

# CGIAR

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## **Mid-Term Meeting 1999 May 24 - 28 Beijing, China**

### **The Third System Review: From Proposals to Practice**

#### **Finance Committee Report**

- 1998 Financing Results**
- 1999 Financing Plan**
- 2000 Financial Requirements**
- Financial Issues**

Attached is the report of the Finance Committee as reported by its Chair, Alex McCalla.

## 1998 Financial Results

Finance Committee reviewed the draft 1998 financial report.

### Overall outcome

- \$340 m funding. Compares with 1997 figure of \$333 m comprising \$320 m "agenda" and \$13 m "non-agenda". Effective 1998 there is only a single funding figure as previous non-agenda has been fully integrated.
- Compares with 1998 financing plan of \$345 m set at ICW97 and is in line with the revised financing estimate of \$335-340 m at MTM98.

### Composition of funding

- Stability continued in terms of absolute levels of unrestricted (and lightly restricted) funding, outcome \$206 m in line with account levels (e.g., 1994/95 \$205 m).
- Restricted funding rising as a proportion of agenda. 1998 was 39% vs. 23% in 1994/95 in agenda terms
- Member groups: Top twelve donors contributed 76% of funding as in 1997. See Figure 1. Developing countries increased their contributions in absolute and percentage terms. Contributions from non CG donors also increased by \$3.7 m to 11.9 m, primarily from the private foundations but little still from private corporate sector.

### Program investments

- Agenda investments of \$337 m. Distribution of resources by undertaking is consistent with financing plan. Investment in increasing productivity (37% of total investment; 1997: 40%) continues to be the major thrust of CG activities. Protecting the environment accounted for 19% (1997: 17%); Policy increased from 11% to 12%; Biodiversity and Strengthening NARS remained at 11% and 21% respectively. Sectorally, crops accounted for 71% of investment, livestock, 14%; forestry, 11%; and fish 4%.

### Center highlights

The majority of centers received funding within a 10% range of their approved funding. Only three centers were outside this range. IFPRI were \$1.9 m (10%) above their approved funding while CIMMYT and ILRI were \$3.6 m (11%) and \$3.5 m (13%) below respectively.

### Membership

- Initial contribution by new members Peru, Kenya and New Zealand.

### Disbursements

- No improvement over problems identified last year.

### World Bank funding

- By and large variations from projected center incomes small i.e., less than \$1-2 m resulting in minor impact (\$0.1 m) on matching contribution for most centers. Given relatively minor magnitude of changes, not necessary to alter contributions provided as matching amounts. Exceptions refunds by CIMMYT, ILRI and additional funds for ICARDA.

### Spending trends

- Personnel spending lower in percentage terms (continuation of recent trend).
- Investment allocations by region and undertakings consistent with previous trends. At 40% investment in SSA remains at the 1997 level. Investment in WANA reduced from 12% to 10% while investments in Asia and LAC both increased by 1% to 32% and 18% respectively.

### Overall observations

- Stability in funding overall from member perspective as well as for most centers.
- Delays in disbursements causing work difficulties and loss of income (estimated at \$5 m).1999

## 1999 Financing Plan

Finance Committee received an update of the 1999 financing plan.

### Overall

- 1999 funding forecast by centers at about \$355 m, higher than the approved financing plan of \$340 m. In relation to the financing plan, downward revision of funding by ILRI (8%); upward by IFPRI (11%), IITA (14%), ISNAR (15%) and IIMI (20%). Nonetheless, current projections in line with 1998 actual. For remaining ten centers variations within 5% of plan.
- The financing plan, however, should be maintained at the ICW98 approved level of \$340 m on account of funding risks arising from weak European currencies and lower than expected collection of restricted funding.
- Late disbursements continue to cause cash flow difficulties.

### Use of Bank funds

At ICW98, out of a total of \$45 m;

- \$33.5 m allocated to centers on a matching basis (11% of non-Bank funding); outcomes projected by the centers do not appear to require any significant adjustments of matching funds. Adjustments of about \$400,000 each on account excess matching contributions in 1998 required for CIMMYT and ILRI.
- Special allocation of \$0.4 m to ICRAF for ASB co-ordination unit.
- \$0.5 m allocated to IFPRI/IIWI to support a Global Water Forum project in November
- \$1 m allocated to partnership activities:
- \$5.1 m allocated to the CGIAR reserve.
- \$4.5 m set aside for allocation at MTM99 in support of strategic agenda initiatives

### Proposed Decisions

- Confirmation of the 1999 CGIAR financing plan at the approved level of \$340 m.
- World Bank
  - Approval of disbursement of second tranche of Bank funds at levels indicated at ICW98. Second tranche will reflect adjustments on account over/under estimates in 1998 (CIMMYT, ILRI, ICARDA).
  - Allocation of partnership funds of \$1 m.
    - \$0.4 m NGOC/PSC, \$0.1 m for GRPC, \$0.38 m Global Forum, \$0.1 TAC Chair Search.
  - Of the remaining \$9.6 m
    - Additional matching amounts of 0.5% (1.6 m)
    - Special requests: ICLARM (\$2.5 m); WARDA (\$0.95 m).
    - Systemwide programs
      - Rice/wheat co-ordination unit (\$0.25 m)
      - Livestock (\$1.2 m), Water (\$1.0 m), Genetic resources (\$0.6 m).
    - Strategic agenda ( \$1.5 m)

## 2000 CGIAR research agenda and funding requirements

### 1. Process observations

- Finance Committee (FC) met with TAC Chair on Sunday.
- Centers prepared plans for 2000-2002 in context of MTPs reviewed last year and 1999 likely outcomes.
  - ↳ TAC reviewed the proposal in March 1999 and confirmed that with the exceptions noted in the TAC MTM papers on the topic, the plans are broadly in line with those approved last year.
  - ↳ TAC recommends extension of the 1998-2000 MTP to 2002, subject to an in-depth review of allocations for 2001-2003 in March 2000.
- As expected, TAC review has increasingly become “light” in March, noting directional changes over a three year time frame.
- All centers have fully incorporated the project approach in their planning. This will facilitate the planned transition to the log-frame approach next year.

### 2. Process steps following the meeting

- Following CGIAR endorsement at this meeting, centers will prepare financing plans by mid-Sept.
  - ↳ TAC will review program implications and highlight issues in Sept.
  - ↳ FC will review financing plans prior to CGIAR consideration at ICW99.

### 3. Financial dimensions

- 1998-2000 MTP, approved at MTM97, called for \$385 m funding in 2000 to support an investment program of \$400 m. Overall, center proposals are broadly in line i.e., propose funding of \$372 m to support an investment program of \$386 m.
- In context of current 1999 estimate of \$340 m, proposals represent an increase of \$32 m or 9%. This is ambitious. (Centers’ own estimate for 1999 is \$355 m).
- Center financial projections for 2000 will be available by Sept. 99. Based on information at hand, it seems unlikely that 2000 funding growth will be greater than 2-3%. I.e., an outcome for 2000 of about \$345-\$350 m.

### 4. Proposed Decisions

- 2000 financing planning target of \$340m in context of likely 1999 outcome at about the same level.
- Guidance to centers regarding World Bank funding policy – continuation of matching ratio of 11% of funding other than the Bank. (To be revisited at ICW99). Reserving about \$12 m for special assistance, partnership activities and CGIAR reserve.
- Commission preparation of financing plans.

## Financial Issues

**Accounting Manual:** The CGIAR periodically reviews its accounting policies to ensure their compliance with the ongoing revisions of generally accepted principles, both International and US. In mid 1998, the Secretariat engaged Price Waterhouse, Philippines to examine the CGIAR accounting manual and propose relevant revisions. Ms. Rose Javier, Partner, Price Waterhouse has led the project with oversight provided by a small working group of center staff (ICLARM, IIRRI) and the Secretariat.

A final draft of the proposed accounting policy manual has been sent to all centers for a final examination until June 30, 1999 with the proviso that short of any major issues the manual will be effective July 1, 1999. An eighteen month transition period is planned so that centers who are ready to implement the new policies can do so in 1999, however, all must implement by the end of the financial year 2000.

From a general perspective, readers will find the following changes in the format of the financial statements and financial policies underpinning them.

- CGIAR policies will be in full compliance with US non-profit accounting standards.
- Different categories of reserves used in the past (e.g. Operating and Capital) will be combined into a single category termed as “net assets”.
- The Fixed asset lines in financial statements will exclude Building and structures and past investments in buildings will not be subject to depreciation accounting.

**Indirect Costs:** The Secretariat in collaboration with the centers and through the working group mechanism has initiated a study by Ernst & Young, India to review CGIAR center practices for indirect cost accounting and computation. The working group, (ICRISAT, IIMI and the Secretariat) met earlier this week with Ernst and Young to review their preliminary observations. A draft report prepared by E&Y will be circulated to centers for their comments by end August. A final report is expected by ICW99.

**Currency Management:** The Secretariat has engaged the services of a well known financial expert, Prof. Philippe Jorion, Professor of Finance at University of California, Irvine to ascertain opportunities for reducing the impact of currency fluctuations on center income. Prof. Jorion is developing a model for CGIAR foreign currency flows, which will help determine, by simulating past trends, whether CGIAR should adopt an active hedging policy. Preliminary results from system level simulations suggest only marginal benefits from hedging. The model will be extended to several centers over the course of next few months to determine the validity of the system level results. A final report is likely by ICW99.