

RiskLow
**A New Comprehensive Program to Address Financial Risk Management in the
CGIAR System**
A Think Piece by the CGIAR Secretariat

Summary

RiskLow is being proposed as a new, innovative and comprehensive program, designed to strengthen financial risk management in the CGIAR System. The program is a combination of strengthened existing risk management mechanisms, and new initiatives. Each of the Centers, supported by the CGIAR, would be invited to participate in the program, and membership would bring both benefits and obligations. Participating Centers would manage the program, with oversight from financing CGIAR Members.

Background

Financial risk management in the CGIAR has traditionally included running operating surpluses at the Center level and building reserves to mitigate risk. However, as unrestricted resources have declined in recent years and a number of Centers faced financial crises due in some cases to management and governance failures, there has been a push to take a more systematic approach to financial risk management. In addition, corporate governance crises across the globe have led to a greater awareness and redefinition of the role and responsibilities of governance, and reinforced risk management as a vital element of the CGIAR's business model. Detecting "wobbles" and taking action to prevent them from becoming trends is crucial to the long term health of the System.

CGIAR Membership has encouraged a more holistic approach to financial risk management at the System level that would take into account the significant level of reserves (approximately \$160 million at the beginning of 2006) in the System, their uneven distribution, the asymmetry of risk across the System, and have welcomed the commitment of the Alliance to take collective action

Facts

- Centers are autonomous in making decisions on financial matters.
- Some Centers have had significant crises in the past 5-6 years that led to financial distress.
- Approximately \$160 million held in reserve in CGIAR System at the beginning of 2006.
- Reserves are mainly built up from unrestricted resources, and to a lesser extent from investment income.
- Risks are of two main types:
 1. Systemic Risks: risks common to all (or a set of) Centers (e.g. non-delivery of Member funding that affects all Centers; changes in funding priorities of Members that affect some Centers); and
 2. Unique Risks: Center-specific risks due to the particular circumstances and operations of the Center (e.g. geopolitical environment; type of physical plant, location, etc.).
- Some risks are better addressed at the System level, and some at the Center level.

Key Principles for Participation in the Program

- Voluntary participation by Centers
- Maximize benefits through joint risk management activities
- Better manage fluctuations in funding; enhance research productivity
- Maximize use of resources to support research for development
- Learn by doing (e.g., as done by System Office units)
- Participating Centers agree on types of risks initially covered
- Participating Centers are autonomous in managing new system
- Apply a conservative approach to investment
- Participating Centers must agree to participate in the complete RiskLow Program Mechanisms (see below)
- Participating Centers and financing CGIAR Members jointly develop clear, transparent rules and criteria
- Establish simple and easy to implement mechanisms
- Establish simple, cost-effective, and clear governance

Benefits to Centers

- Guaranteed and simple access to loan mechanisms and line of credit
- Increased financial stability, providing assurance to investors
- Potential lower costs for borrowing and insurance against emergencies
- Potential higher rates of return as investment levels increase
- Potential to increase unrestricted resources

Benefits to Members

- More stability for participating Centers with impact at System level
- More secure research environment
- Increased accountability

RiskLow Program Mechanisms

Strengthened existing mechanisms:

1. Internal loan mechanisms
 - a. Center-Center loan: is not currently used, but could provide opportunity for future use
 - b. Center-Center loan, with CGIAR Secretariat guarantee (e.g. IRRI-CIMMYT + CGIAR Secretariat guarantee): which has been used in recent past
2. Early warning system (applicable to all CGIAR supported Centers)
 - a. Continuing review of benchmarking for key financial indicators and requirements
 - b. Improved monitoring of key financial indicators and information sharing with Centers and CGIAR Members

New mechanisms:

3. Creation of a risk management fund to include:
 - a. Center funds plus added incentive in the form of contributions from financing CGIAR Members:
 - Minimum contribution per participating Center from reserves of \$1-2 million
 - Plus contribution from participating CGIAR Members of approximately 35% of total Centers' contribution

There will be:

- b. Clear criteria for access/use
 - Developed jointly by participating Centers and financing CGIAR Members
 - c. Management exclusively by participating Centers, oversight by financing CGIAR Members
 - d. Special short term line of credit for participating Center to be repaid within specified time period.
4. Joint investment of a portion of Center reserves
 - a. Prudent investment of a portion of reserve funds jointly to realize a higher rate of return¹
 - b. Learning from experience of other participating Centers
 - c. Harmonizing investment policy
5. Comprehensive insurance coverage
 - a. Participating Centers will be required to carry minimum levels of insurance to mitigate risk at the Center level, e.g. for fire, natural disasters, etc., with a preferred insurer

¹ As an example, one bank would increase the 90 day rate of return from 5.17% to 5.29% as investment moves from \$9 million to \$15 million.