



Fund

First Funders Forum

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Financing CGIAR's System Costs and Special Items

(The FF agreed on a formula to equitably share the non-research cost burden: Total approved Fund related & System budgets/Total projected Fund & bilateral contributions.)

*Document presented for Agenda Item 5:
2011 Budget and Expected Funding*

*Submitted by:
Fund Office*



Financing CGIAR's System Costs and Special Items

(Gene Banks, High Risk Research and Critical Infrastructure)

30 June 2010

CGIAR Fund Office
Washington, D.C.

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Summary, Conclusions and Recommendations

Financing System Costs

Operating the new CGIAR requires incurring a number of non-research costs for coordinating activities at the system level. There are two kinds. The first includes all costs incurred for the governance and business processes of the Fund—namely, the cost of the Fund Council and its support unit, the Fund Office, and the cost of operating the Trust Fund. These costs will be covered by all donors contributing to the Fund (Fund Donors), based on budgets for the Trustee and the Fund Office approved annually by the Fund Council.

The second type includes all non-research costs incurred for coordinating governance and business processes at the overall system level that are carried out for the benefit of the system as a whole, and therefore will be borne by the entire donor community contributing to the CGIAR. These include the costs associated with:

- Independent Science and Partnership Council (ISPC) [Council and Secretariat]
- Independent Evaluation Arrangement
- Funders' Forum
- CGIAR's share of the cost of the GCARD
- Dispute Resolution Mechanism for the CGIAR
- The Consortium Board and the Consortium Office.

With respect to the system-wide functions listed above, the bilateral and Fund donors will agree to the formula for sharing their costs at the Funders Forum. These CGIAR-wide cost centers will have their annual budgets approved by the Fund Council prior to the start of each calendar year.

All contributions to the CGIAR Fund are expected to share equally in the costs of operating the Fund and its share (along with the portion from bilateral funds) of system-wide functions. In order to achieve full and equitable cost recovery and burden sharing among all Donors, the Trustee will apply two cost sharing formulas, one at the CGIAR Fund level and the other at the CGIAR-wide “system” level. The Consortium is expected to apply the CGIAR-wide system level cost sharing formula to amounts received by Centers as bilateral funds. The two cost sharing formulas will be based on the previous year's actual costs incurred by these cost centers and the actual contributions by the Fund Donors and Bilateral Donors. The formula will be adjusted by the Trustee annually to reflect the actual contributions and costs.

The Consortium has indicated its preference for a single cost sharing formula applied to all contributions for the sake of simplicity.

Conclusion: *A comparison of the pre and post-reform costs of coordinating the CGIAR shows that these costs will begin to decline as early as 2011 (by 4 percent).¹ The first review of the new CGIAR should add these savings to any efficiency gains in direct research costs generated by the reform.*

Policy Issues Regarding Special Financing Items

The transition to the new CGIAR has raised some policy issues on the financing of *gene banks*, *high-risk research*, and *essential infrastructure*. The issues arise because of the shift in the CGIAR's financing modality from institutional funding to program funding.

Gene banks. Gene banks are an important component of the assets needed to implement the CGIAR's research at the Centers working on crops. Financing options for the gene banks depend on how these assets are viewed. If they are viewed collectively as a CGIAR "system" asset, they could be financed together as a single asset group. In this case, the Consortium could make a gene bank financing proposal to the FC, and the approved funding can be allocated among the Centers maintaining gene banks on behalf of the System. In this case each Center with a gene bank would be viewed, in essence, as the custodian of a CGIAR asset.

Several questions would need to be addressed in treating gene banks as a system asset, including whether the CGIAR could attract funding for gene banks from the Global Crop Diversity Trust (GCDT) and similarly dedicated funds, in addition to (or in place of) funding through a designation of Window 1 funds?

Recommendation: *Gene Banks should be considered a "system asset" and the Consortium and the Fund Council should explore means of financing them. The Consortium will present recommendations before the end of the year.*

Exploratory (High Risk and High Return) Research. This type of research forms a source of scientific breakthrough and innovation for the CGIAR Centers. There is a need for understanding the nature and purpose of any such research before its funding arrangement can be usefully discussed. Exploratory research and its budget could be built into an MP proposal and assessed along with other MP activities when it contributes directly to the MPs' overall objectives. Alternatively, exploratory research could be initiated opportunistically by a Center outside the MP agenda. To allow for this, Centers could make an allowance for blue sky research as part of the Center's entire research portfolio. Past experience in the CGIAR and other research organizations argues strongly for decision making for funding blue-sky research located at a level as close to the scientists as possible, so as to ensure fast response to emerging issues and research opportunities while avoiding bureaucracy.

¹ Comparing 2011 with 2009 costs (see table 2).

***Recommendation:** The Consortium and Fund Council should explore alternative means of financing exploratory research.*

Essential Capital Infrastructure. The shift from institutional funding to program funding has elevated the importance of exploring options for financing capital infrastructure. Financing options would depend on the type of assets². As an example, scientific infrastructure could be purchased, leased, or the service they provide could be outsourced and the costs built into the budgets of the programs that utilize them. Key considerations in financing decisions include cash flow and salvage values at the end of the asset's useful life. For roads and buildings financing their upkeep and maintenance can be treated as part of indirect costs of running the Center.

***Recommendation:** Scientific equipment essential for implementing and MP could be included in the MP budget, along with a description of its disposal arrangements following the conclusion of the MP. Other capital infrastructure should be treated as part of indirect costs of running a Center.*

² Typically, Centers have two types of capital assets: scientific infrastructure such as scientific equipment, and physical infrastructure such as buildings and roads.

Introduction

At the final CGIAR Business Meeting in December 2009, the Secretariat provided a report for information on a synthesis of the “system” costs of the new CGIAR. Based on previous work undertaken by consultants³ the report estimated the efficiency gains related to the direct costs of the new CGIAR, the net cost impact of the “overheads” or indirect costs of the CGIAR, and the spillover costs/benefits of donors’ involvement in the CGIAR. It concluded that if the new CGIAR works as designed there would be: (a) efficiency gains related to direct research costs, (b) net savings associated with system overheads costs, and (c) “spillover” benefits of conducting business in a different way.

With the system now in transition towards full implementation of the reforms, the purposes of this paper are (1) to describe the CGIAR’s system-level indirect (non-research) costs and ways of financing them (Part A), and (2) to explore policy issues associated with three special cost items—gene banks, exploratory research, and essential capital infrastructure—which have gained importance as funding in the CGIAR shifts from institutions to programs (Part B). This paper does not attempt to further discuss efficiency gains from the new CGIAR which were covered in the Business Meeting paper, as its focus is only on cost dimension—not the benefits to the system.

Part A: Indirect Costs

I. Identifying Indirect Costs

The new CGIAR structure involves a number of non-research costs that are required to make the system work to achieve the desired objectives. Moreover, depending on the perspective and level from which these costs are viewed, they can either be direct or indirect in relation to research. In this paper, a CGIAR-wide “system”⁴ perspective is used to determine direct or indirect costs.

In the two pillars of the new CGIAR (the Fund and the Consortium) there are non-research costs that are specific to that pillar. Since no research takes place in the Fund pillar, all costs incurred are for the *governance* and *business processes* related to that pillar. Fund governance costs include the cost of the *Fund Council* and its support unit, the *Fund Office*. Business process costs include the cost of operating the *CGIAR Trust Fund*.

³ Boston Consulting Group (BCG): “*Design and Establishment of the Consortium of CGIAR Centers*”, October 2009; and Accenture: “*Consultancy on Common Administrative, Financial and Research Support Services in the New Consortium of the CGIAR Centers*”, November 2009

⁴ “System” here incorporates the two pillars of the CGIAR, namely, the “Fund” and the “Consortium.”

Box 1. Types of Costs Incurred by the Consortium

In the *Consortium pillar* there are three distinct types of costs, each with its own appropriate financing arrangement based on the nature and purpose of the activity:

- (i) *Direct research costs*: These make up the bulk of costs in the Consortium pillar since this is where research takes place. Direct costs are costs that can be directly assigned to the CGIAR's core business – research. They can be directly identified by their association with the production and delivery of the research outputs embedded in the SRF and Mega Programs. Included in these are the cost of research governance and management, hence the Consortium's costs for managing and governing the MPs are considered an integral part of direct research.⁵ These costs will be developed by the Consortium and included in the MP proposals, and be financed as such.
- (ii) *Shared services*: These are corporate services such as IT, HR transactions, internal audit, etc. used by Centers that can be procured at scale through the Consortium and offered to Centers on a demand (fee) basis. Also included here are services formerly coordinated by the Secretariat, such as the leadership and management training courses. By definition the Consortium as provider and the Centers as users would need to agree on the set up and fee structure of these shared common services.
- (iii) *Corporate functions*: These include the activities carried out by the Consortium Board and Consortium Office to coordinate system-level activities, including corporate functions that used to be carried out by the CGIAR Chair or the Secretariat on behalf of the system in the past, e.g., the CGIAR performance measurement system, external program and management reviews of the Centers and Challenge Programs, and preparation of program financing plans, financial reports, development and promotion of best practice guidelines covering Center operations (finance, governance, HR, etc) (Annex 1 provides a list of those corporate services formerly coordinated by the Secretariat). They also include representation of the CGIAR at important forums and events and system-level communications including the management of the CGIAR web site. The cost of these activities would need to be financed by the system (Fund and bilateral donors). As these system-level activities are carried out on behalf of both pillars and paid directly by the donors, they need Fund Council approval. Only this last category of Consortium costs (i.e., corporate functions) is covered by this paper.

The budgets of each of these categories of costs would be approved by the Consortium Board as part of its governance responsibilities on the doer side. The budget for the corporate functions would also be approved by the Fund Council.

⁵ The Consortium is studying options for bringing these into research costing.

System Costs

Beyond costs specific to each pillar, there will also be in the new CGIAR some costs that will be incurred for the benefit of the system as a whole. These “system costs” include:

- Independent Science and Partnership Council (ISPC) [Council and Secretariat]
- Independent Evaluation Arrangement
- Funders’ Forum
- CGIAR’s Share of the cost of the GCARD
- Dispute Resolution Mechanism for the CGIAR
- Corporate functions carried out by the Consortium (Consortium Board and Consortium Office) for the benefit of the system as whole.

II. Cost Estimates

The estimates of the various items in this paper are based on historical costs and discussions with various parties involved with these functions. They are intended to provide only broad orders of magnitude—not exact figures. More robust budget figures backed by work programs will need to be submitted to the FC for approval (see approval process below) by the relevant units.

Costs to Support the Fund

A. **Fund Office:** According to the Fund Framework document approved at the 2009 Business Meeting, and confirmed by the Fund Council at its Inaugural Meeting in February 2010, and a recent survey of Council members, the CGIAR Fund Office (FO) is the support unit of the Funders’ Forum, the Fund Council and their respective chairs. The FO has responsibilities in four key areas: (a) Support to the Fund Council; (b) Support to the Funders Forum; (c) Liaison with the Trustee, Consortium and ISPC, and (d) Meeting support and communication. Details of the FO’s roles and responsibilities are attached in **Annex 2**

For the purpose of this paper, the FO costs include the cost of the FC meetings and related business. On the basis of this, the FO has developed a business plan which reflects its transformation from the CGIAR Secretariat to the FO, with changes in its objectives and functions. As some of the changes in the new CGIAR are gradual, the FO will continue in 2010 to carry out many of the former “Secretariat” responsibilities while taking on new ones resulting from the evolution of its mandate. Based on this, the estimated budget of the FO for 2010 is \$3.9 million. For 2011 when the Consortium Office (CO) is established most of the “Secretariat” services will be transferred to the CO, allowing the FO to focus on its core functions outlined above. **Annex 1** provides a list of these functions. The projected budget for 2011 is \$3.2 million. The long-term cost of the Fund Office will depend on the

and responsibilities are shown in **Annex 4**. It will be comprised of a Chair (of close to half time basis), and four members (each committing about 25-30 days annually) attending two meetings per year, and additional meetings conducted in virtual mode, as needed. Based on this, and extrapolating from the former Science Council, it is estimated that the ISPC annual budget would be of the order of \$2.5 million. This compares with the current interim ISPC (and former SC) budget of \$3.5 million.

- B. Independent Evaluation Arrangement:** As a part of the CGIAR reforms a new Monitoring and Evaluation Arrangement will support the execution of the SRF and help assess the translation of the CGIAR vision into tangible results. As part of the new accountability and M&E framework, the Consortium will be responsible for high quality monitoring and evaluation of Centers and MP components, and the FC for appraising the performance of the Consortium. In addition, an independent evaluation arrangement will be established to coordinate evaluations on behalf of the Fund Council. At its inaugural meeting in February, the FC agreed to appoint a part-time (25%) evaluator for 18 months to help develop the future independent evaluation arrangement. The evaluator's Terms of Reference indicates that the IEA should include elements of independence, institution learning, cost-effectiveness and non-duplication of functions. It is clear, therefore, that long term costs of the IEA will not be known until a permanent arrangement emerges at the end of the 18-month period (around mid 2012). Based on the current arrangement, it is estimated that the IEA function will cost approximately \$0.25 - 0.3 million over that period. Once the IEA begins to commission evaluations of MPs (after a few years of implementation) the annualized cost of IEA will be appropriately adjusted.
- C. Funders Forum:** Funders Forum (FF) is a biennial event providing a platform through which participants will discuss and exchange views about the CGIAR; endorse the SRF proposed by the Consortium every six years; review and endorse the proposal on cost structure and financing plan for the system-wide functions; provide feedback to the Consortium and FC on the implementation of the SRF based on progress reports received from them and on the mid-term reviews of the SRF; and review shortfalls and imbalances in resources available for Mega Programs, so that individual donors could consider adjusting their allocations. The inaugural FF will be taking place in July 2010 and the actual costs will be known following that, but based on the expected format and number of participants, and the cost structure of similar meetings in the CGIAR, it is estimated that the FF will cost approximately \$0.1-0.2 million on an annualized basis.
- D. CGIAR's Share of GCARD Costs:** The Global Conference on Agricultural Research for Development (GCARD) is a process that culminates in the biennial conference of the same name organized by GFAR, in collaboration with the Consortium and ISPC, to create a development-outcome-based framework for global agricultural research and development architecture, and provide inputs to the SRF and the portfolio of Mega programs. The first

GCARD process started in 2009 and culminated in the conference of March 2010 in Montpellier, France. As an inaugural event it involved a high degree of learning and cost approximately \$4.0 million. This was funded by donors primarily through the Change Initiative Facility (CIF), a fund that was established to support the CGIAR change design and transition management. The GCARD process entailed various consultations held at the regional level in preparation for the final event which included discussion of the emerging strategy and results framework (SRF). GFAR expects that this format will remain in the future, except for the review of the SRF which will take place every six years. As the GCARD has replaced the triennial GFAR General Assembly Meeting and the stakeholder consultations held during the CGIAR Annual Meetings, a cost sharing agreement between GFAR and CGIAR on future GCARDS will need to be reached based on the portion of the GCARD process devoted to the CGIAR business as expressed at the ExCo 17 Meeting: *“GCARD is an important and essential interface to the CGIAR and should be funded by donors based on the best estimate cost of its contribution to the CGIAR, including the cost of the GCARD process”*. FC, Consortium and GFAR will discuss future organizational and funding arrangements. For the purposes of this paper an annualized CGIAR cost of \$0.5m is assumed, which is subject to further adjustment (upward or downward) based on these discussions.

- E. Dispute Resolution for the CGIAR:** The parameters of a dispute resolution mechanism have not yet been determined but the draft Joint Agreement between the FC and the Consortium calls for the Consortium Board and Fund Council, “in consultation with other stakeholders, [to] agree on a common dispute resolution mechanism for the CGIAR”. The draft Joint Agreement includes, as a temporary item, a dispute resolution clause which proposes that the Consortium and the Fund Council make every effort to settle any dispute, controversy or claim amicably. No standing arbitration panel is envisaged and no cost estimate has been assumed for 2011.
- F. Corporate Functions of the Consortium:** As described in **Box 1** these include the system-level activities of the Consortium Board and the Consortium Office, including corporate functions that used to be carried out by the former CGIAR Secretariat. As is the case for all other system cost items, the budget for such activities would be approved by the Fund Council. The Consortium has provisionally estimated that the cost of the Consortium Board and the Consortium Office would be in the order of \$4.5m in a “normal” year when the Consortium is fully operational. This figure has been included in Table 2 as a “placeholder,” based on the assumption that it does not include any costs directly associated with research management (which would be imputed into the specific MPs) or provision of back office shared services to Centers. The \$4.5m figure is subject to adjustment based on detailed costing by the Consortium and discussions between the Consortium and the FC.

A rough comparison of the “system” costs before and after the reform is shown in Table 2.

Table 2: System Costs Prior to and After the CGIAR Reform

(\$ million)

	Prior to Reform				Transition	After
	2006	2007	2008	2009	2010	2011 (Proj)
A. Fund related costs						
Secretariat / Fund Office	4.2	4.4	4.6	4.7	3.9	3.2
Trustee	0.1	0.1	0.1	0.1	0.1 ¹	0.7 ²
<i>sub-total</i>	4.3	4.5	4.7	4.8	4.0	3.9
B. System costs						
Science Council / ISPC	3.8	3.8	3.5	3.5	3.5	2.5
Independent Evaluation Arrangement	0.3	0.3	0.3	0.3	0.3 ³	0.3
Business Meeting / Funders Forum	0.1	0.2	0.2	0.1	0.1	0.2
Annual Stakeholder consultation / GCARD	0.6	1.4	1.7	1.9	2.0	0.5 ⁴
System Office units	3.0	3.2	2.3	2.2	1.7	0.4
Corporate functions carried out by the Consortium	-	-	-	-	2.5	4.5 ⁵
<i>sub-total</i>	7.8	8.9	8.0	8.0	10.1	8.4
Total	12.1	13.4	12.7	12.8	14.1	12.3
¹ Negotiated fee arrangement for the existing MDTF. ² Full Cost Recovery basis for the new Trust Fund. ³ 2006-2010 figures reflect the annualized cost of CGIAR system reviews. ⁴ Provisional - subject to discussion with GFAR ⁵ Provisional - details to be provided by the Consortium						

III. Budget Approval

The budgets for Fund support costs (Trustee and Fund Office) will be approved annually by the Fund Council. With respect to system activities, the bilateral and Fund donors will agree to them, as well as the formula for sharing the costs at the Funders Forum, but their actual budgets will be approved annually by the FC.

IV. Financing

After identifying and costing these non-research costs, the most practicable ways to fund them on a sustainable basis will require agreement. Guidance on financing many of these costs has been provided in the reform documents. For example, one of the General Guidelines of Fund Framework document states:

*“All inflows to the Fund will cover costs associated with Trustee, Fund Council and Fund Office operations. All inflows to the Fund and any other funds flowing to the Centers to support the SRF (**bilateral funding**) will cover costs associated with system-wide functions (including the Consortium budget, shared Consortium services, ISPC and evaluations).”*

Four key principles will guide the implementation of this guideline:

- (i) Equity in burden sharing, i.e., all contributions to support the SRF, whether through the Fund or bilaterally, will contribute to system costs equally,
- (ii) Only the donors contributing to the CGIAR Fund will share the cost of maintaining the Fund,
- (iii) Keeping to a minimum the number of front end transactions, and,
- (iv) Maintaining the transactional relationships at the level of the Trustee and the Consortium.

The Two Cost Sharing Formulas (CSF)

CGIAR-wide functions will be paid for on the basis of a cost structure and financing arrangement developed by the Consortium and the Fund Council, with support of the Fund Office, for endorsement by the Funders Forum.

It is proposed that, in order to achieve full and equitable cost recovery and burden sharing among Fund Donors, the Trustee will disburse such support costs from Window 1 and apply two cost sharing formulas, one at the CGIAR Fund level and one at the CGIAR-wide “system” level. The Consortium is expected to apply the CGIAR-wide level CSF to amounts received by Centers as Bilateral Funds.

Annex 5 describes the process the Trustee plans to apply the two cost sharing formulas, along with examples, with the above principles in mind.

The Consortium has indicated its preference for a single cost sharing formula applied to all contributions for the sake of simplicity.

Part B: Policy Issues Regarding Special Financing Items

“In supporting a move to program funding, the Fund Council will ensure the continued existence of appropriate funding mechanisms for mission critical items such as gene banks, and essential capital improvements” General Guidelines of the Framework for the CGIAR Fund, No. 6.⁷

The transition to the new CGIAR has raised some policy issues on the financing of *gene banks*, *high-risk research*, and *essential infrastructure*. The issues arise because of the shift in the CGIAR’s financing modality from institutional funding to program funding.

Gene banks

Gene banks are an important component of the assets needed to implement the CGIAR’s research at the Centers working on crops. Options for financing them depend on how these assets are viewed. If they are viewed as an integral part of relevant MPs, their costs could be included as part the relevant MP proposal. Alternatively, if they are viewed as assets of individual Centers, their upkeep would be seen as the responsibility of each Center. A third and generally accepted view is that gene banks are a CGIAR “system” asset, implying that they could be financed together as a single asset group. In this case, the Consortium could make a gene bank financing proposal to the FC, and the approved funding could be allocated among the Centers maintaining the gene banks. In this case each Center with a gene bank would be viewed as the custodian of a CGIAR asset. This view has precedence. In 2003 and more recently, rehabilitation of the gene banks and their related databases were financed as a group of assets based on a collective proposal from the Alliance. Given the current funding architecture, a gene bank proposal could be funded through a designation of window 1 funds for this purpose. Although this funding would be at the same Fund hierarchy as an MP, it could not be funded directly from Window 2 because it is not considered an MP.

Several questions would need to be addressed under this scenario of treating gene banks as a system asset: Could this option bring an opportunity to attract funding from the Global Crop Diversity Trust (GCDT) and similarly dedicated funds? How would the Fund factor this new source into its funding calculus (i.e., would GCDT become a Fund Donor)? How would "asset maintenance" be separated from "asset improvement" and "asset use"? Would activities associated with international networking related to that asset be considered "asset maintenance"? Should bilateral donors also share in the financing since these are a system asset? Should bilateral donors also share in the financing since these are a system asset?

Exploratory (High Risk and High Return) Research

This type of research (also commonly referred to as “blue sky” research) forms a source of scientific breakthrough and innovation for the CGIAR Centers. There is a need for understanding

⁷ Voices for Change, p. 27

the nature and purpose of any such research before its funding arrangement can be usefully discussed. Exploratory research and its budget could be built into an MP proposal and assessed along with other MP activities when it contributes to the MPs' overall objectives. Alternatively, exploratory research could be initiated opportunistically by a Center outside the MP agenda. To allow for this, Centers could make an allowance for blue sky research as part of the Center's entire research portfolio.

Like in the case of gene banks, a number of definitional and policy issues will need to be addressed before questions of costing and financing can be explored. From a pragmatic viewpoint, if an MP proposal from the Consortium includes an item for blue sky research, that component can be reviewed as any other component of the research proposal and an assessment can be made. Alternatively, exploratory research could be funded on a competitive basis. For example, a series of competitions could be held among Center scientists specifically for high risk, high reward research to be financed through a fixed sum established for this purpose and managed by the Consortium, with advice from ISPC. Several questions will need to be addressed in exploring these options: What would be the boundaries of such research in relation to the MPs and the SRF? How could non-CGIAR partners' participation in such research initiated by the CGIAR, or initiated by external partners for the CGIAR SRF and the MPs be funded? What would be the priority for blue sky research as compared with other research (what would be its impact on the funding available for the MPs and SRF?) How should the performance for this type of funding be structured in terms of deliverables and evaluation? Should the FC set aside a certain amount of Window 1 funds for blue sky research – a kind of “risk fund”, and decide on what type of blue-sky research it should fund? Or should the FC provide the Consortium with a funding envelope for such research and let the Consortium make the allocation decisions? What decision could ISPC play in this? Finally, should Centers fund their own blue sky research from reserves and institutional support funds if they feel strongly about a particular line or opportunity?

Past experience in the CGIAR and other research organizations argues strongly for decision making for funding blue-sky research located at a level as close to the scientists as possible, so as to ensure fast response to emerging issues and research opportunities while avoiding bureaucracy.

Essential Capital Infrastructure:

Is capital infrastructure a Center or system asset?

Traditionally in the CGIAR, capital assets were financed from reserves appropriated for replacing such assets (this was achieved by requiring Centers to set annually aside reserves in an amount at least equal to the depreciation expense for the year). Occasionally, centers may receive, on an opportunistic basis, philanthropic endowments for buildings or equipment. Other than those, there was no CGIAR fund dedicated to critical capital infrastructure. Most of the CGIAR Centers engaged in bio-physical research have been struggling with insufficient capital

funds and outdated or deteriorating infrastructure. Should this practice continue now that the CGIAR's funding architecture is based on programs and not institutions? Are there some assets that could be considered "system" rather than Center assets? If there are, would there be any reason to not finance them in the same way as the gene banks? Who should finance existing physical assets deemed to be excess capacity (i.e., if they are not contributing to the ongoing research efforts). Who makes the determination of excess capacity?

There is also the need to distinguish between two types of capital infrastructure: scientific infrastructure (such as major scientific equipment) and physical infrastructure (such as buildings and roads). Financing options would differ for these two types of assets. For example, scientific infrastructure need not be "owned"—it could be rented or the service they provide could be outsourced and the costs built into the budgets of the programs that utilize them. This option also exists for some physical infrastructure, but not for roads and buildings in most Centers with a dedicated campus, which require financing for their upkeep and maintenance. These can be treated as part of indirect costs for running the Center.

The shift from institutional funding to program funding has elevated the importance of financing capital infrastructure as an issue. Unrestricted funding allowed the Centers to take the necessary measures to build the reserves needed for upkeep of their capital infrastructure. If in the future the Centers' only source of revenue is through program funds, as institutions, they would need to include costs associated with capital infrastructure as indirect costs (unless a specific capital asset can be appropriately classified as part of direct research costs.) This would not only increase the size of the Center's overhead costs, it would also elevate the risks associated with financing capital assets. This issue will become particularly important when (unrestricted) institutional funding becomes very limited, and the system will need to address the increased risks assumed by the Centers.

Conclusions on Policy Issues Regarding Special Financing Items

The above paragraphs do no more than introduce the policy issues involved with handling special cost items. The three cases discussed do not necessarily cover the universe of potential "special" items that may need to be addressed by the Fund Council and the Consortium, but they provide examples of the questions that have been raised by the donors and the Consortium, which the system will need to address going forward.

Principal among these are definitions and clarification of the CGIAR policy environment that surrounds the special cases. This is where further work will need to be done before the financing options can be described in greater detail than what is included here.

Annex 1: CGIAR Secretariat Services to be Phased-out or Transferred ⁸

CGIAR Secretariat Services – to be transferred or phased out		System Unit responsible for service in new CGIAR
1	Preparation of financing plan, financial report and financial guidelines covering the Centers and the Consortium	Consortium Office
2	Coordination of Performance Measurement System	Consortium Office
3	Coordination of the Senior Managers Course and the Senior Leadership Program	Consortium Office
4	Support to the external program and management reviews of the Centers and Challenge Programs	Consortium
5	Task manage the CGIAR-CSO Competitive Grants Program	Phased out
6	Coordinate the CGIAR nominee process for the Center Boards	Phased out
7	Secretariat Support to the Alliance Board	Phased out
8	Provide funding, leadership and oversight for System Office functions in conjunction with their host center and the Alliance Chair	Consortium Board/CEO
9	Coordinate and support the CGIAR system level committees, e.g. the Private Sector Committee, Genetic Resources Policy Committee	Consortium or phase out
10	CGIAR Awards Program	Consortium Office
11	Part of CGIAR system-level communications, e.g. the CGIAR website, and exhibitions of the System (details to be worked out)	Consortium Office
12	Organize the Annual General Meetings, the ExCo meetings and the Crawford Lectures	AGM and ExCo phased out; Crawford Lectures may be coordinated by the Consortium Office
13	Representation of the CGIAR at important fora and events (details to be worked out)	Consortium Board and CEO

⁸ Fund Office Draft Business Plan

Annex 2. Main Functions of the Fund Office⁹

a. Support to Fund Council. The Fund Office assists the Fund Council and its Chair in the conduct of the Council's business. These include:

- Managing relations with Fund Donors;
- Drafting background notes and papers as requested by the Fund Council;
- Setting up and maintaining data bases;
- Drafting procedures and guidelines as requested and for approval by the Fund Council;
- Facilitating the Council's review of Mega-Program proposals;
- Analyzing the Consortium's compliance with performance agreements, based on information submitted by the Consortium;
- Supporting the Fund Council in resource mobilization, in close collaboration with the Consortium;
- Coordinating the Council's nomination and election processes (such as for ISPC Chair and members);
- Supporting the Council's evaluation responsibilities (in cooperation with the Independent Evaluation Unit).

b. Support to Funders Forum.

The Fund Office assists the Chair of the Funders Forum in organizing the Forum. It coordinates preparation of background documents for the Forum, its nomination and election processes, and carries out follow-up actions as necessary.

c. Liaison with the Trustee, Consortium, ISPC and IEU.

The Fund Office assists the Fund Council in maintaining its business relations and dialogue with the Trustee (the World Bank), the Consortium, ISPC, and IEU on day-to-day operational matters.

d. Meeting Support and Communications. The Fund Office:

- Organizes and backstops the regular meetings of the Funders Forum and the Fund Council and *ad hoc* meetings on request by the Chair of the Funder Forum and/or Fund Council;
- Coordinates and manages communications on behalf of the Fund and its Chair; and
- Maintains the Fund's archives and manages its information activities.

⁹ Fund Office Draft Business Plan

Annex 3. Trustee Role¹⁰

The World Bank will serve as the trustee of the CGIAR Fund, under its trust fund policies. The Fund Donors would enter into Trust Fund Administration Agreements with the World Bank with common provisions for all donors.

The World Bank, as trustee, will provide the following limited trustee functions:

- a. it will hold in trust the funds transferred by Fund Donors under Trust Fund Administration Agreements;
- b. it will serve as an agent of the Fund Council in disbursing Fund resources based on specific instructions from the Fund Council and through Fund Transfer Agreements between the World Bank and the Consortium;
- c. it would provide regular reports on its Trustee activities to the Fund Council, Fund Donors, and the Consortium; and
- d. it would not be responsible for supervising use of funds nor any other form of supervision.

¹⁰ Voices for Change (p. 33)

Annex 4. Independent Science and Partnership Council Roles and Responsibilities¹¹

The Independent Science and Partnership Council (ISPC) will be a standing panel of world-class scientific experts. The Council's overarching purpose is to provide independent advice and expertise to the Funders of the CGIAR through services to the Fund Council and the Funders Forum. It will also serve as an intellectual bridge between the funders and the Consortium of CGIAR Centers. The ISPC plays a vital role for the CGIAR to strengthen science, to improve productivity and quality of science, to catalyze the partnering of CGIAR science with other institutions of international agricultural research and to support the important role of the CGIAR as honest broker in various global debates. In providing its advice, the ISPC will ensure alignment of programs with the Strategy and Results Framework. As part of a learning organization, the ISPC will capitalize on previous evaluations and seek to provide its learning to evaluations being done by the peer review process and eventual ex-post evaluation.

ISPC's specific tasks will be:

1. Commission and oversee evaluations of the scientific quality, relevance, partnership arrangements and likely development effectiveness of the investment proposals submitted by the Consortium to the Fund Council and make recommendations concerning their investment worthiness.
2. In undertaking the role described in 1 above, the ISPC will also provide feedback and guidance to the Consortium on any areas of concern regarding the quality of the proposed research and partnership arrangements contained in submitted investment proposals and on any deficiencies in the ex ante impact assessments provided by the consortium in support of them.
3. Provide the Fund Council and the Funders Forum with foresight advice on trends and emerging issues, as well as potential strategies of addressing them related to the CGIAR Strategy and Results Framework. In undertaking this role the ISPC will act as commissioner and coordinator of any required foresight studies, drawing on expertise within the Consortium and beyond, as appropriate, to undertake them.
4. To complement the GCARD process, in consultation and partnership with the Consortium and GFAR, convene periodic high-level scientific dialogues on high priority issues that will inform the scientific deliberations among CGIAR scientists and their research partners and help catalyze partnerships of the CGIAR with other global science communities.
5. Improve strategic investment decisions and help increase the rigor and the reach of impact assessment studies within the CGIAR by commissioning, in partnership with the Consortium, ex-post impact assessment of the development effectiveness of CGIAR investments. The evaluation of the Mega Programs and system review will be undertaken by an independent evaluation arrangement, which will in turn avail itself of the lessons learnt from the ISPC's work.

¹¹ Voices for Change (p. 38)

6. Provide the Fund Council with independent advice on other matters upon request.

Annex 5. Description of How the Trustee and Fund Office will Apply the Cost Sharing Formulas

This Annex describes the mechanics of the two cost sharing formulas (one to cover Fund costs, the other to cover system-wide activities) from a process point of view.

The CSF at the CGIAR Fund level (CSFF) will be applied as follows:

- i. The Trustee and the Fund Office have their annual budgets approved by the Fund Council prior to the start of the calendar year.
- ii. The Trustee commits these approved budget amounts from Window 1.
- iii. The Trustee transfers these approved budget amounts out of Window 1 into administrative accounts established for Fund Office and the Trustee, respectively, in the Bank's "institutional books" for all trust funds administered by the Bank.
- iv. Based on a projection of expected contributions for the upcoming calendar year, the Fund Office determines and announces the CSFF percentage (CSFFP).
- v. Each Window 2 and Window 3 contribution is assessed the current CSFFP, and the amounts are transferred by the Trustee into Window 1 (as these two windows' estimated share of the amount transferred from Window 1 earlier in the year into administrative accounts for Fund Office and the Trustee).
- vi. If the aggregate amount assessed during any fiscal year is less (or more) than the amount based on actual contributions (because of lower (higher) than projected contributions), then the following calendar year's CSFFP will be adjusted accordingly to compensate for the shortfall (excess).

CSFF Example:

Assumptions

- Approved Fund Office costs are \$3.5m, Trustee costs 0.5m. Trustee therefore transfers 4.0m out of Window 1 of the CGIAR Trust Fund to administrative accounts established for each.
- Expected contributions are 400m (of which 320m for Windows 2 and 3, and 80m for Window 1.)

Calculations

- CSFF percentage is 1% (4m over 400m).
- Windows 2 and 3 receive exactly the expected 320m of contributions and the trustee transfers 1% (3.2m) of the contributions to these two windows into Window 1. Result: all contributions were assessed equally and contributed equally to Fund management costs, including Window 1 with 0.8m.

The CSF at CGIAR-wide system level (CSFS) is applied as follows:

- i. All CGIAR-wide cost centers (ISPC, IEA, dispute resolution, Funders Forum, and the Consortium's CGIAR-wide activities) have their annual budgets approved by the Fund Council prior to the start of the calendar year.
- ii. The Trustee commits the approved budget amounts from Window 1.
- iii. The Trustee disburses these amounts to the relevant entity based on approvals from the Fund Council.
- iv. The Consortium provides the Fund Office with a projection of the Bilateral Funds expected to be contributed to the Centers during the upcoming calendar year.
- v. Based on this projection from the Consortium and the Fund Office's projection of expected contributions to the CGIAR Fund, the Fund Office determines and announces the CSFS percentage (CSFSP to be applied to CGIAR Fund contributions and Bilateral Funds during the year in question).
- vi. The Consortium makes arrangements with the Centers for transferring to the Consortium their respective contributions of CGIAR-wide system costs using the CSFSP.
- vii. The Consortium transfers the aggregate amount to the Trustee for partial reimbursement of CGIAR-wide system costs paid from Window 1 (or such amounts are netted against amounts due to the Consortium from the CGIAR Fund).
- viii. Each Window 2 and Window 3 contribution is assessed the current CSFSP, and the amounts are transferred by the Trustee into Window 1 (as these two windows' estimated share of the amounts paid for CGIAR-wide system costs).
- ix. If the aggregate amount assessed during any fiscal year is less (or more) than the amount based on actual contributions by Fund and Bilateral donors (because of lower (higher) than estimated contributions) then the following calendar year's CSFSP will be adjusted accordingly to compensate for the shortfall (excess).

CSFS Example

Assumptions:

- Approved system costs are \$5m, Trustee commits to each of the relevant entities (ISPC, IEA, etc.) 5m out of Window 1 for full cost recovery.
- Expected contributions (bilateral and Fund) are 500m (of which 480m are for Windows 2 and 3 and bilateral funding)

Calculations:

- Trustee applies a 1% CSFS (5m over 500m).
- If actual contributions to Windows 2 and 3 and bilateral funding are 480m, Trustee and Consortium transfer 4.8m of assessed sums into Window 1.