

INTER-AMERICAN INSTITUTE FOR GLOBAL CHANGE RESEARCH



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Report by the Financial and Administrative Committee (FAC)

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Report by the Financial and Administrative Committee to the 29th Executive Council meeting, June 8, 2010, Brasilia

In attendance – Simone Redivo (Brazil), William Smith (USA)

Joining via Telephone – Rosanna Proto (Canada), Lynn Whelpdale (Canada)

The Financial and Administrative Committee met at IAI headquarters April 27-29, 2010. All members were either present or participated via teleconference. The primary agenda item for the meeting was the review of the IAI Core Budget proposal for the IAI's Fiscal Year 2010-2011, which starts on July 1, 2010.

The Director briefed the FAC on the overall financial health of the institution. Although improved with the recent partial arrears payment by the USA, the IAI remains in a precarious financial situation, and is facing a potential budgetary shortfall in the coming year and a certain shortfall by the end of the following fiscal year. At present, the IAI has financial reserves approximately equal to the amount required to meet all outstanding obligations and cease operation. Three options were presented to the FAC: initiating an immediate shutdown of operations while resources are available to permit such an action, working to maintain operations through April 2012 when the CRN-II awards end, or developing a plan to sustain operations beyond 2012. The FAC focused on the latter of these options.

The FAC reviewed the IAI's preliminary budget proposal, and found the budget austere. The budget included a required 4% salary increase for Brazilian staff and also includes a 4% salary increase for other staff, which the FAC considered justified as this tracks inflation in Brazil over the last year. A number of staff have experienced a de facto reduction in salary due to the relative strengthening of the Brazilian currency as compared to the US Dollar in which some staff salaries are fixed. The Post Adjustment proposed in the budget does not completely compensate for this loss. Otherwise, the budget provided for minimal staff travel to required meetings and few, if any, outreach visits by staff.

The FAC reviewed the budget for potential savings, but none were evident. The IAI has functioned with the minimum level of staff required to operate, so any reductions in staffing would directly impact the IAI's ability to conduct day-to-day business. The Director reported that implementing changes to the Host Country Agreement with Brazil would yield a substantial Core Budget savings by eliminating the payment of taxes by IAI to Brazil. Revision of the Host Country Agreement has been an ongoing issue, but at present there is no anticipated resolution date.

The FAC asked IAI to prepare a number of budget scenarios in order to identify a path to a sustainable future for the organization. After substantial analysis and discussion, the FAC concluded that a 10% increase in the Core Budget for the coming year was required to enable continued operation of the IAI for the next three to four years. This level of increase will permit IAI to meet known obligations in the coming year, allow for modest salary growth to approximately track inflation, and to

build up sufficient budgetary reserves to enable to IAI to terminate operations if necessary and to meet other contractual obligations to staff – approximately \$400,000 at this time. The FAC has considered the issue of budgetary reserves in the past, and feels that this level is appropriate. A 10% budget increase will permit this level of reserves to be maintained for approximately the next three to four years provided IAI directorate operations continue at the present level, and is the course of action recommended by the Committee.

Because all avenues of reducing expenses that don't impede the IAI's ability to conduct essential functions have already been implemented, the FAC does not consider further reductions to Core Budget expenses a viable option. The only other course of action evident to the Committee, should a budget increase not be accepted, is planning for the orderly shutdown of IAI activities at the conclusion of the CRN-II grants in 2012.

The FAC noted that while the recent financial crisis experienced by the IAI was precipitated by the late payment of funds by some of the countries with higher contribution amounts, it is the consistent nonpayment or partial payment by many IAI member countries that created the situation where the IAI was tipped into crisis mode when funds from other countries were delayed.