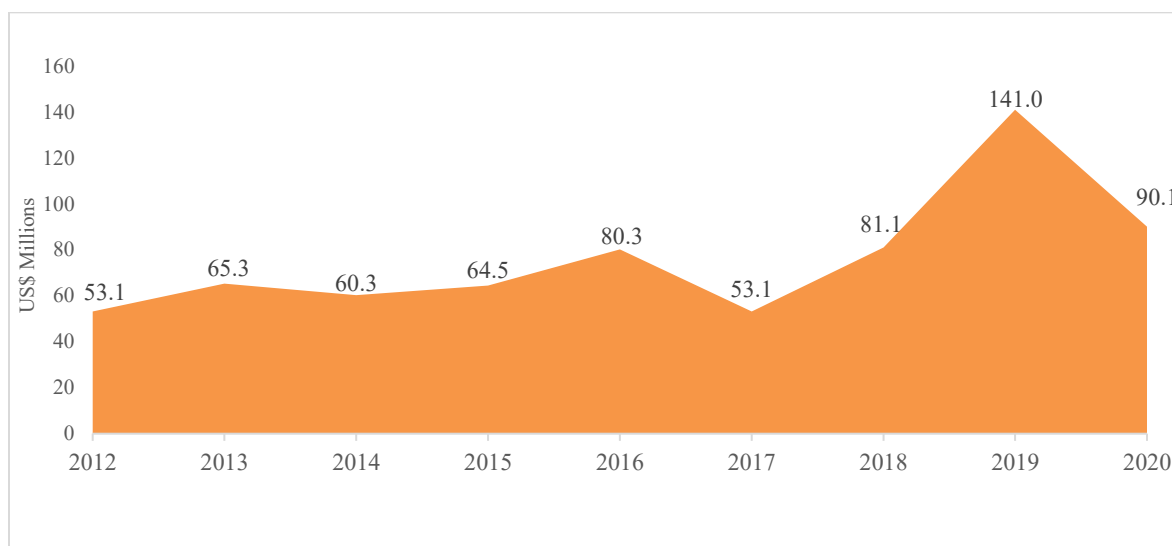
<sup>1</sup> The current status of assessed contributions due is available at: <https://www.paho.org/en/node/69017>.

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

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6. Figure 1 illustrates the trend in assessed contributions amounts due as of midyear for each year since 2012.

**Figure 1. Member State Assessed Contributions Balance Due (as of end-July for years 2012-2019; as of 18 August, for 2020)**



Note: Includes balances carried over from previous years.

Source: Statement of Assessed Contributions Due from Member States, <https://www.paho.org/en/node/69017>.

7. The financial health of the Organization may be viewed from two perspectives: budgetary and cash flow. Given that the deficit in funding experienced was due to delay in payment of assessed contributions, this affected exclusively the flexible funding<sup>3</sup> of the Organization. As per the Program Budget of the Pan American Health Organization 2020-2021 (figure 4 on page 19) (4), flexible funds were initially expected to total approximately \$357.4 million (about 58% of the \$620 million budget for 2020-2021). As of end-June 2020, after the Special Session of the Executive Committee,<sup>4</sup> the Organization projected an accumulated budgetary deficit in flexible funds of \$85.4 million by December 2021 and a projected cash-flow deficit of \$51.2 million. These deficits already reflected the significant cost-cutting measures in place, and meant that once internal borrowing of \$15 million from the Master Capital Investment Fund (MCIF), as authorized

<sup>3</sup> “Flexible funds: This concept is currently used in PAHO and WHO. These types of funds include but are not limited to: PAHO and WHO assessed contributions, PAHO’s miscellaneous revenue, as well as revenue generated from special cost recovery mechanisms such as Project Support Costs for PAHO and WHO. Though more limited in nature, WHO’s Core Voluntary Contributions Account (CVCA) are also considered flexible funds.” (Document CD57/5 [2019], PAHO Budget Policy, paragraph 8e).

<sup>4</sup> Document CESS1/2 presented data as of end April 2020. At that time PASB estimated that in the worst-case scenario, where no further assessed contributions payments were received from the United States, and with a 17% reduction in assessed contributions payments from other countries, the projected cash deficit after using all unrestricted sources of available funds would be \$121.8 million at the end of 2021 if no cost-containment measures were implemented.



by the Special Session of the Executive Committee, was included and other adjustments were made, approximately \$33 million in fixed-term staff cost savings would have been required for the Organization to remain solvent in 2020-2021. With the payment of assessed contributions amounts due as described above, the situation improved considerably, with a projected budget deficit of \$29.5 million and no cash-flow deficit.

**Table 1. Evolving Situation of Flexible Funds for 2020-2021  
(US\$ millions)**

Flexible Funds Only	Initial estimated (in PB20-21)	Projected at end-June 2020*	Projected at mid-August 2020**
<b>2020-2021 budget</b>			
Collections	357.4	197.4	265.2
Expenses	357.4	282.8	294.8
<b>Budget surplus (deficit)</b>	<b>0.0</b>	<b>(85.4)</b>	<b>(29.5)</b>
<b>Cash flow surplus (deficit)</b>			
at end-2020		(2.2)	67.3
at end-2021		(51.2)	0.2

\*Assumptions for end-June 2020:

- Non-receipt of 56% of assessed contributions for 2020-2021
- Full internal cash borrowing from PSC and Working Capital Funds
- No internal borrowing from MCIF
- 15% reduction in WHO flexible funds for 2021
- Worst-case scenario cost-containment measures in place, including total freeze on new and vacant posts, and large reduction in activity component

\*\* Assumptions for mid-August 2020:

- Non-receipt of 18% of assessed contributions for 2020-2021
- Full internal cash borrowing from PSC and Working Capital Funds
- No internal borrowing from MCIF
- 15% reduction in WHO flexible funds for 2021
- Adjusted cost-containment measures in place, including partial freeze of new and vacant posts, and reduction in activity component

8. As per the assumptions listed, and out of an abundance of fiscal caution, the mid-August 2020 projections are highly conservative. As the receipt of assessed contributions evolves during the remainder of the biennium, these projections will be adjusted accordingly.

9. As seen in Table 1 above, projected expenses in flexible funding have been sharply curtailed through cost-containment (austerity) measures. As of mid-August 2020, these measures were projected to save the Organization almost \$63 million out of the initial planned amount of \$357.4 million, although these savings would come at a heavy cost in terms of reducing the ability of PASB to provide technical cooperation and other urgent support to Member States. If the funding situation continues to improve, cost-containment measures can be relaxed. The measures currently in place are included in Table 2.

**Table 2. Austerity Measures in Place as of mid-August 2020  
(US\$ millions)**

Austerity Measure	Estimated savings to be generated during 2020-2021
Partial freeze on fixed-term recruitment	14.0
Reductions to activities, short-term staff, and reserve funds	53.5
Additional expenditure from PAHO Flexible Funds to cover posts formerly funded by US voluntary contributions	(4.6)
<b>TOTAL</b>	<b>62.9</b>

10. These austerity measures, along with the current COVID-19 emergency, have already affected the delivery of technical cooperation by the Organization. On the human resources side, 11 senior level positions have been placed on hold, and hiring of other fixed-term positions for the approved Program Budget 2020-2021 has been halted. The partial relaxation of the cost-containment measures will allow PASB to move forward with senior recruitment, but many of the lower-level positions that carry out core functions will remain unfilled. PASB acknowledges that the Member State Working Group has placed their trust in the Director to address this situation while maintaining a fiscally prudent and sustainable approach, especially with respect to longer-term commitments to fixed-term staff.

11. On the activity component, the reduction in flexible funds combined with the COVID-19 crisis have required PAHO to adopt new and innovative modalities of technical cooperation while curtailing expenses. Travel restrictions related to the COVID-19 emergency have reduced the demand for travel funding; replacement of in-person meetings with virtual ones has reduced contractual costs related to hospitality and conference centers. At the same time, PASB has continued to provide technical cooperation through online mechanisms when in-person contact is not possible, and it is increasingly relying on digital means to execute activities that were once believed to be feasible only in person. Cost savings related to fewer in-person activities have allowed the Organization to divert scarce funds elsewhere, and this has somewhat offset the reduced activity component resulting from the austerity measures implemented.

12. The Organization also relies on short-term staffing to deliver its technical cooperation, and this type of staffing is considered part of the activity funding component, which has been severely reduced this year. When possible, the Organization uses voluntary contributions and COVID-19 funds to address the shortfall in funding for short-term staff. As voluntary contributions are often highly earmarked, this option is not always feasible. Programs, countries and territories that are heavily dependent on flexible funds have reduced capacity to deliver technical cooperation across the full spectrum of public health needs.

13. With the implementation of these measures, which may be progressively eased as and when the financial situation continues to improve, PASB is prepared to ensure financial solvency throughout the 2020-2021 biennium while adjusting its technical cooperation delivery to the new reality. Furthermore, the Organization is well positioned to face what may be a challenging economic environment in the 2022-2023 biennium, as Member States recognize the full financial cost of the COVID-19 crisis and make fiscal adjustments accordingly.

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