

DRAFT

**TASK FORCE ON
FUNDING SYSTEM PRIORITIES
COORDINATED ACTION BY CGIAR MEMBERS**

**FINAL REPORT
FOR THE
ANNUAL GENERAL MEETING 2005**

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ABBREVIATIONS

AGM	–	Annual General Meeting (+ year)
CGIAR	–	Consultative Group on Agricultural Research
CP	–	challenge program of the CGIAR
ExCo	–	Executive Council of the CGIAR (+ meeting number)
FAO	–	Food and Agriculture Organization of the United Nations
MTP	–	medium-term plan
TF	–	Task Force on Funding System Priorities
USA	–	United States of America

NOTE

In this report, "\$" refers to US dollars.

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EXECUTIVE SUMMARY

I. BACKGROUND

A. Why the Task Force?

At the Annual General Meeting 2004 (AGM04), Denmark initiated a discussion on the topic of funding of Consultative Group on Agricultural Research (CGIAR) priorities and proposed that a task force of interested Members be commissioned to examine the possibilities and conditions for creating a mechanism or procedure to fund System priorities. AGM04 decided that interested Members, with the support of the CGIAR Secretariat, should explore the possibility of developing a mechanism to facilitate coordinated action by providing unrestricted funding in support of agreed CGIAR priorities recommended by the Science Council and approved by the CGIAR.

In the terms of reference for the Task Force on Funding System Priorities (TF), approved at the eighth meeting of the Executive Council (ExCo 8), the additional task was added of recommending funding options for financing the Science Council in 2006 and beyond. The budget of the Science Council for 2006 is \$3.822 million (endorsed at ExCo 9) but only two Cosponsors — the Food and Agriculture Organization of the United Nations (FAO) and the World Bank — have agreed to pay in 2006, with commitments of \$786,000 each. In the past 2 years, the World Bank made up the funding shortfall but cannot continue to do this. Therefore, it is urgent to find a mechanism to secure financing for the Science Council for 2006 and beyond by all Members to ensure its independence and continuing operations.

The TF (representing Canada, Denmark, Germany, India, Japan, and USA), supported by a consultant, held two meetings and had numerous virtual discussions. It produced a progress report that was presented to ExCo on 20 October at its ninth meeting, in Stockholm, Sweden.

B. Terms of Reference Objectives

The objectives of the TF are to (i) assess and evaluate opportunities for financing System priorities and, in addition, for financing the Science Council and its Secretariat, and (ii) propose one or more new financing mechanisms in support of CGIAR priorities recommended by the Science Council. ExCo 8 asked the TF to give utmost priority to the issue of the financing of the Science Council and its Secretariat.

II. SYSTEM PRIORITIES ISSUES

The TF identified a number of issues with impact on funding System priorities. The main issues are the need to

- (i) ensure the priorities are adequately funded,
- (ii) increase unrestricted funding,
- (iii) relax and broaden restrictions on restricted funds,
- (iv) channel restricted funds to System priorities, and
- (v) provide transparent information on the full costing of medium-term plan (MTP) projects.

Addressing these issues will improve the ability of the System to focus on its priorities and achieve intended results. These issues are discussed in more detail in the accompanying report.

The TF discussed at length how to provide Members with better information to enable them to make informed decisions for financing the priorities. As the Center research portfolios align with new System priorities gradually over the next 3 years (as proposed in the CGIAR System Priorities 2005-2015 document) a System matrix composed of Center projects (rows) and System priorities (columns) was thought to be an essential tool to provide Members with annual information on funding levels for Centers, MTP projects and associated System priorities. Such a matrix, completed through the cooperative efforts of the Centers, Science Council and CGIAR Secretariat, will highlight priority areas that may be underfunded (or inefficiently overfunded).

The TF believes that the improved information available in the matrix and funding coordination action among Members will best assist the System in achieving results in the identified priority areas.

A. OPTIONS

The TF examined possible mechanisms for allocating funding in accordance with the agreed program of work. Four possible options were determined and examined.

1. Status quo

CGIAR Members continue their current practice in financing the Centers. Members provide a mix of restricted and unrestricted funding and choose where to allocate those funds. Members continue to make their own funding decisions without coordination with other Members on priority areas.

2. Improved coordination among Members

Funding allocations are made in accordance with the matrix. ExCo reviews System priorities' needs (made explicit in the matrix) on an annual basis and makes recommendations to Members on the program of work and funding needs and priorities. AGM revises and/or endorses ExCo's recommendations. Members take these recommendations into consideration, individually, when making their allocations.

3. System funding coordination forum

After ExCo makes recommendations to Members on funding needs and priorities based on the information provided in the matrix discussed above, and after AGM endorses the agreed program of work, interested Members meet in a forum to discuss priorities, resource needs based on the matrix, and how they can act collectively to support System priorities as well as the priorities and needs of each Member making allocation decisions. The discussions can be extended to include Member commitments to specific allocations, to specific Centers, for specific priorities.

4. Allocation committee

Members form or assign a committee (or other body) to review the overall funding picture based on the needs identified in the matrix and known restricted funding and Member commitments. Interested Members provide the committee, through the CGIAR Secretariat, with figures on unrestricted funding available for allocation. The committee proposes the allocation of this available unrestricted funding to Centers based on the

System priorities. This proposed allocation is presented to AGM for endorsement. Willing Members agree to follow the recommended allocation, with prior knowledge and approval.

B. Recommendation

The TF recommends option 3 and that a System funding coordination forum be held annually among Members to discuss their annual funding allocation. The Forum would be held annually at AGM. However, the TF recognizes that, depending on Member needs and interest, these options can overlap and coexist.

C. Next Steps

Next steps focus on streamlining and improving the fund allocation process by providing systematic information on a timely manner as detailed in the report starting with the revision of the MTP guidelines and other required studies for the production of the matrix of funding for 2007.

III. SCIENCE COUNCIL ISSUES

One of the four agreed pillars of CGIAR reform was the transformation of the CGIAR's Technical Advisory Committee into the Science Council. The process was fully completed in 2003 with the appointment of new chair, members and secretariat. It is urgent to secure the financing of the Science Council for 2006 and beyond.

The TF emphasizes that the selected mechanism for funding the Science Council and its Secretariat must be based on the principle that the Science Council is a core System investment that should be shouldered by all Members to ensure its full independence and uninterrupted operations. The Science Council performs a System function, as requested by the Members and developed as part of the reform program. Therefore, all Members should contribute to financing the Science Council. The TF discussed and identified potential long-term options for funding the Science Council and an interim solution for 2006 to support the Science Council operations while the long-term solution is decided and put into operation.

The TF identified a number of options for financing the Science Council. Criteria were developed for judging the options, and their pros and cons were discussed. The considered criteria included (i) full Member participation; (ii) maintaining the independence and objectivity of the Science Council; (iii) the stability, sustainability and adequacy of funding; (iv) ease of implementation; and (v) political palatability.

A. Options

1. Members voluntarily contribute up to 1% of total Member funding

This option would be relatively easy to implement but is unlikely to provide stable, sustainable or adequate funding. It would not include all Members and is thus unlikely to be politically palatable.

2. Group of interested Members

A core group of Members including the World Bank and FAO provide initial financing. The group would be expanded to include other Members in the long term. Like option 1,

this would be relatively easy to implement but would not provide stable, sustainable or adequate funding. It would not include all Members and is thus unlikely to be politically palatable.

3. Levy of an agreed percentage on annual Member contributions

A levy on Member contributions is likely to see more Members participate than options 1 or 2, but not all Members could or would contribute. This option would be difficult to implement as Member funding comes in many different forms. This limits the political palatability of this option.

4. An agreed percentage, estimated at up to 1%, levied on Centers' budgets

This option would be easy to implement and would provide stable, sustainable and adequate funding for the Science Council. Concerns of potential Center influence on the Science Council could be alleviated by creating a firewall between the source of funds and the Science Council operations. This option spreads the support for the Science Council most widely across Members. It is likely to be the most politically palatable option.

B. Recommendations

1. Interim financing

A core Member group consisting of the World Bank, FAO and other interested Members support the Science Council in 2006, while a long-term solution is decided and its modus operandi defined.

2. Long-term financing

Taking into account ExCo 9 input, including the suggestion of a firewall mechanism, the TF analysis suggests that option 4, a levy of up to 1% on Centers' budgets, best meets the criteria for a long-term funding mechanism. The TF emphasizes that the best interests of the System will be served if a decision is made on this issue at AGM05.

MAIN REPORT

I. BACKGROUND

A. Why the Task Force

At the Annual General Meeting in 2004 (AGM04), Denmark initiated a discussion on the topic of funding Consultative Group on International Agricultural Research (CGIAR) priorities and proposed that a task force of interested Members be commissioned to examine the possibilities and conditions for creating a mechanism or procedure to fund System priorities. AGM04 decided that interested Members, with the support of the CGIAR Secretariat, should explore the possibility of developing a mechanism to facilitate coordinated action by providing unrestricted funding in support of agreed CGIAR priorities recommended by the Science Council and approved by the CGIAR.

In the terms of reference for the Task Force on Funding System Priorities (TF), approved at the eighth meeting of the Executive Council (ExCo 8), the additional task was added of recommending funding options for financing the Science Council in 2006 and beyond. The budget of the Science Council for 2006 is US\$3.822 million (endorsed at ExCo 9) but only two Cosponsors — the Food and Agriculture Organization of the United Nations (FAO) and the World Bank — have agreed to pay in 2006, with commitments of \$786,000 each. In the past 2 years, the World Bank made up the large funding gap but cannot continue to do this. Therefore, it is urgent to find a mechanism to secure financing for the Science Council in 2006 and beyond by all Members to ensure its independence and continuing operations.

The TF (representing Canada, Denmark, Germany, India, Japan and USA), supported by a consultant, held two meetings and had numerous virtual discussions. It produced a progress report that was presented to ExCo on 20 October at its ninth meeting, in Stockholm, Sweden.

B. Terms of Reference Objectives

The objectives of the TF are to (i) assess and evaluate opportunities for financing System priorities and, separately, for financing the Science Council and its Secretariat, and (ii) propose one or more new financing mechanisms in support of CGIAR priorities recommended by the Science Council. ExCo 8 asked the TF to give utmost priority to the issue of the financing of the Science Council and its Secretariat. The full terms of reference are in annex 1.

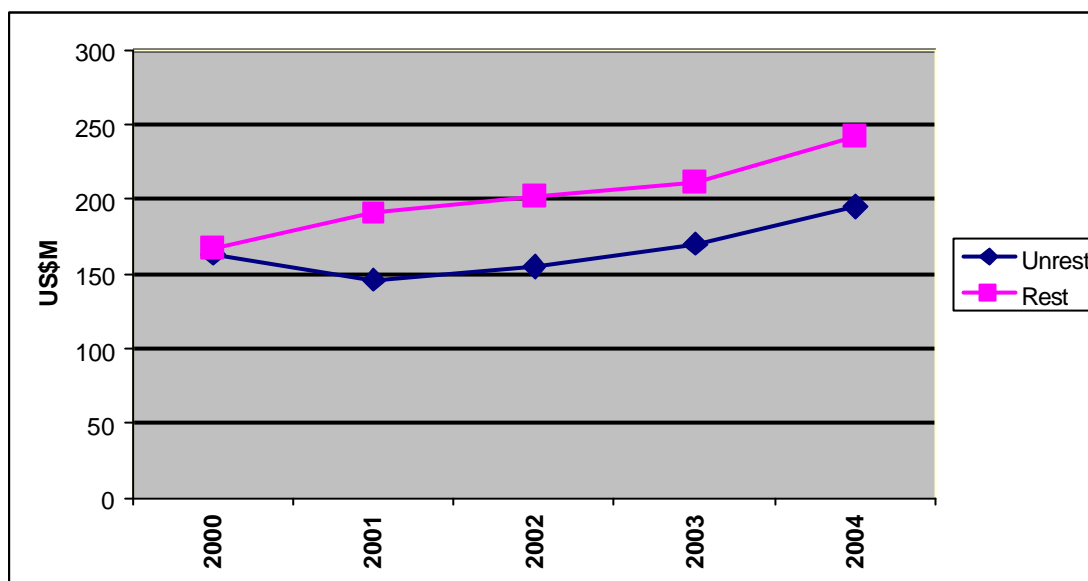
C. Summary of Funding Trends

The financing of the CGIAR has been in the form of unrestricted and restricted funding, currently from 65 Members. While unrestricted funding has been constant or slightly increasing over the past 5 years, restricted funding has been greatly increasing, and attracting it has become a very competitive activity among CGIAR Centers.

Total funding for the period from 2000 to 2004 increased by 32%, from \$331 million in 2000 to \$437 million in 2004, reflecting an average annual increase of 6%. Unrestricted funding for the same 5-year period increased by 19%, from \$164 million in 2000 to \$195

million in 2004, reflecting an average annual increase of 4%. The major increase in Member funding for the same period was in restricted funding, which grew by 45% over this 5-year period, from \$167 million in 2000 to \$242 million in 2004, reflecting an average annual growth of 9%. The ratio of restricted funding to total funding rose to 55% in 2004 from 35% in 1995. Unrestricted and restricted funding growth from 2000 to 2004 is shown in the figure below.

Figure 1: Growth in unrestricted and restricted funding (2000-2004)



Unrestricted funding is provided to the Centers to be deployed by Boards of Trustees and management of individual Centers as stipulated in their respective medium-term plans (MTPs), which are reviewed by the Science Council and approved by the CGIAR.

Restricted funding is provided to finance different levels of research as follows.

1. Program funding (least restricted)

This covers large programmatic areas similar to challenge programs (CPs) and System-wide programs. This type of financing requires periodic financial and scientific progress reports and involves a large number of partners. Some of these programs may also require peer or external assessment and review.

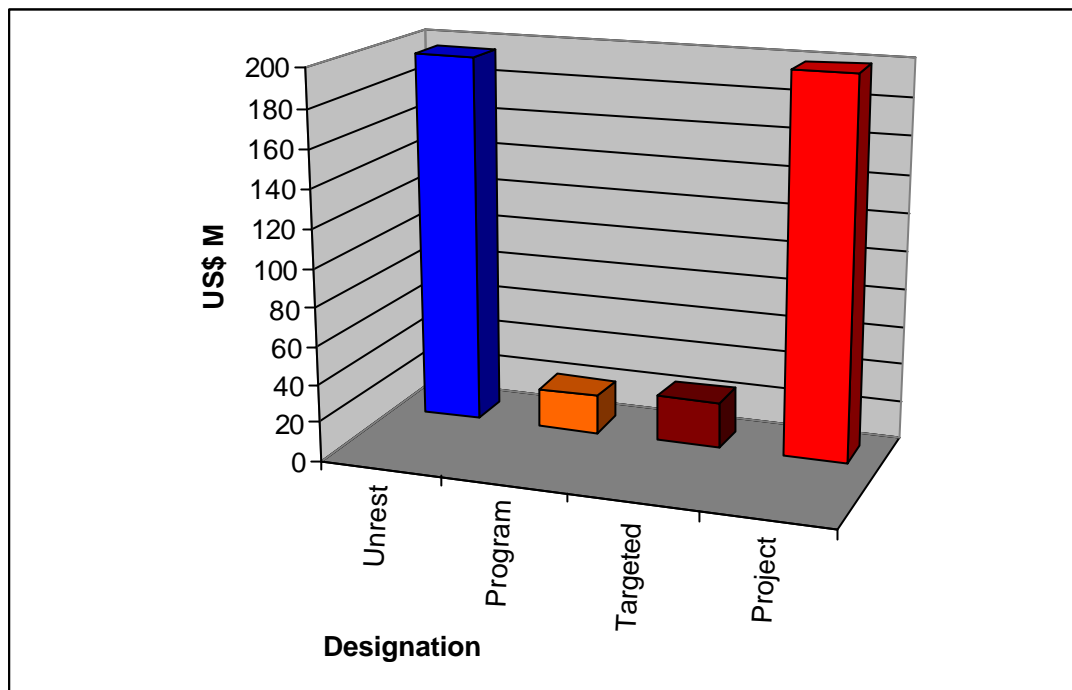
2. Targeted funding (restricted to geographical regions)

This is designated by Members to geographical regions such as Africa, Southeast Asia, etc. Periodic financial and technical reports are produced in accordance with Members' contract requirements.

3. Project funding (most restricted)

Funding is designated for specific projects, ranging from very small to large in cost and scale. Project funding requires extensive financial and technical reports, internal and external audits, and technical reviews. Members decide how the priorities are set and how the funds are spent in accordance with Center and bilateral donor policies and guidelines. The designation of 2004 funding by level is shown below.

Figure 2: Designation of funding by level (2004)



Over \$240 million of 2004 System funding (55%) was in the restricted category as shown in the figure above. Almost \$200 million of restricted funding (over 80%) was designated as project funding, the most restrictive category.

D. Methods of Fund Remittance

There are currently two related practices for remitting funds to CGIAR Centers to finance CGIAR activities and programs. These practices are as follows.

1. Direct Member remittances to Centers

Members remit their annual commitments directly to Centers in conformity with signed agreements and/or Member practices. Required annual or periodic financial and technical reports are sent to Members directly by the Centers. The CGIAR Secretariat is, in most cases, kept informed.

2. Member remittances to World Bank Trust Fund

Members remit their annual commitment to the CGIAR -World Bank Multi-Donor Trust Fund, which now disburses approximately \$120 million of CGIAR funds annually. The trust fund makes the remittances in turn to the Centers as designated by Members. The trust fund is managed by the World Bank in accordance with its operating policies and international auditing standards. If Members so request, the Centers send their required financial and technical reports to the CGIAR Secretariat for consolidation in one report, which is subsequently forwarded to the Member by the Secretariat. Members receive one financial and technical report from the CGIAR Secretariat covering related Centers rather than receiving individual reports from these Centers. Members who wish to use the service are required to sign an agreement with the World Bank stipulating terms and

conditions. The trust fund deducts a small service charge for managing the funds on behalf of Members.

Additional information and data on CGIAR System funding and resource allocation are included in annex 2.

E. Summary of Donor Survey Results

On behalf of the TF, the consultant conducted a donor survey to gauge

- current Member funding practices,
- Member willingness to transfer funding from the restricted category to unrestricted to finance new System priorities, and
- Member willingness to finance the Science Council.

The survey responses (17 responses from a total of 65 Members, for a response rate of 26%) indicated some flexibility and that minor changes in restricted funding can be made by, for example, broadening restrictions in the bilateral funding category. By transferring a proportion of committed monies from project funding (the most restricted category, with heavy transaction cost) to program funding, restriction levels on overall funding may be alleviated. All bilateral donors indicated that a policy change for transferring all restricted funding to unrestricted was not feasible.

On funding the Science Council, many Members expressed willingness to support it and finance its operations. For more on the donor survey, refer to annex 3.

F. Science Council Part of Reform Program

At the Mid-term Meeting in 2001, the CGIAR agreed to initiate a reform program based on the recommendations of a team investigating changes in System design and management. One of the four agreed pillars of reform was the transformation of the CGIAR's Technical Advisory Committee into the Science Council. A working group on the Science Council was appointed and made recommendations on the formation the Science Council. The objectives of the Science Council, as outlined in the CGIAR Charter are to

- (i) ensure that science in the CGIAR is of high quality and is relevant to the development goals of the System;
- (ii) provide science policy guidance to the CGIAR on issues of strategic importance;
- (iii) provide independent, credible and authoritative advice and opinion on scientific issues relevant to the international agricultural research community; and
- (iv) develop partnerships with the wider scientific community for the benefit of an international agricultural research agenda.

II. FUNDING SYSTEM PRIORITIES

A. Issues

1. System priorities

After wide consultation, the Science Council has developed the following System priorities, which have been endorsed by ExCo and will be presented to AGM05 for approval.

Members want to ensure priorities are adequately funded. Members requested the Science Council to develop new priorities in full consultation with all relevant parties and have appointed a TF to recommend mechanisms for financing these new priorities to ensure that they are adequately funded.

Need to increase unrestricted funding. To allow Centers to concentrate on delivering the research products from the System priorities, the TF recommends that Members move from restricted to unrestricted funding and increase unrestricted contributions to the extent possible.

Need to relax and broaden restrictions on restricted funds. When unrestricted funding is not feasible, Members should consider broadening their funding to program funding rather than the narrowly restricted project funding. This will reduce transaction costs while continuing to provide Members with a degree of monitoring and assessment of Center work and research impact. The United Kingdom's decision to convert its funding from restricted to unrestricted, contingent upon the fulfillment of specific requirements regarding risk management from Center Boards of Trustees and management, can be used as a case study for other Members to consider. This will foster harmonization of Member requirements and reduce transaction costs for both Members and the Centers, while more effectively deploying the required resources to System priorities.

Restricted funds to be allocated to System priorities. Currently, not all restricted funding finances the CGIAR priorities. The rough estimate is that around 30-35% of restricted funding supports activities outside of the System priorities. Members and Centers should work together to develop restricted projects that fit within the System priorities. Focusing funding on the priorities will enable the CGIAR to concentrate its research efforts on them and so achieve the desired impact and fulfill the mandate of the CGIAR.

Harmonized and transparent full costing of MTPs projects. In many cases, Members do not fund the full cost of restricted projects, leaving uncovered indirect, management and support costs. It would be in the System's best interest, and would allow Centers to allocate unrestricted funds to priority research rather than to indirect costs, if restricted funding always covered projects' full costs, including all indirect costs such as Centers' management and support services.

2. Better information

To provide better information to Members, Centers and the System, the Science Council plans to develop a matrix of MTP projects by System priorities. As soon as CGIAR priorities for 2005-2015 are endorsed by ExCo 9 and by Members at AGM05, a matrix

detailing Center and CP MTP projects on the vertical axis (rows) and 20 CGIAR System priorities on the horizontal axis (columns) can be constructed. The matrix will show how MTP projects relate to priorities and present expected funding needs for each of the priorities. The Science Council and the CGIAR Secretariats will collaborate in preparing the matrix, as traditionally the former handles annual programmatic information, and the later annual financial information.¹

The proposed matrix will present information in terms of all annual resources (all sources, unrestricted and restricted) proposed by Centers and CPs to be assigned to specific agreed System priorities. In addition, it would include the relevant Science Council commentary on which of the proposed activities should not be considered part of the agreed System priorities. By posting this information annually on the Science Council website, jointly with Science Council commentary on Center and CP MTPs, all CGIAR Members will have a better picture of funding gaps or potential overallocation.

As Center and CP alignment to priorities takes place over the transition period 2006-2008, the matrix will increasingly provide more relevant information to CGIAR Members. A Science Council-led study that will be conducted in early 2006 may help address the need to define a suitable range of funding for each System priority, in order to be able to secure a critical mass of resources as well as to define what can be considered a normal funding level.²

A proposed annual process is that the Science Council prepares in September, jointly with the commentary on MTPs, a preliminary draft matrix including the information mentioned above. Then in October, ExCo considers a CGIAR Secretariat-developed proposal for the next year's funding. Finally, AGM in December is the venue for discussing future funding plans and updating CGIAR Members on the status of funding System priorities. AGM would provide a great venue for Members to interact, seeking to fill funding gaps.

B. Graphical demonstration of the System funding information matrix

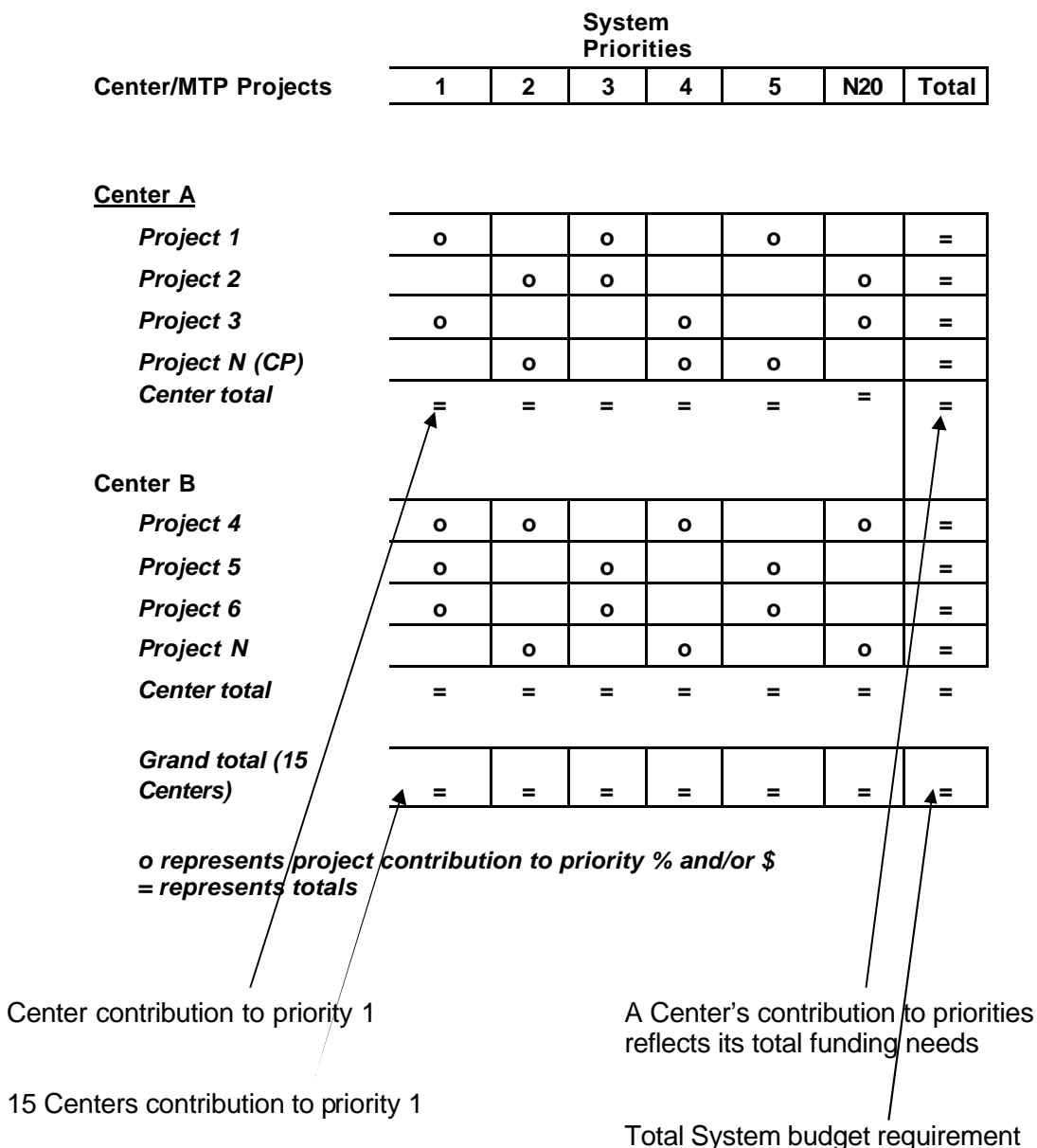
The matrix will be a critical information and decision tool to be used by the CGIAR System — Science Council, ExCo, Members and others — for assessing and balancing resource allocation to System priorities. It will assist Members in making their annual funding allocation decisions.

Below is a graphical demonstration of how the matrix could operate as a tool for making resource allocation decisions .

¹ Information is insufficient as of October 2005 to construct this matrix, as current MTPs have not been prepared taking into consideration future priorities. Therefore, a first draft of the matrix can be prepared based on the Science Council review of the 2007-2009 MTPs of Centers and challenge programs. These MTPs are due by 15 June 2006, and they are reviewed by the Science Council between 15 June and 15 September.

² As funding information becomes more precise and Centers align research portfolios to System priorities, a subsequent study could propose a range of potential resource allocation to priorities, in effect prioritizing the priorities.

Figure 3: Graphical demonstration of the System funding information matrix



The CGIAR's 20 priorities are on the horizontal axis of the matrix, while Centers' MTP projects, including CPs, are on the vertical axis. Each of the cells of the matrix shows a project's contribution to a specific System priority. In the example above, Center A's project 1 contributes to System priorities 1, 3 and 5 but not to priorities 2 and 4. Similarly, Center B's projects contribute to specific System priorities. These contributions are presented by the Centers, and the Science Council reviews and verifies them to ensure that the contributions are relevant and correct. The matrix also shows, project by project, the Center's total contribution to System priorities, which equals the total funding request or need of that Center.

The matrix can be used to assess total funding needs by Center, priority, MTP project and total System, including funding that is restricted, unrestricted and Center generated. It should therefore be considered an essential tool for assessing budgeting and funding toward the priorities. Clear and transparent guidelines should be developed for streamlining matrix operations and included as part of the MTP development guidelines issued annually.

Currently, Members do not discuss or coordinate their funding allocations to the CGIAR. They make their own funding decisions without coordination with other CGIAR Members on priority areas requiring funding. This can lead to underfunding of high-priority research in the CGIAR, or else inefficient overfunding.

The matrix described above should provide a tool for Members to coordinate and make their funding decisions. The matrix can be used by Members as a tool to assist them in making their annual resource allocation to the CGIAR priorities.

C. The Way Forward

1. Better information using the matrix and descriptions

Developing and using the matrix will provide the needed information to Members to allow them to make funding allocations to System priorities. The information provided to Members on the funding status of each priority (including potential underfunding and overfunding) will improve the funding allocation process. It will also provide the System with more transparent information on Member financing and clarify the funding shifts required to fill the gaps in funding the priorities.

2. The process for providing better information

Science Council, CGIAR and Alliance Executive Secretariats. The three Secretariats, in close coordination, produce the costed matrix based on MTP submissions from Centers. The matrix shows the expected funding for each priority. This analysis will reveal potential areas for redirecting funds.

Planning, performance management and reporting. The planned improvements in the MTP guidelines and MTPs, as well as the linking of the MTP logframes with the Performance Measurement System, will help the CGIAR improve its planning, performance management and reporting. The matrix will be another critical element in this system.

Steps for the coordination process. The following are some of the main coordination activities required to provide better information more systematically to Members, Centers and the System, organized chronologically.

March: Revision and issue of MTP guidelines. The MTP guidelines are the basic document sent to Centers to develop their MTPs. These guidelines should be comprehensive and clear. They should include a section on the matrix and the required information, including fully costed MTPs, to make it fully operational and optimize its use by Centers, Members and other parties.

June: MTPs 2007-2009. Centers and CPs submit the MTPs for 2007-2009, and the Science Council reviews them, seeks clarification where necessary and issues commentaries. These commentaries and Center responses to them are made available on the Science Council website. The Science Council and

CGIAR Secretariats work together to produce the matrix based on MTP and financing plan submissions.

September: Review of matrix. The Science Council and CGIAR Secretariat review the matrix (and commentaries) and determine funding gaps. Input is sought from the Alliance Executive.

October: Executive Council. The matrix, prepared jointly by the Science Council and CGIAR Secretariats and including pertinent commentaries, is reviewed and endorsed by ExCo for discussion and approval by Members at AGM.

December: Member coordination forum at AGM. For coordinating their funding decisions, interested Members hold a coordination forum at AGM to discuss and make decisions on their funding allocations to Centers and CPs. Decisions are based on the priorities as expressed in the matrix, Secretariat commentaries and ExCo endorsement of MTPs. The annual chairmanship of the forum could be by rotation among interested Members. The process ensures that coordinated funding decisions are made to finance the priorities.

December: AGM for adoption. The matrix, containing all required information, is presented to AGM for adoption.

December: AGM and after. At AGM and after, Members make their allocations based on the information provided in the matrix and discussions held at the Member coordination forum.

D. Funding Mechanism Options

The TF examined possible mechanisms for allocating funds in accordance with the agreed program of work. The following four possible options were identified and examined.

1. Status quo

Members continue their current practice in financing the Centers. Members provide a mix of restricted and unrestricted funding and choose where to allocate those funds. Members continue to make their own funding decisions without coordination with other CGIAR Members on priority areas.

2. Improved coordination among Members

Funding allocations are made in accordance with the matrix of new priorities being developed by the Science Council. ExCo annually reviews System priorities' needs (made explicit in the matrix) and makes recommendations to Members on the program of work and funding needs and priorities. AGM revises and/or endorses ExCo's recommendations. Members individually take these recommendations into consideration when they make their allocations.

3. System funding coordination forum

After ExCo makes recommendations to the Membership on funding needs and priorities based on the information provided in the matrix discussed above, and after AGM endorses the agreed program of work, interested Members meet in a forum to discuss the priorities' resource needs. These discussions are based on the matrix and how Members can collectively support System priorities, as well as the priorities and needs of each Member making allocation decisions. The discussions can be extended to include Member commitments to specific allocations to specific Centers for specific priorities.

4. Allocation committee

Members form or assign a committee (or other body) to review the overall funding picture based on needs identified in the matrix, known restricted funding and Member commitments. Interested Members provide the committee, through the CGIAR Secretariat, figures on unrestricted funding available for allocation. The committee proposes the allocation of this available unrestricted funding to Centers based on the System priorities as expressed in the matrix. This proposed allocation is presented to AGM for its endorsement. Willing Members agree to follow the recommended allocation, with prior knowledge and approval.

E. Funding Mechanism Recommendation

The TF recommends funding mechanism option 3, with Members holding a coordination forum annually at AGM to make their funding allocations. However, the TF recognizes that, depending on Member needs and interest, these options can overlap and coexist.

F. Next Steps

To streamline the process of funding System priorities, the TF believes that the following steps will bring improvement and make the process more effective and transparent.

1. Revision of MTP guidelines and incorporation of the matrix

The MTP development guidelines should be revised to include information for making the matrix operational, including full costing of all MTP projects.

2. Study the range of resources required for each priority

The Science Council will commission a study on budgetary need and resource availability for each of the 20 priorities. The range will be a relevant indicator of the budget requirement for each priority (demand side) and corresponding funding available to each priority (supply side), highlighting priorities' funding gaps. This information will be useful to ExCo for making appropriate decisions. This information will also help the Member coordination forum make informed funding allocation decisions.

3. Matrix preparation during MTP review

The Science Council reviews the MTPs and produces its commentaries. As part of this process the Science Council Secretariat prepares a draft of the System funding matrix. The CGIAR Secretariat reviews financial aspects and develops a consolidated financing plan for the MTPs. The Science Council and CGIAR Secretariats review the matrix and issue a joint report identifying gaps and recommending action for consideration by ExCo and Members.

4. MTP commentary to ExCo

As part of the annual process of MTP review and Science Council commentary to ExCo, a System funding information matrix will be added to the programmatic review of MTPs. ExCo makes revisions and comments. ExCo endorses the MTP reviews and sends them to AGM for adoption by CGIAR Members, including the information provided in the matrix to facilitate resource allocation by Members.

5. Members' coordinated action at AGM

A forum of Members interested in promoting collective action on funding CGIAR priorities is held at AGM annually to review the matrix information and commentaries and make funding decision accordingly. Chairing of the forum is by rotation among interested Members

6. Monitoring report to ExCo and AGM

ExCo should commission a report on the execution of this process after AGM06.

III. SCIENCE COUNCIL

The Science Council has four key functions related to the CGIAR:

- (i) ensuring the relevance of scientific research,
- (ii) ensuring the quality of scientific research,
- (iii) assessing the impact of scientific research, and
- (iv) helping to mobilize global scientific expertise.

The Science Council's budget is expected to be underfunded in 2006 by approximately \$2.250 million, this shortfall based on a budget of \$3.822 million less funding from FAO and World Bank of \$786,000 each. Full financing of the Science Council is required to ensure its continued operation and delivery of vital services to the CGIAR System as a whole.

Only two Cosponsors have paid their commitments for 2004 and 2005. These are FAO for \$786,000 and the balance of the budget by the World Bank. The United Nations Development Programme's contribution is not expected to be paid. Moreover, no cash contribution is expected from the International Fund for Agricultural Development. The World Bank has made a commitment to provide major financing up to 2005 and to maintain an ongoing commitment to the Science Council budget in the future. FAO will continue its current level of support.

A. Issues

One of the four agreed pillars of CGIAR reform was the transformation of the CGIAR's Technical Advisory Committee into the Science Council. The process was completed in 2003 with the appointment of a new chair, members and secretariat.

The main issues identified and discussed by the TF pertained to

- (i) maintaining a strong and independent Science Council,
- (ii) providing sustainable and stable funding for the Science Council,
- (iii) that some Cosponsors are not meeting their commitment to fund the Science Council, and
- (iv) the lack of collective support from some Members.

B. Principle

The TF emphasizes that the selected mechanism for funding the Science Council and its Secretariat must be based on the principle that the Science Council is a core System investment that should be shared by all Members to ensure its full independence and uninterrupted operations. The Science Council performs a System function, as

requested by the Members and developed as part of the reform program. Therefore, all Members should contribute to its operations.

C. Criteria

The TF discussed, and ExCo considered, a number of criteria for judging the options for financing the Science Council. The criteria are summarized below.

1. Full Member participation

The mechanism chosen for funding the Science Council must embody the principle that funding the Science Council is a collective responsibility of all Members.

2. Science Council independence and objectivity

It was agreed that the Science Council must be independent and objective. It must be able to operate without undue influence from any group, including specific Members, Centers or System units, or the appearance of undue influence.

3. Stability of funding

To ensure the smooth functioning of Science Council operations, the mechanism chosen to fund the Science Council should provide funding that varies minimally from year to year (or, alternatively, a guarantee of agreed minimum funding). The mechanism should also provide a level of funding that is predictable.

4. Sustainability of funding

The Science Council was established as a main pillar of the CGIAR reform program. Therefore, the Science Council needs sustainable funding in the future to play the role that Members assigned to it.

5. Adequate (full) funding

ExCo approves the budget for the Science Council every 2 years. The funding mechanism must ensure adequate funding for the ExCo-approved budget.

6. Ease of implementation

It is necessary and desirable that the mechanism for funding the Science Council be easy to implement, without requiring special arrangements for each funding transaction.

7. Political palatability

Members need to be able to come to consensus on the mechanism chosen for funding the Science Council. Options that compromise the independence of the Science Council, or that are impossible for certain Members to implement, are unlikely to be palatable to many Members.

The TF debated four options for funding the Science Council and its Secretariat. The four options and their pros and cons are presented below. In addition, the TF's assessment of the extent to which each of the options meets the criteria discussed above are presented in table 1. The table shows the judgment of the TF regarding the level to which each option meets the criteria: low (1), medium (2) or high (3).

Table 1: Criteria for analyzing funding options for the Science Council and its Secretariat

Options	Criteria	Participation	Independence	Stability	Sustainability	Adequacy	Ease	Palatability
1. Voluntary Member contributions up to 1% of Member's funding		1	1	1	1	1	2	1
2. Group of interested Members		1	1	1	1	1	2	1
3. Levy of up to 1% on Member funding		2	3	3	3	2	1	1
4. Levy of up to 1% on Center budgets		3	2	3	3	3	3	2

1 = option satisfaction of criterion is low, 2 = medium, 3 = high

D. Options

1. Members voluntarily contribute up to 1% of total Member funding

Pros As a purely voluntary mechanism, this option would be relatively easy to implement.

Cons This option scores low on all criteria except the ease of implementation. Its purely voluntary nature means that an unknown but probably small proportion of Members would actually participate. Limited Member participation could give the appearance of influence by that small set of Members, thus potentially compromising the Science Council's independence. Since the number of participating donors could change from year to year, Science Council funding would be neither stable nor sustainable, and would likely be inadequate. For all these reasons, this mechanism is unlikely to be politically palatable.

2. Group of interested Members to finance the Science Council

Pros As a purely voluntary mechanism, this option would be relatively easy to implement.

Cons This option has the same cons as option 1, for the same reasons.

3. Levy of an agreed percentage on annual Member contributions

Pros Although some Members may opt not to participate, it is likely that a much higher proportion of Members would contribute under this option than under options 1 or 2. Thus, the appearance of the Science Council's independence is more likely to be maintained. This levy could be established based on the previous year's contribution. As Member funding is known, the levy can be set at a rate to ensure full, stable and sustainable funding of the Science Council budget.

Cons Finding the means to levy a percentage on Member funding would be a cumbersome administrative process, as funding comes in many different forms and in many small, restricted grants. Some Members will not be able to contribute, based on their own constraints, limiting the political palatability of this option.

4. An agreed percentage (estimated at up to 1%) levied on Centers' budgets

Pros In this option, all Members that provide unrestricted funding or full indirect costs to restricted projects would participate by default. The Science Council has raised the issue that this may give the appearance (or make Centers feel) that they can influence the agenda of the Science Council, thus compromising its independence. However, it should be possible to construct a firewall between the source of funds and the activities of the Science Council by funneling the funds through a trust account. As Center budgets are known, the levy can be set to ensure full, stable and sustainable funding of the Science Council budget. Once an appropriate firewall mechanism set up — possibly a trust fund — this option would be very easy to implement.

Cons Although this option is likely to be more politically palatable than the other options, as it scores high on almost all criteria, the Science Council has raised the issue of independence from Centers, and the Centers may feel that they are losing “their” program funds to the Science Council. However, in reality, if the Centers are funded directly by Members from a fixed pot of money, the Centers' funds are reduced by the same amount. The only difference is whether the funds are subtracted before or after reaching the Centers.

E. Next Steps

The TF emphasizes to Members the importance of making a decision on this matter so that the Science Council can move forward with the work assigned to it by the System as part of the reform program.

The TF also emphasizes that the selected mechanism for funding the SC and its Secretariat must be based on the principle that the Science Council is a core System investment that should be shared by all Members to ensure its full independence and uninterrupted operations. On that basis, and while the mechanism is being worked out, the TF proposed an interim solution for 2006.

F. Recommendations

1. An interim solution for 2006

The TF proposal, accepted by ExCo 9, is that an interim measure for funding the Science Council and its Secretariat in 2006 be implemented. A core Member group consisting of the World Bank, FAO and other interested Members will support the Science Council in 2006, while a long-term solution is decided and its modus operandi defined. The ExCo 9 recommendations are as follows:

- (i) ExCo approved the 2006-2007 Science Council workplan and budget, contingent on filling the funding gap for 2006 by AGM05.
- (ii) The CGIAR Secretariat, with assistance from the TF chair if needed, should explore with individual Members the possibility of providing funding for Science Council operations in 2006.

2. Long-term solution

Four options for sustainably funding the Science Council and its Secretariat in the future have been proposed and analyzed by the TF. Taking into account ExCo input, including the suggestion of a firewall mechanism, the TF analysis finds that option 4, a levy of up to 1% on Centers' budgets, best meets the criteria for a funding mechanism. The TF is providing this analysis to Members to assist them in their discussions and decision on

selecting a funding mechanism. The TF emphasizes that the best interests of the System will be served if this issue is decided at AGM05.

To ensure successful implementation of the interim and long-term solutions, close coordination of the implementation of the financing options, both interim and long-term, should be monitored by ExCo or its delegate, with regular reports presented to ExCo for monitoring and control.

Terms of Reference

Funding of System Priorities – Coordinated Action by CGIAR Members

Background

As the Consultative Group on International Agricultural Research (CGIAR) decides, later this year, on the CGIAR priorities proposed by the Science Council, it is timely to explore new mechanisms to facilitate coordinated action by providing unrestricted funding in support of the agreed CGIAR priorities as well as coordinated decisions made by the Members of CGIAR.

At the Annual General Meeting 2004 (AGM04), Denmark initiated a discussion of this topic and proposed that a task force (TF) of interested donors be commissioned to examine the possibilities and conditions for creating a mechanism/procedure to do so. Several members expressed support for the proposal and offered to participate on the TF. AGM04 decided that interested donors, with the support of the CGIAR Secretariat, should explore the possibility of developing a mechanism to allocate unrestricted funds in the context of System priorities recommended by the Science Council and to be approved by the CGIAR.

The outcome of these initial discussions would be a proposal to the Executive Council (ExCo) for terms of reference (TOR) of a TF to study and formulate a mechanism for channeling unrestricted contributions and allocating funds to support System priorities. Upon endorsement by ExCo, the TF would develop one or more mechanisms to be presented to the members of the CGIAR, following the process described below. The task force is expected to complete its work by, and report to the Membership at, AGM05.

Objectives

1. Assess and evaluate opportunities for financing System priorities including the Science Council and its Secretariat.
2. Propose one or more new financing mechanisms in support of CGIAR priorities recommended by the Science Council.

Scope of Work

- The TF will assess current funding practices by reviewing recent CGIAR financing trends including the financing of the Science Council and its Secretariat. Specifically, the TF will review unrestricted and restricted funding patterns for the period 2000-2004. The assessment of the TF will also include a review of decisions taken on financing by the CGIAR, including an analysis of changes over time in how major donor funding is allocated.
- The TF will review, through a survey or a similar mechanism, individual member funding policies and practices and identify/explore opportunities for collective action.

- The TF will propose mechanisms for securing funding for System priorities considering all programmatic elements including the Science Council and its Secretariat, to be presented to CGIAR Members.
- Based on this experience, the TF will propose a financing mechanism for coordinated action on System priorities to be reported to ExCo and later to CGIAR Members.

Overall Approach and Process

- Denmark proposes a TF of up to six Member representatives who are willing to participate in the exercise and authorized to speak on behalf of their country/constituency to constitute such a TF.
- Denmark will engage a senior consultant to carry out a survey of individual Members' policies and practices. A CGIAR Secretariat staff member will be nominated to assess the current funding practices and decisions already taken on financing by the CGIAR. Both individuals will assist the work of the TF and serve as co-secretaries of the TF, facilitating its work and coordinating logistics. Other CGIAR Secretariat or Member staff members may be co-opted as needed.
- The chairs of the Committee of Board Chairs and the Center Directors Committee (or their nominees), a finance expert from the CGIAR Secretariat, and a Science Council/Science Council Secretariat representative will serve as an advisory group for the TF.
- The TF will rely on an examination of relevant data and documents, the use of survey questionnaire, and interviews and other data collection instruments. Data collection will be facilitated by the CGIAR Secretariat.
- Following the first meetings of the TF, and after discussions in virtual mode, Denmark proposes to hold a conference for the CGIAR Members interested in acting collectively to support the System priorities.

Indicative Timetable and Output

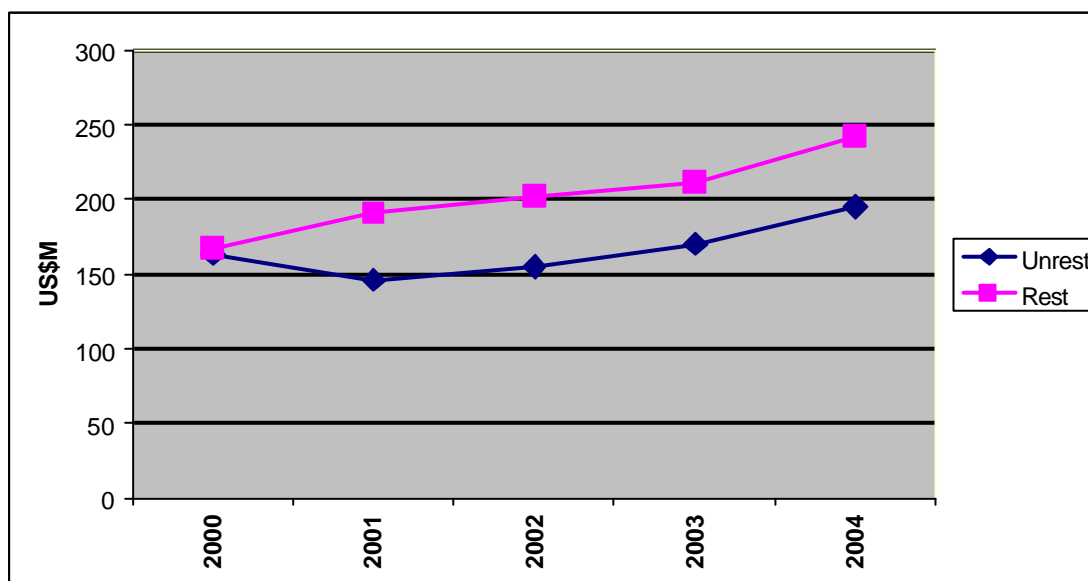
- Announcement of the launch of the study to the CGIAR membership — end of January 2005.
- Draft TOR by mid February, to be followed by budget and support staff (including Denmark's consultant) proposed to the ExCo — end of March 2005.
- Initial discussion, in virtual mode, among interested CGIAR members of funding patterns and survey of members policies — end of April 2005.
- Self-identification of TF members — May 2005.
- First meeting of the TF to review funding patterns and results of the surveying of members policies, and outline the funding mechanisms — May 2005.
- Second meeting of the TF to review and discuss one or more mechanisms for coordinated actions — to be decided.
- Preliminary proposals for mechanisms for coordinated actions to be presented by TF to a conference of interested members in Denmark — late August 2005.
- TF report to ExCo — September 2005.
- TF presents mechanisms for coordinated action on System priorities, including a pilot project for 2006 for interested Members to support System priorities and the financing of the Science Council and its Secretariat — AGM05.

TRENDS IN FINANCING THE CGIAR

Financing the Consultative Group on International Agricultural Research (CGIAR) has taken the form of unrestricted and restricted funding. While unrestricted funding has been constant or slightly increasing over the past 5 years, restricted funding has been greatly increasing, and attracting it has become a very competitive activity among CGIAR Centers.

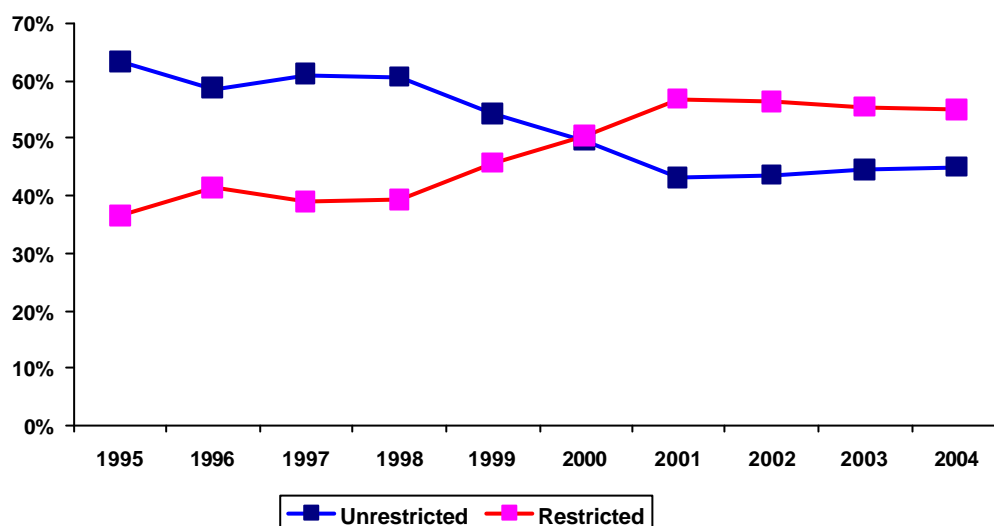
Total funding for the period 2000-2004 has increased by 32%, from US\$331 million in 2000 to \$437 million in 2004, for an average annual increase of 6% in nominal terms. Unrestricted funding for the same 5-year period has increased by 19% from \$164 million in 2000 to \$195 million in 2004, for an average annual increase of 4% in nominal terms. The major increase in Member funding for the same period was in restricted funding, which grew by 45% over this 5-year period, from \$167 million in 2000 to \$242 million in 2004, for an average annual growth of 9% in nominal terms. Funding growth for the period 2000-2004 in unrestricted and restricted is shown in the figure below.

Figure A2.1: CGIAR funding designation (2000-2004)



While unrestricted funding has grown at an average of 4% annually since 2000 (with a drop only in 2001), restricted funding has grown by 9% annually. The ratio of restricted funding to total funding rose to 55% in 2004 from 35% in 1995. Conversely, in 1995, unrestricted funding dropped from approximately 65% of total funding in 1995 to 45% in 2004 due to the high increase in restricted funding as shown below.

Figure A2.2: CGIAR unrestricted and restricted funding trends (1995-2004)



Funding by Member group (Europe, North America, etc) has been increasing for all groups with the exception of the Pacific Rim, which started decreasing in 2000. Foundation funding has been constant. The major increase in funding has been from the European Member group.

For 2004, Europe contributed \$181 million, or 41% of total System funding, of which 57%, or \$104 million, was restricted. The table below outlines 2004 contributions by Member group and the percentage of funds designated as restricted.

Table A2.1 Funding by Member group and percentage restricted (2004)

MEMBERS GROUP	Total (US\$M)	Restricted (US\$M)	Restricted (% of total)
Europe	181.0	104.0	57%
North America	86.7	42.8	49%
Other (non Members)	40.4	40.4	100%
International and regional organizations	75.8	25.8	34%
Developing countries	16.6	11.9	72%
Foundations	10.6	10.6	100%
Pacific Rim	25.9	6.4	25%
All Members	437.0	241.9	55%

Restricted funding in 2004 was designated among the three restricted categories as in the following table.

Table A2.2: Restricted funding by restricted category (2004)

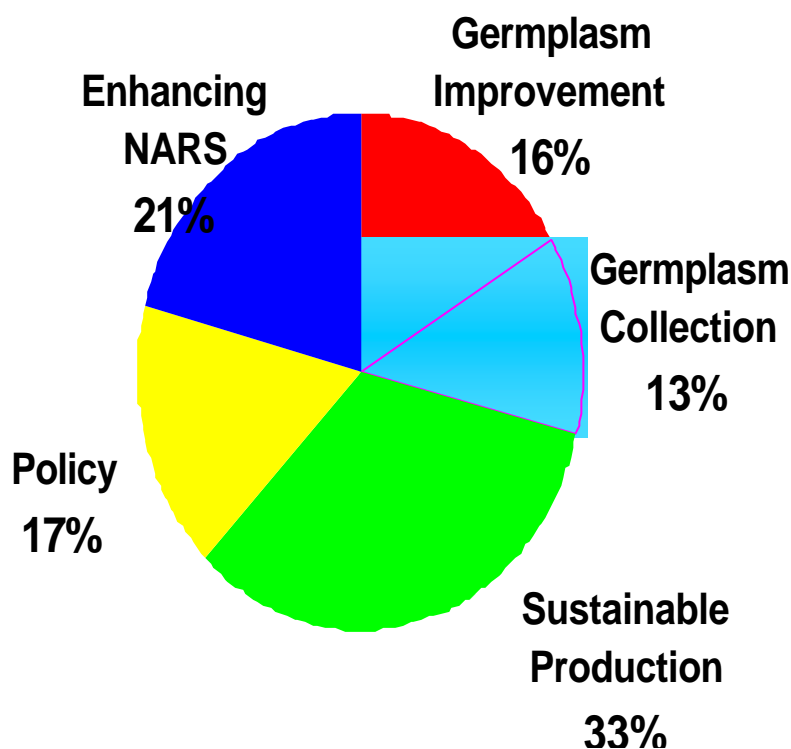
	US\$M	%
Program funding (least restriction)	20	8
Targeted funding (geographic restriction)	24	10
Project funding (most restriction)	198	82
Total	<u>242</u>	100

As the table above shows, 82% of restricted funding, or nearly \$200 million, was designated as project funding, which is the most restrictive. A considerable percentage of this funding does not support System priorities.

Restricted funding comes mostly from bilateral donor agencies, which impose greater restrictions by designating the research to be undertaken and requiring reports, reviews and assessments. These requirements are mostly embedded in agency charters, as was found in the donor survey conducted by the TF.

The percentage allocation to the five established priority outputs of the CGIAR has been consistent for the 5-year period ending in December 2004. Allocations totaling \$425 million are shown in the figure below.

Figure A2.3: Allocation percentages by CGIAR priority output (2004)



Summary of donor survey to explore changing restricted funding to unrestricted

The Task Force on Funding System Priorities (TF) commissioned by the Consultative Group on International Agricultural Research (CGIAR) conducted a donor survey to gauge

- (i) current Member funding practices,
- (ii) Members' willingness to transfer funding from the restricted to the unrestricted categories to finance new System priorities, and
- (iii) Members' willingness to finance the Science Council.

The survey responses (17 responses out of a total of 65 Members, for a 26% response rate) indicated that minor changes and flexibility in restricted funding can be instituted, in particular by loosening restrictions in bilateral funding. By transferring a proportion of committed monies from project funding (the most restricted category, with heavy transaction costs) to program funding (the least restricted category), overall funding restriction may be alleviated. All bilateral donors indicated that a policy change transferring all restricted funding to unrestricted categories was not feasible.

On financing the Science Council, a number of Members indicated willingness, but such action requires further discussion among Members and within Member agencies.

The survey questionnaire that was sent to all Members appears below.

Unrestricted Funding for CGIAR Priorities Survey of Members' Funding Policies, Practices and Future Trends

The purpose of this survey is to determine whether CGIAR priorities can be financed with unrestricted funding.

Members are kindly requested to complete this web-based electronic survey by 16 May 2005. Timely completion of the survey will enable the TF to meet the deadline for presenting its report for endorsement by the Executive Council and approval by the CGIAR at the Annual General Meeting 2005 (AGM05). Your cooperation is appreciated.

1. Given the System priorities developed by the Science Council, is your government/organization willing and able to redirect your restricted funding to the new System priorities as unrestricted funding:

- In full
- Partially (indicate proportion)
- Over a number of years (indicate)
- Not possible (indicate reasons and issues):

2. What will make it possible for your government/organization to change from restricted funding to unrestricted funding for financing the new System priorities? Please state:

3. What needs to be changed/reformed at the System and Center levels to enable your government/organization to make your total contribution to the CGIAR as unrestricted funding:
 Change/reform at System level:

 Change/reform at the Center level:

4. Would additional financial and technical reports (for feedback and accountability) be needed to allow your government/organization to provide all its support to the new CGIAR priorities in the form of unrestricted funding. Please indicate:

5. CGIAR Members are expected to finance Science Council operations to ensure uninterrupted support and complete independence in the Council's assessments of CGIAR programs. Are you willing and able to share this responsibility?
 Yes (based on agreed formula/proportion):
 No (indicate reasons)
6. Please indicate financing options and modalities which in your view could enable the TF to develop innovative financing mechanisms for CGIAR priorities:

