

# Report of the Treasurer

*By Peter Stoll*

## *The LWF Navigating Through Financial Uncertainty*

### **Global Economic Crisis and the Lutheran Communion**

- (1) The global economic crisis has been long and deep. We still do not know when times will be back to normal nor what “normal” should be like. Yet again, we have seen that if left unconstrained, the endless greed of human beings (mostly men) will bring destruction and misery, this time globally.<sup>1</sup>
- (2) The crisis has an impact on most if not all of our member churches and related agencies. Some of them have had to reduce their budgets substantially. Let me mention some examples at random:
  - The majority of Slovenia’s Lutheran parishes are located in northeastern part of the country, a region so severely affected by the crisis that the church income has declined by a half. At present, a textile factory is nearly collapsing, which would mean another 1,200 people, many of them Lutherans, would lose their jobs. The situation is similar in neighboring countries in Europe.
  - In comparison, the situation in Germany is relatively comfortable. The Lutheran churches there are facing a 10 to 15 percent decrease in their church tax income this year. The predictions for the following years are not any better. This trend will more or less similarly affect the income of the LWF in the coming years.

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<sup>1</sup> For the love of money is a root of all kinds of evil. (1 Tim 6:10)

- Lutherans in Costa Rica have joined a coalition of farmers, businesses, environmentalists, and local communities in presenting to the government “Ten Measures for Confronting the Economic Crisis and Ensuring Social and Productive Inclusion.” The proposal seeks solutions to the economic crisis through a national dialogue involving all sectors of society. I fully agree with the LWF area secretary for Latin America and the Caribbean Rev. Martin Junge, when he appreciates the fact that the Costa Rican church, instead of complaining about the situation, joined a broader coalition of civil society movements that put forward remedial proposals. It also took on a mediating role within this coalition encompassing several groups.
  - In Argentina, the Evangelical Church of the River Plate reminds us that it has issued statements against the so-called neoliberal globalized system, because of the effects it produces. They have been particularly insistent regarding the unjust deals that continue pressing on their already exhausted economies. Have we heard these warning voices in the past years enough?
  - In their diaconal work in Argentina they notice that day-after-day more people approach them, people displaced by the system, and they have the impression that this development will increase. This situation seems to be the same in different countries all over the world even though at different levels depending on the starting point.
- (3) The global financial situation will inevitably have an impact on the support of churches and agencies to the work of the LWF Secretariat. In its pastoral message last October, the Executive Committee said that *“as churches, we are challenged to maintain our commitment to support and give hope to the poorest and most vulnerable, in our communities and throughout the world.”*
- (4) I hope that the churches and agencies will also do their best to support the work of the LWF Secretariat in the future. However, this year already, we have seen a reduction from some member churches and agencies, and we are afraid that this will continue. The work of the Department for Mission and Development (DMD) has been particularly affected by the funding reduction.
- (5) The Secretariat’s budget had a structural deficit for many years, of which I have repeatedly reminded the Council since 2005. While the exchange gains have fortunately covered the deficits in the last years, we cannot plan our future on exchange gains. In addition, the likely deficits of 2009 and 2010 could have been reduced if more measures would have been taken early enough, as precisely requested by the Council in March 2007.<sup>2</sup>
- (6) It is not easy to say what the new sustainable level of the Secretariat budget will be in the future. But one reasonable estimate for 2011 projects an estimated 15 percent reduction from 2009. It means that the current way of functioning will not be possible. Something new must emerge from the work of the Renewal Committee. If the report of the Renewal Committee will not have addressed this crucial matter, then it is our task as the Council to do so. I will revert to this issue at the end of this report, but let me first give you an overview of our current financial situation.

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<sup>2</sup> The Council voted to ask the General Secretary to bring to the June 2008 meeting of the Council a proposal for the necessary organizational changes to the Secretariat, in order to facilitate a timely realignment in 2009. (Council minutes 2007, paragraph 93)

That requested proposal was not presented because the work of the Renewal Committee should include a proposal for the necessary organizational changes. If the report of the Renewal Committee does not include proposals which are sufficient enough to cover the projected deficits of the coming years, the question will be open again. In this case we will have lost at least two years.

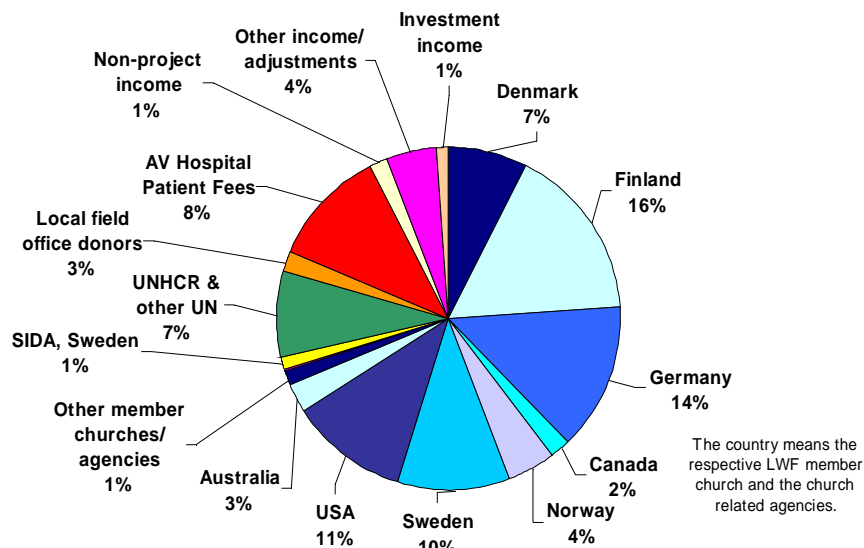
## Financial Result of 2008

- (7) The operational result of 2008 was a surplus USD 1.6 million. Due to the under coverage of the pension fund we had to make a provision of USD 549,000, which brought the net result down to USD 1.1 million. The pension provision can be released as soon as the fund attains a 100 percent coverage ratio again, which would improve the net result of that year. We also made some reserve adjustments: a scholarship fund was established in DMD; and the reserves of the Jerusalem program of the Department for World Service (DWS) were adjusted. The following table gives an overview of the 2008 result by department.

The Summary of Income and Expenditure for the year 2008													
Amounts in USD	General Secretariat		Dept. for Theology & Studies		Dept. for Mission & Development		Dept. for World Service			Total Geneva Coordination	Total Field Coordination	Total Programs & projects	TOTAL LWF
	Geneva coordination	Programs & projects	Geneva coordination	Programs & projects	Geneva coordination	Programs & projects	Geneva coordination	Field coordination	Programs & projects				
Income	3,110,306	1,049,757	889,227	214,429	3,388,774	10,031,550	3,508,609	3,226,610	76,337,301	10,896,916	3,226,610	87,633,037	101,756,563
Expenditure	-3,129,457	-1,049,757	-903,375	-214,429	-3,721,951	-10,031,550	-3,457,929	-1,667,548	-76,337,301	-11,212,712	-1,667,548	-87,633,037	-100,513,297
Subtotal	-19,151	0	-14,148	0	-333,177	0	50,680	1,559,062	0	-315,796	1,559,062	0	1,243,266
Project Write-offs	0	0	0	0	-6,340	0	0	0	0	-6,340	0	0	-6,340
Financial result	42,187	0	25,441	0	150,896	0	154,678	0	0	373,202	0	0	373,202
Operational result	23,036	0	11,293	0	-188,621	0	205,358	1,559,062	0	51,066	1,559,062	0	1,610,128
Pension provision	-238,410	0	-35,294	0	-157,066	0	-118,230	0	0	-549,000	0	0	-549,000
Net result	-215,374	0	-24,001	0	-345,687	0	87,128	1,559,062	0	-497,934	1,559,062	0	1,061,128
Reserves 1.1.	2,164,039	0	706,282	0	2,376,288	0	7,638,340	7,874,149	0	12,884,949	7,874,149	0	20,759,098
Reserve adjustm.	0	0	0	0	530,726	0	0	115,087	0	530,726	115,087	0	645,813
Reserves 31.12.	1,948,665	0	682,281	0	2,561,327	0	7,725,468	9,548,298	0	12,917,741	9,548,298	0	22,466,039

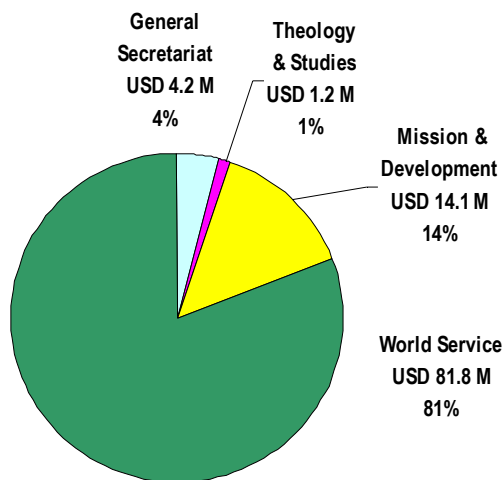
- (8) As we can see from the table, the Geneva Coordination operational results per department were as follows:
- General Secretariat (Gen Sec): a surplus of USD 23,036
  - Department for Theology and Studies (DTS): a surplus of USD 11,293
  - Department for Mission and Development (DMD): a deficit of USD 188,621
  - Department for World Service (DWS): a surplus of USD 205,358
- (9) The Reserves, i.e. the net assets freely available to the LWF, increased from USD 20.8 million to USD 22.5 million, which is above the minimum target level of USD 15 million. However, we have to remember that we still have to cover the outstanding Augusta Victoria Hospital renovation deficit of USD 5.3 million. In addition, the projected deficits of 2009 and 2010 will reduce the reserves substantially.
- (10) The DWS Field coordination result comes mainly from the strengthened financial position of the Augusta Victoria Hospital in Jerusalem. Only USD 6,340 program/project write-offs were necessary, which is the outcome of improved financial monitoring in the departments.
- (11) The 2008 total income of the LWF (including financial income) was USD 102.9 million compared with USD 100.2 million in 2007. The following pie chart shows where the 2008 support came from.

**LWF Income 2008, Total USD 102.9 Million**



- (12) The 2008 total expenditure of the LWF (without the pension provision) was USD 101.3 million compared with 96.8 million in 2007. The following pie chart shows how the expenditure was used between the departments. As before, around 80 percent of the funds were earmarked for the work of DWS.

**LWF Expenditure 2008, Total USD 101.3 Million**



**Budget Situation of the Eleventh Assembly in Stuttgart in 2010**

- (13) The working budget of the Eleventh Assembly is USD 2.2 million. The projected income covers the projected expenditure. As of 30 June 2009 we had received Assembly contributions amounting to USD 1.6 million. The budget has been worked out together with the Evangelical Lutheran Church in Württemberg, which will be responsible for the local logistics. A prepayment to the Württemberg church helped to eliminate most of the currency exchange risk.

## Staff Welfare Plan – LWF Pension Fund

- (14) At the end of 2008 the coverage ratio of the LWF Pension Fund was only 92.4 percent. This meant that the Pension Fund Board and the LWF Executive Committee had to decide on corrective measures, which included additional contributions by both the employer and employee. These fairly small contributions will be paid until the coverage ratio is 100 percent. The majority of Swiss pension funds are in a similar situation.

## Conclusion: Business as Usual and the Need for a Real Renewal

- (15) At this meeting we as the Council are required to:
- Approve the financial statements for 2008
  - Approve the Geneva Coordination budget for 2010
  - Appoint the Auditors for 2009 and 2010
- (16) All of this is business as usual. However, the LWF is in a situation that requires further special action: Due to the structural deficit of the Geneva Coordination budget, the Secretariat's work and staff should be realigned as soon as possible. These measures become even more urgent in view of the projected decreased support from the member churches and agencies.
- (17) Notwithstanding what the Renewal Committee's report says, the Council, Executive Committee and General Secretary should start to streamline the organization now rather than wait until the new Council is in place.
- (18) At the time of writing this report the last version of the Renewal Committee's report was not yet available. In any event, I am quite concerned with regard to some fundamental aspects:
- It is self-evident that the **management structures** of the LWF have to reflect the nature of the communion, but at least they **must** be clear, consistent and enable high quality and efficient implementation of the work. The decision making levels should be **unambiguous**.
  - The **financial reality** must be taken into consideration when planning the structures and areas of work. The Finance Committee can give advice, if needed. Because the resources are limited, **strategic planning and prioritization** should be routine in the work.
  - The **Department for World Service** must be able to continue its work in a professional manner. This requires centralized monitoring, quality assurance and financial control.
- (19) Well then, let's get to work.