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Proposals for the financial strengthening of the Inter-American Institute for Cooperation on Agriculture (IICA)

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PROPOSALS FOR THE FINANCIAL STRENGTHENING OF IICA

Strategy for implementing the 2014-2018 Medium-term Plan

The Institute's proposed 2014-2018 Medium Term Plan (MTP) identifies six¹ challenges that require immediate attention and a new vision. They also call for the recognition of agriculture's role in the development and well-being of communities, in efforts to combat poverty and inequality, and in the promotion of environmental sustainability and food security.

Four of the challenges have to do with the objectives included in the 2010-2020 Strategic Plan, while the other two are related to specific mandates issued by the Ministerial Meetings of 2011 and 2013: innovation and integrated water resources management.

In response to those six challenges, over the next four years IICA aims to play a major role in supporting the Member States' efforts to tackle and overcome them with cooperation of the highest quality, and lay solid foundations so that, in the medium and long terms, the enabling environment exists to ensure the value of the Institute's contribution.

The eleven contributions to which IICA is committed in the new MTP will be achieved via strategic institutional projects (**flagship projects**²) and **rapid response actions**. Delivering the services and products that the Member States need to achieve those contributions calls for technical and management capabilities and a robust technological and physical infrastructure.

The current budget is insufficient to meet the priorities of the countries established in the new MTP in a meaningful way, due to constraints in terms of personnel, coverage and value, especially with regard to the new topics of innovation, water resources, soil and risk management in agriculture.

The efforts to strengthen IICA's financial position have called for a set of measures that are being implemented successfully but require the decisive support of the Institute's governing bodies (the Inter-American Board of Agriculture and the Executive Committee). The most important measures adopted in this area are as follows:

- Increase in the budget financed with the Regular Fund to strengthen and expand implementation of the new MTP, to address the four core challenges established in the 2010-2020 Strategic Plan and the new agricultural issues that both the governing bodies and individual Member States have asked IICA to address, such as innovation and water, risk and soil management. To tackle these challenges and needs properly, the Institute will have to strengthen its technical capabilities by hiring more high-level international professionals specializing in the priority areas of the new MTP, for which IICA will have to offer more market-competitive salaries.

¹ The six challenges proposed in the new MTP are "productivity and competitiveness," "sustainability," "inclusion," "food security," "innovation" and "integrated water resources management."

² For the next four years, the Institute will focus its efforts on the implementation of "flagship projects" which will integrate all its functions, instruments and resources and use a cross-thematic and cross-level approach to tackle the challenges that lie ahead. The four flagship projects will deal with competitiveness and sustainability of agricultural chains for food security; inclusion in agriculture and rural territories; resilience and comprehensive risk management in agriculture; and productivity and sustainability of family agriculture for food security and the rural economy.

- To complement the effort to bring Member State quotas up date across the board, each country may make additional contributions in the form of over-quotas designed to enhance the Institute’s technical and operating capabilities.
- Solid progress has been made in increasing the INR as a percentage of the external resources executed, with the figure rising from 5.30% in 2008 to 7.01% in 2013. However, since the rate of 8.1% established in 2012 has still not been achieved, the Regular Fund has to cover indirect costs that should be financed with INR resources. Hence, IICA intends to maintain and step up the negotiations with the countries and financial institutions whose policies or regulations establish a rate lower than IICA’s (8.1%). Raising the current average INR by nearly 1% would free up roughly USD 1.5 million in Regular Fund resources that are presently used to finance indirect costs that external funds should cover.
- In order to increase the budget of the Regular Fund, efforts must be made to:
 - a. Replace the nearly USD 2.0 million in miscellaneous resources that have had to be used in recent years. This would be achieved by freeing up resources used to finance the indirect costs of externally funded projects.
 - b. Increase the quotas of the Member States in order to strengthen the Institute’s technical capabilities and compensate for the loss of the value of the budget through inflation.

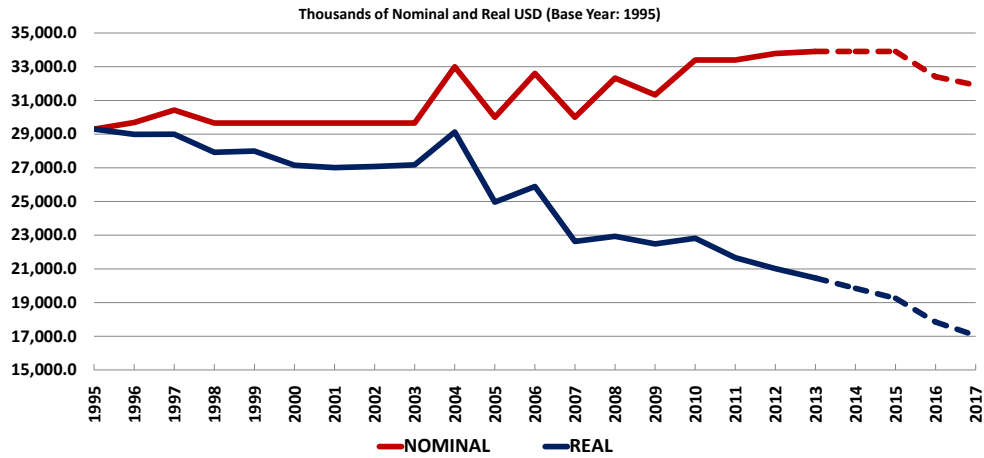
Context

In recent years, many changes have occurred in the agricultural sector that have created a challenging operating environment for IICA. The burgeoning demand for technical cooperation has also become more complex, obliging the Institute to respond more quickly and with increased capacity and the same or better standards of quality than in the recent past. In addition, IICA is required to address new topics such as innovation, water, comprehensive risk management and the sustainable use of soil in agriculture, emerging issues that are a high priority for the countries, as the Executive Committee (EC) and the Inter-American Board of Agriculture (IABA) have indicated.

However, since the resources available to meet this challenge are limited, the Institute has had to respond with a great sense of responsibility and imagination and apply strict principles of rationality, austerity and discipline in the allocation and execution of resources, as well as management geared to results, accountability and transparency.

Over the last 20 years, IICA’s financial system has been affected by the loss in the real value of Regular Fund income, put at more than 13 million dollars. That is equivalent to 40% of the 2013 budget, as shown in Figure 1.

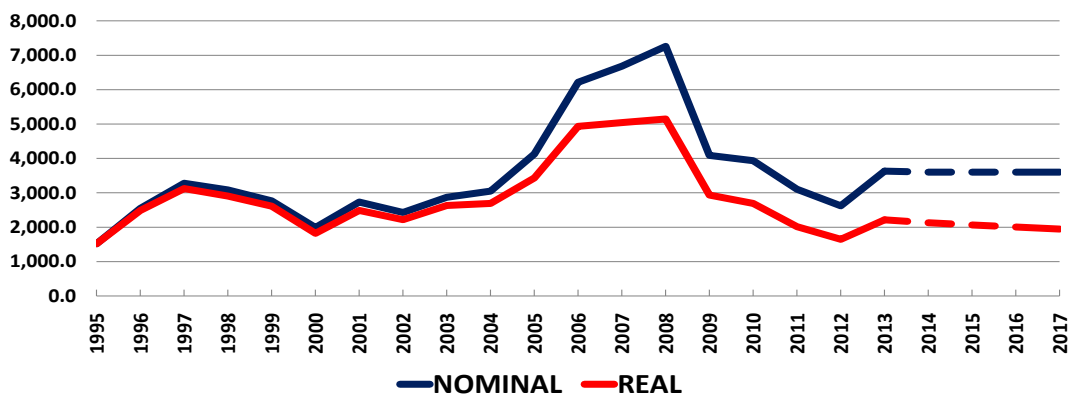
Figure 1
Evolution of the Regular Fund
 (Includes Extraordinary Budgets in 2004, 2006 and 2008)
 1995-2017



In previous years, the Institute compensated for this loss by means of special budgets based on the recovery of quota arrears and use of the resources accumulated in the Miscellaneous Income Fund. However, the former are practically exhausted while the prospects of growth in the latter do not appear positive for the years ahead.

There has also been a steady decline in the Institute’s annual miscellaneous income, due to four external changes that have taken place and which are beyond the Institute’s control: new government rules that eliminated tax refunds, restrictions on retaining interest from the external funds administered, cuts in interest rates, and the unfavorable effects of fluctuations in the exchange rate (see Figure 2).

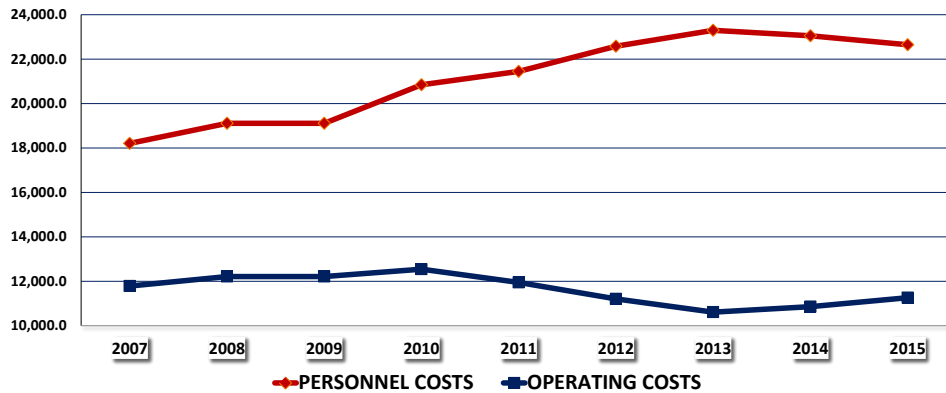
Figure 2
Evolution of Miscellaneous Income
 In thousands of Nominal and Real USD
 1995 to 2017



The aggregate effect of the above mentioned variables has made serious inroads into the Regular Fund; that, in turn, has had an adverse impact on IICA’s technical capabilities and

management. For example, the number of International Professional Personnel (IPP) positions fell from 132 to 79 during the period analyzed, equivalent to a loss of nearly 40%. This has limited the Institute’s international focus and its efforts to build a broader and more comprehensive technical cooperation agenda.

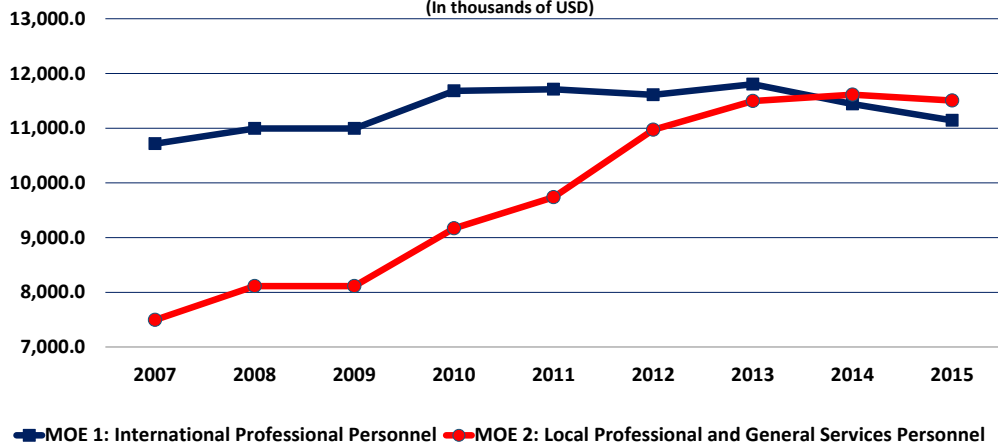
Figure 3
Nominal Evolution of Personnel and Operating Costs
 Regular Fund Resources 2007 - 2015 Program Budgets
 (In thousands of USD)



In addition to the reduction in IPP positions, the lack of competitiveness of the salaries offered compared with the international labor market makes it difficult to recruit highly qualified personnel to provide cooperation. Fifteen years ago, IICA’s salary scale for international professionals was approximately 15% below the OAS scale, whereas the current difference, on average, is more than 40%.

The effects of this situation have been partially offset by increasing the number of positions for Local Professional Personnel (LPP). The costs of LPP financed with Regular Fund resources increased from USD 7.4 million in 2007 to USD 11.5 million in 2015.

Figure 4
Nominal Evolution of Personnel Costs
 Regular Fund Resources 2007 - 2015 Program Budgets
 (In thousands of USD)



Even though the turnover rate for LPP has fallen to an average of around 11% annually in the last three years, the figure remains high because pay levels are not market competitive. The replacement process is costly, given that it has a direct impact on the continuity of operations and requires the induction, training and integration of new personnel in the programs of the different units.

In these circumstances, the Institute's technical, administrative and support staff may prove to be insufficient to properly address the growing cooperation needs of the member countries, generated by natural pressures such as growing demand for food, the development of rural territories, the variability of markets, environmental challenges and the need for effective integration into technology and innovation systems. Countries will also need support with certain emerging topics of importance to the agricultural sector, which requires the Institute to strengthen the structure of specialized and experienced staff and become the member countries' best partner, offering the best possible rate of return.

In addition to the above, IICA's operational capacity has been affected by increases in the costs of services, materials, rent, travel, communications and other consumables, and also by the negative effects of variations in the exchange rate, stemming from the revaluation of some currencies against the United States dollar.

A strategic activity implemented across the Institute is a strict plan to reengineer the organization's processes and thereby improve its operations, mitigate the effects of price increases, take full advantage of its capabilities and achieve economies of scale. Some of the main areas in which IICA has redesigned processes in order to cut costs and improve efficiency are the following:

- Improved decision-making processes and a 50% reduction in the number of committees, which makes it possible to respond more quickly in a shorter time.
- Streamlining of procedures involved in the approval of institutional purchases and the consolidation of purchases in order to obtain better prices, terms of service, quality and guarantees.
- Less time required to present, analyze and approve the technical cooperation projects that the Institute provides to its member countries.
- Redesign of the organizational structure to eliminate spans of control and speed up decision-making, thereby reducing the number of person-hours needed and increasing individual work capacity.
- Improved communication systems between IICA Headquarters and the Country Offices, and with other organizations, using information technologies to reduce travel expenses and save time.

- Increased speed, quality and relevance in the exchange of information, through the creation of knowledge networks with external and internal users, supported by information and communication technologies.
- Improved terms of all contracts for services at Headquarters, with an impact across the board, following renegotiations with providers of security, courier and hosting services, airlines, institutional insurance, etc.

Although these strict measures to rationalize and promote equity in the control of expenditure have been very successful and enabled the Institute to mitigate the accumulated effects of the loss of real value of its income over the last 20 years (USD 50 million), they cannot be maintained indefinitely without risking the loss of more talent and possible operational atrophy.

Given this outlook, it is clear that IICA faces major challenges in the short and medium terms, including the imperative need to prevent the risk of any deterioration in the standards of quality, timeliness and coverage of its institutional management and technical cooperation. The Institute is also faced with the growing challenge of addressing a larger number of requests from the member countries related to emerging issues within shorter periods and with greater contributions; and, in addition, of restoring the competitiveness of salaries in order to strengthen the Institute's intellectual assets and offer technical cooperation of greater scope, depth and impact.

The Institute must also strengthen its capacity to implement rapid response actions for a country or a group of countries in the event of political or economic changes – be they emergencies in the agricultural sector or issues requiring immediate attention, or preventive or corrective activities or opportunities. All this calls for more financial, human and physical resources.

All these factors will have to be taken into account for the successful implementation of the 2014-2018 Medium-term Plan, which will undergird the Institute's management activities over the next four years. This task calls for an injection of resources across the board that cannot be based on the generation of miscellaneous income (which has been declining), since IICA's technical cooperation and other operations require financial guarantees in order to ensure organizational stability and the quality and continuity of projects implemented at the national, regions or hemispheric level, with a clear orientation toward results.

The fact that the resources allocated to operational aspects have not been increased may accentuate the institution's gradual loss of management capacity and constraints in the delivery of cooperation services. This is undoubtedly a concern and calls for effective action to prevent highly negative effects for the countries' agricultural sectors that would be difficult to reverse in the short term.

Technical cooperation services

The Institute has been providing technical cooperation to the Member States based on the 2010-2014 Medium-term Plan and the new mandates that have emerged in recent years. As a result, more than 150 IICA projects are currently being carried out directly linked to the four objectives set out in the 2010-2020 Strategic Plan, related to productivity and competitiveness, territories and rural well-being, climate change mitigation and adaptation, natural resources and food security.

Furthermore, the Institute has begun to work on the new mandates, especially on the conceptual development of issues such as the integrated management of water for agriculture and technological, commercial and institutional innovation.

The priority topics established in the new MTP are based on the global needs of a majority of the countries.

Institution building

IICA's financial situation is characterized by a Regular Fund that is shrinking in nominal terms due to the freezing of the Member States' quotas at USD 27.8 million and an estimated reduction in miscellaneous income of USD 1.5 million in 2016 and a further USD 0.5 million in 2017, due to the depletion of the Fund that the IABA has authorized the Institute to use since 2008. Hence, mechanisms must be found to offset the nominal reduction in miscellaneous resources and increase the Regular Fund budget in order to meet the technical cooperation needs of the countries.

The Institute has been implementing a series of measures designed to strengthen it financially. The proposed strategy calls for strong support from IICA's governing bodies and is comprised of the following elements:

Budget for technical cooperation

- Increase the budget financed with Regular Fund resources to boost and broaden the scope of implementation of the new MTP, strengthening the Institute's technical capabilities by increasing the number of high-level international professionals specializing in the priority topics of the MTP and making IICA's salaries more competitive.
- Continue to promote over-quota contributions from the countries, as is presently the case.

Financing of indirect costs – INR policy³

- The Institute must cover its indirect costs by a percentage of the direct costs of cooperation funded by external sources. To ensure that the Regular Fund is not used to fund the indirect costs that should be covered by the INR resources, IICA will intensify the negotiations with the countries and financial institutions whose policies or regulations establish a rate lower than IICA's (8.1%). This would enable the Institute to raise the current average INR by around 1%, thereby freeing up roughly USD 1.5 million of the resources of the Regular Fund that are presently used to finance indirect costs that the external funds should cover.

Strengthening of cooperation services

It is estimated that each flagship project will cost USD 3.0 million annually in the present financial circumstances. With the current Regular Fund budget, it is possible to finance four projects of this kind during implementation of the new 2014-2018 MTP, delivering technical services of limited scope to the Member States.

The average cost of a rapid response action is put at USD 50,000. This means that, with the current institutional capacity, 23 actions can be implemented annually.

Strengthening the four flagship projects and incorporating activities related to the new topics of innovation, water resources, soils and agricultural risk management with the current budget would mean limiting the delivery, coverage and value of the technical services provided to the Member States. As a short-term measure to address this constraint and lay a solid foundation for the future, it is vital that a basic budget increase of USD 3.0 million, equivalent to roughly 11% of quotas, be authorized for 2015 only. In addition, it is important to consider the possibility of compensating for inflation in the years ahead, estimated to be 3% per year. **Table 1** shows the budget increase required to strengthen the Institute's technical capabilities and restore the value of the Regular Fund by compensating for the effects of institutional inflation.

³ The INR policy is based on Resolution IICA/CE/Res. 556 (XXXII-O/12) of October 10, 2012, adopted by the Executive Committee at its Thirty-second Regular Meeting, which established the following: "To instruct the Director General, in determining the INR to be applied in Agreements or Contracts entered into by IICA for the implementation of externally funded projects and activities: 1. To adopt the methodology and criteria defined in Document IICA/CE/Doc. 604 (12), "Study on the Recovery of Costs Incurred by the Administration of Externally Funded Projects," for establishing the minimum INR applicable to projects and other externally funded cooperation activities, with due regard for the exceptions established in that document. 2. To consider in the annual studies the criteria of competitiveness and proportionality and the net neutral approach established in the methodology, which may also take into account the tendencies of the last two or three years, for the purpose of seeking the rate that is fair and representative of actual costs." The study conducted by the external consultant hired in accordance with the IABA's instructions established that, based on the audited Financial Statements for 2011, the rate that should be charged to cover IICA's indirect costs is 8.1%.

TABLE 1
ANNUAL INCREASE IN QUOTAS IN USD AND AS A % - 2015-2018
Financing of the Strengthening of the Institute’s Technical Capabilities
and Recognition of the Effect of Inflation on the Regular Fund

	2015	2016	2017	2018
TECHNICAL STRENGTHENING	3,000,000			
INFLATION REGULAR FUND	0	1,107,300	1,140,519	1,174,735
ANNUAL INCREASE	3,000,000	1,107,300	1,140,519	1,174,735
% Increase In Quotas¹	10.8%	3.6%	3.6%	3.6%

1/ USD 3 million increase in quotas in 2015 and recognition of the effect of inflation on the Regular Fund (3% per year) from 2016 onward. Quota income makes up for the effect of inflation on the quotas themselves and on miscellaneous income.

This increase of USD 3.0 million would make it possible to hire more technical personnel in order to better address the different areas of the flagship projects and have specialists in the new topics involved. The specific personnel to be hired would be as follows:

- Five new international professionals specializing in subjects such as water resources, soil, risk management and technological, commercial and institutional innovation. IICA would also begin restoring the market competitiveness of the salaries that it offers. The initial annual cost of the two measures would be USD 1.5 million.
- Fifteen local professionals in different countries specializing in the priority topics identified in the MTP that the Institute is not presently equipped to address, at an initial annual cost of around USD 0.75 million.
- Ten technical assistants for the flagships projects and rapid response actions, at an initial annual cost of USD 0.25 million.
- Extra resources for the operating costs of the flagship projects and rapid response actions, especially for technical events, consultancies, the mobilization of institutional technical capabilities, communications and materials, and inputs for the technical cooperation services, at an initial annual cost of USD 0.5 million.

The nominal increase in the Regular Fund, combined with the fair and proportional financing of the indirect costs with resources generated by the INR, would make it possible to recover one fourth of the loss in value of the Regular Fund, estimated to have reached 40% in 2013.

Table 2 contains a summary of the measures proposed to strengthen the Institute’s technical capabilities, based on the successful application of the INR policy and the consequent freeing up of Regular Fund resources to cover direct technical cooperation costs; an increase in quotas to

strengthen and expand the coverage of technical cooperation services, and the implementation of a policy to restore the value of the budget that has been lost, through the annual recognition of institutional inflation.

TABLE 2
REGULAR FUND BUDGET
NOMINAL VALUES (USD)

FUND/ITEM	2014	2015	2016	2017	2018
PRESENT SCENARIO					
QUOTAS	27,810,000	27,810,000	27,810,000	27,810,000	27,810,000
MISCELLANEOUS INCOME	6,100,000	6,100,000	4,600,000	4,100,000	4,100,000
REGULAR FUND	33,910,000	33,910,000	32,410,000	31,910,000	31,910,000
PROPOSED SCENARIO					
INCREASED INR INCOME FREES UP REGULAR FUND RESOURCES			1,500,000	2,000,000	2,000,000
ACCUMULATED (GLOBAL OR OVER-QUOTA) INCREASE IN MEMBER STATE QUOTAS FOR TECHNICAL STRENGTHENING		3,000,000	3,000,000	3,000,000	3,000,000
ACCUMULATED QUOTA INCREASE TO COVER EFFECT OF INFLATION ON THE REGULAR FUND			1,107,300	2,337,819	3,422,554
TOTAL REGULAR FUND ¹	33,910,000	36,910,000	36,517,300	37,247,819	38,332,554
EFFECTIVE REGULAR FUND BUDGET ²	33,910,000	36,910,000	38,017,300	39,247,819	40,332,554

1/ The Regular Fund budget includes: i) current quotas; ii) the miscellaneous income approved for 2014-2015 and the projection for 2016-2018; iii) the quota increase requested for 2015; and, iv) recognition of the effect of annual inflation on the Regular Fund.

2/ The Effective Budget includes the resources of the Regular Fund that will be freed up due to the increase in the INR. As a result of the increase, the amount of Regular Fund resources used to cover indirect costs will fall.

In order to support and implement the content of the new MTP and translate it into concrete actions and results of greater value and impact, IICA has added to its strategy for cooperation services a modern, efficient and competitive style of corporate management that complements, supports and strengthens the value of the contributions that the Institute can and should provide the member countries, to honor its commitments to the agricultural sector in the years ahead and lay the groundwork for the future. All of this calls for a level of financial resources that matches the scale of the cooperation services that are provided.