

Inter Academy Council

FINANCIAL REPORT OF THE IAC EXECUTIVE DIRECTOR FOR 2004

BUDGET PROPOSAL IAC SECRETARIAT FOR 2005

Overall observations

As already anticipated in the Financial Report of the Executive Director for 2003/2004, the IAC's recent successes in completing two studies – *Inventing a better future* and *Realizing the promise and potential of African agriculture* – comes at a cost: in total the IAC now owes about USD 260.000 to the Royal Netherlands Academy of Arts and Sciences. Most of this debt arose in a period with a more dollar-friendly exchange rate with the euro so that the debt is about the same in euros.

This situation was not discovered when the accountants checked the books, but it came about as the result of considered decisions of the IAC Executive Director, taken in close consultation with the financial authorities of the Royal Netherlands Academy. In fact, as a result of these consultations the IAC entered into a formal agreement with the Royal Netherlands Academy under which that Academy made available to the IAC a line of credit up to Euro 250.000.

Accordingly, the IAC does not find itself in an acute financial crisis. However, the fact remains that sooner or later the debt to the Royal Netherlands Academy must be repaid.

Financial statement 2004

As may be seen from the attached Account Summaries, in 2004 the IAC Secretariat has been able to live within the approved budget. In fact, there even is a small surplus that will be transferred to the budget for 2005. Also, within the overall budget there were no major discrepancies between the amounts reserved for specific purposes and the actual expenditures.

The S&T study project generated a deficit of about USD 52.500. As may be deduced from the Account Summary for that project, the major factors contributing to the deficit arose in the final stages of the study: "Drafting and editing" about USD 8.000 over budget and "Printing and dissemination" more than USD 45.000 in the red.

The much larger deficit of the African agriculture study also arose in the final stage of the project: "Dissemination and follow-up" about USD 130.000 over budget. However, for this study there also was another factor: "Staff support/staff travel" USD 144.000 over budget. Most of this staff-related cost overrun also relates to editing and design – and hence also to the last stages of the study.

As was mentioned before, these cost overruns did not just happen: they were the result of deliberate decisions.

- First, the design and layout of IAC reports should do justice to the quality of their content. The publication-department of the Royal Netherlands Academy did an

excellent job in combining a high-quality design and layout with relatively modest cost. Even so, these costs were significantly higher than budgeted. However, as an investment in visibility and recognizability, it is money well spent.

- Second, the IAC did very well in making its reports public at special publication launches at U.N. Headquarters convened by the U.N. Secretary-General, Mr. Kofi Annan. However, the interest and demand generated by these events worldwide made it necessary to ship the reports by courier; regular mail was just too slow. For the Africa study alone this came to about USD 50.000 – but there simply was no choice if the momentum was to be retained. Accordingly, also an investment in the future.

Financial projection 2005

To begin again with the IAC Secretariat: as the Account Summary indicates for 2005 there is a very modest (about 2 %) increase in total costs, while there also are no significant changes in the various budget items. Like the KNAW, the NAS will continue to absorb part of the costs of the IAC staff positions. In fact, the NAS has agreed to a modest increase of its support in view of the special costs associated with the re-location of the new Executive Director, John Campbell, to Amsterdam.

In 2005 most expenditures will relate to the Women for Science (WfS) study, the study on Unesco World Heritage sites (WHs) and the study on Transitions to Sustainable Energy systems (TSE).

- For the WfS study a total budget of USD 150.000 is now available: USD 70.000 from the French cosmetics firm L'Oréal (as part of its L'Oréal-Unesco Women in Science Awards program); USD 50.000 from a donor who wishes to remain anonymous for the time being; and USD 30.000 from the Netherlands Minister of Education, Culture and Science. The IAP has been requested to provide some additional support, especially for publication and dissemination of the report among IAP member academies.
- The budget for the WHs study is set in the range of USD 750.000 to USD 1.000.000. Unesco itself is raising these funds and has approached several potential donor organizations. In these contacts the IAC study is presented as the first part of a much larger Unesco project that also includes the implementation of the recommendations of the study. Accordingly, Unesco is seeking a total budget of USD 5.000.000.
- Budget estimates for the TSE study vary depending especially on the number of regional consultative workshops. However, about USD 500.000 is considered the minimum level to start with the study; USD 1.500.000 to do a reasonable job; and USD 2.000.000 to do a better job, particularly in relation to involving relevant parties. So far, there are informal, but firm pledges for an amount of about USD 300.000 so that the start-up phase can now be initiated.

It goes without saying that the lessons learned with the cost overruns of the first two studies will be taken to heart in managing the budgets of all new studies. The costs of publication, distribution and dissemination will never be under-estimated again.

Financial sustainability IAC

Even if the budgets of new IAC study projects and IAC financial management take account of all lessons learned, fact is that ways have to be found to reduce the debt to the Royal Netherlands Academy. More generally, the question arises of how to make the IAC financially sustainable now that the organization has proven itself with two studies that have been well received.

On debt-reduction: the Executive Director is in discussion with the Netherlands Ministry of Development Cooperation to see whether it may be willing to absorb part of the cost overruns on the African Agriculture study. The suggestion has not been rejected out of hand. The Board may also decide to allocate the voluntary contributions so far received to debt-reduction, while it may also request additional voluntary contributions for the same purpose. Lastly, the debt can be gradually reduced by charging some overhead on the budgets of new studies. After all, the debt arose as an investment in the future, implying that it is not unreasonable to use future income to reduce it.

On the larger issue of sustainability: as was mentioned in the previous financial report, as part of its success the IAC is now facing a new type of costs that can not be easily covered from the budgets of study projects as these costs arise pre-project in defining a study or post-project in promoting follow-up. At present the IAC has only non-project-related funding for the IAC Secretariat. This does not suffice if the IAC is to be financially sustainable in the long term. To achieve sustainability the IAC requires – in addition to the budget for the Secretariat – a minimum of USD 250.000 of base level funding to be used pre-and post-project to develop new ideas and to spread the word.

- The Executive Director has submitted a proposal to the Netherlands Ministry of Development Cooperation to support the work of the IAC that is related to development cooperation with a grant of Euro 200.000 a year for a five-year period.
- The Royal Netherlands Academy has agreed to approach the Netherlands Minister of Education, Culture and Science with a request to increase the present subsidy of Euro 190.000 to Euro 300.000 a year.

However, best of all would be for the IAC to have an endowment of about USD 5.000.000 so that income from that endowment can be used for those essential activities that cannot be paid from the budgets of study projects. The endowment should not be so big as to reduce the need to seek outside funding as this would carry the risk of the IAC isolating itself in an ivory tower. A challenge for the new Board, the new Co-Chairs and the new Executive Director?

Albert Koers
IAC Executive Director
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