Forty-fourth Regular Meeting of the Executive Committee

Proposal for partially recovering the financial capacity of Member States' quota contributions, given the decrease in purchasing power due to inflation 1995-2023

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San Jose, Costa Rica
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1. Introduction

In nominal terms, the freezing of Member State quota contributions since 1995 has generated a significant loss in the purchasing power of the Inter-American Institute for Cooperation on Agriculture (IICA). This is due to several factors, including: 1) changes in the consumer price index (CPI) and the exchange rate (ER) in those countries, which diminished the purchasing power of the Institute's income; and 2) rising operational costs, both in terms of personnel costs as well as the increase in the prices of goods and services procured by the Institute to deliver technical cooperation services to its Member States.

The Institute sought to minimize the effect described in the previous paragraph by approving a 6.57% increase in the quota scale of the 2016 Program Budget.

At the Twenty-second Regular Meeting of the Inter-American Board of Agriculture (IABA), held in 2023, the delegates raised the need for agreed-upon measures to recover the purchasing power of IICA's quotas.

The purpose of this document is to assess the loss of the purchasing power of Member State quotas as at the end of 2023.

To determine the annual loss of the purchasing power of these quotas, the nominal values of each year have been deflated to real 1995 values, taking into account the different currencies in which the Institute makes its expenditures, the CPI of the countries and the ER of local currencies against the dollar.

This document provides a concise description of the evolution of member countries' quotas since 1995 in nominal and real values, trends in the main operational costs and conclusions derived from the analysis of these factors.

This version has been prepared based on information available as at 31 December 2023.

2. Background

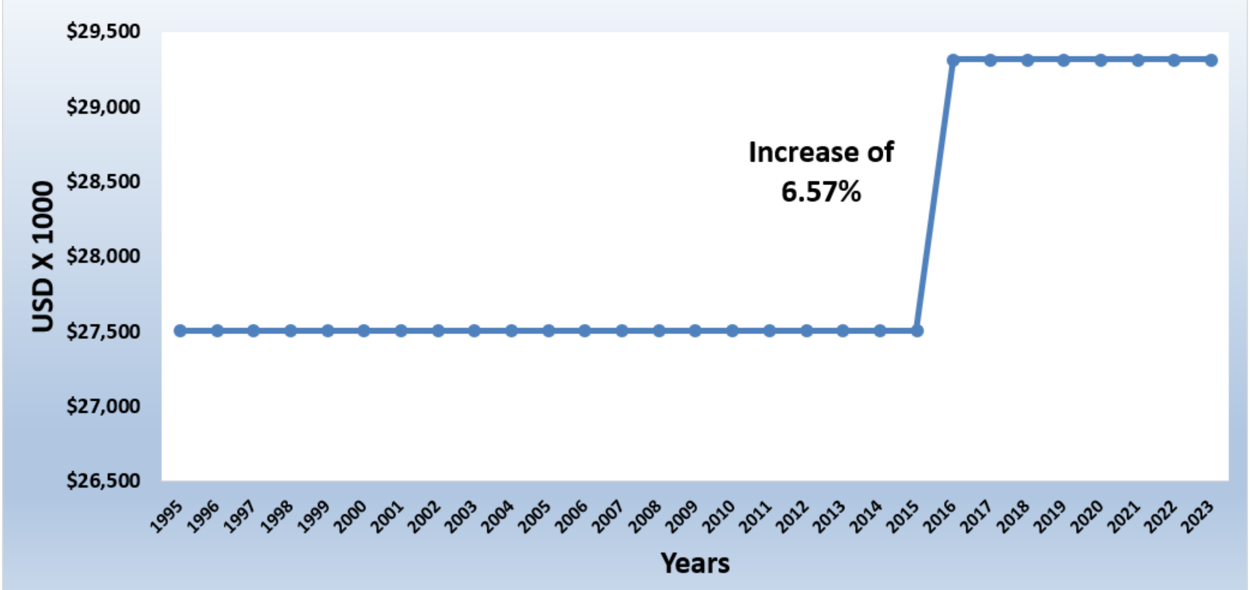
In recent years, multiple changes in the agriculture sector have generated a challenging context for IICA's operations. At present, technical cooperation demands are greater and more complex, which calls for more swift responses apply quality standards that are equal to or better than those in recent years.

The Institute has implemented a strict process restructuring plan to improve operations. It has also implemented rigorous rationalization and austerity measures to cushion the effects of price increases, fully capitalize on capacities, achieve economies of scale, improve the Institute's financial viability and boost the multiplier effects of expenditures and technical cooperation in the countries' target populations.

In 2015, the real value of quotas reflected a 32.5% reduction in the purchasing power of quota resources compared to 1995.

Via Resolution IICA/JIA/Res. 493 (XVIII-O/15), the Member States approved an increase of 6.57% in the quota budget for 2016-2017, to recover the loss of the resources of the Miscellaneous Income Fund and the incremental costs incurred due to the effect of inflation on operational and salary costs, in order to maintain at least the same operating level as in 2015. Figure 1 illustrates the quota scale from 1995 to 2023.

Figure 1. IICA: Amount of the quotas scale approved by the Member States



At the Twenty-second Regular Meeting of the IABA, the Member States recognized the resource rationalization efforts undertaken by the Administration, and considered that these measures should have a limit, so as not to affect the technical cooperation required by countries. In that regard, the delegate of Uruguay underscored the need to obtain a greater amount of resources and called upon the Member States to agree on and propose measures that would allow for recovering the purchasing power of quotas, noting that there had been no increases in 8 years and that the effect of inflation had accumulated.

Other international agencies, such as the Food and Agriculture Organization of the United Nations (FAO) and the Organization of American States (OAS) have had to increase quota contributions from their member countries to strengthen their financial standing[1].

The strict rationalization and equity measures applied to expenditures have proven very favorable and have allowed for mitigating the effects of losses in the real value of quotas. However, they cannot continue to be applied indefinitely without the risk of losing more talent and generating operational atrophy.

Failure to increase the quota scale would result in a reduction, in real terms, of more than 37.9% in the Regular Fund. This impact would translate into:

- A decrease in activities and contributions to the Member States and an incalculable loss in the work carried out and the technical investment over the years. The cost of recovering these losses would substantially affect results achieved in the Member States.

- The loss of the competitive advantage of mobilizing experts throughout the hemisphere and, consequently, a reduction in intellectual input provided to technical cooperation projects.

- Less organizational flexibility in responding to member countries' needs, which, in turn, would have a negative impact on different areas of the agriculture sector.

- An inability to make further adjustments to resources allocated to operations and personnel, which could potentially reduce the Institute's response capacity.

- The execution of operations under increasing pressure due to measures aimed at reorienting expenditures and reducing personnel, as well as an unhealthy organizational climate. This would render it more difficult to assume and cover increases in personnel costs and in the prices of services, equipment, furniture, vehicles, consultants, travel, insurance, etc., as well as to carry out the revaluation of local currencies.

- Fewer countries and fewer public and private stakeholders that could benefit from the strengthening of the agribusiness and associative capabilities of small and medium-scale producers.

- A reduction in the scope and quality of information and knowledge management networks and services in the countries.

- A decrease in the Institute's support in strengthening countries' capacities and institutions for integrated water and soil management and in fostering sustainable, climate-adapted agricultural practices.

- A reduced capacity of IICA to develop and implement early warning systems for pests and diseases exacerbated by climate variability and change.

[1] As of 2024, FAO's quota contributions have increased by 5.55 % (Resolution 4/2023), while those of the OAS have increased by 8.45 % (CP/Res.1225 – 2434/23).

3. Evolution of income and main operational costs

3.1 Income

The Institute's main financial income is comprised of quota contributions from its Member States, whose nominal value increased from 1990 (USD 23.1 million) to 1995 (USD 27.5 million), by 3.5% each year. However, from 1995 to 2015, it remained unchanged, which resulted in a significant loss in IICA's purchasing power. In fact, the real value of quotas approved for 2015 was USD 16.9 million (Table 1), which reflects a 38.5% reduction (equivalent to USD 10.5 million in absolute values) in the purchasing power of quota resources compared to 1995. The 6.57% increase sought to mitigate that effect; however, the real value of quotas approved for 2023 corresponds to USD 17.1 million (Table 1). This figure reflects a 37.8% reduction in the purchasing power of quota resources compared to 1995, equivalent to USD 10.4 million, generating a similar situation to 2015 (Figure 2).

Figure 2. IICA: Loss of purchasing power of quotas

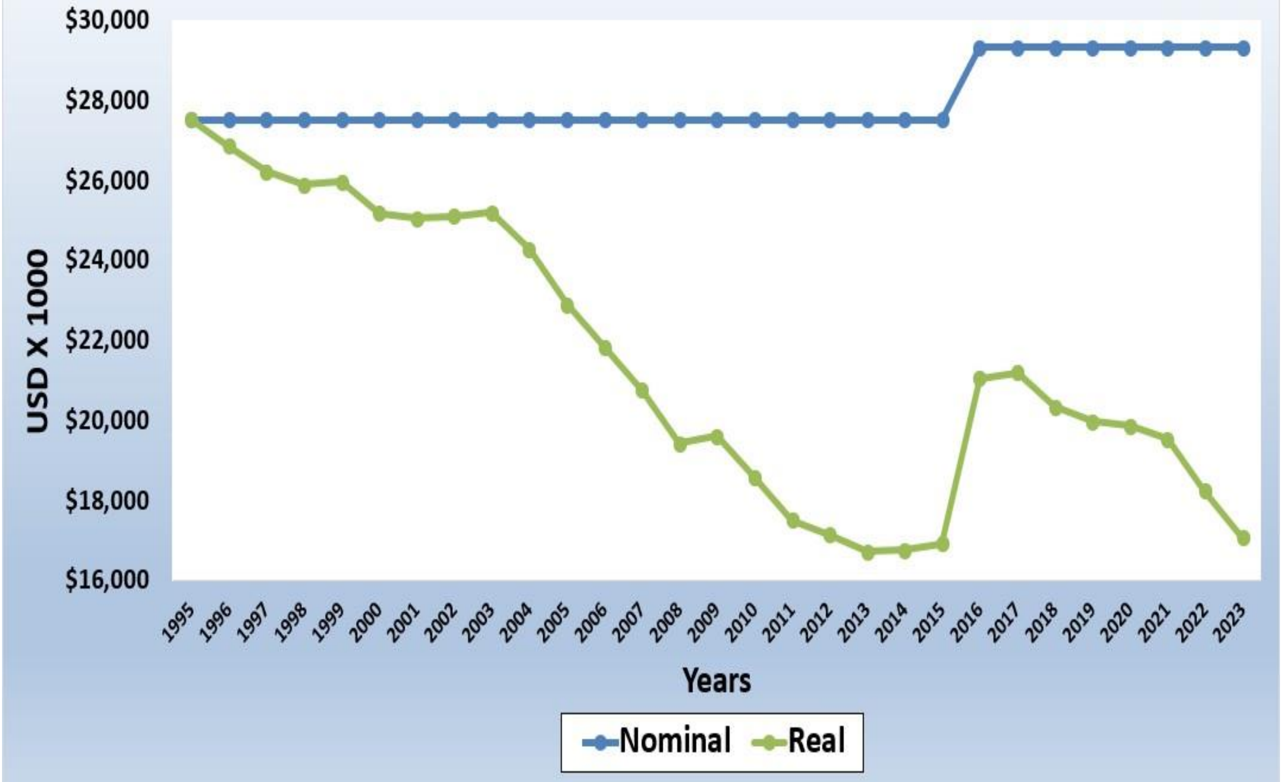


Table 1. IICA: Loss of the real value of Member States quotas 1995-2023

YEAR	NOMINAL VALUE						USA INDEX	DEFLACTOR	REAL VALUE				
	BUDGET	EXECUTED							EXECUTED			LOSS VALUE	
	USD X 1000	USD			PROPORTION				USD x 1000			%	
		TOTAL	MOE 1	2 to 9	MOE 1	2 a 9			MOE 1	2 to 9	TOTAL	ANNUAL	ACCUMULATED
1995	$27,509	24,756,275	10,067,401	14,688,874	0.406661	0.593339	1	1	11,187	16,322	$27,509		
1996	$27,509	26,761,874	10,553,428	16,208,446	0.394346	0.605654	0.97182	0.97889	10,542	16,309	$26,851	-2.39%	-2.39%
1997	$27,509	28,068,929	10,569,125	17,499,804	0.376542	0.623458	0.94967	0.95501	9,837	16,379	$26,216	-2.37%	-4.70%
1998	$27,509	27,364,104	10,944,146	16,419,958	0.399945	0.600055	0.93458	0.94593	10,282	15,614	$25,896	-1.22%	-5.86%
1999	$27,509	27,077,781	10,391,901	16,685,880	0.383780	0.616220	0.91491	0.96204	9,659	16,308	$25,967	0.27%	-5.60%
2000	$27,509	27,189,832	10,470,787	16,719,045	0.385099	0.614901	0.88496	0.93451	9,375	15,807	$25,182	-3.02%	-8.46%
2001	$27,509	26,440,925	9,949,004	16,491,921	0.376273	0.623727	0.86059	0.94117	8,908	16,148	$25,056	-0.50%	-8.92%
2002	$27,509	25,250,198	10,128,058	15,122,140	0.401108	0.598892	0.84746	0.95677	9,351	15,762	$25,113	0.23%	-8.71%
2003	$27,509	26,030,007	9,516,767	16,513,240	0.365608	0.634392	0.82850	0.96687	8,332	16,873	$25,206	0.37%	-8.37%
2004	$27,509	26,179,944	9,312,480	16,867,464	0.355710	0.644290	0.80645	0.92461	7,891	16,388	$24,279	-3.68%	-11.74%
2005	$27,509	26,079,032	9,408,616	16,670,416	0.360773	0.639227	0.78064	0.86124	7,747	15,144	$22,892	-5.71%	-16.78%
2006	$27,509	26,757,170	9,789,346	16,967,824	0.365859	0.634141	0.75586	0.81587	7,607	14,233	$21,840	-4.60%	-20.61%
2007	$27,509	26,689,903	9,496,231	17,193,672	0.355799	0.644201	0.73475	0.76531	7,192	13,562	$20,754	-4.97%	-24.56%
2008	$27,509	26,987,094	10,495,759	16,491,335	0.388918	0.611082	0.70771	0.70571	7,572	11,863	$19,435	-6.35%	-29.35%
2009	$27,509	27,077,239	10,450,492	16,626,747	0.385951	0.614049	0.71023	0.71458	7,541	12,071	$19,611	0.91%	-28.71%
2010	$27,509	27,292,227	10,706,297	16,585,930	0.392284	0.607716	0.69881	0.66060	7,541	11,044	$18,585	-5.23%	-32.44%
2011	$27,509	27,291,191	9,502,599	17,788,593	0.348193	0.651807	0.67751	0.61469	6,489	11,022	$17,511	-5.78%	-36.34%
2012	$27,509	27,684,364	9,432,975	18,251,389	0.340733	0.659267	0.66445	0.60222	6,228	10,922	$17,150	-2.06%	-37.66%
2013	$27,509	27,803,948	9,658,357	18,145,591	0.347374	0.652626	0.65402	0.58313	6,250	10,469	$16,719	-2.51%	-39.22%
2014	$27,509	27,809,326	9,578,684	18,230,642	0.344441	0.655559	0.64392	0.59166	6,101	10,670	$16,771	0.31%	-39.03%
2015	$27,509	27,809,442	9,458,481	18,350,961	0.340118	0.659882	0.64309	0.60081	6,017	10,906	$16,923	0.91%	-38.48%
2016	$29,318	30,064,827	9,568,533	20,496,294	0.318263	0.681737	0.63490	0.75718	5,924	15,134	$21,058	24.44%	-23.45%
2017	$29,318	29,793,048	9,976,112	19,816,936	0.334847	0.665153	0.62165	0.77406	6,103	15,095	$21,198	0.66%	-22.94%
2018	$29,318	28,402,757	9,854,142	18,548,615	0.346943	0.653057	0.60685	0.74048	6,173	14,177	$20,350	-4.00%	-26.02%
2019	$29,318	30,067,524	10,872,801	19,194,723	0.361613	0.638387	0.59604	0.73014	6,319	13,665	$19,984	-1.80%	-27.35%
2020	$29,318	24,347,665	9,314,401	15,033,264	0.382558	0.617442	0.58869	0.73236	6,603	13,257	$19,860	-0.62%	-27.80%
2021	$29,318	25,425,241	9,192,099	16,233,142	0.361534	0.638466	0.56236	0.72572	5,961	13,584	$19,545	-1.58%	-28.95%
2022	$29,318	27,286,450	10,220,135	17,066,315	0.374550	0.625450	0.52074	0.68264	5,718	12,518	$18,236	-6.70%	-33.71%
2023	$29,318	29,472,725	10,520,927	18,951,798	0.356972	0.643028	0.50010	0.62764	5,234	11,832	$17,066	-6.41%	-37.96%

3.2 Main operational costs

The main operational expense of the Institute is for the payment of salaries for the international professional personnel (IPP), the local professional personnel (LPP) and the general services personnel (GSP). In the last eight years, approximately 66.4% of the Regular Budget was allocated to this budgetary category.

Between 2015-2023 the budget for operational costs accounted for 33.6% of the regular budget on average and its nominal value increased by 20.3% (Table 2).

Table 2: Variation in expenditures for IPP and Local Staff and operating expenses, 1995-2023

(in thousands of USD)

MOE	1995	2023	VARIATION	
			AMOUNT	%
IPP	12,396	11,098	-1,298	-10.5%
Local staff	7,635	10,154	2,519	33.0%
Operating costs	8,999	10,822	1,823	20.3%
Total	**29,030**	**32,074**	**3,044**	**10.5%**

Between 1995 and 2023, the number of IPP staff was reduced by 53% and the GSP by 48.1%, whereas there was a 55.6% increase in LPP, which means that there are now 62 IPP, 126 LPP and 162 GSP (Table 3).

In order to maintain an acceptable level of salary expenses as a share of the total budget, the Institute has reduced expenses for IPP (10.5% since 1995) and GSP. Moreover, the number of LPP has been increased to compensate for this reduction in IPP. However, the Institute’s capacity to provide technical cooperation services has also been reduced, as has its capacity to move its international personnel between countries.

The annual unit cost for international professionals increased from USD 93,900 in 1995 to USD 179,000 in 2023. However, the substantial reduction in this category of professionals (53%) has enabled the Institute to reduce expenses in this budget chapter from USD 12,396 to USD 11,098.

In terms of the LPP and the GSP, the average annual cost increased 33% during this period, moving from USD 7,635 in 1995 to USD 10,154 in 2023.

Table 3. Evolution of the number of positions financed in the budget with the Regular Fund, according to personnel category.

YEAR	CATEGORY OF PERSONNEL INTERNATIONAL PROFESSIONALS	LOCAL PROFESSIONALS	GENERAL SERVICES	TOTAL
1995	132	81	312	525
1996	121	87	289	497
1997	117	95	285	497
1998	110	98	249	457
1999	103	101	247	451
2000	99	97	251	447
2001	99	97	251	447
2002	96	101	238	435
2003	93	120	221	434
2004	94	126	230	450
2005	94	126	230	450
2006	94	131	237	462
2007	94	131	227	452
2008	94	135	227	456
2009	94	135	227	456
2010	95	152	213	460
2011	93	157	213	463
2012	88	151	208	447
2013	88	151	208	447
2014	82	151	194	427
2015	79	149	201	429
2016	77	147	195	419
2017	77	147	195	419
2018	72	146	195	413
2019	72	146	195	413
2020	71	125	181	377
2021	71	125	181	377
2022	62	126	162	350
2023	62	126	162	350
VARIATION (%)	-53.0	55.6	-48.1	-33.3

In addition to the salaries of technical staff, another important expenditure undertaken in the provision of technical cooperation services is for travel and per diem expenses. For example, it must be pointed out that according to data provided by the International Air Transport Association (IATA), tickets for airline travel on the routes most frequently taken by Institute staff increased by 35% to 40% in recent years.

On the other hand, per diem scales increased between 1997 and 2023, particularly in North America, Central America and the Caribbean, as indicated in Table 4.

Table 4. Changes in per diem scales for selected cities 1997 and 2023 (USD/day)

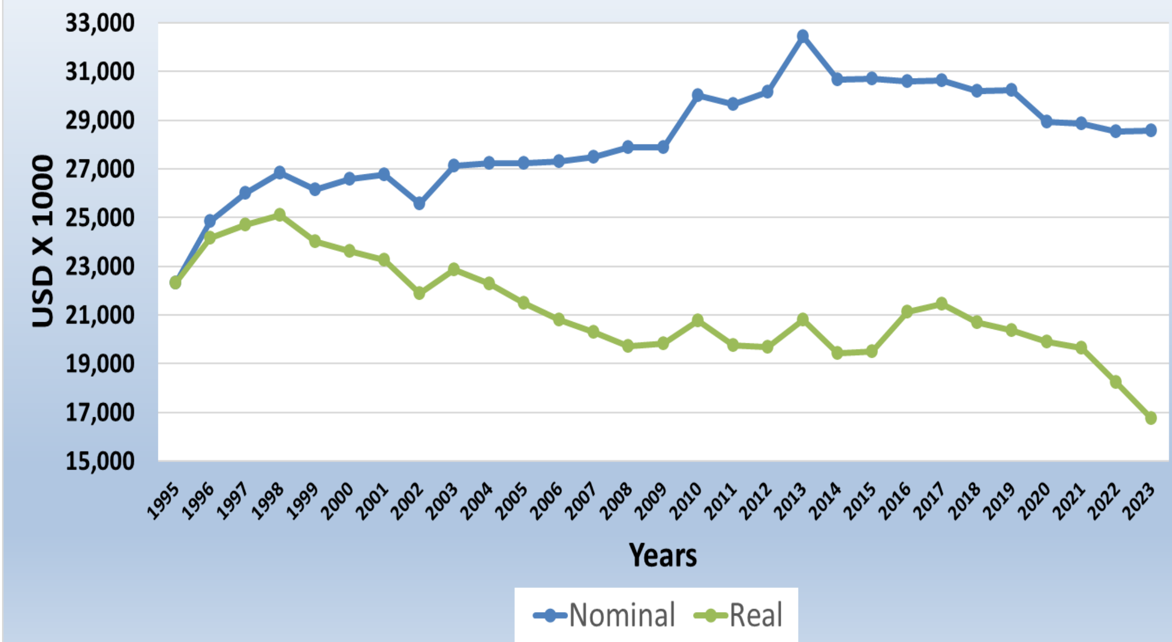
SELECTED CITIES	1997	2023	VARIATIONS %
NORTH AMERICA			
Montreal (Canada)	132	308	133.3
Washington, D.C. (USA)	194	389	100.5
Mexico City (Mexico)	168	237	41.1
CENTRAL AMERICA			
Guatemala (Guatemala)	125	197	57.6
San Jose (Costa Rica)	135	165	22.2
San Salvador (El Salvador)	145	189	30.3
CARIBBEAN			
Kingston (Jamaica)	153	278	81.7
Santo Domingo (Dominican Rep.)	102	202	98.0
Trinidad (Trinidad and Tobago)	138	305	121.0
SOUTH AMERICA			
Caracas (Venezuela)	170	251	47.6
Santiago (Chile)	192	260	35.4
Buenos Aires (Argentina)	214	266	24.3

4. Coverage of technical cooperation services

The information analyzed in the previous section clearly shows that in recent years, the Institute has seen a significant reduction in total income earned, whereas its main operational costs have increased in a sustained manner. This has restricted the Institute's response capacity to address technical cooperation demands in a timely manner.

Figure 3 illustrates the evolution in the volume of resources from the Regular Fund allocated to fund direct technical cooperation services during the 1995-2023 period. Although, up to 2003, IICA was able to achieve modest growth in the level of funds allocated for technical cooperation services (15.8% in real value), there was a decreasing trend in the following years. There was a slight increase in 2016 and 2017, due to the increase in quotas, but the downward trend resumed in 2018 up to 2023, when the real value of resources was equivalent to 75.1% of the value in 1995 (USD 22.3 million).

Figure 3. IICA: Resources Allocated to Direct Technical Cooperation Services from Regular Fund



This situation is a direct consequence of the financial limitations that IICA faced during the period, which were partially offset by the application of measures aimed at improving efficiency and the effective use of the limited financial resources, with a view to maintaining the Institute's capacity to achieve a minimal acceptable level of technical cooperation services for member countries in an increasingly demanding and diversified scenario.

5. Conclusions

Possibly expanding the quota budget by 10% and maintaining the over-quota contributions agreed on by the Member States would enable the next Administration to partially recover the financial capacity of the quota contributions from the countries and compensate for the loss of purchasing power due to the effects of inflation on operations and salaries, with a view to maintaining an operational level at least equivalent to 2023.

The freezing of the required quota contributions of the Institute’s Member States as of 1995 had a negative impact on the financial capacity of cooperation actions. Despite the 6.57% increase in the level of quotas since 2016, the progressive loss of the purchasing power of these resources has reduced the real value of quota contributions to the Institute during the 1995-2023 period by 37.9%, a percentage similar to 38.4% in 2015, which was the reference year for the increase made.

The measures adopted to compensate for this effect triggered a major change in IICA’s overall financing structure as of 1993, given that the Institute compensated for the lack of a budget by mobilizing miscellaneous resources, in order to maintain its operational capacity at a level capable of addressing the cooperation demands of member countries. However, this is a highly variable source of income, which depends in great measure on interest rates and the restrictions applied by the countries to allow the Institute to recover taxes.

The other source of income, indirect cost recovery (ICR), is intended to cover incremental costs generated in the execution of externally funded projects, and therefore these resources are not available to cover IICA’s basic costs.

Although the resources obtained through miscellaneous income and ICR have contributed in great measure to the Institute’s sound financial position at this time, they cannot be considered as primary sources to fund direct technical cooperation actions, due to the sporadic manner in which they are generated.

The Institute has maintained an acceptable ratio of salaries vis-à-vis the overall budget, through the systematic reduction in the number of IPP (53%) and GSP (48.1%) between 1995 and 2023. On the other hand, it has increased its LPP by 55.6% to partially compensate for the reduction in international staff.

The accelerated increase in costs for staff and other objects of expenditure, essential for undertaking cooperation actions, has considerably limited the organization’s operational and response capacity to address growing and diversified demands for cooperation services in the Member States in a timely manner. This is due to the fact that resources available to allocate to the different units in the organization are insufficient to compensate for the increase in operational costs.

Consequently, the capacity of the Institute’s technical coverage has declined, as has its flexibility to move international staff between these countries. In order to resolve this situation, measures have been taken to make technical cooperation actions more targeted in order to use the limited financial resources more efficiently and effectively, with a view to maintaining the Institute’s capacity to offer technical cooperation services at an acceptable level.

In summary, these factors have required adjustments in institutional organization, reflected in a reduction in the staff complement funded with IICA resources, the redistribution of functions, reduction of actions to develop new institutional capacities, reduced resources for pre-investment and emphasis on the search for effective partnerships.