

Dear Members,

Below you'll find a memo regarding the financial situation of the Club de Madrid which the Secretariat sent to the Members of the Finance Committee on May 10. You'll be given a hard copy before the meeting you'll have in Oslo with members of the Secretariat to discuss, among others, issues related to the financial situation of the Club de Madrid.

Ricardo Hidalgo
Chief Financial Officer
Club de Madrid

Report on the financial situation of the Club de Madrid

In the previous reports presented to you and to the Board of Directors, it was made clear that the economic and financial situation of the Club de Madrid required close attention as the coverage of the funding needs was not guaranteed by secured core funding. In fact, this coverage depended almost exclusively, in the short term, on the reception of the expected second yearly contribution by the Swedish Government (750,000 euros).

As you may already be aware, this funding has not been received nor can be considered secured or very probable at this moment. Therefore, both the economic and the financial situation have entered into a more *delicate* scenario.

Before going to the updated figures, let's first summarize the main new information since the last report:

On the positive side

The Canadian Agency CIDA will almost surely support the "Underpinning and Developing Democratic Electoral Processes through the empowerment of women Parliamentarians and Leaders in Sub-Saharan Africa" Project. This funding, along with the grant already signed with the European Union EDHIR program and funding received from CHAU HOI SHUEN FOUNDATION LTD will help completing a 100% coverage of the project direct costs, thus reducing the CdM's investment in projects, and will contribute in 2007 with around 23,000 euros to the coverage of core costs (program staff + administrative costs).

CdM's bank La Caixa has approved a line of credit of 400,000 euros, without guarantees. Up to now no use has been made of this facility.

The City of Madrid has agreed to improve the mechanism of payment of the grant for the office rent. This improvement may allow receiving the funds (on a quarterly basis) 4-6 weeks faster than now.

Diego Hidalgo's support: As you know, Mr. Diego Hidalgo has very generously offered to "underwrite" expected funding up to 1.6 million euros. The Secretariat is working with him in the procedures to articulate this support. This is related to the definition of the CoM's position regarding Diego Hidalgo's offer to the Club de Madrid to cooperate in fundraising strategies with some Nordic countries. This issue is in the agenda of the meetings with BoD Members, mentioned at the beginning of this e-mail.

Another option, to be combined with Diego Hidalgo's support, is the use of the line of credit. However, according to the conditions proposed for the use of the line of credit, it can only be used up to the amount of the secured or very probable funding expected to be collected in the next two months.

In this sense, the June treasury gap may be covered anticipating the amount of the second quarterly payment of the City of Madrid grant (90,867 euros) which is expected to be collected in mid-July.

However, at the end of June the Club de Madrid will have exhausted all available financial resources, including the treasury balance as of December 31, 2006, the totality of the funds from the Government of Norway core funding grant (around 306,000 euros), the remaining funds as of December 31, 2006 of the Government of Sweden 2006 core funding grant (115,000 euros), or the two first quarterly contributions of the City of Madrid grant (180,000 euros). Among other sources of liquidity, it will have also used around 175,000 euros of staff and overhead funding included in grants for project funding.

Conclusions: the Club of Madrid has enough cash to get to the end of June. Beyond that date, new funding or external support (Diego Hidalgo's) is needed. The funding gap for the 2007 year (equivalent to the projected net result) stands at around 1.3 million euros. The treasury needs, not covered by secured funding, for the July-December period should be of over 800,000 euros (the difference between the two figures is explained by the existence of non monetary costs, like depreciation, and by the use of the treasury balance as of December 31, 2006)

Some lines of action to manage this situation, while funding arrives, could be:

To limit expenses not covered by project funding to the minimum.

To avoid the investment, or risk of investment, of core funding in projects/activities until the financial situation is secured.

To limit, as agreed by you, the use of the line of credit to advance the collection of funds which are secured by a signed agreement or can be considered very probable.

To use as first option the line of credit, and only when this is not possible, or not enough, to ask for Mr. Hidalgo's support (pending clarification of the allocation/management criteria of this support).

All major money transfers from donors related to project funding have been actually received. Therefore, the treasury needs of the projects are guaranteed during the next months.

On the negative side,

The second yearly contribution by the Government of Sweden has become less probable.

The HLTFCC project has started with limited secured funding only. This funding provided by UN Foundation for the first meeting in Madrid will only cover direct costs. This means that there will be no contribution to pay for staff time and indirect, administrative costs. The minimum cost of the rest of the activities planned for this project in 2007 may be over 200,000 euros, with no funding secured at this moment. Therefore, if no enough funding is obtained in time, the Club de Madrid may have to choose between investing (at present non existing) core funding in the project, or reducing the scope of activities, which may have a negative impact in the effectiveness and relevance of the project.

The Energy & Poverty program faces a similar situation. The main activity planned for 2007, the Seminar in Santander to take place in August, has secured funding for 60,000 euros, while the direct costs amount to around 94,000 euros.

In connection with this, the *criteria for approval* of projects, including financial criteria, have been debated among the Directors of the Club de Madrid and the Secretary General. The decision to engage in projects, like the HLTFCC, when no specific funding is secured beforehand, may imply the need to invest core funding to cover all or part of the direct costs of the activities. The Finance Department has expressed serious reserves as to the impact of this engagement in the global finances of the Club de Madrid. The concern is that the decision to go ahead with projects not completely funded creates a risk of having to invest financial resources which, at this moment, the Club de Madrid does not have, increasing the "funding gap". However, the decision has been to go ahead with the activities, expecting that both project and core funding will arrive in time.

The Finance Department proposed some months ago to the Secretary General, and to the other Directors, that in this type of situations a formal approval was given to the investment of core funding in projects, to cover (completely or partially) the direct costs of those projects. This investment can be definitive (when no funding is expected) or provisional (when funding is expected). In this last case there's a situation of "risk" of having to invest resources.

One option could be to establish thresholds for approval of investment of core funding in projects. For example, that definitive non budgeted investment of core funding in a given project of up to XX euros has to be decided by both the project and the finance committees, with a maximum global annual limit of YY euros; over any of those two limits, the decision has to be approved by the

UNRESTRICTED CORE FUNDING (Government of Norway's grant received in December 2006 = 306,975 euros + CHAU HOI SHUEN FOUNDATION LTD =19,074 euros)	326,049
"RESTRICTED" CORE FUNDING [FUNDING FOR SPECIFIC CORE OPERATING COSTS] (City of Madrid (office rent) + Madrid Regional Government (GA) + DCP & DARA (Brussels Office)	596,909
COVERAGE OF CORE OPERATING COSTS INCLUDED IN GRANTS FOR SPECIFIC PROJECTS	354,794

The "gap" between the funding needs and the secured & very probable funding is of 1,318,264 euros.

At this moment there's no significant expected core funding that we may consider "probable" in the short term. The best hope seems to be to obtain something from the Spanish Government and maybe from the financial institution "La Caixa". The Development area is also tracking the pledge by M. Victor Dahdaleh (\$100,000 a year over 5 years).

Treasury

This economic situation has an immediate effect in the very short-term treasury of the Club de Madrid. In fact, a gap in April has been avoided due to two circumstances:

§ The collection of the first quarterly payment of the City of Madrid grant one month in advance of the planned date, due to the improvement in the management of this grant that has been mentioned above.

§ The collection, in advance for the whole year 2007, of the contribution of FRIDE/Foreign Policy to the shared costs of the Goya office.

These circumstances have improved April's treasury in more than 180,000 euros.

If no new funding is obtained and collected, the treasury balance at the end of each month for the May-July period would be:

MAY: +46,000 euros

JUNE: - 89,000 euros

JULY: - 201,000 euros

To avoid these gaps, while new funding arrives, there are two options: