

*Alliance Board and Alliance Executive Meetings
April 26-27, 2006
CIAT
Cali, Colombia*

Report Back

Session I Agenda Item3. Pooling of Reserves

Presented by: J. Godfrey

Summary of discussion:

It is the view of the AE/AB that a group of independent legal entities cannot simply share or pool their reserves; this would violate all principles of good governance. Only a single corporate entity for the CGIAR would enable pooling of center reserves; this is outside the scope of this discussion.

There are, however, a number of options for pooled reserves in a more limited sense (e.g. group insurance scheme for specific risks, or a credit union for mutual lending). A highly reputed legal/financial expert will be consulted to confirm or deny this opinion (a 2-3 day assignment) and help define the scope of the options available in the current legal structure.

The Alliance will commission an in-depth study on the options for using center reserves for specific shared or pooled purposes (insurance, credit union), following the determination of the scope. This will include recommendations on best-practice of the level, purpose and use of reserves in leading not-for-profits.

Decisions taken:

1. The Alliance agreed to the revised ToR (attached)
2. The Alliance created a committee of three Board Chairs (ICRAF, IRRI and CIAT) to select and supervise the Consultants for both steps and liaise with the CGIAR Secretariat

1. Pooling Centre Reserves: Terms of Reference

Revised 4-27-06

Background:

The Centers maintain financial reserves for a variety of purposes, e.g. as working capital, the eventuality of a major, unexpected shortfall of funding, uninsured damage to buildings and capital equipment due to natural disasters or civil strife, or to compensate staff in the event that they have to be laid off.

The total amount of funds held in reserve by the Centers collectively amounts to a considerable sum. This was estimated to be US\$156 million in 2004 – equivalent to 140 days of operations (compared to the minimum desirable range for individual Centers of 75 – 90 days). The actual level of reserves today varies across centers and may be different from this figure due to the drawing down of reserves, exchange rate fluctuations etc.

Assuming it is desirable (an assumption that should itself be examined), the question has been raised as to whether it would be possible to reduce the total size of the reserves needed if the Centers were to pool all or part of their reserves – thus freeing up funds, for at least some Centers, for other purposes. In addition, some form of pooling or jointly managing reserves might enable the Centers to achieve higher investment returns and, depending on the nature of the reserves and the way they are managed, could provide a source for funding loans for certain agreed, high priority activities such as the development of common research facilities.

The report of AGM05 in Marrakech states: *"The CGIAR requested the Alliance to explore and develop options for System-wide pooling of reserves. This should be submitted to the CGIAR Secretariat by the end of April 2006, to be reviewed by ExCo at its May 2006 meeting. Expertise from the Private Sector, CGIAR Secretariat and others should be mobilized, as needed."*

The issues to be addressed:

In response to this situation, the Future Harvest Alliance will obtain the opinion of a leading legal / financial management authority (a senior partner in one of the Big Four Accounting Firms is suggested) to assess the validity of the following position of the Future Harvest Alliance:

- 1) In the opinion of the Future Harvest Alliance a group of independent legal entities cannot simply share or pool reserves. Sharing or pooling of reserves would make it impossible to prepare a financial statement for any one of the legal entities without reference to the others; it would de-facto require consolidation of all the financial reports of the centers and only be feasible if the centers were governed by a single legal (corporate) entity. The opinion of a legal / financial / governance expert is sought to confirm or deny this opinion.
- 2) The Future Harvest Alliance does see opportunities for more limited sharing or pooling of reserves for specific purposes, e.g.
 - a. a Credit Union or Mutual Fund e.g. with the level of contributions being determined by individual Centers;
 - b. an insurance scheme, e.g. with contributions set on the basis of risk criteria; and
 - c. a combination of the above and/or other options.

The opinion of the expert is sought to define the scope of the (limited) opportunities for sharing reserves, to prepare the ToR for a more detailed study of these options. A consultant will be commissioned to carry out the studies of opportunities for the (limited) sharing of shared reserves as defined above.

Timing:

It is expected that the legal/financial opinion, and ToR for in-depth study, can be obtained before May 15.

It is expected that the in-depth study can be completed by the end of June 2006.