

CGIAR Change Management

Working Group 4 – Funding Mechanisms

**Final Paper submitted to the CST, after input from the Los
Banos Stakeholder Consultation at IRRI, the Philippines,
September 8-9, 2008**

September 15, 2008

Table of Contents

Table of Contents	2
Acronyms and Abbreviations.....	3
1. Background	4
2. Current CGIAR financing structure	7
CGIAR Membership and Donors	7
Unrestricted and Restricted funding	8
3. Drawbacks of the Current Financing Structure	12
Full cost recovery	12
Managing the project portfolio	15
Unpredictability of funding and stabilization	15
New sources of funding	16
In conclusion	17
4. Principles and Good Practice for Funding.....	19
CGIAR Funding Principles	19
Resource Issue Areas and Recommended Good Practices	20
Funding Principles Implementation Plan	24
5. Options for Funding Mechanisms	26
The need for a new Fund	26
Fund design options	29
Institutional aspects of the Fund	35
Fund operational aspects	36
Transition arrangements.....	43
6. Summary	44

Acronyms and Abbreviations

AGM	Annual General Meeting
AHC	Ad Hoc Committee
CCER	Center Commissioned External Review
CFP	CGIAR Funding Principle
CGIAR	Consultative Group on International Agricultural Research
CP	Challenge Program
CSO	Civil Society Organization
DM body	Decision-Making body
EPMR	External Program and Management Review
ExCo	Executive Council
FAO	Food and Agriculture Organization of the United Nations
FIF	Financial Intermediary Fund
IFAD	International Fund for Agricultural Development
MDTF	Multi-donor Trust Fund
NGO	Non-governmental Organization
ODA	Official Development Assistance
OECD DAC	Organisation for Economic Co-operation and Development – Development Assistance Committee
TF	Task Force (on Funding System Priorities)
UNDP	United Nations Development Programme
WG	Working Group

1. Background

This paper presents the proposals of Working Group 4 on Funding Mechanisms. It is part of the Change Management Process, initiated by the Consultative Group on International Agricultural Research (CGIAR) Members to examine the current role and situation of the CGIAR System, and to develop proposals for change. The rationale and need for change has already been comprehensively set out by the change leaders on the CGIAR Change Management website¹.

Working Group 4 (WG 4) on Funding Mechanisms has built on a significant body of earlier work, especially that undertaken by the Task Force (TF) on Funding System Priorities and the ExCo Ad Hoc Committee (AHC) on Funding System Priorities. The Task Force on Funding System Priorities presented its report to the CGIAR Annual General Meeting (AGM) in December 2005. The AGM endorsed the Task Force's proposal that a System Funding Coordination Forum should be held annually among Members at the AGM to discuss annual funding allocations.

The Task Force also recommended that an Allocation Committee should be appointed to oversee the allocation of unrestricted funding provided by Members willing to pool their funds. The Task Force proposed that both the Forum and the Committee should be provided with funding information set out in a 'system matrix' composed of Center projects (rows) and System priorities (columns). The funding currently being allocated to each cell in the matrix would be identified through cooperative efforts of the Centers, the Science Council, and the CGIAR Secretariat and would include full-costing of all projects. Such a matrix would assist the Funding Coordination Forum and the Allocation Committee by highlighting priority areas that may be underfunded or inefficiently overfunded.

The ExCo Ad Hoc Committee on Funding System Priorities was established following discussions of the Task Force report at the 2005 AGM, and presented its report at the AGM in December 2007. After much analysis, the Ad Hoc Committee concluded that "the system is rapidly veering toward increased funding vulnerability" due to a number of factors, including:

- excessive reliance on restricted funds;
- ambiguities around full cost recovery;
- definition and use of unrestricted funds;

¹ <http://www.cgiar.org/changemanagement>

- perceived function, use and appropriate level of Center reserves.

The Ad Hoc Committee proposed a mechanism that builds on the matrix suggested by the Funding Priorities Task Force. This proposal allows for six entry points for Members to fund the system – three that are Center or Challenge Program (input) based and three new entry points that are system priority or output based. Members wishing to allocate all or some of their unrestricted funds through system priorities or outputs would agree to coordinate their contributions in order to avoid duplication of funding efforts.

The 2007 AGM discussion led to the recommendation that the Change Management Working Group on Funding Mechanisms should, among other issues, examine the pros and cons of establishing a new international fund for agricultural research. This recommendation presents an exciting and daunting challenge for WG 4, which has been charged with this responsibility. Designing such a fund brings into sharp focus many of the fundamental operating principles of the CGIAR: Center accountability and financial management, donor sovereignty, collective action, and the role of independent science advice.

Many of these issues overlap with the remit of WG3 on Governance, as the two issues – funding and governance – are inextricably linked. Hence, proposals from the two working groups must be closely integrated.

Bearing in mind the three years of work that preceded our efforts, we set out to fulfill our Terms of Reference, which are shown in Box 1:

Box 1: Working Group 4 Terms of Reference and Amendments

Target: Define a funding approach and implementation mechanism that meets the requirements of the CGIAR System. Flesh out the work of the Ad Hoc Group on Funding Systems Priorities (but do not revisit the original assumptions or reopen its work)

- Develop a more in-depth implementation plan for putting the approved recommendations in place
- Identify additional key levers as appropriate
- Examine the pros and cons of establishing an international fund on agricultural research
- Collaborate with Working Group 3 on examining the role that the ExCo Ad Hoc committee on finance would play in the future CGIAR System

- Collaborate with Working Group 2 on the recommendations around partnerships

Amendments (as presented by the Working Group):

- Develop a code of conduct for donors and an implementation plan
- Benchmark other funding arrangements
- Perform financial analysis
- Determine TORs for funding committees
- Draw distinctions between restricted and unrestricted funding
- Review/utilize findings from Ad Hoc committee

2. Current CGIAR financing structure

CGIAR Membership and Donors

The CGIAR, created in 1971, is an informal association of independent public and private sector Members from the South and North, together with the Food and Agriculture Organization of the United Nations (FAO), the International Bank for Reconstruction and Development (World Bank), the International Fund for Agricultural Development (IFAD) and the United Nations Development Programme (UNDP) as Co-sponsors. The CGIAR provides strategic guidance and financial assistance to fifteen international agricultural research Centers.

The CGIAR System (the System) is made up of a number of independent institutions that regularly interact with each other to create a complex, interdependent network, committed to a common cause. The primary institutions in the System are the Consultative Group, an independent Science Council and the fifteen international agricultural research Centers.

The CGIAR Membership comprises 64 countries and institutions that participated in the first meeting of the CGIAR as Co-sponsors or Members, or that have since joined the CGIAR as Members. The activities of CGIAR Centers are financed primarily through annual grants from CGIAR Members, which contribute to the Centers and programs of their choice. The activities of the Centers are also financed through other contracts and grants from both Members and Non-members.

CGIAR Members are expected to support the CGIAR mission and objectives, to be willing to participate in the deliberations of the CGIAR and to serve on CGIAR committees. Members are also expected to pay the full cost of overheads associated with projects and programs and to contribute to the central costs of the CGIAR System. Non-members make no such commitments. However, participation in System governance and strategic planning by Non-members is encouraged, in part as a means of promoting membership among all those funding the Centers.

In the past, CGIAR donors agreed to fund the Centers' approved research programs. With funding growth, increased Non-member contributions, and more restricted projects (see Box 2 for definition), the broader set of activities was termed the 'agreed agenda' of the System. However, it became increasingly difficult to define or understand this agreed agenda in its entirety. In 2005, the Science Council developed a set of CGIAR System Priorities of CGIAR Research, in an attempt to define which Center activities fell

within the System's agreed priorities and to encourage investors to focus their funding on those priority areas. In this paper, we use the term 'research agenda' to refer to the agreed upon System level agenda, whether this is described through the System Priorities or through a new process that focuses on the Vision, Mission, and Strategic Objectives developed by WG1 of the Change Management Process.

In 2007, the 64 CGIAR Members included countries, intergovernmental organizations, and private foundations. CGIAR Members provided financing to the System of \$438 million, or 88% of the total of \$495 million. Of the 64 Members, 11 were classed as Member-Observers, as they had not paid the minimum contribution of \$500,000 per year for the previous two calendar years.²

Non-members include foundations, developing countries, private sector institutions, international organizations, universities, and others that are largely CSOs, NGOs, and other non-profits that have not requested membership in the CGIAR. Of the \$57 million in contributions to the CGIAR from Non-members in 2007, \$23.5 million came from one organization alone – the Bill and Melinda Gates Foundation. This made the Gates Foundation the 6th largest donor overall to the CGIAR in 2007. The remaining \$33.8 million came from over 275 other donors, with contributions ranging from less than \$1,000 to \$2.3 million.

Unrestricted and Restricted funding

Funding is provided to the System in two broad categories³: unrestricted and restricted (see Box 2 for definitions). Centers allocate unrestricted funds to any program or cost according to the Center's institutional needs or priorities. As part of the System, Centers can receive unrestricted funds, and participate in System accountability mechanisms (which are charged to Centers' budgets). These mechanisms include External Program and Management Reviews (EPMR), Center Commissioned External Reviews (CCERs), and the Performance Management System. Each Center also produces annual reports and audit statements for the Center as a whole. However, Centers are not required to provide detailed, separate reports based on contractual arrangements to individual donors regarding the use of that donor's unrestricted funds. Centers do, however,

² This minimum contribution may be in restricted or unrestricted form.

³ There is also another type of funding known as funding held in trust or pass through funds. However, more information is required to understand precisely what these terms mean, examples of their use, and the extent of funding under these mechanisms in the Centers.

provide a corporate Annual Report and External Auditor's Statement at the end of the calendar year.

Box 2: Definition of Unrestricted and Restricted Funding

Unrestricted funding: This refers to funds provided to support the Center as a whole. Centers can allocate unrestricted funds to any program or cost within the research agenda based on the needs and priorities identified by the Center. In addition to funding priority research, unrestricted funds are used for Center management and general expenses, expenditures linked to the Board of Trustees and building Center reserves.

Restricted funding: This may be 'attributed' funding or defined by a contract or grant agreement with respect to a specific project (although there is considerable confusion between the terms project, program, sub-project and activity, which tend to be used loosely and interchangeably in this context). The contract or agreement usually contains specific accountability requirements such as reports and evaluations.

There is thus a range of forms of 'restricted' funding, varying from very broad restriction, (attribution) to strong contractual requirements that clearly define projects, deliverables, and reporting.

- Attributed funding exists where the restriction is sufficiently light to allow a Center to simply report on an ex post basis that the intended use has been fulfilled. There is no specific contract governing the contribution, no detailed line item budgets and, usually, no specific reporting requirements apart from the institutional audited financial statements. Attribution can be by program (e.g., Challenge Programs), geographic location or even project.
- Project restricted funding is the most highly restricted type. It is governed by a contract between the parties, usually requiring line item financial reporting (with boundaries on interline movement), specific programmatic milestones and a requirement to return unused funds. Line item negotiations usually include the level of institutional costs (indirect costs) to be covered by the project.

There has recently been discussion within the CGIAR about the definitions and reporting of the various types of funding. For instance, donors may make unrestricted contributions to Challenge Programs (CPs) through the Centers. The Center may report

this contribution as restricted funding, destined for the CP, while the donor may view the contribution as unrestricted.

More challenging issues revolve around 'attributed funding', described in Box 2, for which there are various expectations of accountability from Members and Centers. The management of attributed funding provides important guidance around the concept of 'programmatic funding'. Challenge Program funding is a good example.

In 2007, of the total \$495 million in funding, 36% was unrestricted and 64% was restricted⁴. The top five unrestricted donors (the World Bank, UK, USA, Norway and Canada) provided over 66% of total unrestricted resources to the System in 2007 (the top 10 provided 85%, while the top 15 contributed 94%). A greater number of Members and Non-members provide restricted support than unrestricted funding. The largest five restricted donors (the EC, USA, UK, Canada and Germany) provided nearly \$152 million or 48% of total restricted support. Overall, the top 15 Member contributors provided nearly 75% of System financing, while the other 49 Members and over 275 Non-members provided the other 25% of funding. These figures are summarized in Table 1.

Table 1: CGIAR financing in 2007

	Members (64)	Non-members (275)	Total (USD)
Unrestricted (USD)	\$179.0 m (36 members) (36% ¹)	\$0.1 m (0.02 %)	\$179.1 m (36%)
Restricted (USD)	\$258.3 m (58 members) (52%)	\$57.3 m (275 Non-members) (12%)	\$315.6 m (64%)
Total (USD)	\$437.3 m (88%)	\$57.4 m (12%)	\$494.7 m

¹ Percentage of total funding

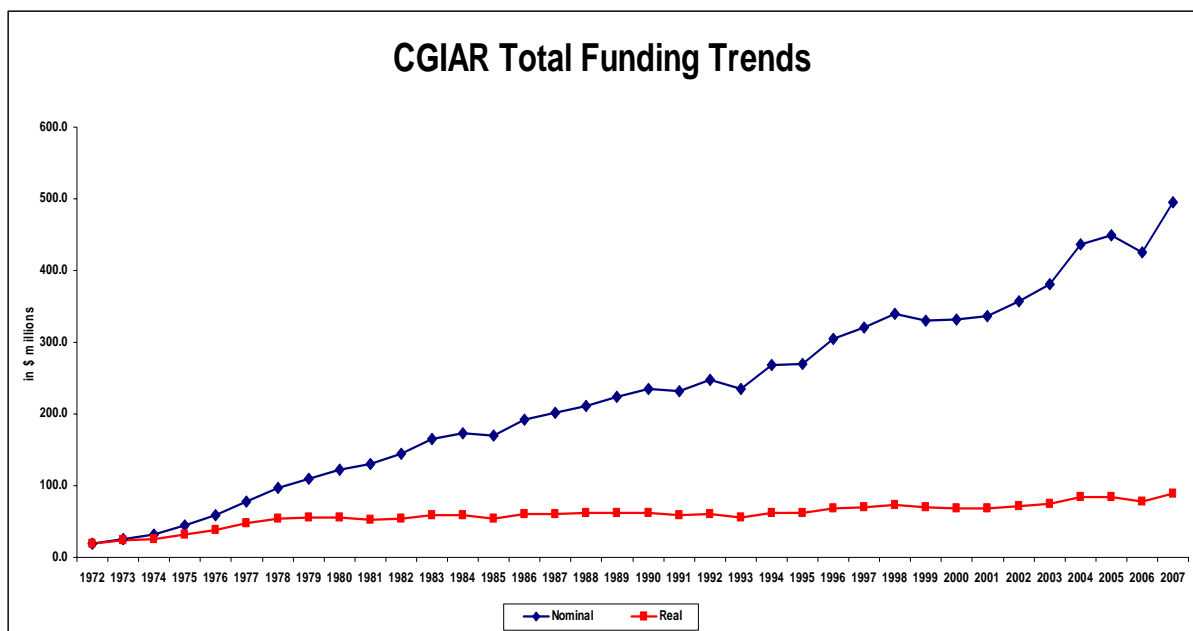
Overall funding for the System has increased in nominal terms, from \$19.5 million in 1972 to \$495 million in 2007. Figure 1 shows that, although funding to the System has been steadily increasing in nominal terms, in real terms, funding has risen only very

⁴ Unrestricted funding fell to 36% in 2007 from 42% in 2006, partly because in 2007 the EC provided a special one-off allocation, effectively doubling its 2005 contribution. These were 'lightly allocated' funds, which are considered as restricted and therefore affected the balance of restricted-unrestricted funds.

slowly. The lack of significant increases in real funding for the System, while it continued to grow and add more Centers and more researchable areas, was accompanied by a simultaneous trend of declining funding for agricultural development in general over the same time period. This makes the prioritization of research all the more important as the System has needed to expand its research agenda despite the availability of fewer resources.

The balance between restricted and unrestricted funding has also changed significantly over the past decade. In comparison to the situation in 2007 (36% unrestricted and 64% restricted), in 1995, 63% of total funding was unrestricted and 37% was restricted. However, as noted previously, attributed funding and CP funding are both 'lightly' restricted. The Independent Review therefore re-calculated the proportion of total funding comprised by unrestricted funds if attributed and CP funds are considered as unrestricted rather than restricted. Their analysis shows that the unrestricted proportion has not declined as steeply as suggested at first glance, from 46% in 2002 to 43% in 2007. The change in these proportions is due as much to the increase in restricted funding as to the decline in unrestricted funding. The downward trend in overall real funding for the System combined with the increase in restricted funds has significant implications for the CGIAR's research agenda and ability to carry out long-term, public goods agricultural research.

Figure 1: Restricted and Unrestricted Funding, 1995-2007



Source: CGIAR Secretariat

3. Drawbacks of the Current Financing Structure

There is wide agreement that the current financing structure, which has evolved over the years, is not serving the System well. Many have argued that the decline in unrestricted funding has led to serious challenges for Center Boards and management, and considerably increased the degree of vulnerability to external shocks. This is far from an ideal situation for a System that requires a steady flow of predictable and reliable funding to assure its research functions over time. The current funding structure increasingly relies on donors acting individually to direct the use and application of funds, rather than acting in mutually supportive ways that ensure a commonly agreed agenda for research is fully funded. This has given rise to a number of serious and complex problems.

Full cost recovery

There is an urgent need for improved budgeting for restricted projects in order to adequately reflect the full costs (see Box 3). Centers report on direct and indirect cost ratios in their audited financial reports. Indirect costs as a percentage of direct costs range from 13% to 33% across the Centers. In 2007, the CGIAR's average indirect cost rate was 20%, but a summary of 15 Centers showed that the indirect costs actually recovered from restricted projects was just 12%. Indirect cost recovery as a percentage of total indirect costs ranged from 23% to 75% in 2007. Non-members who provide restricted funds without adequate cost recovery are therefore receiving subsidies for their projects from unrestricted Member contributions.

Box 3: Cost Structure in the CGIAR

Within the CGIAR System, the term 'costs' is generally used to refer to the costs that a Center incurs. In reality, however, there are two levels at which costs are incurred: at the Center level and (often overlooked) at the System level.

Costs at the **Center level** are often the subject of discussion because this is how the funding directed to the Centers is accounted and reported to the Members/Investors. The operational cost of a Center can be classified into three categories: Research costs, Service costs and Institutional costs.

Research costs: These are costs that can be directly identified with the research activity or project. Examples are staff time, travel, supplies, and such operational costs specifically incurred for the research project/activity. These are readily identified as direct costs of a project.

Service costs: These are incurred to help achieve common or joint objectives of a business unit within a Center and cannot be directly identified with a single research activity or task of the business unit. These costs can be attributed or allocated to the research activities or tasks of the business unit by applying accepted methods for cost apportionment. Service costs change as the level of activities of the business unit change, but not in direct proportion. These costs can be classified broadly into research support (Office of Director of Research, laboratories, contacts and grants management, farm operations, library) and services (procurement, transport, housing, travel, cafeteria, IT, rent utilities and services in headquarters, corporate services in country offices). Service costs allocated to a project are considered as part of the direct cost of the project.

Institutional costs: These are costs incurred to operate central units that provide services that are essential for maintaining the corporate identity of the Center and providing common services that help the business units to achieve the overall goals and objectives of the organization. These central units, on their own, cannot achieve the corporate goals of the organization. The costs incurred by these central units generally cannot be attributed, assigned or directly identified with individual business units, research activities or groups of activities that contribute to the achievement of the overall goals of the organization. These costs continue to be incurred even if one or more business units were to disappear. Examples include the cost of the Senior Leadership Team, Board of Trustees, Human Resources and Financial Services. These costs form the indirect cost of a Center.

Costs at the **System level:** These are incurred in order to provide coherence in the

work of the 15 research Centers and enhance the coordination of the 64 Members. A small part of these costs is quantified, such as the operational costs of the CGIAR Secretariat, and the Science Council and its secretariat. However, a bigger part of the System level cost, which is not quantified or reported, is the cost of the overall governance of the System. This includes the costs incurred by Members during the meetings of the Executive Council, Annual General Meetings and other ad hoc CGIAR committees (e.g. Change Management Process). A large percentage of the System level costs is currently carried by the World Bank, with all donors making some contribution through an agreed cess on Center resources for some system costs (e.g. the Science Council).

Greater transparency and harmonization amongst donors and a common understanding of full costs within and between Centers are needed to ensure project full cost recovery across the system. Using the CGIAR approved calculation method, indirect cost rates for the centers are around 20–22%. There is an ongoing assessment of the methods used to derive Center full cost rates so that they cover the full, proportionate costs of long-term strategic research which underpins restricted projects and to avoid 'free riding'. This is all the more relevant in the light of different donors' limits on overhead (indirect cost) levels and varying interpretations of permitted budgeted lines.

Donors making unrestricted grants may also feel they have already made a sufficient contribution, and therefore should not need to pay the full direct and indirect costs of their restricted projects. However, from a system perspective, all restricted projects need to provide for full cost recovery so that unrestricted resources can be allocated to their intended research priorities. As seen in Section 2, only 36 donors made unrestricted grants in 2007. Meanwhile, the System received restricted funds from an additional 28 Members and 275 Non-members. It is clear that the need for full cost recovery from those Members and Non-members who do not provide unrestricted support is a much larger issue to tackle.

Paradoxically, in the view of some informed observers, the continued existence of unrestricted funding, alongside increasing restricted funding for projects, has allowed Centers to move more slowly than necessary in developing systems for full cost recovery. This has led to instances where donors have not been requested to finance full costs, for a number of reasons. These include the lack of systems in some Centers to calculate such costs; donors capping their permitted indirect cost rates; and scientists directly negotiating grants without including full costs in order to increase the grant's competitiveness. At the same time, some Centers have not put a system in place to fully

evaluate and reject when appropriate small projects that are costly for the Center to manage and therefore demand large subsidies from limited unrestricted resources.

Managing the project portfolio

The move towards greater levels of restricted funding has engendered a shift of focus from long-term public goods research to shorter-term research and non-research projects that can be financed from more easily available restricted funding. This means the research agenda is at times being driven by restricted project topics whilst being subsidized by unrestricted funds. As unrestricted funding shrinks in relative size, some donors fear that they are financing the agenda of other, restricted, donors rather than the agreed upon System priorities.

The increasing focus on restricted projects also adds an additional management and reporting burden for scientists and Centers, because, in addition to the System level reporting and evaluation requirements, such as the EPMRs and Performance Indicators, increased restricted funding requires Centers to manage multiple reporting formats for many donors. These demand time and resources, which are often not covered by the initiatives' budgets. In particular, there is a high cost burden involved in developing, managing and reporting on many small to medium-sized projects that often do not cover full implementation costs or scientists' time spent raising funds and reporting.

At the same time, centers have also indicated that while managing large projects can be rewarding and cost effective, the risks can be high and there are challenges inherent in the involvement of many partners. For instance, where project partners beyond the control of the Center do not provide reports on time, project funding to the Center can be delayed. In addition, there are cases of Centers playing a significant role in passing financial resources on to others or acting as an agent for other organizations. The cost of these arrangements as well as questions that arise around reputation and fiduciary responsibility require further investigation.

Unpredictability of funding and stabilization

Unrestricted funding to Centers and programs on the basis of annual grants that fluctuate from year to year leads to a degree of financial uncertainty. These fluctuations are due to a number of outside forces and they create some difficulty in managing long-term research and associated staff contracts, a situation made worse due to the unpredictability (and at times unreliability) of funding.

Donors that provide unrestricted funding also face considerable uncertainty regarding the ways in which their funding is used, and what impact or result it generates. Attribution links between restricted funds and results are often more specific and funding more easily justified.

There are serious financing problems that relate to both unrestricted and restricted funds. Funds in both categories are often not received according to expected schedules. This situation forces Centers to pre-finance some projects from other resources, or to scramble for alternative funds at the end of the year when expected unrestricted funds are suddenly not available. Unexpected exchange rate fluctuations cause uncertainty regarding both income and expenditure in certain currencies, while civil war and natural disasters can also destabilize Centers' finances. While these events should be insured against to the fullest extent possible, they can result in a financial crisis at even a well-managed Center. The System is ill-equipped to handle financial emergency situations at Centers and lacks a mechanism to address financial crises.

Stabilization of funding for the CGIAR has been, and will continue to be, an issue in the current and future funding and governance environment. Stabilization can be considered at two levels, namely at Center and System levels. To achieve stabilization at the Center level, there is no substitute for sound financial management as the key effort to bringing about financial stability. This is already happening, and Centers are becoming more vigilant to maintain financial stability and flexibility. Stability at the System level can also be achieved once the Centers themselves achieve stability. Moreover, the development of new a new CGIAR funding mechanism could offer opportunities to address unexpected contingencies or emergencies more strategically at the system level.

WG 4 is proposing radical changes in the way the CGIAR System is financed. Depending on approval of the new CGIAR Fund and its structure, new financing arrangements will have different implications for funding stabilization. Nonetheless, whatever funding mechanism is adopted, stabilization of funding will continue to be a challenge. The System should prepare for growth but at the same time it must be ready and able to cope with unforeseen and sudden funding reductions.

Increased system funding from diverse sources

Donor interest in agriculture as a means to achieve poverty reduction, as supported by analytical work such as the WDR2008 on 'Agriculture for Development', has re-emerged. The recent food price crisis, expanding demand for grains for feed and for biofuel production, and the impact of climate change have all strengthened interest in

agricultural development investments. At the same time many of the donor agencies have a limited human resource base and are thus looking for effective, reliable and transparent channels for their funding, at low transactions cost. The new reality facing the development community is an opportunity for the CGIAR system, but calls for a simplified process for investment and accountability.

Finally, the current System financing structure, based on large unrestricted grants stemming mostly from countries in the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC), also needs modernization and diversification. Many newly wealthy countries have benefited greatly from CGIAR research in the past, and continue to do so at present. In the judgment of WG 4, they should now make larger contributions to the CGIAR. With the new CGIAR Mission and Vision and its focus on the poor, the System's geographic emphasis may change, with the implication that countries where wealth is increasing would make contributions towards the CGIAR's Mission in poorer countries.

In conclusion

While higher levels of unrestricted funding used to provide greater financial flexibility for the Centers to meet evolving research challenges, some inefficiencies and non-transparency also occurred in tracking and managing costs. In general, restricted funding requires greater costing transparency, and brings with it increased incentives for cost savings.

Thus it can be argued that the increase in the proportion of restricted funding has produced some positive as well as negative outcomes. On the one hand, funding challenges brought about by increased restriction have required Centers to continually modernize their budgeting and costing mechanisms, and to outsource some services that had been more expensive to provide in-house, helping to ensure that Centers obtain more appropriate support for the full costs of project funding. On the other hand, many would argue that higher levels of restricted funding have increased transaction costs and reduced institutional nimbleness in ways that ultimately also reduce institutional capacity and impact. There is truth in both perspectives; ideally the positive aspects of each could be conserved when considering new funding approaches.

This analysis of the current financing structure of the System provides the context for WG4's proposals. These are at two levels: first the relatively 'quick wins' that could be gained through changes to the existing system, described in Section 4, and secondly

proposals for larger, more systemic changes in funding through the development of a CGIAR Fund, described in Section 5.

4. Principles and Good Practice for Funding

CGIAR Funding Principles

The CGIAR is distinguished by its unique organizational culture which has, over the decades, shaped several aspects of decision-making behavior by its members. This is reflected in the ways in which Members and Non-members provide funding to the CGIAR agenda. A broad spectrum of funding modalities and practices co-exist, which has contributed to an undermining of the System's coherence and affected its financial health, particularly at the levels of individual Centers and programs. There is a compelling case for improvement in funding practice.

The WG recognized that the CGIAR System could rely only on the goodwill of its Members and effective financial management of Centers to adopt good practice, as no enforcement mechanism currently exists in the System. It was agreed, therefore, that a set of principles and general rules of engagement, rather than a formal 'code of conduct', was more suitable in the CGIAR context. These principles should apply to both Member and Non-member contributors to the System (investors) on the one hand, and Centers and programs (and related stakeholders) on the other. The principles are also fundamental to the design of any future CGIAR funding mechanisms, including that proposed by WG 4.

Three external documents were recognized as benchmarks for good behavior in international development funding: The Paris Declaration on Aid Effectiveness (2005)⁵ and the Principles and Good Practice of Humanitarian Donorship (2003)⁶. More recently, the Accra Agenda for Action (2008) reiterates the commitment of donors to harmonizing assistance, mutual accountability frameworks, and emphasis on achieving results for global programs. The proposals put forward in the paper by WG4 strive to meet those criteria. A fourth document that contributed to the discussion was 'The Way Forward for the CGIAR System', a statement by the Alliance, which was issued for discussion in May 2007.

Building on these benchmarks, WG 4 proposes a set of Funding Principles for consideration and adoption by the membership, shown in Box 4 below.

⁵ <http://www.oecd.org/dataoecd/11/41/34428351.pdf>

⁶ <http://www.goodhumanitariandonorship.org/>

Box 4: Proposed CGIAR Funding Principles

1. The CGIAR System will work to establish and maintain a dynamic, flexible and viable financing system to meet the changing needs of international agricultural research.
2. Members will establish and maintain an effective financing system to enable the organization to meet its mandate, mission and strategic objectives.
3. In keeping with the Paris Declaration on Aid Effectiveness, Members will harmonize funding decisions, and work together to ensure that they are transparent, coherent and strategic.
4. Funding to the CGIAR will be based on performance, oversight, accountability, efficiency, results and impact.
5. The CGIAR will develop and maintain a simple, efficient funding mechanism to ensure appropriate support to priority agricultural research areas.
6. Investors in the CGIAR will strive to provide predictable, multi-year unrestricted funding to the CGIAR in order to advance work towards long-term agricultural research objectives.
7. Investors in the CGIAR will provide for full direct and indirect cost recovery on restricted funding initiatives, in accordance with audited rates computed by individual CGIAR Centers.
8. The CGIAR Centers will work collaboratively in order to harmonize business practices, lower transaction costs, streamline administrative activities and improve efficiency of financial management.
9. Effective and regular oversight of and reporting on financial resources and management of Centers, including any funding problems that may arise, will be provided to the CGIAR System.
10. The CGIAR will develop and implement a consolidated approach to fund-raising, to help ensure ongoing, stable and appropriate levels of financial support from current and future Investors.

Resource Issue Areas and Recommended Good Practices

In order to translate these principles into practical actions that could help the CGIAR System address key resource issues, the WG commissioned a study to review resource issues and recommend 'best practices' for Members, donors and Centers. Four issue

areas were identified during this exercise, and a set of best practices related to each issue were proposed. These issue areas and related best practice recommendations were endorsed by the Working Group and are described below. Where appropriate the best practices are cross referenced to the specific CGIAR funding principles shown in Box 4.

Issue 1: Quality of Funding

The quality of funding relates to its timeliness and predictability, the flexibility with which funds can be directed to the highest priorities without duplicating efforts, and the ease with which funds can be raised and reported on.

Recommended Best Practices

1. Whatever the mode of financing provided, Members should endeavor to provide a rolling multi-year indication of intention and, if possible, commitment. (Related to CGIAR Funding Principles (CFP) nos. 1 and 6).
2. If a change from unrestricted funding to restricted funding is necessary, Members should consider the option of providing attributed financing, which would facilitate the selection of specific activities for targeting, but which also covers full costs with minimal additional reporting requirements for Centers (CFP no. 1).
3. Where possible, Members should coordinate their decision-making either formally or informally to ensure that, where restricted funding is provided, duplication is avoided and, where unrestricted funding is available, under-funding for any Center or program is avoided (CFP nos. 3 and 10).
4. Centers should carefully target their resource mobilization strategies to attract support evenly across their research agenda, and should offer Members and other donors options for project support that is flexible but fully consistent with the research agenda (generic).

Issue 2: Non-member Funding

Non-member funding issues include the potential for skewing the CGIAR research agenda to areas of lower priority or areas completely outside the agreed agenda or strategy and inadequate Non-member contributions to cover full project costs. It also addresses the issue of 'unbalanced responsibility', which refers to both the need for Non-members to become Members, and the need for newly wealthy countries that have benefited from CGIAR research to assume a larger share of financial support to the CGIAR.

Recommended Best Practices

1. Promote adherence to the CGIAR research agenda by Centers and all Non-member contributors (CFP no. 1).
2. Insist on full-cost financing in all Non-member grants and establish a mechanism to ensure that non-compliance cannot be accepted at any level. A penalty could be considered in cases where non-compliant financing is accepted, perhaps through a reduction in other funding (CFP no. 2).
3. Re-launch at the CGIAR Secretariat / World Bank / EU level a vigorous program of awareness and partnership development with Non-member states who have received measurable benefit from the CGIAR or who have significant new wealth to contribute to hunger and poverty reduction (CFP no. 10).
4. Consider new opportunities for private sector and/or wealthy individuals' support in the form of endowments (CFP no. 10).
5. Consider the possibility for some Centers to formalize a 'profit-making' operation if conditions are such that there are no legal barriers and there would be no loss of research capacity for the main business of the Center (CFP no. 10).

Issue 3: Project Planning, Financial Management and Administration

These issues include the failure of Members and other donors to fund the full costs of restricted projects, and the involvement of Centers in many small projects with high transaction costs and sometimes questionable contribution to the overall research agenda.

Recommended Best Practices are proposed at two levels:

A. The Composition and Funding of CGIAR Center research agendas

1. Centers' management and Boards must become more strategic in project development and engagement, and should not let financial growth become an end in itself (CFP nos. 2, 3, 5 and 8).
2. Project pipeline review should be a routine activity at the Center management level under Board oversight to ensure that planned activities are truly strategic and fit properly within the strategic program of the Center and the System. The new governance framework for the CGIAR should have an element that addresses this need (CFP nos. 2, 3, 5 and 8).

3. The CGIAR should consider a more proactive mechanism to ensure that all project activity fully supports the research agenda. If Members remain concerned about strategic coherence, evaluations and reviews could be used to assess the actual components of the Centers' portfolios. A programmatic approach to funding through the Fund proposed in Section 5 would assist in ensuring the Centers' work genuinely supports the agreed research agenda (CFP nos. 2, 3, 5 and 8).

B. Structure of budgeting

1. The CGIAR should endorse new guidelines that clarify what are services (indirect) costs, to include the most basic governance and administrative expenses – those which genuinely cannot be attributed to an activity other than by a percentage charge (CFP no. 7).

2. Centers should establish an accounting basis for full costing of all activities and should include all relevant costs in all project proposals. Exceptions should be explicitly agreed by management and the information made available to all the Center's donors. These costs should be communicated to prospective donors and others (CFP no. 7).

3. Members should pay for both full direct and indirect costs of all activities, unless a negotiated exception is established, in which case a transparent rationale must be provided (CFP no. 7).

4. Non-members are expected to cover full project costs (CFP no. 7).

Issue 4: Financial Sustainability and Risk

Related to Issue 1, this considers whether the continuing decline in the proportion of unrestricted funding threatens the long-term viability of research and reduces Centers' ability to respond to changing circumstances, and whether a central stabilization fund should be established.

Recommended Best Practices

1. As part of a stabilization concept, the CGIAR should formally establish the appropriate levels of financial reserves to be maintained at Centers (which may vary, according to the type of Center), and for what purposes. This essentially updates the current performance indicator for the unrestricted net asset level at Centers (CFP no. 2 and 8).

2. As the CGIAR Fund is set up, the Fund's decision making body should consider whether to put aside a small percentage of the fund to handle unexpected contingencies, including emergency research needs as well as funding stabilization. WG

4 considers that a System level funding mechanism in itself will lead to greater System financial stability in the long run (CFP no. 9).

Funding Principles Implementation Plan

The underlying considerations that cut across the benchmark documents, and which underpin the proposed CGIAR Funding Principles and Recommended Good Practices, are that all parties involved must be committed to:

- increasing the amount of Official Development Assistance (ODA), including that destined for agriculture and agricultural research;
- aligning and harmonizing resource mobilization efforts to avoid duplication;
- ensuring ownership and partnership (inclusiveness); and
- managing funds efficiently and effectively to ensure accountability and results.

Building on these considerations, WG 4 proposes a number of steps to improve overall funding behavior. These should be further developed and driven forward by a Task Force addressing program and/or funding transitions (discussed further in Section 5). Any plan for concerted action to improve funding behavior should involve the following:

1. Funding Policy

Produce a Policy Note on the financing of the CGIAR for approval by the membership. Drawing on the relevant CGIAR Funding Principles and Recommended Good Practices, the Policy Note will spell out the membership's collective resolve to address the most pressing issues affecting the financial profile of the System (e.g., full cost recovery-based funding and growth in CGIAR resources in real terms). Approval of the Policy will drive concerted change in both Members' and Centers' behavior, through improved funding quality and robust financial management that, in turn, instills confidence in investors.

2. Action Plan

The Task Force will develop a time-bound Action Plan (spanning a period of about six months) to draw up and pilot funding modalities and demonstrate the translation of the Funding Policy into fully operational rules of engagement. All investments in the CGIAR will then be expected to meet the minimum requirements for funding the CGIAR agenda. This will ensure that a minimum standard of funding quality is maintained, including coverage of direct and indirect costs, essentially ensuring full cost recovery. The proposed components of the Action Plan are shown in Box 5.

Box 5: Components of the Implementation Action Plan

The proposed Action Plan (to be further developed by the Task Force) would include the following initiatives (in parallel):

- Establish the CGIAR Fund. This will include a mechanism for efficient allocation and effective and regular oversight of financial, as well as programmatic, resources and management. The Fund will provide a platform for improved resource mobilization including better funding quality (adequate cost-recovery and stabilization), as well as greater efficiency of resource allocation decisions.
- Develop and implement a standard operational procedure for managing proposed projects that do not meet the financing requirements, as laid out in the Policy. A standard operational procedure may include, for instance, a definition of the minimum size of acceptable projects.
- Establish a common financial platform across all Centers, CPs and Strategic Objective components, (including the Alliance Secretariat). This will aim to harmonize business processes, reduce transaction costs, and develop an appropriate full-cost accounting methodology.
- Develop a resource mobilization strategy which may include the following:
 - Brochures for prospective funders describing the agreed Policy and Principles, and the standard requirements for covering direct and indirect costs;
 - High-level missions to current and potential investors to understand their funding policies and specificities, and to negotiate modalities that are in line with the new CGIAR Funding Policy. These might include, for instance, multi-year funding, full-cost recovery and an array of other possible modalities for CGIAR funding.
 - Identification of non-traditional sources of financing with the aim of improving the quantity of mobilized resources, without compromising quality and avoiding mission creep. All income sources (including spill-over from Centers' research products and sites) should be encouraged to supplement core funding or to replenish Center reserves. Non-member contributors should be made aware of the opportunity to become a Member and of the System's funding Policy.

5. Options for Funding Mechanisms

The need for a new Fund

WG 4 examined the risks and benefits of developing a new CGIAR Fund for international agricultural research for development. The CGIAR Fund would become the centerpiece of support for a research strategy shaped by Centers, partners, and independent scientific advice and refined through consultative processes involving the full range of stakeholders. The overall purpose of the Fund would be to mobilize resources needed to implement the CGIAR's new Mission, Vision and Strategic Objectives, as proposed by WG 1 of the Change process and approved by ExCo in May 2008. To reiterate, the Strategic Objectives are shown in Box 6.

Box 6: The proposed CGIAR Strategic Objectives

1. Create and accelerate sustainable increases in productivity and production of healthy food by and for the poor.
2. Conserve, enhance and sustainably use natural resources and biodiversity to improve the livelihoods of the poor in response to climate change and other factors.
3. Promote policy and institutional change that will stimulate agricultural growth and equity to benefit the poor, especially rural women and other disadvantaged groups.

The CGIAR Fund is envisioned as a new fund for financing medium to long-term international agricultural public goods research at the CGIAR Centers. The general precepts guiding the development of the concept were that the CGIAR Fund:

- is intended to fund longer term research and related activities generating international public goods;
- should operate as a mechanism for furthering the work of the CGIAR, not as an institution separate from it;
- should provide incentives that attract more support for longer term international agricultural public goods research;
- should focus on providing critical long-term funding for CGIAR programs and activities;

- should be designed to work with a range of possible governance and program outcomes for the CGIAR.

A new CGIAR Fund offers several potential advantages. The CGIAR Fund will focus and coordinate funding in ways that increase efficiency, add to program transparency and accountability, and harmonize financial reporting and evaluation systems. The Fund will therefore be fully consistent with the funding considerations drawn from the Paris Declaration, the Accra Agenda for Action, and the Principles and Good Practice of Humanitarian Donorship (outlined in Section 4). A transparent and accountable mechanism will also be more attractive for less restricted contributions: it will simplify access for current and prospective donors, attract larger amounts of funding based on its results-based framework, straightforward planning and reporting through a programmatic approach, and improve the coherence of CGIAR outputs and impacts due to its more consistent and streamlined reporting systems.

A major challenge in designing the CGIAR Fund lies in ensuring that it does not restrict the ability of Centers to maintain an integrated and flexible deployment of resources to highest-priority objectives. A highly elaborated planning process could, if not kept to the strategic level, run counter to the principle of subsidiarity. The potential for non-transparent decision-making for the Fund poses another significant risk. Under some models, there is a risk that programs supported by the Fund could come at the expense of vital activities not supported by the Fund, through the redirection of existing resources to the Fund. In adding a new mechanism, the System must also be careful not to create additional layers of bureaucracy and reporting without removing existing layers that are no longer necessary.

The relationships among the elements of the system are also worth considering. Over the years, the CGIAR Centers have developed strong working relationships with numerous donors, often regarded as partnerships built on trust and a mutual interest in common development goals. The challenge of developing a new funding mechanism will be to preserve these strong bonds and to ensure the Fund does not become a deterrent for donors. The capacity of the Centers to mobilize resources in support of the CGIAR's work has helped sustain funding to the System, and has often drawn in new constituencies. The Fund must therefore seek to minimize the risks from weakening donor-Center ties, building on these strengths as a foundation from which to further expand the CGIAR's poverty-driven mission.

Each of the above risks is serious, but the Working Group believes that they can be minimized by a combination of good design and attention to the problems they pose. In addition, a transition phase will be needed, during which existing funding channels stay

in place while the new Fund is piloted, refined and proven. The case for attracting substantially greater resources to flow through the Fund will be strengthened, once it is seen to be transparent, efficient and accountable. To maximize its advantages, the CGIAR Fund should:

- Align existing and new donor resources with a strategically-coherent CGIAR program;
- Increase efficiency of strategic planning by providing transparent, professional analysis, funding allocation and reporting to investors;
- Encourage the design of coherent and effective programs that respond to major development challenges, drawing on a range of Centers and partners;
- Project a more coherent image of the CGIAR system, as part of a global agricultural and natural resources research system, and a critical element of cross-sectoral approaches to solving global challenges;
- Generate incentives for evolution of the System in ways that respond to development needs and research opportunities;
- Communicate clearly what the CGIAR offers in the way of research for development, and how that leads to major development impacts;
- Increase the feasibility of an expanded, multi-year research agenda by attracting new and additional funds, including some with a longer term time horizon;
- Foster greater stabilization of funding of the CGIAR;
- Offer opportunities for reconciling donor preferences with programmatic coherence by maximizing resource coordination while respecting contributors' strategic choices;
- Provide increased and more stable levels of support for long-term research;
- Provide transparency and flexibility to donors while also increasing the overall level of support to the System;
- Provide a single entry point for donors with transparent rules, thereby reducing the fund raising burden on individual Centers;
- Provide a single accountability system to reduce Centers' multiple reporting requirements to many bilateral donors;
- Provide a means by which the costs of common services to the System provided by the CGIAR Secretariat (and currently borne by the World Bank), could be shared among all donors to the Fund.

In order to attract greater funding to the CGIAR Fund, WG 4 recommends that the Fund be designed to accommodate both unrestricted and directed funding. Direction would be at a high level towards a limited number of 'windows', which would allow donors to channel their support to specific topics, such as the System Strategic Objectives, Gene Banks, Blue Sky research, and institutional support to Centers aligned with program support. A key function of the Fund would be to reconcile discrepancies and foster synergies between the two types of funding, to ensure support for the highest priority research programs including institutional support to the participating centers.

Fund design options

At the 2007 AGM, the Ad Hoc Committee on Funding System Priorities proposed a mechanism that built on the matrix suggested by the Funding Priorities Task Force. This proposal allows for six entry points for Members to fund the System: three that are Center or Challenge Program (input) based and three new entry points that are System priority (output) based. Members wishing to allocate their unrestricted funds through the priorities or outputs would agree on coordinating their contributions.

The CGIAR Fund aims to facilitate this process and in some models takes the concept a step further. Rather than funding system priorities as the outputs, the Fund allows donors to support long-term, outcome-oriented programs through a limited number of windows. In these cases (Model 1 and 3), the level of targeting allowed to donors is at the window level, not the program level. There will be a small number of topical programs funded under each window, defined through a multi-stakeholder process. In some models, donors may also continue to fund the Centers through the Fund. In either case, the Fund provides the mechanism for donor coordination and harmonization of funding with strategic programs designed in coordination with partners and based on agreed accountability mechanisms.

In designing the Fund, the Working Group considered the potential roles of three current types of funding: unrestricted, attributed and restricted. Each type plays an important role in funding Center activities, although unrestricted funding gives the greatest flexibility. Each type of funding also reflects different degrees of decision making invested in the CGIAR system: the less restricted the funding, the more reliance is placed on the strategic planning and evaluation processes of the System. The Working Group concluded that efficiencies can be realized through the Fund, especially for less

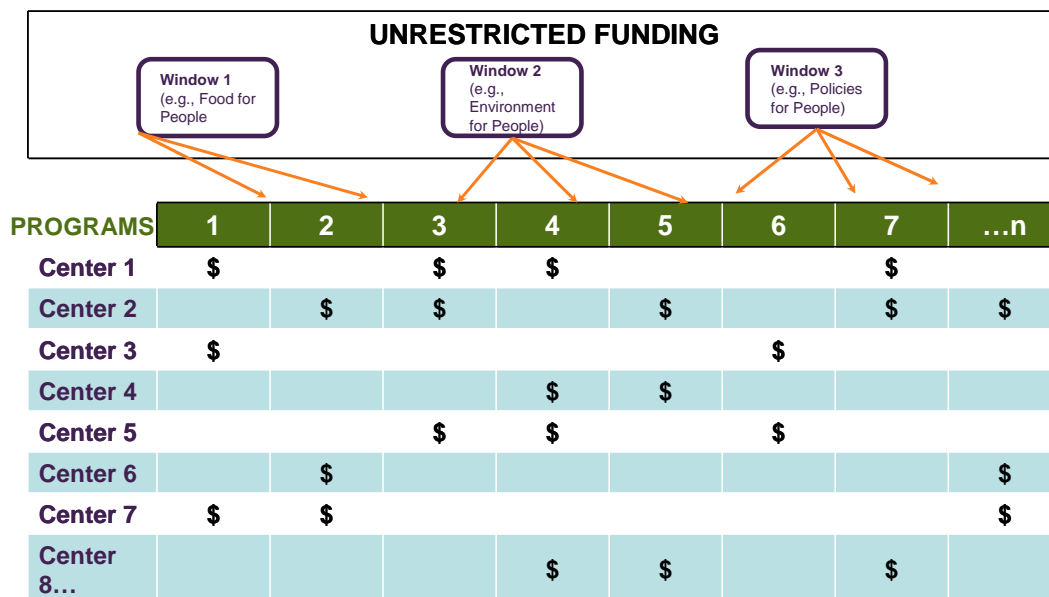
restricted funding, where funding streams are effectively assimilated by CGIAR planning, evaluation and reporting systems.

Three options are presented here, differing primarily in how funding is managed relative to the rest of the functions and activities of the CGIAR system.

1. Unified Program Model

Under this model, all contributions entering the Fund are either completely unrestricted or directed to one of the Fund's windows. Funding under this model is commingled and allocated to a defined set of programs with a stand-alone results framework. Programs would be transparently designed so that funding amounts directed to each implementing center would be visible, but only Fund resources would be used to support the programs. Costs at the institutional level associated with the programs to be supported under the fund would be included in program budgets. Accountability is straightforward, with recipients responsible for reporting on fully-costed programs that are entirely supported by Fund resources – a strict relationship. New Fund-related program review mechanisms would be established. This model would appear to readily lend itself to the development and implementation of results-based contracts with the Centers.

Figure 2: CGIAR Fund Model 1 - Funding Flows in Unified Program Model



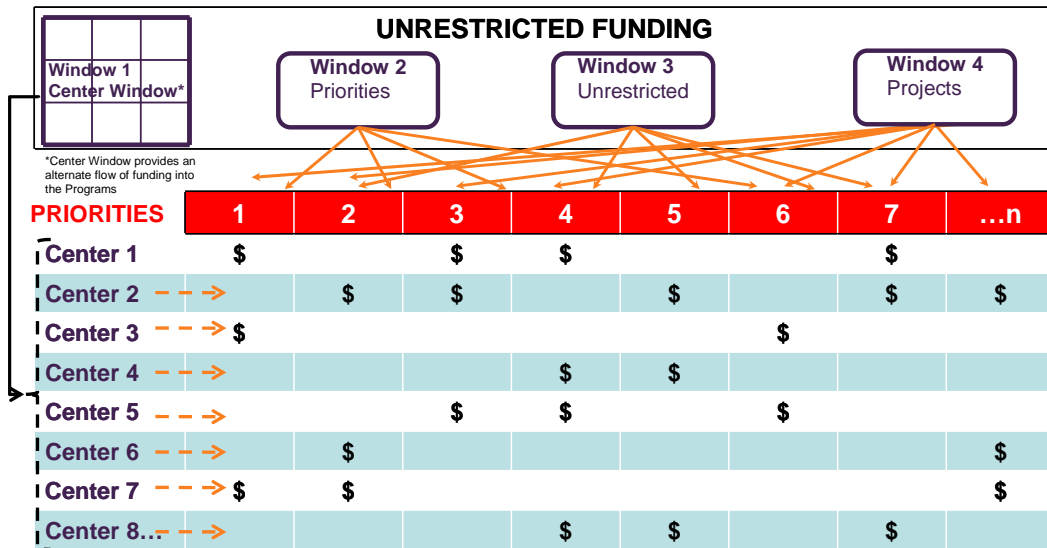
Box 7: Features of the Unified Program Model

- Represents a revolutionary change in CGIAR programming;
- Leads to newly defined, discrete programs separate from non-Fund activities;
- Makes Fund programs fully pro-active, integrated activities;
- Provides donors with a cohesive, delineated results framework with unambiguous accountabilities;
- De-emphasizes the role of Centers as there is no 'institutional' funding, although some institutional costs could be imputed in program budgets;
- Would probably begin with relatively few donors and grow over time;
- Presents significant challenges and risks in designing new programs that are fully separated from existing activities;
- Essentially makes the Fund and its programs the foundation of a new CGIAR system, but risks the development of a system within a system.

2. Priority Alignment Model

Under this model, the Fund is simply a tool for filling the matrix of CGIAR priorities and approved center programs. Contributions entering the Fund could have various degrees of restriction, from completely unrestricted, to designated to a Center and even, conceivably, designated to a project as long as it was a part of the matrix. Its main achievement would be the assurance that the system's priorities are fully funded. Accountability under this model is vested in the overall System and Center review mechanisms, most notably EPMRs. This approach would not work for performance contracts because funding would be entirely interspersed with the full range of existing CGIAR funding, including that not channeled through the Fund.

Figure 3: CGIAR Fund Model 2 - Funding Flows in Priority Alignment Model



Box 8: Features of the Priority Alignment Model

- Emphasizes existing Center and CP programming of all types;
- De-emphasizes the Fund as a means of achieving or fostering change;
- Responds to the objective of funding the system priorities matrix;
- Does not advance a program approach;
- Helps ensure the full CGIAR program is implemented but offers little in the way of direct accountability;
- Makes the Fund a largely mechanistic exercise, reacting to the funding decisions of others, essentially as a donor of last resort;
- Provides little incentive for donors to contribute to it.

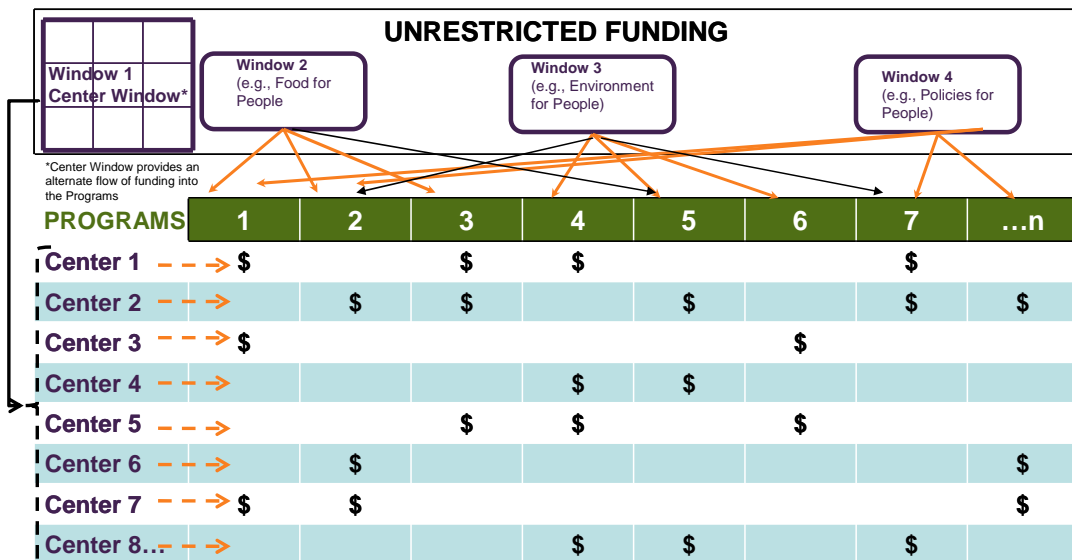
3. Integrated Program Model

This model is a compromise between the other two, incorporating a program approach but also accommodating institutional funding. A new program-based matrix would be required that encompasses the System's new priority programs (to be defined through an inclusive, multi-stakeholder process); this would not necessarily include everything

the Centers currently do. Programs would be transparently designed so that the funding allocated to each implementing Center would be visible. Funding for the programs could include contributions from outside the Fund, as long as they were consistent with the program objectives.

The Fund would allocate its commingled unrestricted or window-directed funding to the programs, based on program proposals coming from the Centers/Alliance/Consortium with their partners. Proposals coming from the Los Banos Stakeholder meeting suggest that a new legal entity, the Consortium of CGIAR Centers, will be set up to act as a common voice for all the Centers in the system and to engage in the contractual agreements between the Fund and the Centers in the Consortium for the agreed upon programs. Institutionally-directed contributions accepted by the Fund would be used to add to, or fill gaps in, the implementation of the programs. Center-based review and reporting systems would migrate to a program-based system, in which implementation was monitored and evaluated at the program level. This model emphasizes agreed programs where accountability is based on a results framework, but related resources (originating outside the Fund) are also covered by the review of program performance.

Figure 4: CGIAR Fund Model 3 - Funding Flows in Integrated Program Model



Box 9: Features of the Integrated Program Model

- Requires the development of a new, more focused CGIAR matrix of programs;
- Fosters evolutionary change, while integrating most on-going CGIAR activities;
- Allows gradual movement in the direction of the Unified Program Model;
- Implements a program approach, but reacts to related outside support and is vulnerable to skewing due to institutionally directed funds;
- Relies on institutional support to smooth out program allocations;
- Provides donors with flexibility to fund at the institutional or “window” level as a means to support CGIAR programs;
- Provides donors with a unified results framework, but one that encompasses some related funding streams and thus emphasizes general programmatic accountability;
- Could probably begin operation with a very substantial portion of CGIAR funding.

Recommended Model

Working Group 4 sees advantages and disadvantages in all 3 models, but ultimately considers that the Integrated Program model (Model 3) offers the most practical advantages. Model 1 is highly disciplined, but presents major challenges in implementing a set of programs separately from the rest of the System’s existing activities. Model 2 would limit the Fund to a process of filling the current matrix, with little bearing on the change agenda. Model 3 provides a means of adopting a program approach that can, over time, move toward the more disciplined approach envisioned in Model 1. A key assumption of Model 3 is that much of the system’s activities at present, regardless of exactly how they are funded, contribute critical pieces to the CGIAR research agenda. However, if new program areas were identified that could be fully funded via the Fund, it would be feasible to implement a Model 1-type program under Model 3.

The key step involved in making the Integrated Program Model (Model 3) successful is the development of a new, as yet to be determined, program matrix that encompasses the System’s new programmatic priority agenda. Building on existing medium-term planning processes (including the rolling Medium Term Plans), as well as analysis of global needs in new and existing research areas and the active participation of partners

in the process, the Centers/Alliance/Consortium would develop programs in line with the CGIAR's Vision and Strategic Objectives. The leadership role of the Centers in defining the programs is, thus, also emphasized. The more the System's international public goods research for development agenda can be clearly articulated through the programs of the matrix, the more effective the Fund will be in achieving the System's Strategic Objectives.

Institutional aspects of the Fund

A number of options exist for the legal status and host institution for the Fund. The CGIAR Fund could become a new legal entity in itself, or could be hosted at an existing institution, such as IFAD or the World Bank. Either of these organizations would be likely to have the policy interest and program rationale to do so. There are, however, some aspects of the World Bank's hosting the Fund that warrant consideration.

The World Bank was a founder and remains a large contributor to the CGIAR, and has provided the System's Secretariat since its inception. The World Bank also has a long history of hosting a Multi-Donor Trust Fund (MDTF) for the CGIAR, as well as many other development partnership funds based on a broad range of models. While it is possible that the CGIAR Fund could be hosted at an institution other than the World Bank, creating the Fund as a new legal entity is not recommended: such a process would require a considerable amount of time and new processes would need to be established and approved before the fund could start to operate. For these reasons, WG4 recommends that the new CGIAR Fund should be hosted at the World Bank.

Initial discussions with World Bank legal and financial staff suggest that a practical option for development of a CGIAR Fund would be in the category of a Financial Intermediary Fund (FIF). Under such an approach, the World Bank would be the Trustee of the CGIAR Fund without being directly accountable for the use of the funds. A key aspect of the emerging operational process for the CGIAR Fund is that the new Consortium of CGIAR Centers, created as a legal entity, could accept accountability for the funds through the performance contracts or other agreements signed between the trust fund and the Consortium.

A model could be developed that conserves many aspects of the CGIAR System – independent Centers, some degree of donor sovereignty, and independent scientific advice – while at the same time imposing a greater degree of alignment between resources on one hand, and priorities, strategies and strict quality assurance on the other, through a program-oriented external evaluation process.

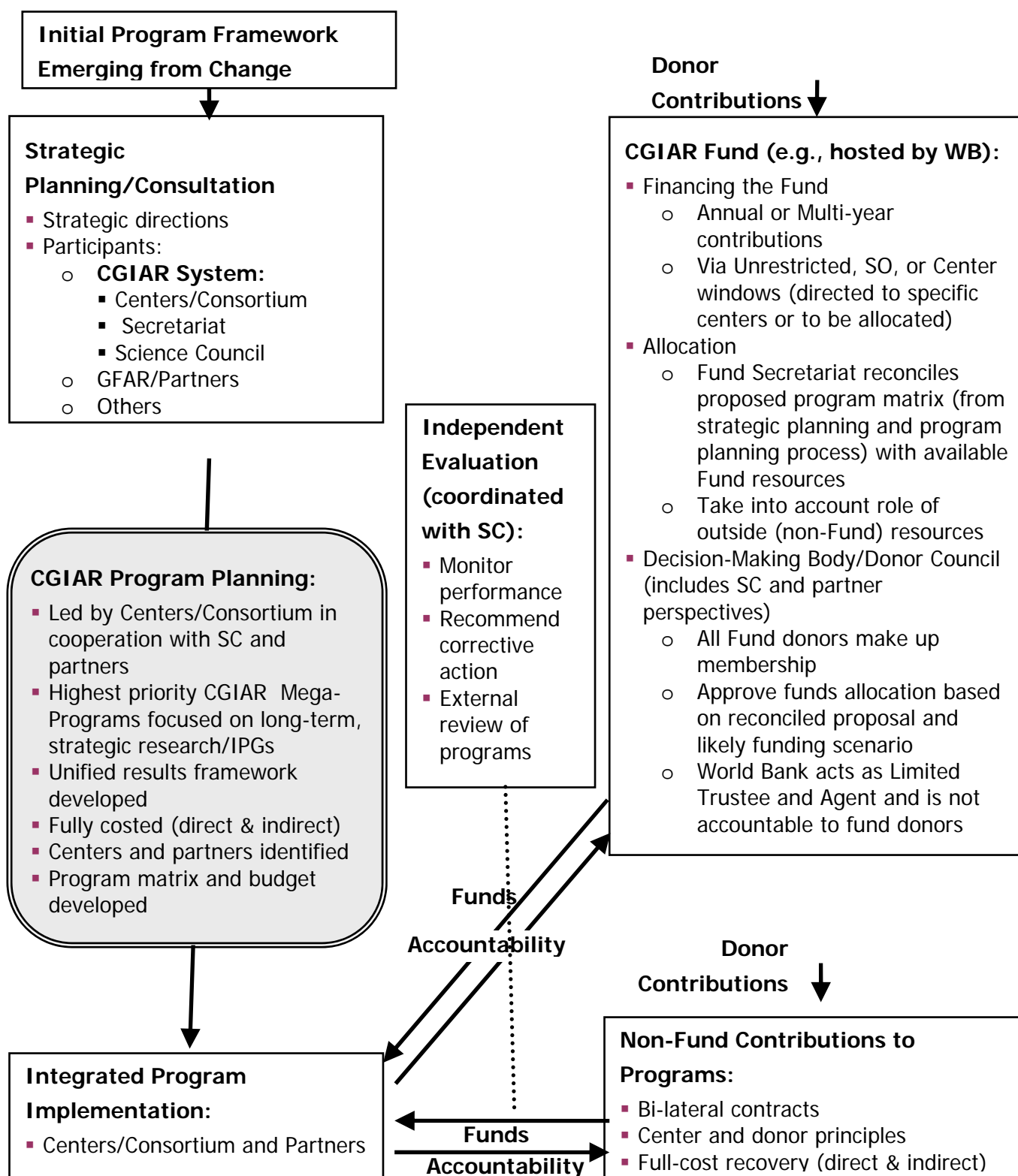
Fund operational aspects

There are a great number of operational considerations regarding how the CGIAR Fund might work. Key aspects proposed by WG 4 are discussed below:

1. The CGIAR Fund would straddle the middle ground between the 'upstream' donor environment providing funds and the 'downstream' implementers whose efforts lead to desired advances and impacts.
2. The CGIAR would establish the new Fund to mobilize new resources for the CGIAR, to streamline and harmonize financing of the CGIAR research agenda expressed as programs, and to provide increased and more stable levels of funding to all the CGIAR Centers to fulfill the CGIAR Vision and Mission.
3. The New CGIAR Fund would be based at the World Bank and be established as a Multi-Donor Trust Fund.
4. The Fund would have a limited number of windows through which donors can channel their support to specific topics (e.g. the System Strategic Objectives, and Center-directed program support). The World Bank requires a minimum contribution of \$1 million to its Trust Funds, which is higher than the current \$500,000 minimum contribution to be a CGIAR member, but is lower in inflation-adjusted terms, as the \$500,000 minimum was set many years ago.
5. The Fund would have a Decision-Making (DM) body (that could be called a Donor Council) that will allocate the monies in the Fund to programs that encompass activities at a number of Centers.
6. Donors could also invest their funds to individual or groups of centers through a center support window pending that the centers are engaged in the Fund supported programs.
7. Program Development in the Fund: Figure 5 shows the situation of the proposed CGIAR Fund in a Program development context. (This is not meant to address governance issues in the larger system, but rather to illustrate how the Fund could relate to other CGIAR System processes.)
 - a. The left side of the diagram features an initial starting point based on the CGIAR Change Process, feeding into a Strategic Planning exercise involving Centers, the Science Council, Partners and Donors.

- b. This would lead to focused efforts to develop CGIAR Programs (“Mega-Programs”) that reflect system priorities and a general sense of scope, probably including some sense of program size. A notional budget envelope would likely be very helpful to the program planning process, but at the outset, a sense of both the existing and needed program elements may have to suffice as a guide to the planners.
- c. A matrix of CGIAR Programs—highest priority, focused, “big-ticket” programs generating IPGs--would be developed. The roles of both centers and, where appropriate, major partnership would be explicit.
- d. On the right side of the diagram, the Fund received contributions from donors. It can accommodate annual or multi-year funding inputs, all of which come in through a limited number of windows, or totally unrestricted.
- e. The Fund’s Secretariat reconciles the Program matrix and proposed budgets emerging from the planning process with available and expected funding, resulting in a proposed allocation of the Fund’s resources.
- f. The Donor Council (or Decision Making Body) of the Fund reviews and approves the proposed allocation of resources to the CGIAR Program matrix.
- g. Fund resources are transferred to centers (and thence to any implementing partners) so that the Programs can become fully operational. Additional funding not provided by the Fund result in the implementation of the Integrated Programs.
- h. Monitoring and evaluation are carried out independently, but coordinated with Science Council to facilitate linkages between ex-post and ex-ante analysis.

Figure 5: Working Group 4 Proposal for the CGIAR Fund



8. The Fund would finance some or all of each detailed program proposal put forward by the Consortium of Centers. Agreements around programs and consolidated grants would be achieved through the provision of legal agency, with limited trusteeship responsibilities, by the host organization (probably the World Bank). Accountability for the use of the Funds would likely be vested in the new Consortium of CGIAR Centers. Each program's results framework would be linked to an overarching CGIAR Research for Development results framework for all approved programs. Restricted and attributed funding flows outside the Fund could still support approved CGIAR Programs. Projects outside the approved programs may continue on a bilateral, full cost recovery basis between individual donors and individual Centers. However, they would be reviewed for consistency with the overall results framework.
9. The Decision-Making (DM) body of the Fund would:
 - a. be made up of donors who provide the minimum level of contribution to the CGIAR Fund (\$1 million), targeted to Windows, specific Centers, or completely untargeted/unrestricted, to be allocated by the Fund. While all Fund donors would be members of the DM (which might also be called a Donor Council), donors that provided some or all of their funding as unrestricted or via windows would have an especially strong interest in the disposition of commingled funding. Donors who directed all of their contributions to centers would remain full partners in funding of CGIAR programs by the Fund, but would have already exercised considerable sovereignty through direction of their funds to specific centers.
 - b. include non-voting ex-officio participation by other System elements, that might include the Chair of the Science Council, the CGIAR Director, the head of the Independent Evaluation Panel, the Chair of GFAR (or similar partnership group), and the Chair of the Alliance Board, CEO of the Consortium (or similar body representing the Centers).
 - c. review and approve funding of program proposals prepared by the Centers/Consortium and approved by the Science Council, accompanied by appropriate commentary for consideration by the Fund Secretariat. Budgets for each program would also be reviewed by the Fund Secretariat, which would offer additional commentary concerning realistic

budget planning.

10. The Fund allocation mechanism would be based on the following considerations:

- a. The DM body would allocate funds from the Strategic Objective windows of the Fund to the appropriate approved programs.
- b. Funding directed via the Centers window of the Fund will be added across the programs where that Center is participating.
- c. The DM body may consider how to allocate the Fund's completely unrestricted funding (neither window or Center-directed) to the programs where the DM body believes the funds are most needed or most useful (taking into account advice and analysis from ex-officio members).
- d. The Fund Secretariat would include professionals with project planning, research program management, and financial management expertise. The unit would rely on the Science Council for program analysis and commentary, and on the underlying program development process, both of which would be critical for program transparency.

11. Evaluation and accountability would be based on the following elements:

- a. Accountability for the Fund would be vested in the Consortium of Centers. Thus the World Bank would not assume fiduciary responsibility for the Fund. Financial accountability would be largely based on audited financial statements of programs and approved financial procedures of the Consortium and its Centers.
- b. Program accountability would be achieved primarily through external reviews of programs that cut across Centers. The question of how management issues relating to program implementation are reviewed needs further analysis – an approach that monitors relevant management inputs will probably be needed.
- c. The Consortium would be held accountable to the DM body for all programs supported by the Fund and implemented by the Centers and their partners. Although other non-Fund funding may be involved, a single results framework will be needed to provide adequate overall program accountability. An Independent Evaluation Unit will provide evaluation services for all approved programs undertaken by the Centers.

- d. Results-based program agreements would be made between the Fund and the Consortium of Centers and linked to the CGIAR approved program results framework. Financial accountability would flow from the Consortium to the DM body/Donor Council according to the agreed budgets. Financial reporting would evolve, beginning with a compilation of Centers' components for each program and eventually evolving toward a fully integrated program accounting statement.
12. In cases where either programmatic or financial accountability concerns require rapid action, the DM body could reduce or halt further outflows to a given program, and donors could seek to redirect their funds tagged to a specific program or Center. Direct financial recourse provisions could be built into the program agreements prepared by the CGIAR Secretariat on behalf of the Fund.
 13. A small percentage (to be determined) of all contributions to the Fund would be held aside for Fund operations and contingencies. The Fund would likely be audited as per usual multi-donor trust fund practices. Issues of risk would be addressed via the accountabilities developed between the Fund and the grantees receiving funding under program agreements.

A major advantage of the model described above, is the relative ease with which it could be implemented. The Fund would mostly be supported by existing entities, and the approved program matrix it would support would likely integrate many on-going activities of CGIAR centers and CPs.

The model would gradually move the CGIAR system toward a program orientation, with various centers contributing to the implementation and success of each CGIAR program. Over time, the system would increasingly be characterized by its thematic programs as well as by the centers that implement them. The opportunity exists, particularly in new areas of endeavor, to fund blue-sky or other innovative research efforts entirely through the CGIAR Fund. How such programs would evolve remains unclear, as they would continue to be rooted in the centers charged with implementing them. More fundamentally, inter-disciplinary approaches that have been the hallmark of CGIAR success will likely remain relevant, with modifications reflecting a changed research environment.

WG 4 bears in mind the overall goal of simplifying the system and would thus look forward to the identification of opportunities to reduce system complexity. While a new

DM body would be needed, the Integrated Program Model (Model 3) would move the CGIAR system gradually toward a program orientation that reflects system, rather than just center, capabilities to respond to major development challenges. Substantial questions remain around how programs would develop, and the degree to which their accomplishments would be viewed in terms of the CGIAR system or the centers that implement them. As noted previously, Model 3 would allow for the gradual development of fully-funded programs as envisioned in Model 1. Over time, as the program approach proves itself as both an effective means to attract resources and achieve results, more Fund inflows could be directed to programs.

Box 10: Factors affecting accountability

The accountability envisioned at this overview level will depend on several factors:

- Donor focus on outcomes vs. process;
- Recipient tolerance for supervision;
- Rights of recourse being shifted probably to the Consortium (or possibly the Donor Council itself), not the World Bank *per se*;
- Accountability being achieved without the creation of a legal entity for the Fund; although the creation of the Consortium of centers as a legal entity should greatly facilitate accountability;
- Actual accountability and recourse being improved over the current MDTF approach.

Replenishment option

Another option considered by WG 4 would be to operate the Fund under a replenishment model. In this case, donors would meet and agree to funding levels for a three-year replenishment cycle rather than making annual contributions. Otherwise, the Fund would operate in a similar way to that described above. While feasible, a move toward a replenishment model would be a complex and lengthy undertaking, requiring the engagement of finance ministries and imposing a very substantial added discipline for CGIAR Funding. Further consideration could be given to this option even while moving toward a program approach.

Transition arrangements

The transition to a fully program-oriented CGIAR System is likely to take a number of years. The operation of the new Fund may be one of the more straightforward steps compared to the realignment of traditional and new Center activities into a meaningful and robust program matrix at the system level. The Fund may be best implemented gradually as approved system programs are developed. The option remains for the Fund to fully support specific new programs, for example in the area of blue sky research.

However, the more significant challenge will be to reshape the CGIAR agenda into programs that cut across Centers, conserving activities that generate the highest priority international public goods, while leaving behind (possibly for bilateral project support or implementation by others) activities not considered central to the approved program agenda. A key concern in shaping CGIAR programs will be the need to ensure that related competencies, generally managed at the center level, remain vibrant. Program development should bear the importance of center (and system) competencies in mind, and hence encompass the capabilities and services that are the basis of the CGIAR accomplishments. Perhaps most challenging will be the matter of linking project decision-making and resource allocation to the appropriate program level. Until now this has been at the center level; one question is whether program-level decision making should remain at that level as the most effective means of allocating investment of resources to outcomes. CPs will also provide a number of instructive lessons (positive and negative) about effective and efficient ways to integrate and organize CGIAR research at a programmatic levels.

The Centers, Science Council, and partners will work together to determine the highest priority and most feasible multi-Center programs to develop going forward. The hope would be that some programs would emerge relatively quickly in time to begin Fund expenditures as well as possibly attracting support through other channels.

The transition arrangements towards the full institutionalization of the Fund need to be preceded by complementary supporting actions. These involve, among others, the establishment of a Task Force of appropriately qualified resource persons. Such a Task Force would build on WG 4's analysis, to further refine the operational strategy and key modalities of the Fund, to provide a platform for improved resource mobilization. These include better funding quality (adequate cost-recovery, timeliness and stability) as well as efficiency of resource-allocation decisions across the windows, Centers and programs. The Task Force should also build on WG 4's recommendations for new CGIAR Funding Principles and a new Funding Policy, outlined in Section 4 of this paper.

6. Summary

Working Group 4 on Funding Mechanisms has built on the work previously undertaken by the Task Force on Funding System Priorities (2005) and the ExCo Ad Hoc Committee on Funding System Priorities (2007).

WG 4 carried out an in-depth analysis of the current CGIAR financing structure, trends in overall funding as well as in restricted and unrestricted levels of funding, impacts of funding on the System research agenda, and issues surrounding full cost recovery of projects undertaken by Centers. Based on that analysis, the Working Group makes a number of recommendations:

- WG 4 proposes a set of new CGIAR Funding Principles and Recommended Best Practices, and recommends that these should be incorporated into a Funding Policy Note for endorsement by the membership. This aims to spell out clearly the bases on which funding is, or is not, acceptable, and through endorsement of the policy, to drive changes in funding behavior.
- WG 4 outlines the elements of an Action Plan to guide implementation of the proposed CGIAR Funding Policy. This Action Plan should be further developed by a Task Force charged with overseeing transition arrangements.
- WG 4 proposes the establishment of a new CGIAR Fund and makes a recommendation for a particular fund model (the Integrated Program model). This aims to ensure efficient and transparent allocation of funds to CGIAR program areas and the centers that implement them in support of long term research generating international public goods. A range of flexible models can be envisioned and implemented. Ultimately the Fund is viewed as a tool to promote efficiency and at-scale responses to development challenges where agricultural research is an essential part of the solution.
- Over time, thematic global programs will emerge as major organizing principles for larger CGIAR research for development investments. An evolutionary approach is suggested, conserving core competencies of the centers, while exploring the most effective means for matching resources with the system's research for development agenda.

