

PROGRESS REPORT TO EXCO BY THE TASK FORCE ON FUNDING SYSTEM PRIORITIES

At AGM04, Denmark initiated a discussion of the topic of funding of CGIAR Priorities and proposed that a task force of interested Members be commissioned to examine the possibilities and conditions for creating a mechanism/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 allocate unrestricted funds in the context of System Priorities recommended by the Science Council (SC) and to be approved by the CGIAR. The objectives of the Task Force (TF) are: 1) To assess and evaluate opportunities for financing System Priorities and, separately, for financing the SC and its Secretariat; 2) To propose one or more new financing mechanisms in support of CGIAR Priorities recommended by the SC. ExCo 8 asked the Task Force to give utmost priority to the financing of the SC and its Secretariat.

The Task Force (representing Denmark, Canada, Germany, Japan, India and USA) held its first meeting on June 30 – July 1, 2005 and discussed the results of a donor survey conducted for the Task Force, CGIAR funding trends, Members funding practices, issues and bottlenecks in funding the CGIAR System, and possible mechanisms for financing the System Priorities, once approved, and options for future financing for the SC and its Secretariat

Based on the donor survey results and experiences of TF Members, the TF developed the following options and recommendations for: (A) financing System Priorities; and (B) financing the SC and its Secretariat.

A. Options for Funding System Priorities

Background

The current level of funding for each of the proposed 20 System Priorities is not determined yet. Some proposed priority areas may be oversubscribed, while others may require significant new resources to generate a body of work likely to have impact on the CGIAR goals. At the same time, CGIAR Members do not currently discuss or coordinate their funding decisions. To adequately fund new System Priorities, Members need information and a mechanism to help them allocate their funds to the System.

The Task Force **recommends** that a tool - a Matrix - be developed annually during the MTP review process. The Matrix would be prepared jointly by the Science Council and the CG Secretariat, from the program and financial information provided by Centers in their MTPs. The Matrix is currently under development by the SC. This Matrix would then be submitted to ExCo for review at its October meeting and to AGM for endorsement as the agreed program of work for the CGIAR for the next calendar year.

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

Option 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.

Option 2: Improved Coordination Among Members: Funding allocations are made in accordance with the Matrix of new priorities being developed by the SC. 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/endorse ExCo recommendations. Members take these recommendations into consideration when they make their allocations.

Options 3: A Hybrid of Option 2 and Informal Discussions: After ExCo makes recommendations to the Membership on funding needs and priorities, and AGM endorses the agreed program of work, interested Members would meet to discuss how they can act collectively to support System Priorities as well as the priorities and needs of each Member making allocation decisions. The discussions could be extended to include Member commitments to specific allocations to specific Centers for specific priorities.

Option 4: Allocation Committee: Members form or assign a committee/body to review the overall funding picture based on the needs identified in the Matrix and already known restricted funding and Member commitments. Interested Members provide the committee/body through the CGIAR Secretariat with figures on unrestricted funding available for allocation. The committee/body proposes the allocation of this available unrestricted funding to Centers based on the System Priorities. This proposed allocation would be presented to AGM for its endorsement. Willing Members would agree to follow the recommended allocation, with prior knowledge and approval.

The Task Force notes that more than one of the above mechanisms could operate at the same time.

The Task Force also noted that it is desirable that Members increase their proportion of unrestricted funds to the maximum extent possible. Also Members may consider moving gradually towards Program Funding which is the least restrictive and still provides members with the same degree of control on funding of priorities. When not practicable, due to specific Member requirements, Members and Centers should agree on full costing of projects and to develop/fund projects and programs that fit within the System Priorities. In the future, the SC will be asking for MTPs to include projects listed at full cost more transparently than now.

The Task Force also wishes to make Members aware of the Existing Trust Fund Managed by the World Bank and coordinated by the CGAR Secretariat (currently managing around US\$ 120 million annually on behalf of Members): Members are encouraged to make their remittances to the World Bank Trust Fund (which is managed and controlled in accordance with World Bank operating procedures and international audit standards – internal and external). Members continue to direct their allocations to specific Centers, but through one agreement with the World Bank rather than through multiple agreements with multiple Centers.

RECOMMENDED OPTION

The TF **recommends** that the ExCo and Members consider Option 3 and the World Bank Trust Fund as mechanisms that will improve the coordination among Members for financing of CGIAR System Priorities.

B. Options for Financing the SC and its Secretariat

The annual budget of the Science Council, including the SC Secretariat, is approximately US\$ 3.75 million excluding the cost of Center EP MRs (three annually at the cost of US\$ 0.7 million currently paid by Centers) Only two co-sponsors have paid their commitments (FAO US\$ 786K and the balance by the World Bank) for 2004 and 2005. UNDP's contribution is expected at approximately US\$ 250K level but has not yet been paid. Moreover, no cash contribution is expected from IFAD. The World Bank made a commitment to provide major financing up to the year 2005, and has committed to continue to provide its commitment of the SC budget in the future. FAO will continue its support at current levels.

To ensure the independence and uninterrupted operation of the SC and to secure predictable funding, the Task Force considered several financing options. Due to the urgency of securing

financing for the SC in 2006, the Task Force recommends two mechanisms: an interim mechanism for immediate financing and a more permanent mechanism for long-term financing as summarized below:

1. Interim Financing Mechanism for 2006 and 2007

At ExCo 8, and in a Member survey conducted by the consultant to the Task Force on Funding System Priorities, several Members indicated their willingness to provide financial support to the Science Council and its Secretariat to ensure continuous operations without restricting its work and compromising its independence. One Member (Germany) has already pledged a firm commitment to fund the SC and its Secretariat.

Therefore, the TF **recommends** that a core Member Group consisting of the World Bank, FAO and other interested Members support the Science Council initially for two years (2006 and 2007), until a long-term financing mechanism (Item 2 below) is considered by ExCo and approved by the Members. To meet the full SC budget of US\$ 3.75 million Members (in addition to the World Bank and FAO commitments), will need to contribute approximately US\$2.25 million to the SC operations, assuming External Reviews remain financed by the Centers. EPMR's of which 3 are planned in 2006, are currently financed through a trust fund financed by the Centers.

Follow-up with Members expressing concrete commitments may be done by the CGIAR Secretariat with assistance of Task Force Members, if required.

2. Long-term Financing of the Science Council (Beyond 2007)

The Task Force outlined various options for the long-term financing of the SC, its Secretariat, and the full cost of CGIAR Centers' and Programs' External Reviews, including:

- a. Members voluntarily Contribute of up to 1% of total Member funding
- b. 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 longer term.
- c. An agreed percentage is levied on annual Member contributions to the CGIAR.
- d. An agreed percentage is levied on Centers' budgets.

The Task Force emphasizes that the selected mechanism must be based on the principle that the SC is a core System investment that should be shared by all Members to ensure its full independence.

The Task Force recognizes the negative ramifications if any option does not raise the required funds to support the full SC budget and ensure the continuation of its operations. Therefore, the Task Force **recommends** option a for the long term: Contribution of up to 1% of total Member funding to the CGIAR to finance the SC and the full cost of CGIAR Centers External Program and Management Reviews (EPMRs). The contributions to the budget of the SC may be deposited in the World Bank or the FAO Trust Fund. The FAO and the World Bank are expected to continue firmly committing US\$ 750K each annually to support SC operations.

ExCo may also wish to consider that a Task Force examines in detail the long-term financing of the Science Council and its Secretariat including financing of Center EPMRs.

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