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Reducing Poverty through Cutting-edge Science

Report of the 16th Meeting of the Finance Committee

Attached is the report of the Finance Committee as reported by its Chair, Alex McCalla. The agenda for the meeting covered the following items.

- **1999 Estimates**
- **2000 Financing Plan**
- **CGIAR Longer Term Financing Strategy**
- **Financial Issues**
- **Membership rotation and Chairmanship**

The CGIAR Finance Committee held its 16th meeting in Washington D.C. on October 23, 1999 and October 28, 1999. It held a joint session, chaired by CGIAR Chairman, with the Oversight Committee on October 24, 1999. Members participating were: Australia (Bevege), Canada (MacGillivray/Howell), European Commission (Werblow), Germany (De Haas), IFAD (Slama/Mathur), Japan (Kondo), Sweden (Thornstrom). Regrets were received from Egypt and India. USA (Dalrymple) and United Kingdom (Harding) observed the meeting.

Item 1: 1999 funding update

The Finance Committee reviewed the status of 1999 funding and considered a request by ICRAF for special funding caused by unexpected funding shortfalls.

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At MTM99, the overall CGIAR financing plan projections were estimated to be at the ICW98 approved plan level of \$340 million. Current projections confirm this outcome. Funding from individual members is in line with ICW98 commitments:

The funding picture at the center level is consistent with their MTM99 projections as well. CIMMYT, CIAT, CIFOR, CIP, ICARDA and ILRI project funding to be 1%-5% lower than their approved financing plans. All others expect to be above the financing plan.

Pace of disbursements continues to be dismal. 44% of the projected funding was in hand at end September, no better than in 1998 which was the worst year, in disbursement terms, since 1996. Difficulties faced by the European Commission in disbursing their funds are not fully resolved. Several centers have yet to yet receive even their 1997 funds.

The Finance Committee wants to reaffirm the policy announced in 1997 that it will not provide World Bank funding for gap filling unless there are truly exceptional circumstances. Hence, the Finance Committee has decided to turn down the requests for gap filling funding from ICRAF.

Item 2: Financing Plans for the 2000 CGIAR research agenda:

1. Process observations

- Following CGIAR endorsement, at MTM99, of their 2000-2002 MTPs, centers prepared financing plans for 2000 by mid-Sept.
- These plans were consolidated by the Secretariat and shared with TAC, Finance Committee and the Centers.
- TAC reviewed the program implications of the financing plan at their meeting in September 1999 and confirmed that with the exceptions noted by the TAC Chair; the plans are broadly in line with those approved at MTM99.
- Finance Committee (FC) met with TAC Chair on Saturday and discussed TAC's observations on the center financing plans.
- Finance Committee has reviewed the financing plans. The financing plans are meant to guide the preparation of realistic operational plans by the centers. Hence, the FC urges centers not to include wishful thinking in their plans but base them solely on identified funding. Members need to be aware of their own responsibility in providing appropriate guidance to centers.

2. Financial dimensions

- Centers propose 2000 financing plans requiring funding of \$360 million, lower than the \$370 million projected by them at MTM99, but higher than the CGIAR endorsed planning level of \$340 million. In context of current 1999 estimate of \$340 m, proposals represent an increase of \$20 m or 5%. (Centers' own estimate for 1999 is \$355 m).

3. Center Perspectives

- With few exceptions, individual center financing plans are consistent with their MTM99 2000 proposals and, as well, with their 1999 estimates.
- Since the submission of its financing plan in mid-September, CIP has reduced its 2000 financing plan by \$3 million or 13% and has requested a \$1 m special allocation. CIMMYT has requested \$0.35 m to rebuild a new site for its tropical maize, as its current site was devastated due to tropical storms.
- ICRAF, IITA and IPGRI have flagged gaps amounting to \$1.5 million in the systemwide programs convened by them. IFPRI/ISNAR have also alerted the FC that the systemwide program on generating baseline information (Agricultural Science and Technology Indicators) is presently underfunded.

4. Member perspectives

- Most members are yet to confirm their allocations for 2000. Of those, who have made the decisions already, in two cases (Germany and Sweden) financial support is lower by about \$5 million from their 1999 levels, largely a consequence of fiscal policy measures by the respective governments. Denmark does not expect to regain in 2000 the recent 10% reduction, about \$1 million, that it was forced to impose for 1999.
- Rapid improvement in clearing the European Commission's backlog of undisbursed contributions, dating to 1997 in some instances, is not likely. A strong message should be conveyed to the senior leadership of the EC pointing out the severe financial difficulties resulting from the present backlog of over \$32 million. Centers

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are cautioned to seek current information of prospective EC funding for 2000 and proceed cautiously.

5. **Proposed Decisions:** (attached annex table)

- 2000 financing planning target should be maintained at no more than \$340m, in context of likely 1999 outcome at about the same level.
- Center plans should be adjusted to fully incorporate member decisions known this week. The Centers should be especially cautious in planning 2000 expenditures against EC support until the present disbursement backlog is cleared.
- World Bank funding policy – Approved allocation of \$45 million represents about 15% of non-Bank funding for the CGIAR.
 - Center projections include about \$34 million corresponding to 11% of non-Bank funding; consistent with FC's MTM99 decision. The ratio is proposed to be increased to 12% amounting to \$37.2 million.
 - Support for CGIAR committees, and related tasks, will be continued at \$1 million. As has been the practice, detailed allocations will be made at MTM00 based on detailed budgets.
 - Systemwide programs/activities (\$3.4 m): The FC proposes to cover the following gaps identified by TAC in systemwide programs: ICRAF (\$0.6 m Alternatives to Slash and Burn), IITA (\$0.3 m for Integrated Pest Management) and IPGRI (\$0.6 m - Systemwide Genetic Resources Program). Decisions on allocating the remainder (\$1.9 m) would be made at MTM00 in consultation with TAC. The Central Asia and Caucasus program and the Agricultural Science and Technology Indicators program would be two possible candidates.
 - Set aside to cope with unexpected problems during 2000 (\$3.4 m): FC proposes to allocate 0.25 m to CIMMYT to rebuild the tropical maize station. Decisions on the remaining \$3.15 m would be made at MTM00. The Finance Committee wants to reaffirm the policy announced in 1997 that it will not provide World Bank funding for gap filling unless there are truly exceptional circumstances. Hence, the Finance Committee has decided to turn down the requests for gap filling funding from CIP for 2000 and from ICRAF for 1999. The Finance Committee will, however, monitor CIP's financial situation to determine, at MTM00, whether crisis funding may be necessary.
 - The remainder of \$5 million, after the proposed allocations, will be held in reserve until MTM00. [This is in addition to the existing CGIAR reserve of \$4.2 million.]

6. **Process steps following the meeting**

- Centers will prepare operational plans in context of the guidance provided by the Finance Committee
- 90% of the World Bank funds will be disbursed on January 1, 2000.
- Members will take steps to confirm their allocations and proceed with disbursements as soon as possible.
- FC will review the status of 2000 financing plans at its MTM00 meeting.

Item 3: Longer Term Financing Strategy for the CGIAR

At MTM99, the CGIAR endorsed the proposal by the Consultative Council to prepare a longer term financing framework and resource mobilization/public awareness structures for its implementation. The CGIAR Finance Committee Chair is leading the effort. The FC Chair has engaged John Riggan, President, The Conservation Company whose work is guided by a working group comprising members (Canada, Sweden), centers (CDC, CBC) and PARC/PAA. [The Conservation Company is also employed by the Ford Foundation to assist centers develop marketing strategies.]

The working group has met several times (May, August, October) and has endorsed the broad thrust of the proposals presented in the progress report of The Conservation Company. (A Longer Term Financing Strategy for the CGIAR (ICW/99/13 dated October 26, 1999). John Riggan has initiated consultations with a representative group of CGIAR stakeholders (Members, Cosponsors, and Centers) to seek their views and guidance regarding the recommendations. A final report is now expected by MTM00.

The Finance Committee notes that excellent progress has been made so far both in developing the framework for longer term CGIAR financing and in resolving some long-standing organizational issues. The FC therefore proposes the following:

- CGIAR Longer Term Financing Strategy should be based on the continuation of ODA funding with some proportion being supported by non-ODA funding from DAC countries, expansion of Southern financial participation and exploration of mutually beneficial relationship with the private sector including philanthropy.
- A single mechanism, such as a foundation, is proposed for harmonizing the numerous and multi-level public awareness and resource mobilization activities and to implement new initiatives. This would build on the existing strengths and collaborations such as Future Harvest. The CGIAR should move towards a harmonized, but not centralized, approach for resource mobilization and public awareness.
- The working group should be continued until MTM00. It would be expanded to ensure full representation of information/resource mobilization professionals at centers and the Secretariat.
- Alex McCalla should continue to chair the working group until MTM00.

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Item 4: Financial Policy issues

The Finance Committee also provides oversight on CGIAR financial policy issues. Under its guidance, the CGIAR Secretariat is collaborating with center finance professionals, and outside experts as necessary, in pursuing a program on financial issues underpinning prudent and cost effective use of resources by centers. Implementation of some of the issues requires action by the membership as well.

At MTM99, the Finance Committee reviewed items related to accounting policy, exchange rate management and indirect costs. At this meeting the FC reviewed the following items: Indirect costs, internal audit, financial management guidelines and financial systems. Center professionals, external experts and secretariat staff presented the items to the FC. The FC noted that these items were also discussed with center staff and center board chairs. The FC believes that this collaborative approach in addressing financial policy issues of concern to all components of the system is sound and encourages the Secretariat to continue to pursue this program.

Specifically:

- Internal Audit: There is a strong perception that internal audit functions in many, if not most, CGIAR centers are not as effective as they can be. To make internal audit an effective function, centers are exploring various business models including outsourcing to their external auditors. ICLARM, IRRI, IPGRI and the Secretariat are experimenting with a new approach by jointly sponsoring an internal audit team, initially based in Asia. The FC considers the proposal to be an innovative approach that deals with issues of fiduciary importance but where an individual center is hard pressed to make the necessary budget available to support the required expertise.
- Financial Systems: The CGIAR Secretariat is launching survey of center financial systems to position the CGIAR to fully benefit from advances in information technology and process improvements in financial processes and procedures in the past few years. A working group being assembled from the financial and IT staffs of the centers, which will guide the work of external consultants. The survey will lead to the design of appropriate information architecture based on an information warehouse concept. Under this concept, financial information required by all components of the system would be easily available through the Internet. The FC encouraged the working group to proceed with its work with due haste.
- Financial guidelines: The Secretariat issues four guidelines: financial management, accounting, auditing and resource allocation to guide the financial conduct of centers, which are periodically updated. The financial management guideline, which serves as an apex guideline and hence is possibly of special interest to a broad audience, is being presently updated. The FC reviewed a presentation of the financial management manual and authorized its distribution after completing the ongoing consultations with components of the system. .
- Indirect Costs: Guided by an inter center working group led by ICRISAT, Ernst and Young, India have surveyed center practices and are proposing that CGIAR centers consider adopting a "value chain" framework for indirect cost calculations and their recovery from providers of restricted funding. Pilot approaches will be tested at five centers over the next four months. A progress report is expected at MTM00 to help determine whether the proposed approach is practicable for the CGIAR.

Item 5. Finance Committee composition and chairmanship

Membership

Members of the Finance Committee are elected through membership caucuses, in principle, with three year staggered terms. The present composition is as follows: DAC countries - six; developing countries - two; institutions/foundations - two, one of which is World Bank.). Membership of the Finance Committee rotates between individual caucus members on a three-year cycle. This process has been on hold for the past two years on account of the system review. The FC membership is also linked with the membership of the Oversight Committee to avoid overlapping memberships on FC and OC. (The CGIAR Chairman in consultation with the OC appoints members of the OC. OC members serve in their personal capacities.)

The Finance Committee believes that rotation would now be timely as the system review has been completed. Based on its own consultations, FC proposes that caucuses be held to replace three DAC members (European Commission, Australia and Sweden) who have announced their intention to retire from the Committee. To ensure an orderly transition, the rotation should take place over the next twelve months. Caucuses should also held by the developing countries as India, a member, is presently serving as the Chair of the Global Forum and hence is unable to serve on the Finance Committee.

Chairmanship

After serving an initial term of three years, (1993-96), World Bank has been annually reelected as the Chair of the Finance Committee. The Finance Committee believes it would be helpful to rotate the chairmanship among its members. The members of the committee have unanimously elected Canada to serve an interim one-year term starting January 1, 2000 upon retirement of the present chair Alex McCalla from the World Bank. The interim selection reflects the assessment of the members that the CGIAR would be best served by ensuring continuity until the completion of the major tasks on the agenda of the FC over the next twelve months. The FC intends to revisit the chairmanship issue at ICW00 to elect a new chair for a full three-year term.

Proposed 2000 CGIAR Financing Plan

(\$ million)

Centers	Contributions Other than World Bank ^{1/}	World Bank Allocations			Proposed Financing Plan	<i>Memo items:</i>		
		Matching amount ^{2/}		Special		Total	1999 Estimate	1998 Actual
		Center Plans	FC Proposal	FC Proposal				
CIAT	29.4 ^{3/}	3.2	3.5		3.5	32.9	33.2	32.1
CIFOR	10.9	1.2	1.3		1.3	12.2	12.2	11.3
CIMMYT	29.3	3.2	3.5	0.3 ^{7/}	3.8	33.1	33.6	30.1
CIP	16.0 ^{4/}	2.1	1.9		1.9	17.9	21.4	22.2
ICARDA	20.5 ^{5/}	2.3	2.5		2.5	22.9	21.5	25.2
ICLARM	13.1	1.4	1.6		1.6	14.7	16.7	10.7
ICRAF	19.7 ^{6/}	2.2	2.4	0.6 ^{8/}	3.0	22.6	21.8	20.4
ICRISAT	20.8	2.2	2.5		2.5	23.3	24.0	26.5
IFPRI	20.7	2.4	2.5		2.5	23.2	22.5	20.1
IIMI	9.0	1.0	1.1		1.1	10.1	10.3	9.4
IITA	28.8	3.2	3.5	0.3 ^{8/}	3.8	32.5	31.0	29.2
ILRI	25.0	2.6	3.0		3.0	28.0	28.2	24.6
IPGRI	21.0	2.3	2.5	0.6 ^{8/}	3.1	24.2	23.7	21.2
IRRI	26.9 ^{7/}	3.3	3.2		3.2	30.1	31.6	34.8
ISNAR	8.5	1.0	1.0		1.0	9.5	9.3	9.6
WARDA	10.9	1.2	1.3		1.3	12.2	10.9	10.0
Centers Total	310	34.7	37.2	1.8	39.0	349	352	337

Partnership Committees	1.0
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To be Allocated	5.0
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Total World Bank Funds	45
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1/ Revised center plans.

2/ Matching ratio was 11% of non-Bank funding in Center plans as per guidelines.

The Finance Committee has recommended increasing the ratio to 12%.

3/ Excludes \$0.8m projected from convening centers for systemwide programs and initiatives:

(ILRI - \$0.4m, ISNAR - \$0.1m, ICRAF - \$0.1m, and IFPR - \$0.2m).

4/ CIP's new (October) estimate.

5/ Excludes \$0.2m and \$.1m projected from IFPRI and ILRI, respectively for systemwide programs and initiatives.

6/ Excludes \$0.5m from SGLP and Global Mountain program for systemwide programs and initiatives.

7/ Allocation to rebuild breeding site due to flood loss.

Summary of Proposed Allocation of WB Funds:

12% matching	37.2
Partnerships	1.0
Systemwide Programs	3.4 ^{9/}
Set Aside	3.4 ^{10/}
	45.0

9/ Of which \$1.5m allocated as shown in table.

10/ Of which \$0.25m allocated to CIMMYT.

8/ For systemwide programs (ICRAF - ASB; IITA - IPM; IPGRI - SGRP).