

SIPRI Financial Management Working Group: Analysis, Potential Solutions & Recommendations

Financial management may be defined as **'the management of current financial operations based on analysis of financial information and knowledge of the organization's objectives and plans.'**¹

The working group identified two types of financial management: (a) Strategic financial management (SFM) and (b) Technical financial management (TFM).

1. Key strengths

1.1 - SIPRI's core grant

SIPRI's core grant from the Swedish government could be a key asset for strengthening research and ensuring financial stability if utilized in a strategic way. It could, for example, enable SIPRI management to invest funds in agenda setting cross-programme research projects designed to advance new thinking and approaches to leading international security issues and, thereby, to raise SIPRI's international profile. The Swedish government grant could also be an asset to enable SIPRI senior management to engage in medium term budget planning. In 2012, 14 per cent of the core grant was allocated to researchers salaries, underlining the past imbalance in SIPRI's budget planning.

1.2 - SIPRI staff

SIPRI researchers have extensive experience with managing the grants they implement.

2. Key challenges and how to address them

2.1. The SFM Challenge

An overview of SIPRI's expenditures between 2003 and 2012 highlights a number of serious challenges and trends of concern that continue to face the Institute in 2013. Despite record consecutive used external grant funds in 2008, 2009, 2010, 2011 and 2012, SIPRI failed to generate financial reserves in 2008, 2009 and 2012. This trend was particularly pronounced in 2012: a record SEK 29.7 million in external grants was used, representing more than 55% of SIPRI's expenditure that also included a record Swedish government grant contribution of SEK 24.1 million. However, of this total SEK 53.8 million, only SEK 239,971 was allocated to the financial reserves. Despite a stated intention to further build up SIPRI reserves in 2011, the current projected SIPRI budget for 2013 provides for a deficit that will significantly deplete SIPRI's reserves.

It is our assessment that the strategy pursued in recent years of seeking ever increasing levels of external funding to address financial shortfalls in the institute's budget is unsustainable, raising questions about the future fiscal position of the institute and SIPRI's ability to continue to support high quality policy research. The challenge is therefore to engage in effective strategic financial management to reduce risk and alter the dynamics most evident in FY 2012 which are undesirable and unsustainable. In particular, the recruitment of new staff for whom no external funding has yet been secured should be avoided.

¹ 'Financial Management for NonProfits', Corporation for Supportive Housing, 2001.

It was also felt there was a need for improved SFM with regards to how the core grant is allocated and spent. Various proposals were discussed. The most important conclusion was that the process - and the principles that underpin it - should be clear and transparent. At present, the allocation of the core budget seems to be entirely ad-hoc. Essentially, core budget is allocated whenever someone is hired or renewed who is not externally funded. In the past, as far as can be ascertained, there has been no planning about this, and certainly no declared principles or strategy behind it.

There was also a recommendation that the current location of SIPRI be discussed based on the background of costs (4,190,000 SEK for rent, utility and heating). There was a recommendation that the situation for other entities with similar government support be identified and explore options for relocation. Also, careful consideration must be given on the potential impact such change would have on SIPRI.

2.2. The TFM Challenge

The second major challenge identified by the group relates to technical financial management (TFM). Currently there is a lack of effective, unified, financial management systems at SIPRI. A key problem is that responsibility for key aspects of financial planning and management associated with external grants is devolved to the programme or project level. This places a high administrative burden on programme and project heads and means that there is no centralized system for collecting and processing key data.

The group identified the urgent need to develop and implement better tools and mechanisms for real-time financial management and planning that operate effectively and connectedly at the personnel, project, programme, external grant, and SIPRI-wide level. The group assessed that any system that is put in place should meet the following criteria:

- Allow researchers to easily track the time spent working on different projects and externally funded grants
- Allow programmes to easily track which external grants they are applying for and implementing
- Allow SIPRI senior management to easily track which external grants SIPRI is applying for and implementing
- Allow for the financial implications of grants applied for and received to be easily measured and assessed at the personnel, project, program and SIPRI-wide level
- Allow for straightforward production of financial reports for donors

The working group investigated a range of financial management options used by other organizations and institutes. Members of the working group also discussed rationalizing SIPRI's existing 'vegetable soup' of financial management tools to create a more streamlined system that better meets its needs. The current "vegetable soup" involved substantial costs for purchasing software and systems and costs 30,714 SEK per month. Members of the group also noted systems can be created through a combination of new and/or modified technical tools as well as changes to working practices. It appears that there is no single software solution that may be applied. This is particularly the case with Apple computers. However, the Small Arms Survey (SAS) system model is worth highlighting in this report.

Example: the Small Arms Survey (SAS) system

SAS are smaller than SIPRI. At any one time, SAS is implementing around 15-20 external grants which vary in size from about \$20,000 to \$2.5 million. However, SIPRI and SAS have many similarities in terms of funding sources and working practices. e.g. SAS have a mix of

project grants and consultancies from governments and international organizations with different reporting requirements. In addition, many of the funders SAS have are the same as SIPRI's (e.g. Swedish and UK governments). SAS have one financial system called Syslog that generates reports on all payments. They then have one person in house constantly checking reports of payments generated by Syslog against the budget documents for each project. These in-house budget documents are maintained on excel spreadsheets. This comparison is done manually but the system works because they have control over the reports generated by Syslog. This means that that the budget lines in the Excel budget docs and the spending lines in the *Syslog* reports are the same. An advantage of the system is that one person in-house has central oversight of projected income and expenditure at the institute, project, programme and individual staff level. SIPRI management should consider the relevance of the model.

2.3. Costing, communication and transparency

Actual costing of activities – both in terms of money, time, brand value and other factors – has been and remains a key financial management challenge at SIPRI. Communication on financial management within the institute at the technical level could be substantially improved. If communication were improved, perceptions regarding transparency would corresponding improve.

3. Short-term proposals (6-12 months)

The following short-term recommendations are based on an analysis of the challenges.

- Senior management could develop and implement an operationally relevant Strategic Financial Management 'roadmap'. This would outline the steps taken to address current expenditure dynamics and fundraising plans to raise funds for the institute as a whole.
- Budget for 2013 – the current external study commissioned by management to more accurately assess SIPRI's projected budget for 2013 would be a useful basis for such a presentation.
- Develop a system to allow us to collect and manage the information needed to do financial projections, while recognizing that there is probably not one single 'one size fits all' software solution out there.

4. Mid-term proposals (2-5 years)

The following mid-term recommendations are based on an analysis of the challenges.

- Implement clear and transparent systems of strategic financial management (SFM).
- Implement effective systems of technical financial management (TFM).

5. Blue sky thinking

Questions were raised as to whether if SIPRI's deficit effectively bankrupted, or threatened to bankrupt, the organization in 2014, whether Swedish government authorities or agencies would become involved – such as Statsförvaltningen.