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To:"Johnson, Ian (Worldbank)" <I.Johnson@Cgiar.Org>  
cc:"Reifschneider, Franci..(Cgnet)" <F.Reifschneider@Cgiar.Org>, <D.Mackenzie@Cgiar.Org>  
Subject:L-074-DG-02; Funding problems faced by CIP

March 25, 2002

Dear Ian,

It was nice to meet Francisco in Washington DC and to have had an opportunity to discuss with him the present financial situation of CIP as well as other important matters of the CGIAR.

Based on that conversation, we would like to inform the Executive Council of the CGIAR on the economic performance and the short-term prospects of the International Potato Center (CIP). Attached please find the note we have prepared on the funding problems faced by CIP and would appreciate your sharing it with the Executive Council of the CGIAR.

Best regards

Hubert

To Mr. Ian Johnson,  
Chair of the CGIAR Executive Council

Copy: Dr. Francisco Reifschneider, CGIAR Director  
Dr. David MacKenzie, Chair of CIP

Dear Ian,

Dr. David MacKenzie, CIP's Board Chair and I met Francisco Reifschneider in February in Washington DC to discuss the present financial situation of CIP as well as other important matters of the CGIAR.

Based on that conversation, I have drafted this letter to inform the Executive Council of the CGIAR on the economic performance and the short-term prospects of the International Potato Center (CIP).

During year 2001, CIP accumulated a \$ 1 million deficit; due mainly to declining unrestricted revenues and variations in exchange rates. The economic imbalance reduced the center's operating reserves from \$ 3 million to \$ 2 million. For year 2002, we are projecting a \$ 1.3 million deficit and for year 2003 a balanced budget. This development will imply an additional decline in operating reserves to a dangerously low level of \$ 0.8 M by the end of this year, before reserves are expected to increase again.

**1. Revenues.** CIP's total revenue decreased from \$ 23.4 million in year 2000 to \$ 19.0 million in year 2001. Donations fell by \$ 1.5 million to \$ 18.7 million in year 2001, while other income and special allocations fell by \$ 3.1 million to \$ 0.3 million. This occurred in spite of the significant efforts that the Center has put in fund raising, which resulted in an 86% increase in 2001 project funding as compared to 2000.

A negative factor on CIP's revenue was the appreciation of the US dollar and the depreciation of the European currencies and the Japanese yen. Exchange rates movements explain \$ 0.6 million of lost revenue during 2001. Please note that most of the decrease income has been in unrestricted funding, which has forced us to reduce our staff.

As a result of an increased effort to raise revenues through better donor coordination and increasing number of project proposals, we expect that revenues will increase to \$ 21.1 million in year 2002.

**2. Expenses.** Total expenses decreased from \$ 20.6 million in year 2000 to \$ 20.0 million in year 2001. Expense reductions were achieved mainly by personnel reduction, which had full economic effect in year 2001, and by cost controls in administrative services and other expenses.

For year 2002, expenses are projected to grow to \$ 21.5 million, due to an increase in research activities and research services. Administrative expenses are expected to fall.

**Table 1**  
**Income and Expense Summary**  
(US\$ Millions)

<b>Income</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
	Actual	Actual	Budget
Unrestricted	<b>10.3</b>	<b>8.7</b>	<b>8.8</b>
Restricted	9.9	10.0	11.1
Other & Special Allocations	3.2	0.3	0.3
Total Income	23.4	19.0	20.2
<b>Expenses</b>			
Programs & Services	15.0	15.0	16.6
Management & Administrative Services	4.7	4.5	4.4
Other	0.9	0.5	0.5
Total Expenses	20.6	20.0	21.5
<b>Surplus (Deficit)</b>	2.8	(1.0)	(1.3)

**3. Internal Restructuring.** In order to achieve financial balance in year 2003 and begin building up reserves, the center has taken a comprehensive set of measures during the past few weeks to achieve greater operational efficiency, by reducing expenses and implementing strategies to increase revenues.

First, 6 IRS and 95 NRS positions have been reduced. Second, regional offices are being consolidated and work in experimental stations is being reassigned and scaled down. Third, several administrative services are being outsourced or reduced. Fourth, administrative systems are being integrated and procedures streamlined. Fifth, the fund raising strategy is being enhanced. These measures will reduce expenses by \$ 0.3 million in 2002 and by \$ 1.5 million in 2003.

**Table 2**  
**Staff Positions**  
(At the end of year)

	<b>2000</b>	<b>2001</b>	<b>2002</b>
IRS	68	59	53 *
NRS - HQ	452	425	356
NRS – Regions	69	78	52
<b>Total</b>	589	555	462

**Table 3**  
**Expected Financial Impact of Downsizing Measures**  
(US \$ Millions)

	<b>2002 Budget</b>	<b>Expense Reductions**</b>
Programs	15.6	1.0
Research Services	2.0	0.2
Administrative Services	2.8	0.3

\*\* Expense Reductions will take full effect in year 2003.

A critical element to achieve a balanced budget and long term sustainability is fund raising. CIP's new fund raising strategy seeks to improve quality of project proposals and to better interact with, and increase, donors. For this purpose, the center is

reviewing internal procedures to develop and monitor research proposals, providing better tools to scientists to facilitate proposal development, and seeking external technical support for project leaders when needed. Promoting partnerships with potential end users, NARS and other research centers are a priority to obtain synergies and increase fund mobilization.

While we wholeheartedly support the new changes occurring in the CGIAR and are quite active in its implementation, we are concerned that in the meanwhile, our financial reserves are getting to a dangerously low level in spite of recent changes. This fact, combined with late donor payments, will compromise the operations of the Center and puts it in a vulnerable situation.

We appeal to the Executive Committee of the CGIAR for a special allocation of US\$ 0.7 M to cope with the downsizing process and allow us to get back in financial health.

We appreciate the strong support you are providing to CIP and the CGIAR. If required, I am prepared to appear before the Executive Council to respond to questions they may have.

Best regards

Dr. Hubert Zandstra  
Director General  
CIP  
Lima, Perú