



From: The Secretariat

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### **Report of the Eighth Meeting of the CGIAR Finance Committee**

At ICW95, the Chair of the Finance Committee, Mr. Michel Petit, reported the outcome of the 8th Meeting of the Finance Committee, which covered the 1995 Financing Plan, 1996 Financing Plan, 1997 Guidelines, and Longer-Term Planning.

A written report of the Meeting is attached for information.

Distribution:

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IAEG Chair and Members  
NGO Committee Co-Chairs and Members  
Private Sector Committee Co-Chairs and Members  
Genetic Resources Policy Committee Chair and Members

## **Eighth Meeting of the CGIAR Finance Committee**

*The CGIAR Finance Committee held its eighth meeting in Washington, D. C. on October 28 and November 2, 1995 concurrent with International Centers' Week. Michel Petit (World Bank) chaired the meeting with participation from representatives of Australia (Robert Clements), Canada (Iain MacGillivray), Egypt (Magdy Madkour), Germany (Jürgen Friedrichsen), India (R. S. Paroda), IFAD (Shiv Nath Saigal and Shantanu Mathur), Japan (Kunio Nakamura), The Netherlands (Teresa Fogelberg) and the United Kingdom (Andrew Bennett, Ian Haines, and Robert Carlisle). The Chair of the Center Directors' Committee, C. Bonte-Friedheim, participated in the session on November 2 at the invitation of the Committee.*

### **1995 Financing Plan**

The Committee reviewed the progress of the 1995 financing plan put in place in February 1995. The Secretariat reported that the CGIAR approved agenda of \$271 million was expected to be fully funded in the aggregate. Individual Center funding appeared to be within +/-5% of the levels indicated in the financing plan. Financing for the systemwide initiatives, which are included in the Center funding, also appeared satisfactory. The Committee deliberated whether the reserve of \$2.5 million set aside earlier in the year should be distributed in recognition of the minor funding changes at the Center level. The Committee concluded that the reserve should be carried over to buffer unexpected financial shocks in 1996.

The Committee also reviewed the submissions by CIAT and CIMMYT regarding the impact of unforeseen economic changes (local revaluation and devaluation respectively) on their financing. CIAT had petitioned the Committee for an extraordinary allocation of \$1.5 million in 1995 and \$3 million in 1996 in recognition of adverse local exchange rates over the 1994/95 period. CIMMYT, on the other hand, had argued that the cost reductions from the precipitous devaluation of the Mexican peso in December 1994 had facilitated redress from adverse trends over a sustained period of several years. The Committee accepted CIMMYT's proposal not to change its 1995 financing.

CIAT's proposal for additional funding posed a different challenge both in terms of the size of the request (\$4.5 million over 1995/96) as well

as the two year basis – 1994/95 for CIAT's analysis instead of only 1995 as requested by the Committee. Furthermore, the Secretariat had received requests from IRRI and ISNAR for additional funding on similar grounds. The Committee concluded that a more comprehensive analysis of financial risks faced by all Centers was warranted prior to making additional allocations to any Center. Therefore, the Committee decided not to provide any additional funds to CIAT's in 1995. It requested the Secretariat to prepare an analysis drawing on previous studies conducted by the Secretariat.

### **1996 Financing Plan**

The new financing arrangements arising from the CGIAR renewal have modified the Group's financial decision-making cycle. The Group reviews and agrees on the research agenda for the following year at the Mid-Term Meeting and approves the resulting financing plan at International Centers' Week.

Following this new cycle, at its seventh meeting the Committee endorsed the figure of \$299 million required to support the 1996 agenda. At this meeting, the Committee reviewed and endorsed the document *1996 Research Agenda – Amendments (ICW/95/12)* reflecting changes to the agenda recommended by TAC at its July meeting. The Committee also noted that the systemwide livestock program was projected to require \$2.8 million instead of \$4 million. The net result of these amendments was budget neutral and the 1996 financial requirements remained at \$299 million.

Following MTM95, the Secretariat had solicited financial indications from the CGIAR membership. The Secretariat informed the Committee that the membership had responded positively with a result that two-thirds of projected financial support could be considered firm. The Secretariat projected total support for the 1996 agenda at a level of about \$300 million, sufficient to fully support the 1996 research agenda. The projection was based on three sources of information: indications by members, project funding information provided by Centers, and Secretariat estimates.

About \$244 million could be attributed to individual Centers or programs, a further \$45 million represented the Bank's contribution at the disposal of the Committee leaving \$11 million whose distribution to Centers would be notional at this time. The Secretariat presented to the Committee a draft financing plan for 1996 following earlier guidance given by the Committee, and provided the detailed responses from the membership, noting that several members had provided their allocation information in confidence.

Members noted that 1996 indications represented an improvement over the projections of \$283-288 million by the Secretariat at MTM95. This was the result of special efforts by several members to increase their contributions to the CGIAR. It was recognized that commitments to CGIAR renewal at the Ministerial meeting in Lucerne had been an important factor in achieving this additional support.

In considering the draft financing plan, the Committee noted the detailed information and acknowledged the progress made towards increasing the transparency in the financing process. This should greatly reduce the incidence of disagreements between Centers and members on whether the contributions in question supported the agenda.

The Committee debated ways to deal with the remaining uncertainty in the financing at the CGIAR level. It decided that \$2.5 million of the Bank's contribution of \$44.85 million would be held back as a reserve to deal with unexpected developments in the financing plan during the course of the year.

The Committee reaffirmed that as in 1995, the World Bank's contribution would be allocated in two parts: about half or \$25 million would be distributed to all Centers as a fixed proportion of their approved budget i.e. 8.3% of the approved budget; the remaining portion (\$17.35 million) would be used to co-finance with other members the remaining funding gaps. The Committee endorsed the Secretariat proposal to disburse the allocated amounts (\$42.35 million) on January 1 in support of the renewal goal of 50% disbursements by that time.

The financing plan resulting from these decisions (allocating designated contributions to the Centers/programs, distributing \$25 million of Bank funds to all Centers at 8.3% of their approved budgets and filling the remaining gaps with a blend of \$17.35 million Bank funds and \$11 million of other members unallocated funds) was approved by the Committee as being an appropriate measure to provide stability and predictability in Center planning in context of a less than fully certain financial outlook. The Committee noted that although the level of uncertainty (\$11 million) was only 4% at the system level, there was a wide variation across all Centers or programs. This was best illustrated in Chart 6a and 7a in the financing plan which indicated that ICRISAT and ILRI faced a significantly higher level of uncertainty than the other Centers. In program terms, this was less evident except for the Livestock program, which faced an uncertainty level in excess of 10%.

The Committee debated the overall guidance it should provide the membership and the Centers in interpreting the 1996 financing plan. It concluded that members should be urged to expedite their commitments to reduce the remaining uncertainties in the plan and act as early as possible in releasing disbursements to the Centers. Centers should be advised that although the overall plan indicated full funding of the agenda, in view of the remaining uncertainties, they should exercise caution in planning expenditures. Depending on the circumstances, a prudent planning level would be about 4%-8% below the financing plan level. Finally, both Centers and members should be urged to resist the diversion of funds meant for the agenda to non-agenda activities.

The Committee presented the 1996 financing plan (*Financing the 1996 Research Agenda* (ICW/95/06) to the Group on October 31. *Center Details were provided to the Centers on November 13, 1995.*

## 1997 Guidelines

The Committee reviewed the draft guidelines for preparation of the 1997 agenda. The guidelines cover the form and content of Center submissions to TAC for its review in March 1996 as well as later submissions to the Group for consideration at MTM96. The guidelines also incorporate the criteria TAC proposed to use in evaluating Center proposals. The role of the Finance Committee in reviewing the guidelines is to confirm the overall process and endorse the financial framework for preparation of Center programs. The Secretariat informed the Committee that the guidelines had been prepared in close collaboration with TAC and drafts had also been made available to the Center staff.

The focus this year on presenting Center programs in terms of projects that could be linked to the CGIAR Research Agenda matrix was highlighted. This was one of the final steps in completing the transition to the new financing arrangements under CGIAR renewal. By providing better transparency in program planning through the project detail, members would have a better understanding of the use of their funds. This would enhance accountability and confidence in the CGIAR. Finally, the project detail would also facilitate the preparation of the financing plan.

On the financial side, possible full financing of the 1996 agenda meant that the guidelines could be set at the 1996 level. This would also apply at the Center level except that the Center guidelines would exclude the one-time 1996 allocations for designing systemwide initiatives. In the aggregate, the guidelines amounted to \$295 million. Centers were encouraged by TAC to address their requests for increases to the specific criteria in the guidelines.

The Committee recognized that the guidelines did not provide for automatic increases to cover inflation. The approach derives from the practice followed by most

CGIAR members to contribute in nominal terms without any explicit addition for compensating inflation. This practice reflects the procedures in most aid agencies to seek justification for increases in terms of programs and not inflation. Hence, nominal budgeting in the CGIAR is a pragmatic response to these realities. Furthermore, it is consistent with the view expressed by many members that Centers should continue to seek cost-efficiencies.

The Committee endorsed the guidelines and urged the Secretariat to distribute the final version to the Centers as early as possible.

*Committee decision implemented on November 20, 1995 by circulation of the guidelines as well as subsequent supplements of November 20 and February 20, 1996 relating to project lists.*

## Longer-Term Planning

To respond to changes in the external environment, the CGIAR periodically reviews the priorities and strategies that guide CGIAR Centers' research and determine the allocation of CGIAR resources. The process typically extends over several CGIAR meetings to allow interaction among TAC, the Centers and the CGIAR prior to decision-making. The outcome is a framework that defines longer-term directions for CGIAR research and its implementation through multi-year CGIAR programs and allocations. This process is being initiated at ICW95. It is expected that consensus will be reached on the longer-term framework by MTM96, allowing decisions on allocations for 1998-2000 to be taken at MTM97.

The Committee briefly reviewed a revised draft of the process paper on this topic. An earlier draft had been reviewed by the Committee at its previous meeting during MTM95. The Secretariat summarized the changes in the paper which had greatly benefited from comments by TAC during TAC's July meeting. The Committee noted that the paper had been shared with Centers at this meeting.

The Committee endorsed the process and schedule for preparation of the 1998-2000 plans

subject to a final review at MTM96 in conjunction with TAC's presentation of CGIAR Priorities and Strategies.

### **Other Business**

The World Bank was reelected to chair the Finance Committee in 1996. Due to lack of time, the Committee did not discuss the two progress

reports (Capital Budgeting and Financial Systems) scheduled under other business. Members were encouraged to provide comments to the Secretariat.

### **Next Meeting**

The Committee will hold its next meeting at MTM96 in Jakarta, Indonesia May 20-24, 1996. The first session would take place on Sunday, May 19, 1996. The second session would be held at the time of the parallel sessions of the CGIAR meeting.