



Synthesis of CGIAR System Costs

December 2009

At ExCo17, the Alliance and the Secretariat were asked to “develop a total System costing before the Business Meeting in December 2009, including direct, indirect and hidden costs, capitalizing on the Boston Consulting Group work to date, if possible.....in order to understand the cost savings element that will help to market the new system”.

This report is a synthesis of the recent and currently ongoing studies on the cost and benefits of the new CGIAR.

Summary

This report provides a synthesis of the estimates on the “system” costs of the new CGIAR. It examines system costs from three perspectives: efficiency gains related to direct costs, net cost impact of the “overheads” or indirect costs of the CGIAR, and spillover costs/benefits of donors’ involvement in the CGIAR. Table 1 below summarizes the overall findings.

Table 1. Summary of Net Benefits of new CGIAR
(*\$millions*)

Cost Category	Range
Efficiency gains <i>(from Direct Costs)</i>	16 - 21
Net savings <i>(from Indirect Costs)</i>	0 - 4.1
Spillover benefits <i>("Hidden costs")</i>	3.0 - 3.5

Purpose and Approach

This brief report has been prepared by the CGIAR Secretariat at the request of ExCo17 on the basis of recent and new estimates on the cost of the new CGIAR. These include the Boston Consulting Group (BCG) work on the System’s “net cost impact”, Accenture’s draft report on shared services, and previous background work carried out by the Secretariat at the request of the Change Steering Team during the change design process. The report is intended to serve as background to the CGIAR Business Meeting’s discussions and decisions on the reform program.

A number of elements of the new CGIAR have become more concrete and connected based on progress achieved during the transition and decisions made by ExCo17, which in turn are likely to impact system costs. For example, the following specific guidance and suggested approaches from ExCo17 are likely to have a cost impact:

1. Centers have the flexibility to conduct research outside of the SRF using mainly bilateral funding;
2. GCARD is viewed as contributing to the CGIAR and should be funded based on best estimate cost of GCARD;
3. Resource mobilization will be a main role of the Consortium, with collaboration from the Fund Council;

4. The Science Council will be transformed into an interim Independent Science and Partnership Council for a transition period of 1 year, and its work program should be scaled in recognition of other demands on Centers.

This synthesis takes into account these recent developments in establishing a baseline of costs going forward. However, it is important to be mindful that, in spite of the progress made during the transition period and at ExCo17 to provide a clear and detailed description of the new CGIAR (on both the doer and funder sides), there remains a number of issues and decisions whose cost impact cannot be fully assessed until those decisions are made (examples: independent evaluation arrangement, Independent Science and Partnership Council, number and organization of Mega Programs, and implementation of the recommendations from the shared services consultancy). The real costs and benefits of the CGIAR reforms, therefore, are likely to be known only several years from now after the new structure and processes have settled. This paper attempts to provide only “ballpark” estimates of potential costs and benefits, based on the information known at this time.

Key Definitions:

Following ExCo’s guidance the system costs have been analyzed at three levels:

- a) **Direct Costs:** These are costs that can be directly assignable to the CGIAR’s core business – research. They can be directly identified to the production of specific international public goods. From a CGIAR system perspective (in contrast to a Center perspective), direct costs would be all costs incurred by the 15 Centers and four Challenge programs, including the cost of the Consortium.¹
- b) **Indirect Costs:** These are system level costs that cannot be directly attributed to specific research outputs. For the CGIAR system as entity, these include the cost of system governance, monitoring and evaluation, and units whose main responsibility is to manage the business processes of the system as a whole (these can be viewed as “corporate overhead” of the CGIAR).
- c) **Spillover Costs/Benefits:** CGIAR donors incur real costs in the management of CGIAR-related business (“Donor – system or donor-center interface costs”). They include both direct financial costs (e.g., direct costs of attending meetings), and time spent by the functionaries. These interface costs are sometimes referred to as “hidden costs” because they do not show up in the books of the CGIAR, whether at the Center or system level but they are real costs for the donor agencies.

¹ There are both direct and indirect costs at the Center level, and each Center has computed an indirect cost rate which is annually audited. However, from a system perspective all center costs can be directly attributed to the Center’s research output, and hence are considered direct costs for this purpose.

Approach

The approach taken here is to compare these three categories of costs between the current CGIAR and the new CGIAR at a steady state, recognizing that the institutional arrangements and processes for incurring direct, indirect and spillover costs may be quite different in the new CGIAR, compared with the current set up.² This is especially true in the case of the indirect costs. Within each category of costs a number of assumptions were made about the steady state, which allowed the interim or transitional values to be converted to baseline from which different scenarios could be developed. One or more variables were used in each category to develop the scenarios and ranges of costs or benefits.³

Assumptions and Caveats:

- (i) Although different elements of structure, organization and process of the new CGIAR will materialize (i.e., emerge and work as envisaged in the reform program) over time the “new CGIAR” is assumed to be one where all the elements have reached their optimal working levels, i.e., steady state. This is a CGIAR of \$1 billion in funding, with at least 60% flowing through the CGIAR Fund. This corresponds to the “large Fund” scenario in the BCG report.
- (ii) Direct costs here are shorthand for financial inputs because the amount of research that Centers undertake is directly proportional to the funding provided by donors. In other words, it is not a fixed amount of effort that is costed. More funding, therefore, can be assumed to mean more research, and any opportunities exploited for producing the outputs in a more cost effective way will lead to efficiency gains that can be plowed back into research.
- (iii) From a system perspective,⁴ the Consortium is a direct,⁵ not indirect cost, as it is integral to the research planning and execution that will take place on the “doer” side. It should be viewed as a new way in which the 15 Centers have decided to organize themselves to be more effective and efficient in delivering on the performance contracts with the Fund Council.

² This approach is similar to BCG’s “apples-to-apples comparison” but greater emphasis is placed on the functions, not organizational units, comprising the indirect costs.

³ For Direct costs variables were donor interface costs and shared services; for Indirect Costs they were independent evaluation arrangements and Consortium & Consortium Board; and for Spillover costs, the variable was system governance. Some of these variables have already been identified in the BCG and Accenture reports.

⁴ This is distinct from the “doer” perspective where the structure of costs can be analyzed differently.

⁵ As such the cost of the Consortium would be imputed into the cost of Mega Programs and bilateral projects.

- (iv) Indirect costs here are financial costs that can be reduced (or increased) depending on the decisions about governance and system corporate support. If they are reduced, the money saved can, in principle, flow into the research effort as additional inputs.
- (v) Spillover costs are financial costs but any savings may or may not result in incremental inputs into CGIAR research.
- (vi) Thus, there are three distinct categories of costs/ benefits, and there is great value in estimating each for its own sake.
- (vii) The new CGIAR scenarios are steady state, as explained above. Transition costs for 2009 through the GCARD and Funders Forum (approximately \$9.5 - \$10 million) have been incurred under the Change Initiative Fund (CIF) arrangement⁶.
- (viii) Transition costs for 2010 (and beyond, as needed), have been developed separately. These include the cost of the Consortium set up, Mega Program development. For a period of time these transition costs will be incurred alongside existing System Office units. These transition costs (incurred 2009 and beyond) help to provide the perspective that although the reforms are likely to yield benefits over the long run, it will initially be costly to get things started.

Table 2. Transition Costs
(\$ millions)

Consortium Set-up	2.5
Development of Mega Programs	3.0
Total	5.5

Analysis:

- A. **Direct Costs:** Three factors will affect direct costs in the new CGIAR and contribute to benefits, i.e., efficiency gains.
 - a. **Interface Activities:** BCG estimated that approximately 8% of total available staff time at Centers is devoted to “interface activities”⁷, representing about 20% of total Center personnel costs (or \$46 million in 2008). Approximately three quarters of Center interface costs are for donor relations and reporting activities.

⁶ CIF is a temporary fund set up and supported by a small number of donors to finance the CGIAR change process.

⁷ Defined as “all activities Centers conduct that involve interactions with donors and CG system functions” ; BCG Report p. 86

Based on 2008 data, these were estimated to be responsible for approximately \$30 million of Center personnel costs. Although some of these can be expected to continue in the new CGIAR due to bilateral funding, it is reasonable to expect that, with the Consortium serving as the main interface with Fund donors and to some extent with bilateral donors also, overall interface activities of Centers will diminish. Another important factor in reducing interface costs will be the increase in the proportion of resources flowing through the CGIAR Fund, as the majority of the Center research is organized under the SRF and the MPs with reduced number of “bilateral” projects to be reported separately. In addition, Fund resources will largely be realized through a common mobilization strategy, and be subject to a common M & E framework. Nonetheless, Centers will continue to be involved to some extent in interface activities, hence a conservative level of efficiency gains of 25 – 30% (approximately \$12 – 14 million) in total interface activities is estimated in the new CGIAR. These gains come mainly from the reduced amount of time researchers spend on interface activities, which would be expected to be plowed back into front-line research.

- b. **Shared Services:** The Accenture consultancy report on shared services identified “seven opportunitiesas high priority for the implementation of shared services across the Consortium”⁸. These shared services have the opportunity for savings through cost avoidance and operational efficiencies. An example of cost avoidance was quantified in the “physical facilities and facilities support” shared service where “a major opportunity has emerged to increase efficiency and reduce costs by rationalizing facilities and facility support”.⁹ It estimated that of 253 sites (H/Q and regional) approximately 18-36 (7-14%) could be “consolidated”, resulting in savings of \$3.5-\$7 million.¹⁰ Since this is related to only one of the seven identified “opportunities” the savings from shared services can be expected to be much higher in the new CGIAR.¹¹
- c. **Benefits of Indirect Cost Recovery:** Currently, the system wide average indirect cost rate is 19%¹², of which 46% (\$38 million) were recovered in 2008. Both the

⁸ “Consultancy on Common Administrative, Financial and Research Support Services in the new Consortium of the CGIAR Centres”, p. 20

⁹ Ditto, p.42.

¹⁰ Accenture states that these are related to regional sites only, as “it is unlikely that major facility savings will be realized from closing H/Q locations.” Ditto, p.42

¹¹ Accenture has not yet quantified the savings that could be expected from the six other shared services identified as opportunities (research support, financial management, procurement, HR, project management, and information technology).

¹² This rate may appear to be rather low, but it is important to keep in mind that the approved cost allocation methodology in the CGIAR allows (and in fact, requires) the majority of costs as direct costs leaving only truly unallocable costs as indirect costs.

Alliance and CGIAR Members have emphasized the critical importance of improving recovery on both bilateral and Fund resources in the new CGIAR. Although not an efficiency gain, improved recovery will have the following benefits (i) increase in the level of resources available to pay for indirect costs (ii) enhanced institutional sustainability and (iii) a more equitable “burden sharing” of institutional overheads among Fund and bilateral donors. Following the recent adoption by the Centers of the new CGIAR Cost Allocation Guideline (FG3), which is based on the Activity Based Costing (ABC) concept, it is expected that costing as well as recovery will be enhanced in the new CGIAR.¹³ If the new commitments result in an improvement of full cost recovery, this will be an overall benefit (as explained above) although this would not be an efficiency gain. The real efficiency gains in the new CGIAR will be realized on interface activities and shared services, and these are estimated in Table 3 below.

Table 3. Estimated Efficiency Gains on CGIAR Center Costs
(\$ millions)

Current CGIAR		New CGIAR		Range
Inter-face activities of Centers	46	Inter-face activities of Centers	34	12 - 14
Shared services <i>(related to facilities & facilities support only)</i>	50	Shared services <i>(related to facilities & facilities support only)</i>	46	4 - 7
Total				16 - 21

To achieve these efficiencies and benefits it will be critical for Donors, the Consortium and Centers to work closely for the greater good. On the one hand, donors would need to increase funding and abide by the code of conduct that requires them to pay their fair share of the full economic cost of programs and projects. On the other, the Consortium will need to establish, promote and enforce performance standards in various aspects in which the Centers conduct their business.

B. **Indirect Costs:** These are financial outlays related to system governance, M&E and corporate support (system units). The outlays pay for processes, organizational units and personnel needed to maintain the “system” character of the CGIAR as an organization. Hence the money used here can be viewed as the “cost” of maintaining the CGIAR.

¹³ “The adoption of an approach using ABC principles will help Centers obtain a more accurate picture of the total cost of each activity/project, which will assist budgeting, financial management and resource allocation”; CGIAR Cost Allocation Guidelines – FGS No. 5 (2008); p. 4

Comparing these between the current and new CGIAR yields the “net cost impact” of the new CGIAR. Using a set of assumptions (e.g., medium Fund scenario) BCG estimated the net cost impact to be \$3.5 million. However, in this synthesis report, we have modified or added four important assumptions to estimate the net cost impact:

- a. the Consortium is a direct cost of research hence is not included in the analysis of indirect (or system) costs.
- b. assumed 4 FTEs for the Independent Evaluation Arrangement¹⁴;
- c. included the CGIAR’s share (50%) of GCARD costs, and
- d. included the administrative cost of the CGIAR Trust Fund (including the amortization of the set up cost).

Consistent with the BCG report, it is assumed here that, except for the CGIAR Secretariat and Science Council and its Secretariat which will be transformed into the Fund Office and ISPC and Secretariat, respectively, and attached to the Fund, the future functions of the remaining current system office units will be decided by the Consortium.

Based on these assumptions the net cost impact of the new CGIAR is a savings of approximately \$4 million. In terms of the individual elements, under the assumptions the cost of system governance is estimated to reduce by 50%. This is significant as one of the key objectives of the reforms was to streamline and simplify governance. The reduction in governance costs is due mainly to the elimination of the AGM. On the other hand, the cost of M&E would increase, mainly as a result of a standing independent evaluation arrangement.

In terms of FTEs, the net impact will be a reduction of 25, due mainly to reductions in the Secretariat transforming into the Fund Office, and Alliance Office and other System Office units becoming a direct, not indirect, research cost. Figure 1 illustrates the net FTE impact.

¹⁴ Estimate based on discussions with the evaluation unit of the Global Environment Facility (GEF) and expected size of CGIAR research portfolio.

Table 4. Indirect Costs CGIAR System

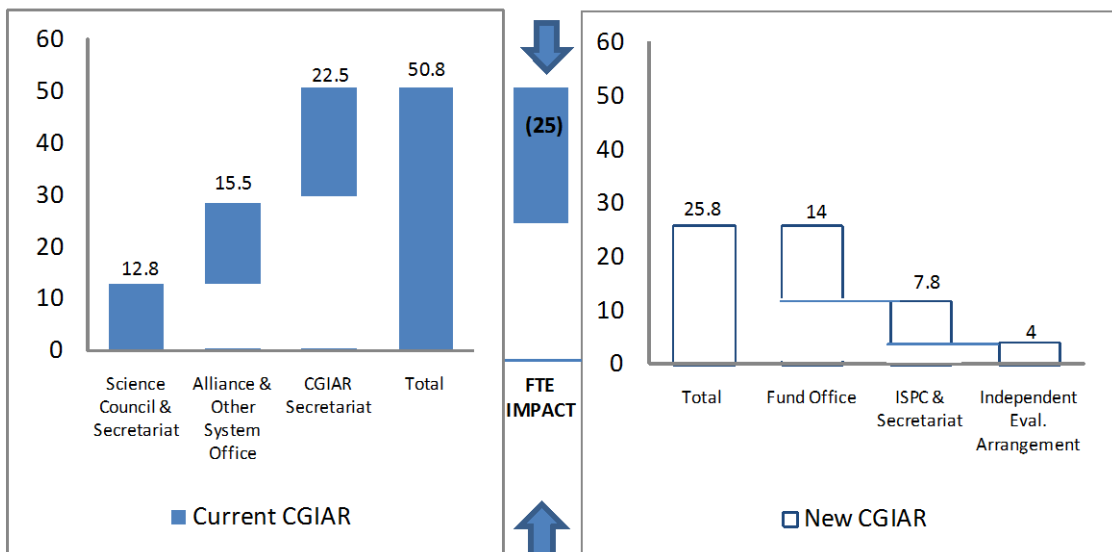
(\$ millions)

Current CGIAR		New CGIAR		Net cost impact*
Governance				
<i>Costs to organize:</i>		<i>Costs to organize:</i>		
AGM	1.5	CGARD**	0.7	
ExCo	0.1	Fund Council	0.2	
GRPC & PSC**	0.2	Funders' Forum	0.2	
Partnership Fora	0.2			
sub-total	1.9	sub-total	1.0	(0.9)
Monitoring and Evaluation				
System review	0.4	System review	0.4	
Ad Hoc Reviews	0.1	Independent Evaluation Arrangement	2.0	
sub-total	0.5	sub-total	2.4	1.9
Corporate Support				
CGIAR Secretariat	4.9	CGIAR Fund		
Science Council & Secretariat	3.5	Fund Office	3.1	
Alliance Office	0.7	Trustee Admin Fee	0.5	
Chief Information Officer	0.3	ISPC** & Secretariat	2.1	
CAS IP**	0.7			
Gender & Diversity	0.6			
sub-total	10.7	sub-total	5.7	(5.1)
Total	13.1	Total	9.1	(4.1)

* negative net impact represents a savings while positive represents an increase in cost

** GRPC - Genetic Resources Policy Committee; PSC - Private Sector Committee; CAS IP - Central Advisory Service for Intellectual Property;
GCARD - Global Conference on Agricultural Research for Development; ISPC - Independent Science and Partnership Council

Figure 1: Net FTE Impact of New CGIAR



- C. **Spillover Costs/Benefits:** The third category of costs is “spillover” costs, so-called because while they are incurred as a result of donor interactions with the CGIAR, based on how the CGIAR is structured. The benefits or losses from a changed CGIAR accrue (or spillover) to the donor agency as a direct financial benefit or loss, not to the CGIAR. However, while interfacing less with Centers and attending fewer CGIAR meeting may have financial benefits to the donor agency, the impact (“loss”) on the CGIAR can be equally important, such as the loss of the benefit of a direct engagement on CGIAR issues when a donor spends less time on them and attends fewer relevant CGIAR meetings. Spillover costs are expected to decline significantly as a result of a more centralized resource mobilization approach and a common M & E framework. Table 5 illustrates.

Table 5. CGIAR Spillover Costs & Benefits
(\$ millions)

Current CGIAR		New CGIAR		Benefits (Losses) <i>Range</i>
Donor interface with Centers	10.0	Donor interface with Centers	7.5	
Donors' time in System Governance		Donors' time in System Governance		
ExCo	0.2	Fund Council	0.3	
AGM	1.2	GCARD	0.4	
		Funders' Forum	0.2	
Total	11.4	Total	8.4	3.0 - 3.5

Note: Donor interface with Centers related to resource mobilization, and monitoring and evaluation.

Conclusion:

The efficiency gains and benefits estimated here are ballpark figures that should be treated with a lot of caution because there remain important unknowns as the CGIAR moves into a new era. These estimates attempt to give a sense of direction in terms of the costs and benefits of the reforms, recognizing that these will become easier to quantify only after the new system has settled. It is important to also bear in mind that these benefits will accrue over time, and hence should be weighed against the transition costs that are currently being incurred. Nonetheless, if the new CGIAR works as envisaged the reforms would have been a net gain. The challenge, therefore, is to ensure that the new system is organized and performs as designed, with all parties committed to agreed principles and ways of working together.