



Special Advisory Commission on Management Issues (SACMI)

Business model and proposal for a new financial architecture: Towards IICA 4.0

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1. INTRODUCTION

1. The Inter-American Institute for Cooperation on Agriculture (IICA) is a specialized agency of the Inter-American System. Its mission is to *“to encourage, promote and support Member States in their efforts to achieve agricultural development and rural well-being through international technical cooperation of excellence”*¹. To this end, the Institute is guided by a Medium-term Plan (MTP) for the 2018-2022 period and a biennial program budget, which primarily depends on the annual quota contributions of its 34 Member States. The biennial budget is approved by the Inter-American Board of Agriculture (IABA), IICA’s highest governing body (Article 20 of the Convention on IICA).

2. IICA achieves this mission by providing its Member States with technical cooperation services, which are defined as *“the set of actions aimed at providing contextualized and innovative solutions to the main challenges posed by agricultural and rural development in the Americas”*². In addition to adding value, this technical cooperation of excellence generates significant transformations through joint, collaborative actions and responsibilities with strategic partners, in which the Institute serves as a mobilizer and facilitator.

3. Since 2018, the current General Directorate has been driving a profound institutional transformation process, which has resulted in significant concrete changes with respect to institutional alignment, the management of human talent, cost reduction and the optimization of financial resources, with a view to delivering technical cooperation services with greater efficiency.

4. Although efforts to transform the Institute and strengthen its business model³ originated before the coronavirus 2019 (COVID-19) pandemic, it is worth noting that IICA is currently facing unprecedented circumstances, which have strongly influenced development dynamics and the manner in which international organizations must deliver their services to add value for the benefit of their “interest groups or customers”⁴.

5. During the Fortieth Regular Meeting of the Executive Committee (July 2020), the Director General informed that governing body that the Institute is facing a high level of uncertainty with respect to the possibility of guaranteeing its financial sustainability⁵, which hinders its capacity to provide technical cooperation solutions that meet the needs and demands of the agriculture and rural sectors in its Member States, which are becoming even more necessary and pressing amidst the current crisis.

¹ Convention on IICA, 1979.

² Definition of technical cooperation, as it relates to the fulfillment of the 2018-2022 Medium-term Plan.

³ A description of what an organization offers to the “market”, how and to whom it provides its services, and the value beneficiaries are willing to offer in exchange for those services.

⁴ Customers are categorized as beneficiary customers, which are entities responsible for public policies and rural beneficiaries; supplier customers, namely research centers, universities and the technological development industry; and third-party customers, which are involved in development aid.

⁵ Financial sustainability is defined as the development of products and services that meet the needs of interest groups at a value that covers all costs of delivery, regardless of external subsidies. Financial sustainability is achieved when service and infrastructure levels and standards are delivered according to a long-term plan and without the need to increase rates, maintain service quality, or reduce the service portfolio.

6. In this regard, via resolution IICA/CE/Res. 660 (XL-O/20) the Executive Committee considered *“that the emergency situation triggered by the COVID-19 global pandemic has, among other things, resulted in an increased demand for technical cooperation from IICA”* and *“that, in order to implement the Institute’s 2018-2022 Medium-term Plan and respond to the emerging needs of the Member States, it is necessary to advance IICA’s institutional transformation process, as well as mobilize human resources and additional external financial resources that would allow for bolstering its support for agricultural development and rural well-being”*.

7. Consequently, via the abovementioned resolution, the Committee resolved:

1. To support the Director General’s initiative to advance the institutional transformation process, which should involve, among other things: a) the definition of a new business model, b) the development of a new financial architecture and c) the mobilization and collection of external resources from various funding sources, all of which must be compatible with the objectives of the Institute.

2. To instruct the Special Advisory Commission on Management Issues (SACMI) to serve as an extended permanent working group aimed at supporting, analyzing and developing a proposal for IICA’s comprehensive transformation.

8. In fulfillment of this mandate, an extraordinary meeting of the SACMI was held on 1 October 2020, during which the Director General presented a proposal to accelerate the Institute’s transformation towards IICA 4.0, i.e., an organization that is more innovative, productive, relevant in terms of its technical cooperation services and financially sustainable.

9. The proposal was well received and supported by the countries participating in the SACMI meeting. On that occasion, the Director General offered to hold another extraordinary meeting of the Commission, where he would present in greater detail the progress of the business model, as well as a proposal on the structure of the new financial architecture.

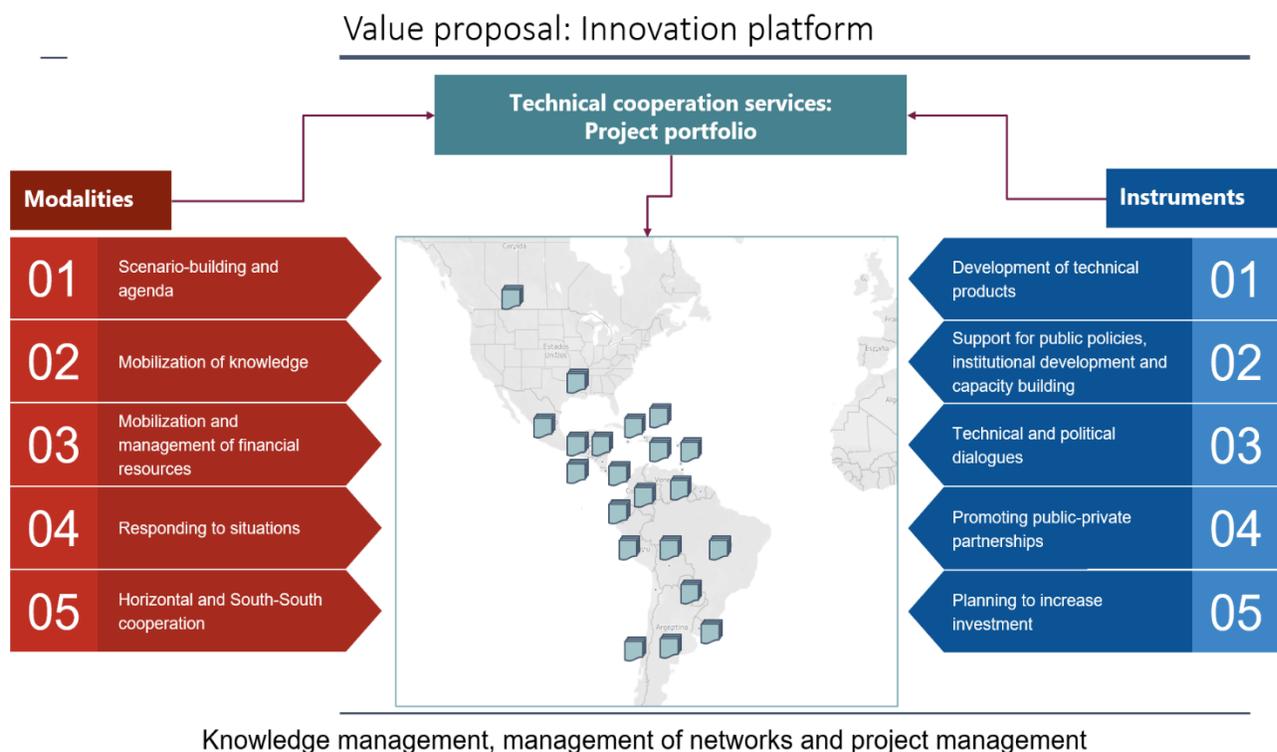
10. The purpose of this document is to provide the countries with more information on the strategies and progress of the business model and on the proposals to establish the Institute’s new financial architecture.

2. BUSINESS MODEL

11. The essence of IICA's mandate is to add value to its technical cooperation services in order to foster **innovation**⁶ in agriculture; in other words, to capitalize on institutional capacities to transform knowledge into solutions that address the national and supranational public policy demands of the Member States and of public and private stakeholders to achieve greater productivity, resilience and sustainability, and of knowledge institutions and the global system to achieve development.

12. The Institute's business model involves the dissemination of science and technology as it applies to agriculture and rural life (**knowledge management**); the establishment of cooperation and coordination relationships with institutions that pursue similar objectives (**management of networks**); and the provision of advisory services, management and execution of technical programs and projects within the framework of agreements with governments and other regional or international entities (**project management**).

Value proposal: IICA is an **INNOVATION PLATFORM** for the development of the agriculture sector and rural well-being, that aligns knowledge management in the Americas with the solutions requested by final users in the member countries.



⁶ Related to products, processes, policies, markets, organizations or institutions.

13. The idea for the new business model is based on three areas of relevance to current institutional management:

- The first area relates to the surroundings, characterized by spontaneous or induced demand generated in the “new normal” resulting from the dynamic sectoral context, which has been greatly affected by the current economic recession; this, in turn, forces the Institute to urgently identify new scenarios and develop solutions to maximize the contributions of its knowledge management and capacity for innovation.
- The second area corresponds to IICA’s internal aspects, which must focus on the level of productivity of its processes, systems and human, technological and financial assets, in order to increase their level of impact on the work areas described in the institutional mission.
- The third area focuses on the manner in which the Institute relates to its surroundings and on its comparative advantages to continue offering quality services; as well as on the development of innovative capacities that would allow for expanding its project portfolio while strengthening its financial architecture.

2.1. Roadmap

14. The creation of the new business model involved the development of a roadmap (Figure 1) consisting of three implementation approaches: a) **better targeting of the Institute’s technical cooperation agenda**, based on the current priorities of the Member States and with a prospective vision; b) **increasing the productivity** of institutional resources; and c) bolstering these efforts to sustainably and significantly increase the **relevance of the Institute’s cooperation services**.

Figure 1: Roadmap to implement the business model.

Line of action 3: Achieve diplomatic and political relevance as well as technical recognition to expand the project portfolio

Strategy 4. New institutional governance model (improving operating conditions)

Action 4.1. Establish and formalize hemispheric and regional technical networks
Action 4.2. Manage synergistic, inter-thematic projects and actions using a modern approach

Strategy 5. Broader scope of external and international relationships and greater institutional presence

Action 5.1. Protocols and agreements for external and international relations
Action 5.1. Institutional communication and positioning

Strategy 6. Strengthening of funding models for cooperation

Action 6.1. Develop the legal, political and financial aspects of the Innovation Fund for Resilience
Action 6.2. Institutional strategy to expand the project agenda and portfolio



Line of action 1: Agree on a relevant, updated agenda to guide the delivery of the technical cooperation based on real demands

Strategy 1. Demand: A resilience agenda to overcome the post-pandemic crisis.

Action 1.1. Post-pandemic outlook and perspectives for the sector
Action 1.2. Develop a hemispheric, regional and nation agenda to address vulnerability, risks and resilience
Action 1.3. Update and adjust the IICA's program agendas

Strategy 2. Supply: Platform for the innovation value chain

Action 2.1. Observatory and Reference Center for Innovation in Agriculture and Rural Areas
Action 2.2. Management of collaboration agendas to drive innovation in and agreements on the innovation value chain.
Action 2.3. Create a portfolio of technical cooperation products

Strategy 3. Strengthening of human talent

Action 3.1: Build up, perfect and provide certifications for technical skills
Action 3.2: Formalize a single system of Work Incentives.

Line of action 2: Increase corporate productivity in meeting the challenges of the new agenda

15. These implementation approaches include six strategies, each of which involves a series of concrete actions that have been presented at the institutional level to create task forces responsible for making these ideas viable. The goal of strengthening IICA's business model is: a) to improve the Institute's capacity to respond to the sector's recovery needs amidst the current crisis, and b) to significantly expand the Institute's project portfolio and offer innovative services to guarantee the Institute's sustainability in the short term. The objectives and expected results for the benefit of the Member States are summarized in the following table:

Table 1: The six strategies of the business model and their respective objectives and results for the benefit of Member States

Strategies	Objectives	Expected results
<p>1. Resilience agenda to tackle the post-pandemic crisis. Forecasting and convergence of agendas (demand).</p>	<p>Adjust the Institute’s technical cooperation agendas to offer responses that better satisfy the demands of partners, allies and clients, in response to the new requirements arising from the management of the crisis and the recovery process.</p>	<p>The Member States will have a) less uncertainty amidst the disruptions stemming from the pandemic, and the Institute will have reinforced its image as a proactive and innovative actor in processes to formulate public policies, investment and the social management of territories, as well as to enhance the competitiveness of chains and the resilience of agrifood systems; and b) developed national resilience agendas supported by the Institute to address the vulnerability of agrifood systems and rural livelihoods in the medium-term – 2021 to 2026.</p>
<p>2. Innovation value chain platform. Technical cooperation products and services (portfolio).</p>	<p>Apply the underlying logic of the model and value proposition, in the form of an innovation platform to: a) capitalize on the Institute’s technical knowledge management networks and chains; b) implement a strategy that leads to significant value-added partnerships; and c) strengthen the institutional culture of developing cooperation products that users and clients can apply as solutions to their needs.</p>	<p>The Member States are supported by a leading institution in innovation processes that embodies the principle of “IICA knows who knows”. Within the framework of a renewed innovation platform, IICA 4.0 will have integrated the logic of the value chains, the principles of shared value and collaborative services into its technical cooperation services, with a view to developing mechanisms for permanent and long-term partnerships and fair compensation to the parties involved.</p>
<p>3. Human talent development. Training, development and certification system for technical and administrative skills.</p>	<p>Enhance the productivity of IICA’s human resources, by strengthening human talent operations and by professionalizing and formalizing processes for selection, assigning of roles, development, training, certification, incentives and professional commitment.</p>	<p>The Member States benefit from an IICA with a solid team of professionals and a system to develop, upgrade and certify the technical, professional and work competencies of its teams, as part of its continuous efforts to foster collaborative work that is service-oriented and recognizes the importance of shared values, which will guarantee not only a high-level of innovation, but also the capacity for teamwork and network management.</p>

<p>4. New institutional governance. Organizational chart, networks and project management.</p>	<p>Ensure more comprehensive technical cooperation and streamline technical resources, by increasing the effectiveness of cooperation service delivery, through a productive network operation involving IICA's technical units. This process is aligned with value chains and is based on adequate project management with greater flexibility, coverage and the capacity to respond to the demands arising from the current crisis.</p>	<p>The Member States receive better project-oriented technical cooperation services from a team that has been organized into thematic networks and that makes optimal use of resources, implements adequate work coordination and integration mechanisms, and intensively exchanges knowledge in response to the cooperation agendas that have been defined for the Institute's various areas of work.</p>
<p>5. Greater institutional presence and impact. Relationships and communication.</p>	<p>Strengthen the foundations for IICA's legal, diplomatic, political and technical relationships with stakeholders in its field of work, by strengthening linkages with users, partners and clients; broadening the coverage, scope and relevance of the Institute's activities; and increasing recognition for its work among the Member States.</p>	<p>The Member States are supported by an Institute that plays a key role in international multilateral management, through the strengthening of external relationships within the context of global and regional cooperation for agricultural and rural development. To this end, the Institute will have established new cooperation agreements that support the creation of a project portfolio and innovative funding mechanisms for the priority agendas of the Member States and IICA.</p>
<p>6. Strengthening of the funding models for cooperation. Financial architecture and expansion of the portfolio.</p>	<p>Establish a sustainability strategy aimed at transforming funding into an effective tool for meeting the institutional mission while ensuring that the recipients of technical cooperation consider these services to be relevant, valuable and effective and are therefore willing to provide funding in exchange. This, in turn, will allow for expanding the Institute's portfolio of services, attracting new resources and achieving long-term institutional growth.</p>	<p>The Member States are supported by an Institute with the capacity to substantially and strategically increase the attraction of financial resources to expand the scope, coverage and extent of the support it provides to agricultural and rural development efforts in the Americas. To this end, the Institute will rely on a new funding strategy that covers matters related to pre-investment, co-funding, multilateralism and value chains, using innovative financial mechanisms to create more robust project portfolios.</p>

16. The following sections describe the main progress achieved with respect to the abovementioned strategies and the internal work undertaken by the creative groups:

- Development of a methodology to adjust the countries' cooperation agendas to the post-pandemic scenario.
- Development of a modern organizational structure based on network and project management, that more efficiently incorporates skills certification for human talent,

particularly in areas related to the management of knowledge, networks and international cooperation projects.

- Development of a proposal for a new financial architecture that allows for expanding our technical cooperation agendas, whose characteristics are described below.

3. TOWARDS A NEW FINANCIAL ARCHITECTURE

3.1. IICA's current financial architecture

17. The Institute's current financial architecture is based on three main funding sources: Member States' quotas, miscellaneous income and indirect cost recovery (ICR) from technical cooperation projects.

18. Quotas are mandatory contributions that governments must pay to IICA each year. They are established, using the same pro-rata scale as the scale approved by the General Assembly of the Organization of American States (OAS), which is adjusted periodically (Article 23 of the Convention on IICA⁷).

19. Miscellaneous income includes, among other resources, short and long-term interest received from bank accounts and investments, earnings/losses from the conversion of currencies, the rental or sale of the Institute's fixed assets, and funds received for unspecified purposes.

20. ICR resources are funds that the Institute receives for executing and administering projects. It must be pointed out that ICR is specifically linked to the execution of donor agreements, contracts and conventions signed with donors (Member States, international organizations and others) for the particular purpose of each initiative.

3.2. The current financial situation of IICA

21. In the last 21 years, the Institute's budget, funded solely with quotas resources, has increased by only 6.57 %.

22. The budget approved by the IABA for 2020 includes USD 29.5 million in Member State quotas. However, given the fragile economic situation of the countries, the expectation is that only 73% of that amount will be received.

23. According to the most recent financial information (October 2020), there are USD 25.3 million in outstanding quotas from Member States, which is equivalent to 87% of IICA's annual quota budget.

⁷ "Article 23. The Member States shall contribute to the maintenance of the Institute through annual quotas established by the Board, in accordance with the system for calculating quotas of the Organization of American States".

24. Evidently, delayed payment of quotas by the countries, or their inability to pay, which is a situation that has been further exacerbated by the health crisis, will greatly affect the operational capacity and sustainability of the Institute in the medium-term.

25. As such, it is advisable that quotas to be collected should not account for more than 50% of the annual budget approved by the IABA. Moreover, the Institute should encourage Member States to make voluntary contributions or to pledge over-quota contributions to IICA, as has occurred in previous years⁸.

26. On the other hand, over the last six years, miscellaneous income has been steadily decreasing. Currently, it amounts to USD 1.5 million, which is USD 1 million less than the amount established in the 2020 and 2021 Program Budget.

27. Resources generated by way of ICR amounted to USD 11.1 million in 2018 and USD 8.4 million in 2019. It is estimated that close to USD 6 million will be collected in 2020 (figures available as at 31 October). It must be emphasized that COVID-19 containment measures imposed by member countries are affecting the execution of projects, particularly those that include activities in the field.

28. This situation of stagnant quotas, diminishing miscellaneous resources and difficulties in executing externally funded projects demonstrates the tenuousness of the Institute's financial situation, which compels us to reassess the financial architecture that will sustain IICA in the coming years. Thus, Strategy 6 of the business model will focus on seeking alternatives that will generate additional resources to promote the provision of technical cooperation of excellence and guarantee long-term institutional sustainability.

3.3. Alternatives to generate new resources

29. Based on the unifying concept of IICA 4.0, proposed by the current administration, and on efforts to introduce the business model, the organization must consider and pursue different alternatives to generate additional resources that will equip IICA to continue providing first-class cooperation to member countries.

30. Figure 2 shows the way in which these alternatives are integrated to create a much more robust financial architecture than the existing one.

⁸ Over-quotas are resources that countries pledge and that are included in the Program Budget approved by the IABA.

Figure 2: IICA's new financial architecture

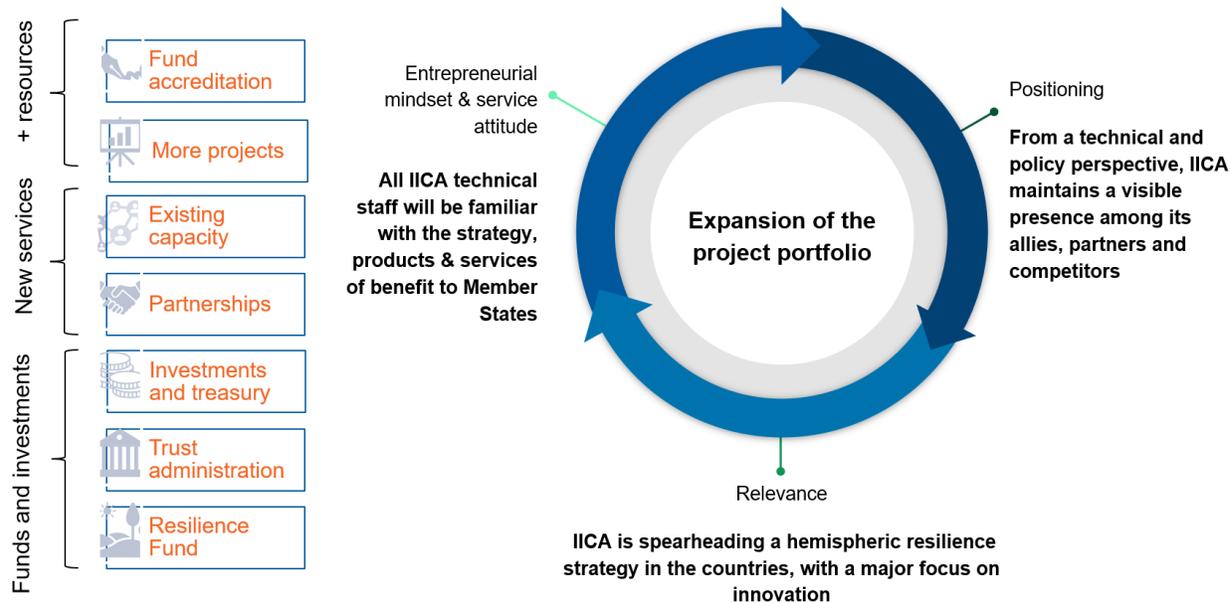


31. These funding alternatives are all compatible with the Institute’s objectives and are feasible and in keeping with its regulatory framework. Nonetheless, in the hypothetical case that it may be required, the General Directorate will follow the procedure established in the IICA regulations for final approval by the Member States, operating with the highest level of transparency.

32. Expanding funding options will be possible through initiatives aimed at obtaining resources from new sources, such as those commonly employed by various international and regional technical cooperation agencies, (see Figure 3), which may include the following:

- i) accreditation of the Institute to global climate funds,
- ii) expansion of its portfolio of externally funded projects,
- iii) use of existing capacities to provide new services,
- iv) increased win-win partnerships to scale up solutions,
- v) fund or trust administration,
- vi) investment diversification and upgrading of the treasury, and
- vii) the establishment of the Innovation Fund for Resilience in the Americas.

Figure 3: Alternatives for a new financial architecture.



i) Accreditation of IICA to global climate funds

33. When the Institute has completed the Green Climate Fund (GCF) accreditation process, it will be in a position to exponentially increase its income and its capacity to support the countries.

34. Completing this process will also open other doors that will enable IICA to apply for accreditation from other existing or future funds and international organizations, whose purpose is to fund projects to combat global warming and climate change, including the Adaptation Fund and the Global Environment Fund (GEF).

ii) Expansion of the project portfolio through new types of external funding

35. Over the last decade, the Institute has maintained an agenda of externally funded projects, with an annual value of close to USD 150 million, the vast majority of which has come from only a few countries.

36. One way to bolster IICA's finances would be to expand its project portfolio by incorporating more external resources, whether from Member States, associate states or permanent observer countries, as well as by making greater use of pre-investment funds and new types of support from international cooperation agencies, international financial organizations and the private sector.

37. An expanded project portfolio would require more aggressive management by the General Directorate, on the one hand, and on the other, would depend on the support of the 34 Member States, both for these initiatives and also in terms of their willingness to entrust the

Institute to formulate, negotiate, execute, administer and evaluate other national or international initiatives for agricultural or rural development.

38. To this end, it would be advisable to establish a common goal for 2024: to guarantee a portfolio of projects and initiatives, valued at close to USD 250 million per year, which would assist IICA to provide more robust and relevant cooperation services to all member countries.

iii) Use of existing capacities to offer new services

39. IICA has a vast store of knowledge in the technical areas of its five programs, which it can offer to various beneficiaries, by way of agreements or contracts signed with financial institutions, agricultural associations, international foundations, other international organizations and private sector companies that may require these new services in exchange for payment, such as:

- Project evaluation or supervision in the agricultural or environmental sectors.
- Skills certification, training or professional development.
- Organization of fundraising campaigns (*crowdfunding*): raising funds through donations and loans or in exchange for participating in causes that are of interest to the States.
- Information and knowledge management through databases, libraries, publications, information systems and digital solutions⁹. This would enable the Institute to offer tailored solutions and to disseminate applied knowledge to different stakeholders in the sector, which would facilitate the strengthening of new agriculture through technological innovation.

iv) Increased win-win partnerships to scale up solutions

40. IICA is involved in commercial activities and projects on a daily basis. Its international experience, close relationship with actors in the agriculture and rural sectors of the countries and its capacity to generate innovation through public-private partnerships will enable it to establish contracts with civil society, the private sector and academia.

41. Therefore, new forms of collaboration must be explored to consolidate a win-win agenda, such as partnerships or agreements with companies and organizations for intellectual property management¹⁰, expansion of insurance coverage (in agriculture and the livestock industry), promotion of certifiers¹¹ and the development of information and communication technologies (ICT), to name a few. Similarly, agreements should be forged with universities, foundations and

⁹ Nanotechnology, precision agriculture, 3D printing, the Internet of Things and blockchain in the supplying of food.

¹⁰ Breeders of varieties, genetic improvement or modification (of seeds, plants or animals), among others, who have been granted private rights and with whom IICA could negotiate royalties through the relevant private bilateral agreements.

¹¹ Fair markets, organic markets, certified emission reduction (CER) for forestry, bonds (green or social).

centers of excellence, all of this to benefit the agrifood, agro-environmental and agrotourism industries.

v) Fund administration and establishment of trust mechanisms¹²

42. The Institute could place its vast experience in fund administration and technical cooperation management at the disposal of various settlors. The settlors, which would act as trustors, could authorize IICA to serve as a trustee to administer their funds to provide support for causes or development projects for businessmen or farmers, while strictly adhering to standards of transparency and accountability. This would expand IICA's portfolio of third-party services.

43. Trust management, as an alternative source of income would require that IICA establish minimum fees to be charged to counterparts and create a specialized unit in this area, with its respective policies and guidelines, as well as separate records of accounts and assets. It is worth mentioning that the Rules of Procedure of the General Directorate already provide for the establishment of **trust funds**, made up of voluntary contributions.

vi) Investment diversification and upgrading of the treasury

44. The diversification proposal stems from an analysis of the best alternatives to create a more profitable portfolio of investments with the resources that the Institute is executing or administering. The goal is to improve IICA's performance in administering financial resources that it already has, or that it stands to have much more of in the future.

45. This action would be based on the following: an international credit rating; defining the type and amount of investments that would require additional authorization from a high-level committee; determining profitability and risks; determining maximum exposure for each investment, issuer or instrument; measuring the credit quality of investments; defining the acceptable duration of the portfolio; making decisions about performance targets of the portfolio and the loss tolerance limit; and establishing a better expenditure budget model, cost recovery and pricing protocol for the actions that IICA plans to undertake.

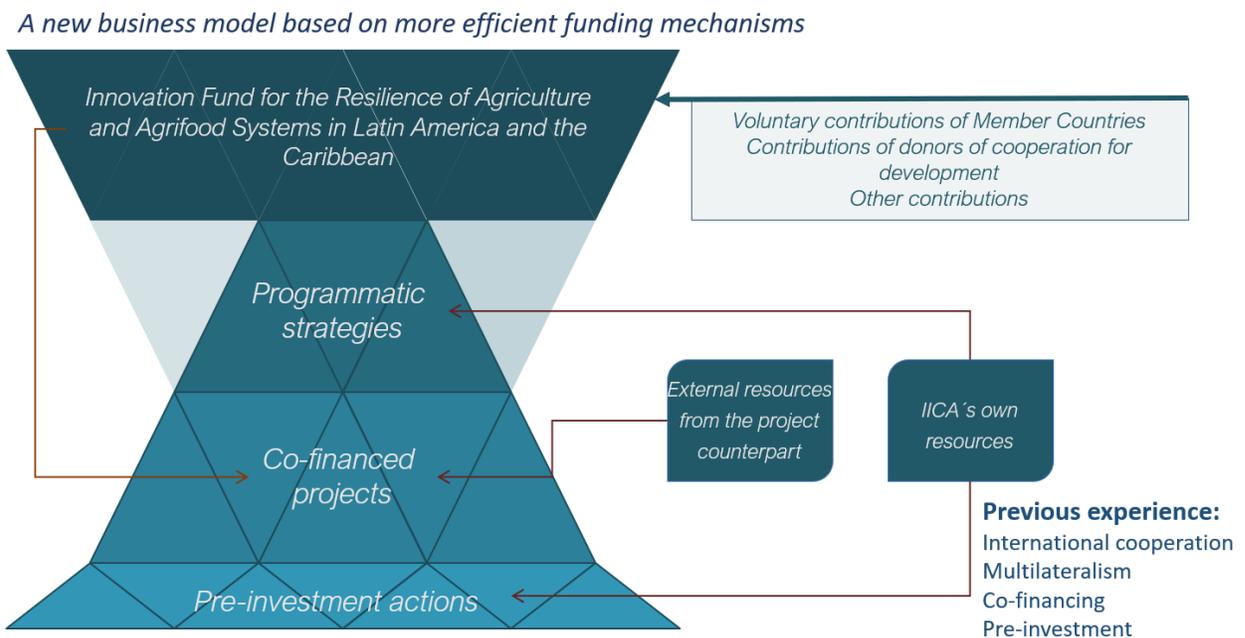
¹² As is explained in greater detail later on, Article 88 of the Rules of Procedure of the General Directorate already provides for this possibility.

vii) Establishment of an Innovation Fund for Resilience in the Americas

46. Article 88 of the Rules of Procedure of the General Directorate provides for the possibility of establishing **special funds**, made up of voluntary contributions from Member States or other sources, to fund special programs or projects, approved by the Executive Committee. It also allows for the creation of a **patrimonial fund**, consisting of donations and other voluntary contributions from governments, institutions or other persons, in cash or in kind, including real estate and other personal property.

47. Given this, we propose that IICA and its Member States create an **Innovation Fund for Resilience in the Americas**, which will be a new instrument to facilitate the provision of cooperation services, the development of high-impact program strategies and the formulation of co-funded projects and pre-investment actions that will generate greater returns, as outlined in Figure 4, in accordance with the priorities set out in the MTP.

Figure 4: Increasing resources and a new institutional fund.



48. This will allow the Institute to configure an ambitious package of cooperation initiatives funded with its own resources, external resources and new funds, which will enable it to incorporate financial innovations and integrate solutions to respond to the needs of countries and their institutions in a timely manner. IICA will also be able to use the increased store of available resources to bolster its capacity to respond to emergency situations, such as the events in 2020.

4. FINAL COMMENTS

49. This report has explained the business model, strategies for its implementation and the different opportunities that may arise from creating a new financial architecture that would equip the Institute to diversify and boost its income.

50. Implementing a new business model and a new financial architecture, with the support of Member States, are tasks that are permissible under the rules and regulations of the Institute regarding the establishment of “funds”, and are feasible, given the Institute’s accumulated experience and knowledge in resource management. They are also aligned with IICA’s mission and its current MTP.

51. These instruments are used in other international organizations that operate within the international cooperation and development ecosystem, with the support of their member countries.

52. Thus, given the range of opportunities described, the Institute should prioritize its services and products, with the main decision variable being the feasibility of signing specific agreements with partners and strategic allies.

53. However, in view of the constantly evolving reality and the increasing urgency of the changes triggered by the 2020 health crisis, IICA and its Director General should determine the viability of pursuing alternative ways of operating that would strengthen the Institute’s financial situation and, in turn, the technical cooperation that it provides.