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## **Amendments to the Financial Regulations and Financial Rules**

### **Report by the Director-General**

1. The Programme, Budget and Administration Committee at its extraordinary meeting in December 2012, and the Executive Board at its 132nd session in January 2013, recommended that the World Health Assembly approve WHO's entire programme budget. In order to facilitate this action, several amendments to the Financial Regulations and Financial Rules are required.
2. When the proposed changes were discussed by the Board at its 132nd session, it was agreed that more work was required on the precise wording of the changes to Financial Regulations IV and V, particularly with respect to:
  - (1) The scope of the authority of the Director-General that results from approval of the budget, given that funding is not fully approved for the voluntary contributions component;
  - (2) The exact nature of Member States' financial obligations upon approval of the budget; and
  - (3) The interrelationship between the changes to the Financial Regulations and the wording of the budget resolution, particularly regarding points (1) and (2) above.
3. The proposed amendments to the Financial Regulations and Financial Rules are being re-submitted for consideration, including revisions made on the basis of discussions by Member States during the 132nd session of the Board and subsequently, following the web consultation process held in April 2013. The Secretariat has also sought the advice of the Independent Expert Oversight Advisory Committee in revising the proposed amendments. The full text of the proposed amendments to the Financial Regulations, and to the Financial Rules, are presented in Annexes 1 and 2, respectively.
4. In respect of the authority accorded to the Director-General following approval of the budget, Financial Regulation IV.1 states that "the appropriations approved by the Health Assembly shall constitute an authorization to the Director-General to incur contractual obligations and make payments for the purposes for which the appropriations were approved and up to the amounts so approved". At present, approval is given only to appropriations financed out of the assessed contributions component – formerly known as the "regular budget" to distinguish it from "extrabudgetary" sources, financed by voluntary contributions. Approval of the budget as a whole, that is, both assessed and voluntary contributions, means that it will no longer be viable for the Director-General to incur contractual obligations because at the time the Health Assembly approves the budget, financing from voluntary contributions will not yet have been secured.
5. The wording of Financial Regulation IV.1 should be changed to remove the "appropriation" concept (funds that are not available cannot be appropriated), and to make it clear that the incurring of contractual obligations must be "subject to available funding". Similar language is proposed for Financial Regulation IV.2.

6. The financial obligation of a Member State following budget approval will continue to be limited to the assessed contribution. The calculation of assessed contributions will be in accordance with Financial Regulation VI, although amendments are needed to remove references to the “regular” budget.

7. In relation to voluntary contributions, Member States have no legal nor contractual obligation, but have expressed the willingness to support to the Director-General in raising voluntary contributions up to a maximum of the amount indicated in the budget.

8. Changes are also proposed to Financial Regulation VII, which deals with the question of cash flow before assessed contributions are received. The Working Capital Fund was created in order to provide the cash flow necessary to facilitate programme implementation ahead of the receipt of assessed contributions. Although payment is due on 1 January each year, in practice many Member States pay after this date. Subsequently, funds available have been augmented by internal borrowing financed from reserves.

9. At its 132nd session, the Executive Board also considered questions relating to the implications of the new International Public Sector Accounting Standards for the Financial Regulations that govern the budget approval and financing processes. There is no specific indication in the International Public Sector Accounting Standards as to how budgets should be prepared or approved, but the Standards do require a comparison to be made between the approved budget and the annual financial statements. The fact that the WHO budget is prepared biennially and is based on cash, whereas financial statements are prepared annually and are based on accruals, leads to differences in presentation, which must be explained. However, there is no requirement for the budget to be prepared on the basis of accruals, and therefore no changes are needed to the Financial Regulations in that respect.

## **FINANCIAL RULES**

10. A few additional changes, editorial in nature, also need to be made to the Financial Rules and reviewed by the Executive Board, in order to align them with the proposed changes to the Financial Regulations.

11. The Independent Expert Oversight Advisory Committee considered the proposed amendments at its meeting in March 2013, and the comments of its members have been reflected.

## **ACTION BY THE HEALTH ASSEMBLY**

12. The Sixty-sixth World Health Assembly is invited to consider the following draft resolution:

The Sixty-sixth World Health Assembly,

Having considered the report on amendments to the Financial Regulations and Financial Rules,

1. ADOPTS the changes to the Financial Regulations shown in the Annex, to be effective as from 1 January 2014;

2. NOTES that the changes to the Financial Rules are to be confirmed by the Executive Board at its 133rd session, to be effective at the same time as the amendments to the Financial Regulations adopted in paragraph 1;

3. AUTHORIZES the Director-General to number the revised Financial Regulations and Financial Rules appropriately.

ANNEX 1

**PROPOSED AMENDMENTS TO THE FINANCIAL REGULATIONS OF THE WORLD HEALTH ORGANIZATION**

| EXISTING TEXT AS OF 1 JANUARY 2013  | PROPOSED REVISED TEXT  | COMMENTS   |
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| <p><i>Regulation IV – Regular Budget Appropriations</i></p> <p>4.1 The appropriations approved by the Health Assembly shall constitute an authorization to the Director-General to incur contractual obligations and make payments for the purposes for which the appropriations were approved and up to the amounts so approved.</p>   | <p><i>Regulation IV – <del>Regular Budget Appropriations</del> <u>Budget Approval</u></i></p> <p>4.1 The <del>appropriations</del> <b>budget</b> approved by the Health Assembly shall constitute an authorization to the Director-General to incur contractual obligations and make payments for the purposes for which the <del>appropriations were</del> <b>budget was</b> approved and up to the amounts so approved, <b>subject to available funding</b>.</p> | <p>The authority to incur expenditure comes from the budget approval itself.</p> <p>Amended to revise “appropriations” to “budget”. Adding “subject to available funding”.</p> |
| <p>4.2 Appropriations shall be available for making commitments in the financial period to which they relate for delivery in that financial period or the subsequent calendar year.</p>   | <p>4.2 <del>Appropriations shall be available for making</del> <b>Once the budget has been approved,</b> commitments <b>can be made</b> in the financial period to which they relate for delivery in that financial period or the subsequent calendar year, <b>subject to available funding</b>.</p>   | <p>Authority is derived from the approved budget. Adding “subject to available funding”.</p>   |
| <p>4.3 The Director-General is authorized, with the prior concurrence of the Executive Board or of any committee to which it may delegate appropriate authority, to transfer credits between sections. When the Executive Board or any committee to which it may have delegated appropriate authority is not in session, the Director-General is authorized, with the prior written concurrence of the majority of the members of the Board or such committee, to transfer credits between sections. The Director-General shall report such transfers to the Executive Board at its next session.</p> | <p>No change</p>   |  |

| EXISTING TEXT AS OF 1 JANUARY 2013  | PROPOSED REVISED TEXT   | COMMENTS   |
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| <p>4.4 At the same time as budget proposals are approved an exchange rate facility shall be established by the Health Assembly, which shall set the maximum level that may be available to protect against losses on foreign exchange. The purpose of the facility shall be to make it possible to maintain the level of the budget so that the activities that are represented by the budget approved by the Health Assembly may be carried out irrespective of the effect of any fluctuation of currencies against the United States dollar at the official United Nations exchange rate.</p> | <p>No change</p>  |  |
| <p><i>Regulation V – Provision of Regular Budget Funds</i></p> <p>5.1 Appropriations shall be financed by assessed contributions from Members, according to the scale of assessments determined by the Health Assembly, and by projected interest earned on regular budget, prior period collection of arrears and any other income attributable to the regular budget.</p>   | <p><i>Regulation V – Provision of <del>Regular</del> Budget Funds</i></p> <p>5.1 <del>Appropriations</del> <b>The budget</b> shall be financed by assessed contributions from Members, according to the scale of assessments determined by the Health Assembly, <del>and by</del> <b>voluntary contributions</b>, by projected interest earned <del>on regular budget</del>, prior period collection of arrears and any other income attributable to the <del>regular</del> budget. <b><u>Members' legal financial obligations are limited to the assessed contributions.</u></b></p> | <p>Revisions to wording and inclusion of voluntary contributions.</p>  |
| <p>5.2 The amount to be financed by contributions from Members shall be calculated after adjusting the total amount appropriated by the Health Assembly to reflect that proportion of the regular budget to be financed by the other sources noted in 5.1 above.</p>  | <p>5.2 The amount to be financed by <b>assessed</b> contributions from Members shall be calculated after adjusting the total amount <del>appropriated</del> <b>approved</b> by the Health Assembly to reflect that proportion of the <del>regular</del> budget to be financed by the other sources noted in 5.1 above.</p>  | <p>Amended to reflect the fact that it is now an integrated budget (assessed and voluntary contributions).</p>   |
|   | <p><b><u>5.2.1 The Health Assembly shall approve the amount to be financed by assessed contributions from Member States, and shall approve the amount to be raised by the Director-General from voluntary sources.</u></b></p>  | <p>A new Regulation to reflect the discussion of the Programme, Budget and Administration Committee at its extraordinary session in December 2012.</p> |

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| 5.3 In the event that the total financing for appropriations is less than the amount approved by the Health Assembly under the regular budget proposals, the Director-General shall review implementation plans for the regular budget in order to make any adjustments that may be necessary.  | 5.3 In the event that the total financing for <del>appropriations</del> <b>the budget</b> is less than the amount approved by the Health Assembly under the <del>regular</del> budget proposals, the Director-General shall review implementation plans for the <del>regular</del> budget in order to make any adjustments that may be necessary. | Amended to reflect the fact that it is now an integrated budget (assessed and voluntary contributions).  |
|   | <b><u>5.4 Assessed contributions are made available for implementation on 1 January of each year of the financial period. Voluntary contributions are made available for implementation upon recording of agreements with the resource contributors.</u></b>  | A new Regulation to clarify availability of assessed and voluntary contributions. Voluntary contributions can only be made available to incur commitments to the extent that agreements have been recorded. Therefore the part of the budget funded by voluntary contributions will always require funds to have been carried forward for the start of the biennium. |
|   | <b><u>5.5 The Director-General shall submit to the Health Assembly annual reports on the collection of contributions (both voluntary and assessed), and other sources of cash.</u></b>  | A new Regulation to clarify that reporting is made on all contributions and collections (includes previous 6.10 below on assessed contributions).  |
| <i>Regulation VI – Assessed Contributions</i><br><br>6.1 The assessed contributions of Members based on the scale of assessments shall be divided into two equal annual instalments. In the first year of the financial period, the Health Assembly may decide to amend the scale of assessments to be applied to the second year of the financial period | No change   |  |

| EXISTING TEXT AS OF 1 JANUARY 2013   | PROPOSED REVISED TEXT   | COMMENTS  |
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| 6.2 After the Health Assembly has adopted the budget, the Director-General shall inform Members of their commitments in respect of contributions for the financial period and request them to pay the first and second instalments of their contributions.   | 6.2 After the Health Assembly has adopted the budget, the Director-General shall inform Members of their commitments in respect of <b>assessed</b> contributions for the financial period and request them to pay the first and second instalments of their contributions.  | Amended to clarify that this Regulation refers to “assessed” contributions.   |
| 6.3 If the Health Assembly decides to amend the scale of assessments, or to adjust the amount of the appropriations to be financed by contributions from Members for the second year of a biennium, the Director-General shall inform Members of their revised commitments and shall request Members to pay the revised second instalment of their contributions | 6.3 If the Health Assembly decides to amend the scale of assessments, or to adjust the amount of the <b>budget appropriations</b> to be financed by <b>assessed</b> contributions from Members for the second year of a biennium, the Director-General shall inform Members of their revised commitments and shall request Members to pay the revised second instalment of their contributions. | Amended to revise “appropriations” to “budget” and to clarify that this Regulation refers to “assessed” contributions.  |
| 6.4 Instalments of contributions shall be due and payable as of 1 January of the year to which they relate.  | 6.4 Instalments of <b>assessed</b> contributions shall be due and payable as of 1 January of the year to which they relate.   | Amended to clarify that this Regulation refers to “assessed” contributions.   |
| 6.5 As of 1 January of the following year, the unpaid balance of such contributions shall be considered to be one year in arrears.   | 6.5 As of 1 January of the following year, the unpaid balance of such <b>assessed</b> contributions shall be considered to be one year in arrears.  | Amended to clarify that this Regulation refers to “assessed” contributions.   |
| 6.6 Contributions shall be assessed in United States dollars, and shall be paid in either United States dollars, euros or Swiss francs, or such other currency or currencies as the Director-General shall determine.  | 6.6 <b>Assessed</b> €contributions shall be assessed in United States dollars, and shall be paid in either United States dollars, euros or Swiss francs, or such other currency or currencies as the Director-General shall determine.  | If the proposal to change to 50% assessed in Swiss francs is agreed, this Regulation will be amended. Payment of the assessed amount may continue to be possible in another currency, in which case Financial Regulation 6.9, below, applies. |

| EXISTING TEXT AS OF 1 JANUARY 2013   | PROPOSED REVISED TEXT   | COMMENTS   |
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| 6.7 The acceptance by the Director-General of any currency that is not fully convertible shall be subject to a specific, annual approval on a case-by-case basis by the Director-General. Such approvals will include any terms and conditions that the Director-General considers necessary to protect the World Health Organization. | No change   |  |
| 6.8 Payments made by a Member shall be credited to the Member's account and applied first against the oldest amount outstanding.   | 6.8 Payments made by a Member <b>for assessed contributions</b> shall be credited to the Member's account and applied first against the oldest amount outstanding.  | Amended to clarify that this provision refers to payments of assessed contributions.   |
| 6.9 Payments in currencies other than United States dollars shall be credited to Members' accounts at the United Nations rate of exchange ruling on the date of receipt by the World Health Organization.  | 6.9 Payments <b>of assessed contributions</b> in currencies other than United States dollars shall be credited to Members' accounts at the United Nations rate of exchange ruling on the date of receipt by the World Health Organization.                                  | Amended to clarify that this provision refers to payments of assessed contributions.   |
| 6.10 The Director-General shall submit to the regular session of the Health Assembly a report on the collection of contributions.  | <del>6.10 The Director-General shall submit to the regular session of the Health Assembly a report on the collection of contributions.</del>  | Amended to delete the former clause and replace with a new clause within Regulation V (5.5 above), to explain that reports will be provided to the Health Assembly on the status of collection of <u>all</u> funds, both voluntary and assessed. |
| 6.11 New Members shall be required to make a contribution for the financial period in which they become Members at rates to be determined by the Health Assembly. Such contributions shall be recorded as income in the year in which they are due.  | <b>6.10</b> New Members shall be required to make <b>an assessed</b> contribution for the financial period in which they become Members at rates to be determined by the Health Assembly. Such contributions shall be recorded as income in the year in which they are due. | Updated to 6.10  |

| EXISTING TEXT AS OF 1 JANUARY 2013  | PROPOSED REVISED TEXT  | COMMENTS   |
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| <p><i>Regulation VII – Working Capital Fund and Internal Borrowing</i></p> <p>7.1 Pending the receipt of assessed contributions, implementation of the regular budget may be financed from the Working Capital Fund, which shall be established as part of the regular budget approved by the Health Assembly, and thereafter by internal borrowing against available cash reserves of the Organization, excluding Trust Funds.</p> | <p><i>Regulation VII – Working Capital Fund and Internal Borrowing</i></p> <p>7.1 Pending the receipt of assessed contributions, implementation of <b><u>that part of the regular budget financed from these contributions</u></b> may be financed from the Working Capital Fund, <del>which shall be established as part of the regular budget approved by the Health Assembly and</del> thereafter by internal borrowing.— <b><u>The amount of the Working Capital Fund is approved by the Health Assembly. Internal borrowing may be made</u></b> against available cash reserves of the Organization, excluding Trust Funds.</p> | <p>Amended to reflect the fact that it is now an integrated budget (assessed and voluntary contributions).</p>             |
| <p>7.2 The level of the Working Capital Fund shall be based on a projection of financing requirements taking into consideration projected income and expenditure. Any proposals that the Director-General may make to the Health Assembly for varying the level of the Working Capital Fund from that previously approved shall be accompanied by an explanation demonstrating the need for the change.</p>                         | <p>7.2 The level of the Working Capital Fund shall be based on a projection of financing requirements taking into consideration projected income and expenditure <b><u>from assessed contributions</u></b>. Any proposals that the Director-General may make to the Health Assembly for varying the level of the Working Capital Fund from that previously approved shall be accompanied by an explanation demonstrating the need for the change.</p>  | <p>Amended to clarify that this provision relates to financing of that part of the budget from assessed contributions.</p> |
| <p>7.3 Any repayments of borrowing under Regulation 7.1 shall be made from the collection of arrears of assessed contributions and shall be credited first against any internal borrowing outstanding and secondly against any borrowing outstanding from the Working Capital Fund.</p>   | <p>No change</p>   |  |

ANNEX 2

**PROPOSED AMENDMENTS TO RULE III OF THE FINANCIAL RULES OF THE WORLD HEALTH ORGANIZATION**

|   | <b>FINANCIAL RULES</b>   |  |
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| <p><i>Rule III – Regular Budget Appropriations</i></p> <p>103.1 The appropriations approved by the Health Assembly constitute an authority to issue awards up to the amount approved to enable expenditures to be incurred for the purposes for which the appropriations were approved. The Director-General may determine the maximum amount of the appropriations that it would be prudent to issue as awards taking into account the prospects for payment of assessed contributions and the availability of both the Working Capital Fund and internal borrowing.</p> | <p><i>Rule III – <del>Regular Budget Appropriations</del> <u>Approval</u></i></p> <p>103.1 The <del>appropriations</del> <b>budget</b> approved by the Health Assembly constitutes an authority to issue awards up to the amount approved to enable expenditures to be incurred for the purposes for which the <del>appropriations were</del> <b>budget is</b> approved. The Director-General may determine the maximum amount of the <del>appropriations</del> <b>approved budget</b> that it would be prudent to issue as awards taking into account the prospects for <del>payment of assessed</del> <b>collection of</b> contributions and the availability of both the Working Capital Fund and internal borrowing.</p> | <p>Amended to revise “appropriations” to “budget”.</p> <p>Amended to reflect financing of the budget by both voluntary and assessed contributions.</p> |

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