

directing council

regional committee



**PAN AMERICAN
HEALTH
ORGANIZATION**

XXXVII Meeting



**WORLD
HEALTH
ORGANIZATION**

XLV Meeting

Washington, D.C.
September-October 1993

Provisional Agenda Item 6.3

CD37/24 (Eng.)
28 July 1993
ORIGINAL: ENGLISH

USE OF ARREARAGE PAYMENTS

Background

Because of national budget difficulties during the 1980s, the United States of America did not make its full quota payments to the Organization for several years.

In late 1991 the United States informed the Organization of its intention to pay \$10,430,000 in four annual installments of approximately \$2,608,000, beginning in calendar year 1992 and continuing thereafter to 1995. These arrearage payments would be in addition to its full current quota payments. United States law required that such "arrears payments shall be directed toward special activities that are mutually agreed upon by the United States and the respective international organization" (see Document CE111/25, Rev. 1) (Annex I).

Action Taken by the Executive Committee

The Executive Committee took note of and endorsed the proposed allocation of the \$10,430,000 by the Director: \$1,208,000 for a Cholera Fund; \$1,200,000 for a Measles Fund; \$5,622,000 for a Capital Equipment Fund; and \$2,400,000 for the Working Capital Fund. As Article 6.2 of the Organization's Financial Regulations requires that the Directing Council set the amount of the Working Capital Fund, the Executive Committee has recommended to the XXXVII Meeting of the Directing Council that it raise the Working Capital Fund to \$15,000,000 (see Resolution XX of the 111th Meeting of the Executive Committee) (Annex II).

Consistent with the resolution adopted by the Executive Committee, the Directing Council may wish to adopt a resolution along the following lines:

Proposed Resolution

USE OF ARREARAGE PAYMENTS

THE XXXVII MEETING OF THE DIRECTING COUNCIL,

Having considered the recommendations of the 111th Meeting of the Executive Committee of various uses of arrearage payments by the United States of America,

RESOLVES:

1. To accept the proposed allocation by the Director of \$2,400,000 for the Working Capital Fund.

2. To set aside a reserve from the existing Working Capital Fund to serve as the guarantee for the loans from the Inter-American Development Bank for the Textbook and Instructional Materials Program of the Pan American Health and Education Foundation, and to allocate from the Working Capital Fund to this reserve the amount of \$4,500,000, which shall serve as an adjustable guarantee for the current and future outstanding balances of the loans.

3. To deposit in the Working Capital Fund payments of arrearages by the United States of America, as outlined in paragraph 1 above, and by other countries, up to the authorized level of the Fund.

4. To authorize the Director to increase gradually the level of the unencumbered Working Capital Fund from \$11,000,000 by an amount equal to the sums no longer needed in the reserve described in paragraph 2 above, the total authorized level of the Working Capital Fund not to exceed \$15,000,000.

Annexes

*executive committee of
the directing council*



**PAN AMERICAN
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*working party of
the regional committee*

**WORLD
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111th Meeting
Washington, D.C.
June-July 1993

CD37/24 (Eng.)
ANNEX I

Provisional Agenda Item 5.5

CE111/25, Rev. 1 (Eng.)
22 June 1993
ORIGINAL: ENGLISH

ARREARAGE PAYMENTS BY THE UNITED STATES OF AMERICA

Introduction

Because of national budget difficulties during the 1980s, the United States of America did not make its full quota payments to the Organization for several years.

In late 1991 the United States informed the Organization of its intention to pay \$10,430,000 in four equal annual installments of approximately \$2,608,000, beginning in calendar year 1992 and continuing thereafter to 1995. These arrearage payments would be in addition to its full current quota payments. United States law required that such "arrears payments shall be directed toward special activities that are mutually agreed upon by the United States and the respective international organization."

The Proposal

In late 1991 the Organization began an exchange of correspondence and informal discussions with the United States Department of State resulting, by November 1992, in a proposed allocation of the \$10,430,000 as follows:

	US\$ (in thousands)				
	TOTAL	1992	1993	1994	1995
Cholera Fund	1,208	1,208	---	---	---
Measles Fund	1,200	1,200	---	---	---
Capital Equipment Fund	4,672	200	2,608	1,008	856
Working Capital Fund	3,350	---	---	1,600	1,750
TOTALS	10,430	2,608	2,608	2,608	2,606

1. Cholera Emergency Fund - \$1,208,000

The recent outbreak of cholera in the Western Hemisphere has brought unexpected stress to the already overburdened health systems in the Americas. There is a dire need for support of essential aspects of such programs as epidemiological surveillance and laboratories, disinfection of water, and education on the use of drugs and other materials needed for treatment. Also there is a need to support the initial implementation of the Regional Plan of Investment on Environment and Health. The amount of \$1,208,000 will be used to support vital actions by the Organization, complementing other resources.

2. Measles Campaign - \$1,200,000

Outbreaks of measles in the Region are causing hundreds of deaths. The availability of proven technology for controlling disease permits a coordinated effort against measles in a way similar to that already in operation in the Caribbean, and now being executed in Central America. The \$1,200,000 will support the initial stages of the campaign.

3. Capital Equipment Fund - \$4,672,000

The establishment of a non-biennial capital equipment fund to make major purchases of equipment, such as replacement of the telephone exchange system, replacement or updating computer equipment, and major software purchases.

4. Working Capital Fund - \$3,350,000

The present ceiling of the Working Capital Fund, \$11,000,000, was established in 1978. Since that time the budget of the Organization has grown from \$64,849,990 to \$152,576,000 in 1992-1993. Additionally, there are contingent claims as of 31 December 1992, of \$4,795,045. These claims amount to guaranteeing loans from the Inter-American Development Bank for the Textbook and Instructional Materials Program and the Medical Textbooks Program of the Pan American Health and Education Foundation. While the Foundation is fully current in its scheduled payments to the Inter-American Development Bank, the contingent claims reduce the availability of funds from the Working Capital Fund. The proposed increase of \$5,500,000 to a new ceiling of \$16,500,000 would consist of \$3,350,000 from arrearages from the United States and \$2,150,000 from payment of arrearages by other countries.

During the course of 1992 the United States made arrearage payments of \$2,600,343. After consultation with the Organization's External Auditors, the amount of \$2,408,000 was transferred to the existing Fund for Health Promotion in order to

finance the cholera and measles programs described above. The financial details are set forth in Official Document 255, Interim Financial Report of the Director for the Year 1992.

The Director seeks the comments and views of the Executive Committee on the proposals contained in this document. The Annex contains the detailed criteria and guidelines for the establishment of a Capital Equipment Fund. A change in the level of the Working Capital Fund must be approved by resolution of the Directing Council. If the Executive Committee recommends an increase, a document and resolution will be prepared for consideration by the XXXVII Directing Council in September 1993.

Annex

CAPITAL EQUIPMENT FUND

The Director is proposing the establishment of a capital equipment fund with initial financing of US\$4,672,000 over the years 1992 through 1995. These funds will be used to make major purchases of equipment, such as the replacement of the telephone exchange system, replacement or updating of computer equipment, and major software. The Capital Equipment Fund will constitute a self-balancing accounting unit, with a separate set of accounting records that can be summarized within the annual and biennial financial statements of the Organization. This type of fund is created within the Organization's accounting system as a result of a restriction placed by the donor or grantor on the purpose for which certain resources are to be used by the Organization. The establishment of this special fund will also enable the Organization to recognize the source of the contribution.

The Pan American Health Organization as a non-profit, non-taxed international organization does not depreciate its capital equipment acquisitions over their useful life, thereby not spreading replacement expenses over consecutive budget periods. The Organization follows the traditional approach to fixed asset accounting by expensing the cost of acquisitions in the year of purchase and taking no other accounting action until the assets are disposed of or replaced. The accounting systems of non-profit, non-taxed organizations emphasize dollar accountability. This means that such organizations have neither regulatory nor tax need to record the values of capital purchases and then depreciate those values over the assets' useful lives the way commercial organizations do.

It is, however, of interest to the sound management of the Pan American Health Organization to identify and establish financing mechanisms to cushion biennial financial resources from major one-time capital costs such as the purchase of equipment. The funds allocated to the Capital Equipment Fund, \$4,672,000, will enable management to meet new and replacement equipment requirements without impacting adversely the regular biennial budget. Financing from the fund will be restricted to equipment purchases in excess of \$50,000. The fund itself may be replenished from time to time in accordance with the Organization's Financial Rules and Regulations.



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RESOLUTION

CD37/24 (Eng.)
ANNEX II

XX

USE OF ARREARAGE PAYMENTS

THE 111th MEETING OF THE EXECUTIVE COMMITTEE,

Having reviewed Document CE111/25, Rev. 1, which proposes various uses of arrearage payments by the United States of America,

RESOLVES:

1. To take note of and endorse the proposed allocation by the Director of \$1,208,000 for the Cholera Fund; \$1,200,000 for the Measles Fund; \$5,622,000 for the Capital Equipment Fund; and \$2,400,000 for the Working Capital Fund, in accordance with Article VI of the Financial Regulations.

2. To set aside a reserve from the existing Working Capital Fund to serve as the guarantee for the loans discussed in Document CE111/25, Rev. 1, paragraph 4, and to allocate from the Working Capital Fund to this reserve the amount of \$4,500,000, which shall serve as an adjustable guarantee for the current and future outstanding balances of the loans.

3. To deposit in the Working Capital Fund payments of arrearages by the United States of America, as discussed in paragraph 1 above, and by other countries, up to the authorized level of the Fund.

4. To recommend favorably to the XXXVII Meeting of the Directing Council in September 1993 that the Director be authorized to increase gradually the level of the unencumbered Working Capital Fund from \$11,000,000 by an amount equal to the sums no longer needed in the reserve described in paragraph 2 above, the total authorized level of the Working Capital Fund not to exceed \$15,000,000.

5. To review periodically the level of the Working Capital Fund and to ensure its adequacy.

*(Adopted at the seventh plenary session,
1 July 1993)*