



Consultative Group on International Agricultural Research (CGIAR)

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Charting the CGIAR's Future – Change Design and Management
Report of the Finance Committee

CGIAR Finance Committee Chair Robert L. Thompson will report on the deliberations of the Finance Committee and propose decisions for adoption by the membership on the following items: 2000 financial outcome, 2001 financing plan, 2002 financial planning assumptions, allocation of World Bank funds and financial guidelines.

This item is for: Information Discussion Decision

Proposed Action: Endorsement of the Finance Committee Recommendations.

2000

Proposed Decision

World Bank funds allocated as matching funds at the start of the 2000 would be recalculated based on actual results for the year.

Overall outcome

- The funding goal for 2000 was to attain the level of funding approved at ICW99: \$340 million. CGIAR Members contributed \$331 million, \$9 million or 3 percent less than the approved funding goal but \$1 million more than actual funding of \$330 million for 1999.
- The primary reason for the shortfall was the reduced dollar value of contributions arising from weaker European currencies.
- Member funding of \$331 million, center-generated income of \$14 million and extraordinary funding of \$5 million (\$2 million from reserves; and \$3 million in an advance of 2001 funding) totaled \$350 million in financing to centers. Total expenditures in 2000 were \$338 million. Included in the resulting \$12 million surplus is the advance of \$3 million of 2001 income and the transfer of \$2 million from System reserves to Center reserves. The surplus replenished the Systems' reserves that had been depleted by \$7 million in 1999 because of the funding default.

Composition of funding:

- In 2000, unrestricted support was 50 percent (\$164 million) of total support, compared with 54 percent or \$179 million in 1999. Restricted support was \$167 million or 50 percent of total Member funding, compared with \$151 million or 46 percent in 1999.
- Member groups: Top thirteen donors contribute 75% of total funding and 92 percent of unrestricted funding.
- Industrialized countries provided \$225 million or 68 percent of total support in 2000. This figure was in line with the 1999 amount of \$226 million and 68 percent of the total. International organizations/foundations contributed \$73 million or 22 percent (1999: \$74 million or 22 percent), and developing countries/other donors contributed the remaining \$33 million or 10 percent (1999: \$30 million or 10 percent).

Program Investments

- Program investments in 2000 were \$338 million, a decrease of \$9 million or 3 percent from 1999. Distribution of resources by undertaking was consistent with the 2000 financing plan

Center highlights

- Funding for four centers was at or above levels approved at ICW99: CIMMYT, \$4.9 million (15 percent); IRRI, \$3.8 million (13 percent); CIP, \$2.5 million (14 percent); and CIFOR, \$0.2 million (2 percent).
- Funding for eight centers was within 10 percent of, and thus broadly in line with financing plan targets: ICARDA, ICRAF, ICRISAT, IPGRI, ISNAR, IFPRI, CIAT, and IITA.
- Funding for the four remaining centers was ten percent or more below their financing plan targets: IWMI, \$1.3 million (-13 percent); ICLARM, \$2.5 million (-17 percent); ILRI, \$4.9 million (-17 percent) and WARDA, \$3.7 million (-31 percent).

Membership

- Initial contribution by Uganda (\$0.3 million).

Disbursements

- No improvement from the slow pace of last year. 82% of 2000 contributions received by end of year compared to 89% in 1999.
- Over \$60 million, including \$20 million from EC, unpaid as at end of December 2000. [As of May 2001 arrears have largely cleared with the exception of about \$8 million unpaid from EC].

Financial position

- CGIAR as a whole is in a strong financial condition. Total net assets at the end of 2000 were \$203 million (1999: \$263 million). The decrease in net assets is primarily explained by the write-down of \$74 million in fixed assets following a change in accounting policy. Therefore the decrease represents only a book movement.
- Net assets are made up of \$62 million (1999: \$44 million) in unappropriated (unrestricted) net assets and \$141 million (1999: \$219 million) in appropriated net assets. Appropriated net assets can be further subdivided into capital invested in fixed assets (\$98 million) and funds set aside by centers for the acquisition of fixed assets (\$43 million).
- Cash and cash-equivalent balances equaled \$177 million at the end of 2000 (1999: \$212 million). The primary reason for the reduction in year-end cash holding was the reduction (\$44 million) in donations received in advance. The cash balance of \$177 million represents 192 days of expenditure. The current ratio is 1.74. Both ratios above recommended targets.

Spending trends

- Personnel spending lower in percentage terms (continuation of recent trend).
- In 2000, there were no changes in investment by region. Sub-Saharan Africa, Asia, WANA, and LAC accounted for 42 percent, 32 percent, 17 percent, and 9 percent of total investment, respectively.

World Bank funding

- Current policy, established in 1997, for World Bank funds provided on a matching basis is that the funds allocated at the start of the year would be recomputed in light of actual experience at the end of the year. Necessary adjustments would be reflected in the allocation for the following year.
- As a group the centers overestimated the contributions from donors other than the World Bank by almost \$24 million resulting in an "excess" matching contribution of about \$3 million. Due to the special circumstances with EC funding this year, the net refund to the Bank is being waived this year.
- Maintaining the adjustment principle and redistributing the \$3 million in proportion to the matching funds corresponding to actual 2000 funding, the net amount that each center would gain or refund has been shared with the centers. Funds are due to the following five centers: CIFOR (\$0.08 m), CIMMYT (\$0.83 m); CIP (\$0.32 m); ICRAF (\$0.03 m) and IRRI (\$0.66 m). Refunds are due from the remaining eleven centers ranging from \$0.04 - \$0.41 m.

CGIAR reserve

- Reserve at the start of 2000 \$4.5 million. \$2 million were used during 2000 as part of the EC rescue package leaving a balance of \$2.5 million.

2001

Proposed Decisions

- 2001 CGIAR financing plan should be confirmed at the approved level of \$340 million.
- Allocation of World Bank funds:
 - Reconfirm policy established at MTM00 of not considering special requests at Mid-Term meeting.
 - Upon submission of a comprehensive report by CDC/PARC, reimburse CDC/PARC, up to a maximum of \$345,000, for costs incurred and commitments made during November 2000- May 2001 on activities commissioned by CDC/PARC, and conducted by Future Harvest, as described in their December 2000 request. The report should describe (i) activities undertaken and (ii) outputs accomplished within the scope of the work plan submitted in support of the request in December 2000; in addition to (iii) a detailed statement of expenditures incurred to achieve the outputs. No further assistance will be considered until an integrated CGIAR communications strategy and plan as recommended by the CDMT report is in place.
 - Allocate remaining 2001 balance of \$1.75 million to CGIAR reserves to replenish the drawdown last year.
 - Reaffirm that 2001 matching funds would be recalculated based on actual results for the year.
- **Funding Overview:** At ICW00 the Group approved a 2001 CGIAR financing plan calling for Member funding of \$340 million, plus center generated income of \$15 million, for a total revenue of \$355 million. Aggregate center estimate of Member funding at the end of the April is \$364 million together with investment and other income of about \$15 million for a total income of \$379 million. However, based on past experience at the system level, the Secretariat projects 2001 funding to be \$330 - \$340 million and hence recommends maintaining the plan at the \$340 million level.
- **Members:** Center estimates of total aggregate funding are in line with the financing plan except for funding from 'non CGIAR donors' which centers are now projecting to be \$10 million greater. Experience at the system level would suggest that actual receipts from non-CG donors will be less than currently estimated. In addition actual dollar receipts from Euro based currencies are likely to be less due to adverse exchange rates against the dollar. Japan has also indicated a 7.6 percent reduction which some centers have yet to build into their projections. These factors combine to give an indicative 2001 funding level in the region of \$330 - \$340 million.
- **Disbursements:** 2001 disbursements during the first four months are running at 23 percent compared to 21 percent in 2000. If the second half of 2000 pattern of disbursements were to repeat in 2001, year-end disbursements would be roughly maintained at the same level - 84 percent - as in 2000.
- **Centers :** Twelve centers expect to be funded at or above their financing plan level. The other four centers have revised their funding estimates to bring them more into line with updated Member information and have reduced their projections by about \$5 million. The four centers are WARDA (-12%); ICRISAT (-5%); CIAT (-4%); and IRRI (-3%).
- **Adjustment of World Bank matching funds:** As a group centers over estimated contributions from donors other than the World Bank by almost \$24 million in 2000. This resulted in an excess matching contribution of about \$3 million to the centers. For 2001

there is the risk that most centers are again over estimating the amount of non World Bank funding. This could be as high as \$25 million.

- **Investment Overview:** At ICW00, the Group approved investments of \$355 million, for centers, partnership committees, and set aside funds. The current estimate is that total 2001 agenda investments will be \$383 million, an increase of nearly 8% (\$28 million) over the plan. The majority of centers (14 of 16) estimate that 2001 investments will increase over the financing plan. As in 2000, it is likely that centers will be able to reduce expenditures should funding projections prove overly optimistic.
- **Resource allocation:** Investment in undertakings show little change from both 2000 actual and the approved 2001 financing plan. Center investments by developing region remains stable as well although there is a slight shift towards sub-Sahara Africa which is projected to account for 43 percent of expenditures in 2001.
- **Objects of Expenditure:** Personnel expenditures are projected to account for 48 percent of expenditures in 2001.

2. World Bank funding: At ICW00, \$42.2 million of the World Bank's contribution of \$45 million was allocated retaining the remainder of \$2.8 million largely to meet potential restructuring costs arising from ICW00 decision to initiate a Change Design and Management process. [Within this, \$0.5 million for immediate implementation of the LTFS, in close coordination with the Change Design & Management Team established at ICW00]. In December 2000, the Committee allocated \$0.4 million to cover the costs of the CDMT and the Steering Group. It also allocated \$0.3 million [supplemented by \$0.5 million from CGIAR reserves] to cover the restructuring costs of transforming SPAAR into FARA.

The balance of \$2.1 million is subject to allocation at MTM01. It should be noted that last year the Finance Committee authorized a withdrawal of \$2 million from the CGIAR reserves as part of the EC support package. Hence, the most appropriate use of the balance would be to replenish the reserves.

Three requests have been submitted - New requests from CIMMYT/IITA and ICARDA/Central Asia in addition to a continuing proposal from CDC/PARC for activities associated with the follow-up to the CGIAR Longer Term Financing Study. In considering these requests, it should be noted that the FC made a decision at MTM00 that it would stop making ad-hoc grants.

2002

Proposed Decisions

- *Financial planning target for 2002 should be set at \$340 million.*
- *Centers should proceed with preparing 2002 financing plans for submission to the CGIAR at ICW01.*
- *In preparing their financing plans, centers should assume that World Bank in 2002 will match funding from other investors at a 10% matching ratio.*

Process steps

- Following CGIAR endorsement at this meeting, centers will prepare financing plans by mid-September.
 - TAC [or its successor body] will review, as necessary, program implications and highlight issues in September.
 - Finance Committee [or its successor body] will review financing plans prior to CGIAR consideration at ICW01.
- Centers prepared plans for 2002-2004 in context of 2001-2003 Medium Term Plans (MTP) reviewed last year and 2001 likely outcomes.
- TAC reviewed the proposal in March 2001 (TAC80, Aleppo, March 26 – 30). Their observations are available in ("**2002 CGIAR Research Agenda and Initial Proposals for 2004**", SDR/TAC: IAR/00/16).
- TAC recommends extension of the 2001-2003 MTP to 2004, subject to the Group's action on the CDMT proposals.

Process observations

- This is the fourth year under the MTP process adopted at MTM97. As expected, TAC's annual review has increasingly become "light", noting directional changes.
- All centers have fully incorporated the project approach in their planning and the transition to the log-frame approach is on target: all centers have translated the standard financial tables into the log frame outputs and most have followed the log-frame terminology in describing their project portfolio.
- The September review of financing plans will be more focused on the budget year.

Financial dimensions

- Last year, 2001-2003 MTPs called for funding of \$375 million in 2002 to support an investment program of \$388 million. Overall, current center proposals are broadly in line i.e., funding of \$376 million, supplemented by \$14 million in center income to support an investment program of \$390 million in 2002.
- In context of current 2001 estimate of \$340 million, the funding proposals represent an increase of \$36 million or 11%. This is ambitious. (Centers' own estimate for 2001 is \$364 million).
- Center financial projections for 2002 will be available in September, 2001. Based on information at hand, it seems unlikely that there will be any appreciable growth in funding in 2002 i.e., an outcome of about \$340 million, the same as in 2001 is a reasonable assumption.

World Bank matching ratio: At this meeting the Finance Committee provides guidance to centers on the World Bank matching ratio they should use in preparing their financing plans. In 1997 and 1998 the matching ratio was set at 9% and 10% respectively. For 1999 through 2001 the matching ratio was set 11%.

Financial Policies

Proposed Decisions:

Endorse circulation of the proposed draft financial guidelines on indirect cost allocation (FG5) and Audit (FG3) to the membership by July, 2001 with a view to their adoption as CGIAR policies by September, 2001, subject to modifications based on comments received from the membership.

On behalf of the CGIAR membership, the Finance Committee 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 developing guidelines for prudent and cost effective use of resources and, as well, transparent reporting, thus providing accountability for use of public funds provided by CGIAR members. Since MTM99, the Finance Committee has received reports on the following topics: accounting and financial management guidelines, exchange rate management, indirect costs, internal audit, and financial systems. At this meeting, updates are provided on indirect costs and auditing and a new project on CGIAR procurement policies. In the near future, a project will be launched to develop a guideline on investment policies.

Indirect Costs: To develop common standards for computing indirect costs that will facilitate, due to their transparency, full recovery of indirect costs for all restricted activities, during 2000 Ernst & Young, India conducted a study of relevant CGIAR center practices. Following the review, Ernst & Young proposed a methodology based on a "value chain" framework that has been piloted at several centers. A description of the proposed methodology in the form of a CGIAR financial guideline is presently being finalized. It is planned to distribute the guideline to CGIAR members for approval in July 2001, after an initial round of comments from the Finance Committee by end of June 2001.

Audit guidelines: In 1999, the Secretariat, in collaboration with four CGIAR centers (CIFOR, ICLARM, IPGRI and IRRI), created a CGIAR Internal Audit group (IAG) based at IRRI. IAG is implementing an active program of operational audits at these centers. It has also established a CGIAR internal audit network and recently held a training workshop on auditing. The IAG has updated the CGIAR guideline on Audit, which has been peer reviewed by external experts. The Guideline is presently with the center practitioners for their final signoff. It is planned to distribute the guideline to CGIAR members in July 2001, after an initial round of comments from the Finance Committee by end of June 2001.

Procurement Policy: To assure the CGIAR members that centers follow procurement procedures that are consistent with international standards, preparation of a CGIAR procurement guideline, which can facilitate preparation of center manuals consistent with the standard, has been commissioned. The CGIAR standard will be based on those applicable to World Bank borrowers. The first step is a desk review of center procurement manuals, which is underway. A World Bank procurement expert, who will also assist in drafting the CGIAR guideline, is conducting the review.

Disbursements: In 2000, the Secretariat disbursed, through the World Bank, about \$115 million to the centers on behalf of fifteen CGIAR members including the Bank. To meet the resulting fiduciary obligation to the members, the Secretariat has developed and implemented a financial instrument [a "contract"] largely based on CGIAR financial guidelines. A simple compliance instrument is also being developed to confirm compliance at the end of the year.