

# **INTER-AMERICAN INSTITUTE FOR GLOBAL CHANGE RESEARCH**



**EC-XXVI & CoP-XV**  
*June 17-20, 2008*  
*Buenos Aires, Argentina*

**FAC Report**

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**Financial and Administrative Committee (FAC) Report**  
**for June 2008 Executive Council Meeting**  
**in Buenos Aires, Argentina**

In Arlington, Virginia, USA (November 28-29, 2007), the Executive Council (EC) approved the Financial and Administrative Committee (FAC) Charter for another two years, until January 2010. The composition of the FAC remained unchanged, with its three members being:

Brazil: Evair Sergio da Silva

Canada: Louis Grittani

United States of America: William Smith

Executive Council Chair: Paul Filmer

IAI Financial and Administrative Officer: Rafael Atmetlla (member ex-officio)

The Inter-American Institute for Global Change Research's (IAI's) Financial and Administrative Committee conducted its annual spring (from a North American perspective) meeting during May 5-7, 2008. Usually the meeting is held at the IAI office in Sao José dos Campos, Brazil, but for the first time, it was held in Toronto, Canada. During the three-day meeting, a variety of topics were discussed. This FAC meeting was the first since our meeting in September 2007 when we met during the week of the IAI's external audit and the first since the November 2007 Executive Council meeting. Following the last EC meeting, there have been a few conference calls between the FAC and IAI regarding the need for an interim post adjustment allowance measure to address the rapid decline in the value of the US dollar relative to the Brazilian real. This issue had been discussed at the Arlington EC meeting.

The timing of this meeting was principally dictated by the need for the FAC to meet, review and discuss the IAI's proposed 2008/09 core budget request ahead of the next set of institutional meetings (Executive Council and Conference of the Parties [EC/CoP]) scheduled to take place in June in Buenos Aires, Argentina, and which will include a vote to accept or not accept the budget proposal.

The minutes from our May 2008 meeting follow.

IAI Financial and Administrative Committee (FAC) Meeting  
May 5-7, 2008  
Toronto, Canada

Agenda:

- 1- L. Grittani's future on the FAC
- 2- Brazilian staff under international positions' request for benefits and privileges similar to OAS, UNESCO, etc.
- 3- Possible changes to the Host Country Agreement
- 4- US\$ bank accounts
- 5- Bids
- 6- Budget
  - 6.1- Core Budget request
  - 6.2- Core Budget contributions
- 7- Publications
  - 7.1- Annual Report
  - 7.2- Newsletter
- 8- Auditing Issues
- 9- Quarterly Status Report

**Summary of the FAC Meeting**

May 5, 2008 - Participants: LG, WS, ES (by conference call), AS and RA

May 6, 2008 - Participants: LG, WS, ES (by conference call), HT, AS and RA

May 7, 2008 - Participants: LG, WS, AS and RA

The following topics were discussed during the week:

### **1 – L. Grittani's future on the FAC**

Louis accepted a new position at Environment Canada, to be part of the Corporate Finance area. It is likely that Louis will soon transition off the FAC and a new FAC member will be identified by Canada. The timing is not yet known.

### **2- Brazilian staff under international positions' request for benefits and privileges similar to OAS, UN agencies, etc.**

According to IAI staff, staff at other international and inter-governmental organizations based in Brazil do not pay Brazilian income taxes. Brazilian law appears to have been changed after the IAI Host Country Agreement was put in place to allow employees, regardless of nationality, to be exempt from paying tax on employment income. IAI is looking into the possibility of obtaining tax exempt status for its employees, but implementing this would require amendment of the Host Country Agreement. There may be other privileges accorded to employees of the other international and inter-governmental organizations for which the IAI may wish to seek parity.

### **3- Possible changes to the Host Country Agreement**

All participants of this FAC Meeting recognized the desirability of updating the Agreement, enabling clarification of several important issues:

- office space: IAI's space needs are now greater compared to when the IAI first started, and the lack of space prevents IAI from hosting interns for some projects as planned.
- outsourced employees: as noted in item 5, IAI is working to retain the staff provided by Brazil, despite the renegotiation of their contracts resulting in a significant reduction in salary and benefits. Holm has been in touch with Thelma Krug (a former visiting scientist to the IAI) and others in Brasilia to solve the problems IAI is facing. He will talk to the Foreign Affairs Ministry, about:
  - changing the Host Country Agreement;
  - changing the position of IAI inside the Science and Technology Ministry (is it necessary to be inside INPE?); and
  - having Brazil's IAI representative be from a political position rather than scientific, in order to have someone "empowered" to solve possible host country-related problems in the future.

### **4- US\$ bank accounts**

The robbery that occurred on February 29, 2008 was discussed. The FAC asked why IAI needs so much money on hand. It was explained that due to the nature of the IAI activities, it may not be possible and in most cases cost-prohibitive, to transfer funds to participants in IAI activities. Also, at least some of these participants count on the cash funds to pay for their daily subsistence and could not be expected to have alternate funds and wait for reimbursement. Also, efforts are made to limit the banking fees incurred. Possible actions are:

- IAI has already contacted 3 companies to provide transportation (armored trucks) and is waiting for their proposals.
- IAI has been trying to arrange to receive US\$ from Banco do Brasil inside INPE or CTA, but with no success. The assistants to the Director and Financial Officer have sent letters to the banks, copying Itamaraty last month. Evair volunteered to try to help IAI, getting in touch with INPE Directorate "to put pressure" on the bank.

- The bank account at Citibank is available now, and there is much more security inside their branch. They will charge 1% of the total amount of the cash withdrawals.

## **5- Bids**

Anita and Rafael explained to the FAC members the problems IAI is facing concerning the outsourced staff contracts. INPE's current procurement practice/process to re-tender the contract will, at best, lead to a continuation of today's unsatisfactory situation. Problems regarding the provision of the outsourced support staff began approximately 4 years ago. The Brazilian-supplied staff have again been informed that their positions will be terminated, although the IAI has informed them that they would be rehired by the IAI directly to provide continuity. The FAC suggested that, if all else fails, IAI could attempt to negotiate an agreement with INPE to hire the assistants directly, while INPE (or another agency through the local government) reimburses at least part of the salary cost.

## **6- Budget**

### **6.1 – Core Budget requests**

It was agreed that the budget document did not need to contain detail on IAI activities over the previous year, but that the document should be forward-looking instead. The Strategic Planning activity was discussed, and it was agreed that it should be mentioned in the text accompanying the core budget request. Due to the extraordinary nature of the activity, the FAC agreed that the Strategic Planning activity should be funded from the reserve, as opposed to being factored into the 2008/09 core budget request. The IAI is encouraged to pursue an alternate source of funding.

The core budget request for 2008/2009 was discussed:

- an increase of 4,5 % to the salaries of international staff was approved to offset inflation, as discussed in September 2007. Changes in the exchange rate and rate of inflation have eroded the purchasing power of the international staff's salaries, and to-date, only partial compensation has been awarded to restore the loss due to the weaker US dollar. This is the first inflation-based adjustment;
- the funding from the MacArthur Foundation and IDRC projects ("Project Income" in core budget) – The FAC recommended the credit for year 3 (2010/11) be removed, as there are no projects in place yet to confirm the credit. The credits for 2008/09 and 2009/10 are justified as the grant agreements have been signed and the projects are being conducted, therefore the funds will come to IAI as expected to help offset some of the core budget costs.
- local staff salaries: increase of 4,5% due to legislative Labor Union rules (approximately). The FAC suggested that IAI use an increase of 5% in estimating the future budget needs (for fiscal years 2009/10 and 2010/11).
- international staff salaries: increases due to merit and inflation adjustments were examined. The salary budget estimates will remain steady for years 2 and 3.
- post-adjustment: The FAC has worked with IAI staff to develop final text on a more responsive post adjustment policy (text has yet to be finalized and FAC approval is pending). Since the system under discussion contains a +/- 5% threshold value, future changes are likely to be minor unless a major change in exchange rates justifies additional changes to the post adjustment. For planning purposes, future post adjustment costs are assumed to remain at the 2008/09 level, implying no change from the current exchange rate. The budget request presentation should include an explanation of the post adjustments already in place and the current exchange rate scenario.

- health insurance: The increase is related to the need of the Director to enroll in a health plan which allows coverage to continue after separation from the IAI (at the Director's expense), pending quotes from the insurance company, Vanbreda. The FAC will begin work on the Director's renewal contract. A second term for the Director was approved by the CoP in Manuas (June 2007).
- dependents and education allowances: The FAC suggested maintaining the same amounts for the next 3 years, without adjustments due to inflation or exchange rates. The FAC suggested IAI send a list of school fees to be analyzed, so they can understand better what IAI international staff needs are.
- salary levels for staff were discussed, in particular the need to recognize increasing workloads and experience levels of some staff.
- capital equipment: The US\$ 14,000 increase to the Capital Equipment budget is mostly for new furniture due to the changes in the space IAI uses today.
- car: The IAI will soon be in need of a new vehicle and may purchase it in the 2008/09 fiscal year. If the purchase is deferred to the following year, the funds will be placed in reserve.
- the core budget request will increase 15% from 2007/08. This is the first increase since 2005/06 (3 years ago) which, in turn, was the first increase in 3 years.

## **6.2 - Core Budget Contributions**

The contributions from some country members will increase in 2008/2009 and then are projected to remain relatively unchanged through to 2010/11. If implemented, the new OAS scales in 2009/10 may produce minor changes in future core budget contribution rates.

## **7- Publications**

### **7.1 - Annual Report**

The Annual Report will be published on a biennial basis from now on.

### **7.2 – Newsletter**

The Newsletter will be published twice a year. Ione Anderson will be in charge of the English version and Paula Richter will work on the Spanish one. Paula's salary is included in this budget item – she started working directly for IAI under a professional service contract on April 1, 2008. It is hoped that newsletter production costs will decrease with IAI's focus on an electronic version being sent to subscribers, reducing printing and mailing costs.

## **8- Auditing issues**

IAI staff explained the delays in the final audit report and issues during the field work. During the new fiscal year, IAI will issue a call for proposals to award a new contract for audit services for the next 3 fiscal years (2009/10 to 2011/12). IAI intends to solicit the following firms:

- Deloitte Touche Tohmatsu
- KPMG
- BDO Trevisan
- PriceWaterhouse Coopers
- De Biasi
- others, if there are any other companies available in the local/regional market.

## **9- Quarterly Status Report**

- Country Contributions: The contributions IAI has been receiving were reviewed. The FAC asked about the follow-up actions by IAI, which will be a topic at the next FAC meeting in August.
- Expenses: The FAC noted a variance of \$ 37,844 in the line “Operational Costs”. This was the result of the robbery (\$20,000) and the higher-than-anticipated expenses for the SAC Meeting (\$30,078), held in North America.
- Cash Composition: The FAC requested a year-end cash reserve reconciliation from the last 4 fiscal years, detailing the remaining funds under Core Budget reserves and Program Funds.