

Report of the Treasurer

By Mr Peter Stoll

Progress in Stewardship

To Be a Lutheran Communion under Changing Financial Conditions

- (1) What does it mean to be a Lutheran communion under the rapidly changing contexts of our globalized world today? What does it mean to meet the growing expectations of the member churches? And what does it mean to support this communion under ever more challenging financial conditions?
- (2) Let us take a look back at history. Shortly after World War II The Lutheran World Federation (LWF) started as a diaconal movement at a time when churches around the world wanted to jointly support the suffering people in Europe. At that time there were three other motivations for the creation of a global body like the LWF: tackling mission challenges jointly; reflecting theologically; and working together ecumenically. By engaging jointly in the four tasks, we discovered that we could be much more than a strategic alliance. We could be a communion.
- (3) Soon we realized that our work had to meet the needs of an ever-changing world. At least every year—sometimes every day—we saw new challenges and new circumstances for our work. What has made our work successful? We have held on to our mission and vision through all obstacles while adapting everything else to the constant changes. From the very beginning we did this globally.
- (4) Today, we are witnessing the accelerating pace of globalization. We are confronted with increasingly new challenges for our churches. We have to do our work under rapidly changing, if not deteriorating, financial conditions.
- (5) To cope with this situation, the LWF and its member churches have to concentrate on:
 - being a communion;
 - holding on to our mission and vision;
 - being willing and flexible enough to adapt to the conditions and contexts existing in the world today.
- (6) Over the last several years, especially since the 2003 Tenth Assembly in Winnipeg, Canada, the LWF has been accelerating the learning process to deal with this situation. Let us first look at what has been successful.

What Has Been Successful in Finances since Winnipeg 2003

Responding to ethical convictions through implanting standards of good governance

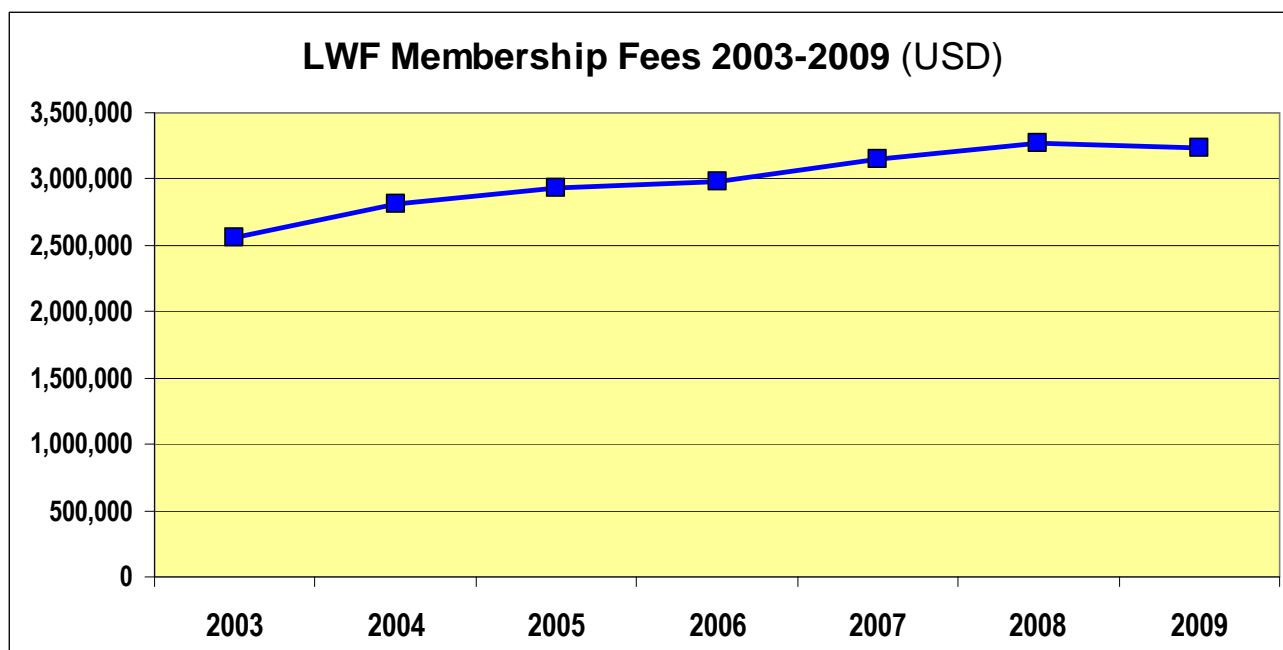
- (7) In 2005, the LWF decided to respond to its ethical convictions of accountability, transparency and good stewardship by adopting international standards of good governance.
- (8) Therefore the presentation of LWF's consolidated financial statements was changed to correspond to the International Financial Reporting Standards (IFRS). This lengthy exercise, involving close cooperation with the external auditors and actuaries, concluded in 2008 with the presentation of the annual financial statements in conformity with IFRS and Swiss law. Its benefits to the LWF include:
 - a clear, recognizable format for donors;
 - full disclosure of all assets, liabilities and reserves;
 - fairer presentation of performance (income and expenditure), cash flow and financial position;
 - consistency in presentation in accordance with professional standards.
- (9) The authorities and auditors are putting more and more emphasis on good internal control systems (ICS) and risk management in different organizations, be it a profit-making company or a non-governmental organization (NGO). The LWF defines the ICS as the full range of activities, methods and steps, established by the Council, in order to ensure a smooth running of the activities. The LWF's ICS has been developed over the last several years through the following elements:
 - LWF Principles for Internal Control Systems;
 - Financial Risk & Control Assessment;
 - Internal Audits in all departments, including Department for World Service (DWS) country programs;
 - Administrative Guidelines (including financial decision making, monitoring and control);
 - Investment Principles & Guidelines.
- (10) The following have been identified as key processes to be monitored:
 - procurement;
 - travel costs;
 - physical assets;
 - salaries;
 - finance;
 - information technology.

Appropriate Emergency Response

- (11) The most recent example of an appropriate emergency response was the Haiti earthquake. The LWF has received pledges and funds from all corners of the world, from the so-called rich and poor churches alike. As a reliable operational organization, the LWF receives funds also from governments and organizations related to the United Nations (UN).
- (12) Although the work in Haiti is very challenging, the LWF has quickly been able to deploy staff from other country programs, agencies and from Geneva to speed up the rehabilitation work. Unlike other organizations that leave after a few months of an emergency, the LWF stays as long as the local communities need assistance.

Fair Membership Fee

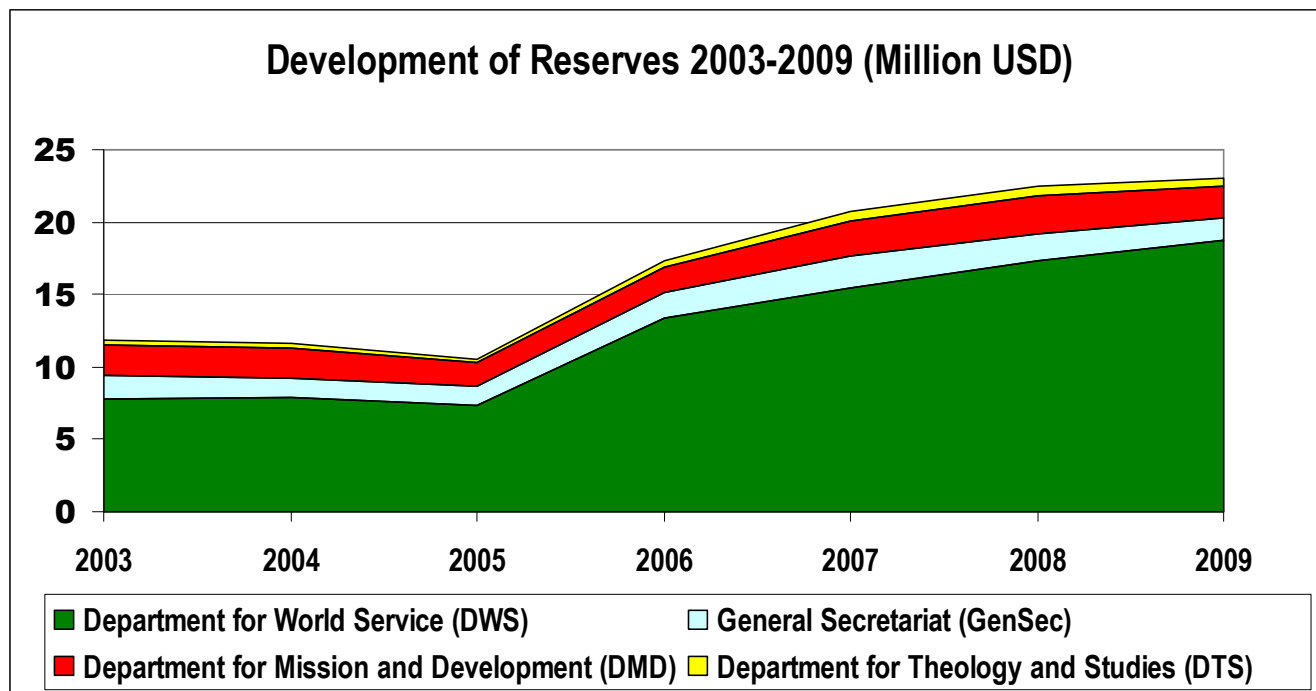
- (13) The LWF membership fees are calculated every two years. They are based on the number of members in the church and on the Gross National Income (GNI) or the wealth of the member church country. This has proven to be the best way to keep the membership fees as fair as possible. For example, if the GNI of the country increases and the number of members in the church stays the same, then the membership fee increases accordingly. Or, if two churches have the same number of members but the wealth of the countries (GNI) is different, then the church with higher GNI must pay a higher membership fee. For example, the Church of Norway and the Protestant Christian Batak Church in Indonesia have approximately the same number of members, but because the GNI of Norway is 15 times higher than the GNI of Indonesia, the membership fee of the Church of Norway is 15 times the fee of the Protestant Christian Batak Church in Indonesia.
- (14) The following chart shows the development of membership fees from 2003 to 2009.



- (15) The membership fee contributions have increased from USD 2.6 million in 2003 to USD 3.2 million in 2009, an increase of 23 percent. This is a good sign. However, there are still churches both in the North and South that do not pay their fair membership fee. I strongly urge all churches to show ownership of and responsibility for the LWF by paying the membership fees.

Development and Up-to-date Situation of the Reserves

- (16) The LWF is facing changing financial situations like its member churches. To cope with these changes reserves are necessary.
- (17) The following table shows the development of the reserves over the last several years. Due to the change in accounting principles during the period, the figures may not be fully comparable, but they still give a good picture of the situation.
- (18) The increase in the reserves has occurred mainly in DWS, where there are sufficient funds compared to the risk but not too high. In the other departments the reserves could be higher.



Ethically Reflected Investment Policy

- (19) The LWF funds and reserves are invested according to financial and ethical criteria. The organization has an investment portfolio of approximately USD 65 million in four separate legal entities: the Geneva Secretariat, the Pension Fund, the Endowment Fund, and the Ecumenical Institute in Strasbourg. All investments in these entities are managed according to ethical principles approved by the Council in 2008. The purpose of these principles is to promote positive corporate social responsibility consistent with what we understand as God's intention in the world. God creates and sustains all that is, and calls us to seek justice, peace, dignity, and sustainable communities for all. We do so as responsible stewards of what God has created and entrusted to us. How we invest our resources and hold companies accountable for their practices should reflect these faith convictions. Investments play an important role, for good or ill, in societies. In today's global economy, the challenge is for both companies and individuals to ensure that the distribution of economic benefits is equitable, supports sustainable communities and preserves the integrity of creation. The LWF does all this in cooperation with reputable partners such as the Ethos Foundation in Geneva.

DWS Operational Result

- (20) Another success story is the good operational results of DWS. During the last several years DWS has been able to stabilize its financial situation due to the implementation of more systematized controls and monitoring. DWS has also been increasingly accessing UN, governmental and private foundation funds through its enhanced resource mobilization capacity such that about half of the department's income comes from non-church related sources. All these activities have helped to bring reserves to a satisfactory level. Deep gratitude is extended to the DWS management team for its hard work. However, there is no time to rest as new challenges and risks emerge every day.

Assembly Budget

- (21) The Eleventh Assembly budget is USD 2.3 million. This event is quite expensive. I hope that in future the LWF will be able to coordinate assemblies together with other ecumenical organizations—not only for cost saving reasons.
- (22) This time, the LWF entered into a cooperation agreement with the Evangelical Lutheran Church in Württemberg, whereby it takes care of the local logistics in Stuttgart. We believe that the financial outcome of this Assembly will be neutral for the LWF.
- (23) While there are success stories since Winnipeg, some areas within LWF's finances still need further attention.

What Needs Further Attention in LWF's Finances?

Fundraising

- (24) Fundraising must fit the very different contexts in the regions and in the member churches. Although there is a constant need for improvement in fundraising, we have to be aware that not every successful way of doing fundraising in one church or country matches the situation elsewhere.
- (25) Consequently, the LWF has developed a fundraising strategy with different measures for different contexts. This strategy needs to be reviewed and assessed regularly.
- (26) Fundraising is about motivating people or organizations to be part of something which is worthwhile. It is a big challenge to find new partners through fundraising. Therefore it is very important to cultivate relationships with the existing partners. It is essential to raise funds for something that is important to potential donors. From our experience it is much easier to raise funds for emergencies, rehabilitation, development and advocacy work than it is for theological and ecumenical work or inter-church cooperation. However, if the LWF is not able to finance these latter tasks, it runs the risk of becoming just another NGO. Are the member churches willing to maintain and finance these parts of the work of the secretariat in the future?
- (27) As mentioned earlier, joint global diakonia has been one of the trademarks and a strong pillar for the LWF from its very beginning. In order to uphold and renew this spirit and commitment in a changing global economic environment, the DWS needs more cooperation with the member churches in the South and in Eastern Europe. In DWS the churches have a precious instrument for their diaconal work reaching beyond their own borders. This is what communion is all about. Perhaps further improvement of communication could help to renew and widen the commitment of member churches to the global diaconal work of the LWF.
- (28) Ultimately, fundraising is a matter of delivering the best possible results. It is about added value, transparency, credibility and reputation. When we are able to be among the best in our area of work, we also get partners who are willing to work with us.

Endowment Fund

- (29) The LWF Endowment Fund supplements the financial support provided for the work of the Lutheran Communion. The fund was established in 1999 with a long-term target of CHF 50 million. It has been growing gradually. The total funds at the end of 2009 amounted to CHF 11.8 million (USD 11 million). The next goal is to reach CHF 20 million by 2017. Some member churches have already pledged to donate their share.
- (30) Since its foundation the Endowment Fund has donated CHF 2.5 million to the work of the LWF. Please visit the Endowment Fund stand here at the Conference Center and check how your church is doing. You can also speak with the Endowment Fund Board members during the breaks and at regional meetings.

LWF Pension Fund

- (31) The LWF has its own small Pension Fund with 96 active members and 54 pensioners. During the financial crisis the financial status of the Pension Fund deteriorated substantially but during the last year the situation improved significantly. The coverage level of the Pension Fund is now approximately 100 percent. There is still some distance to go to reach the target level of 114 percent. The Pension Fund Board, where the LWF Treasurer is the chairperson, monitors regularly the coverage level and the number of members in the fund.

More Sustainability of the LWF

- (32) The LWF also works to improve the sustainability of the member churches. I would like to put three questions to the new Council on the issue of improving LWF's sustainability.
 - Ecological: Will the LWF Secretariat be ready for certification under the Eco-Management and Audit Scheme (EMAS) in the next years? EMAS is a management tool for organizations to evaluate, improve and report on their environmental performance.
 - Social: What are the key challenges for further development of the LWF personnel policies in Geneva and in the country programs and regions?
 - Financial: What would it take to make the LWF finances more crisis proof?

Quality Management

- (33) The LWF Secretariat's annual budget is approximately USD 100 million (without the DWS associate country programs). This money has been entrusted to us for the healing of the world. We must be good stewards. Therefore it is necessary that the LWF Secretariat provide high quality processes, programs, and projects. Words like "quality", "accountability", "transparency" and "strategic" should be part of our everyday communion vocabulary. So should "efficiency" and "effectiveness".
- (34) In the emergency and development community there is more and more emphasis on having operational organizations that are internationally certified. DWS is part of a group of NGOs that are committed to improving the efficiency and effectiveness of aid by developing standardized systems for financial and operational reporting based on adequate accounting and accountability standards. In the future, funding streams will relate to compliant organizations being certified by standard setting bodies rather than to specific projects and processes. Thus DWS is at the moment acquiring certain certifications.
- (35) I am convinced that one of the strategic emphases of the new LWF Council should be to ensure good quality management and pertinent operations for the whole secretariat. Perhaps the secretariat will be able to attain an International Organization for Standardization (ISO) quality certification in the coming years.

Strategic Planning: From a Strategic Plan 2007-2011 to a Rolling Strategic Plan

- (36) The current strategic plan for the LWF Secretariat took two and a half years to prepare—from September 2004 to March 2007. While this was a learning experience for both Council and staff, it was a time consuming exercise. Given the fast pace at which changes are occurring across the world, few organizations can afford lengthy strategic planning carried out every five years or so. In future such extended processes should be avoided. The LWF needs to seriously consider having a rolling strategic plan, which is reviewed annually, becomes integrated with the annual planning cycle, and enables the Council to play an important role.
- (37) According to the proposed new LWF Constitution, "the Council shall define the strategy of the LWF according to decisions and actions made by the Assembly." It might be a good idea for the new Council to have a workshop or a discussion on what "strategic planning" means in the context of the LWF. We need to be cautious: the LWF will not be able to sustain all its traditional programs.

Funding for Theological and Ecumenical Work in the LWF

- (38) The Ecumenical Institute in Strasbourg is a separate foundation with its own budget and board. While the institute's budget has been fairly stable in the past, the projection for 2012 is that there will be a dramatic decrease in funding.
- (39) In addition to Strasbourg Institute, the Department for Theology and Studies and the Office for Ecumenical Affairs in Geneva, deal with related issues. And we should not forget that the Department for Mission and Development and DWS deal with theological, ecumenical and interfaith matters in their daily work.
- (40) The Council in 2004 received a report on the funding of theological and ecumenical work in the LWF, which was prepared by the representatives of the units mentioned above. The conclusions of the report were as follows:
- Staff in the different units do not think that the current structures need to be changed.
 - More funding is needed for the theological and ecumenical work of the LWF.
 - Those proposing further changes, especially in the institutional ordering of this work, need to be aware of the complications involved and whether the advantages would outweigh the disadvantages.
 - The Council should determine how LWF work in theology and ecumenism should be focused and carried forward.
- (41) Since 2004 no further discussion on this report has taken place in the Council. It seems that all units concerned have wanted to continue their work as before, despite the unfavorable funding projections. Given this scenario, the time is now appropriate for the Council and the Strasbourg Institute board to undertake together a serious review of LWF's theological and ecumenical work, including the possibility of structural changes.

Augusta Victoria Hospital in East Jerusalem

- (42) The Jerusalem program with Augusta Victoria Hospital on the Mount of Olives in East Jerusalem is the biggest DWS country program. The annual budget of the hospital alone is approximately USD 13 million. In the middle of the 1990s the hospital experienced great financial difficulties. Under the leadership of the current management team the hospital has systematically developed unique and high quality services for the Palestinian population and at the same time renovated the buildings. It has been amazing to follow how the hospital has been able to adjust to new funding situations and sudden political changes in the area.
- (43) Because of its location, numerous activities and big budget, the hospital also carries certain financial risks. There is still an old renovation deficit from the 1990s amounting to USD 5 million. This deficit will be reduced by at least USD 200,000 per year. Secondly, the amount of income received from patient fees varies between USD 2-5 million. In order to secure its daily running costs, the hospital has been able to build up some buffer funds. In addition, a tax agreement with the Israeli government removed a big potential liability. Although the hospital's finances seem to be stable currently, the situation needs to be constantly monitored.

ACT Alliance

- (44) The recently launched ACT Alliance will probably expand the potential of churches and related organizations to respond better to emergencies, increase collaboration in development work, and provide a shared voice for advocacy. As one of the biggest partners in ACT Alliance, the LWF can provide high quality, efficient and effective services to the Alliance, which I am confident, will contribute to a bright future for both organizations.

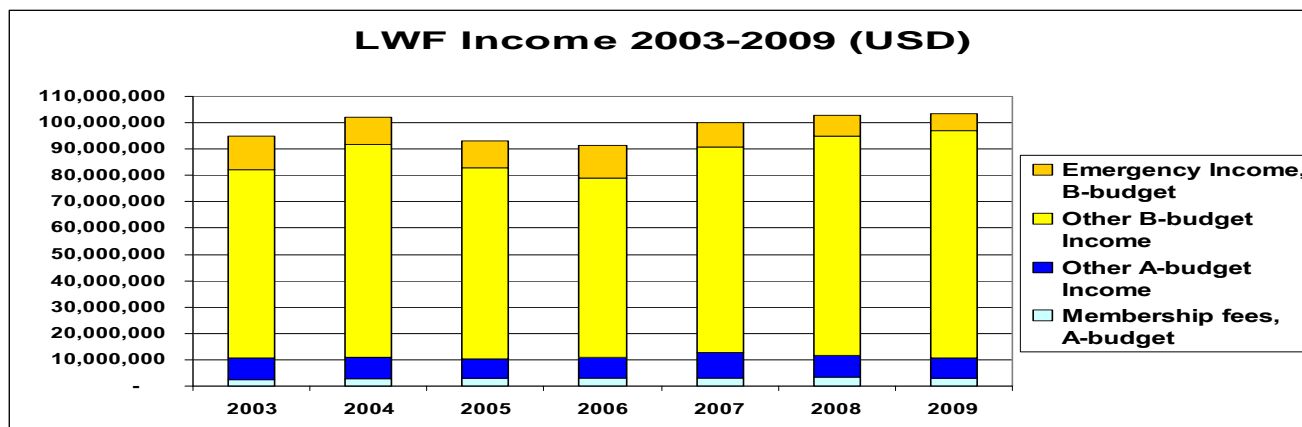
From Treasurer to Chairperson of Finance Committee

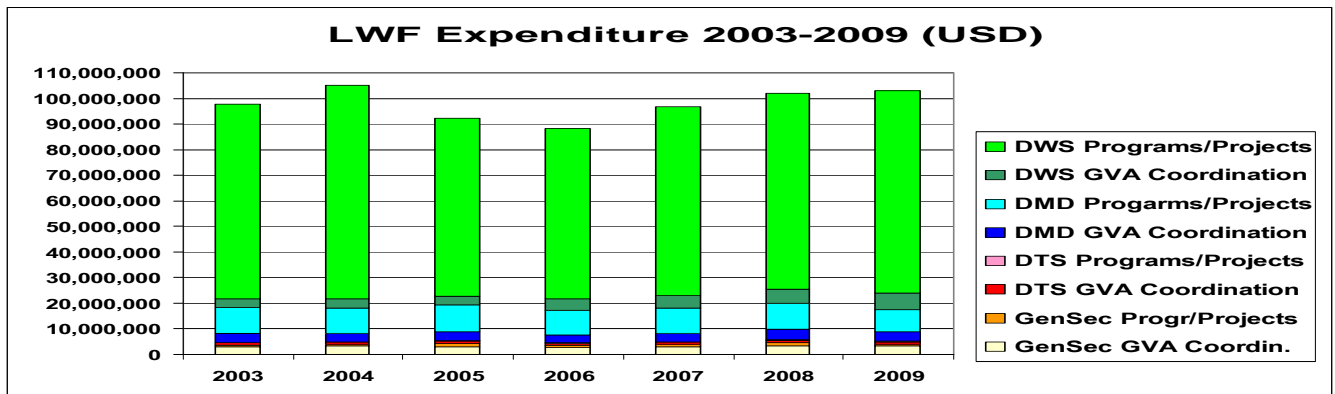
- (45) Being Treasurer of the LWF is voluntary work and not a full-time job. The full-time job within LWF's finances is carried out by the Finance Director, Mr Pauli Rantanen. Nevertheless, supervising the finances of the LWF, chairing the Finance Committee of the Council and interpreting the financial situation to the Council needs certain financial expertise. This need for financial expertise will remain throughout the upcoming constitutional changes.
- (46) According to the proposed new LWF Bylaws, the title and role of the Treasurer will change somewhat. The Chairperson of the Finance Committee will no longer have the same responsibilities as the Treasurer did in the past. For example, the Chairperson of the Finance Committee will no longer be Vice-President of his or her region.
- (47) The way things are done in the LWF need not only attention in the coming years but also immediate adjustment.

What Needs to be Adjusted in LWF's Finances?

Development of Finances 2003-2009

- (48) The following tables show the development of income and expenditure from 2003 to 2009.





- (49) The total budget amounts to approximately USD 100 million per year. This does not include the budgets of DWS associate country programs totaling about USD 20 million annually. Most of the funds are designated by the donors for certain programs and projects. There is very little money available that can be allocated to programs and projects by the Council or LWF staff. This is a constant challenge for us.
- (50) During the last four years, the income and expenditures have increased, especially in DWS. However there has been a structural deficit for some years now in all the other departments. I first alerted the Council about this in my report in 2005. This structural deficit was not obvious during the good years with significant exchange gains. Ultimately there will come a time when there will no longer be exchange gains. The exchange gains in the last two years have been minimal.
- (51) Consequently, the structural deficit has become visible. Against this background, it is indeed the right time to restructure the secretariat in order to ensure that the necessary work can be carried out with balanced budgets in all units for many years to come. That does not mean that we should only adjust to existing financial realities; that would definitely be wrong. However, the restructuring must be linked to a clear, strategic reflection on: What is the LWF? What are our tasks in the world? What resources are available for this work? How can we make these resources available?
- (52) How shall we cover the structural deficits in the budgets of the departments?
- Focusing - packaging differently, deepening existing relationships of cooperation, building new ones. It could help very much if the Assembly would set out a limited number of directions for the LWF for the next period.
 - Fundraising - necessary but may not be sufficient, taking into account the difficult financial situation of the churches and their members after the financial and economic crisis over the last several years.
 - Doing work more efficiently - this will help but what would certainly be more effective is to reduce the amount of workload put on the Geneva staff by the Assembly and the other governing bodies.
 - Reducing expenditure through restructuring the Geneva Secretariat following the proposals of the renewal process and under leadership of the General Secretary-elect - this would entail redesigning the structure and following budgets that are in line with the new strategic goals and linking the Geneva coordination expenditure more clearly and transparently to the programs and projects.
- (53) The process of restructuring has to be guided by the incoming Council. It should be aware of some questions that the current Council has raised and which have not yet been answered:
- Would it be helpful to decentralize more of the secretariat's work to create more synergy with the resources of the member churches or regions?
 - Is there a location where the secretariat or parts of it could work more cost-efficiently while taking into account the synergy within the Ecumenical Center and with UN organizations in Geneva?
 - Is there a need to restructure the seven LWF regions, the departments of the secretariat or other structures to work more efficiently and effectively?
 - Are we ready to implement a new style of leadership within the LWF's governing bodies and within the LWF Secretariat that meets the changes happening at an accelerating speed?

Finally

- (54) Our work as the Executive Committee and as the Council under the leadership of our President Bishop Mark Hanson, as the Finance Committee, and my work as the Treasurer in the years since Winnipeg would not have been possible without the support of member churches, agencies, national committees and the staff in Geneva under the leadership of the General Secretary, Rev. Dr Ishmael Noko. I want to express my gratitude to all of them and especially to the Finance Director, Mr Pauli Rantanen, and his team for exceptionally good work in hard times. Please join me in giving them a big hand.