



From: The Secretariat

December 1, 1997

Report of the Eleventh Meeting of the CGIAR Finance Committee

At MTM97, the Chair of the Finance Committee, Mr. Michel Petit, reported the outcome of the 11th Meeting of the Finance Committee, which covered the 1996, 1997 and 1998 Financing Plans.

A written report of the Meeting is attached for information.

Distribution:

CGIAR Members
Center Board Chairs
Center Directors
TAC Chair, Members, Secretariat
IAEG Chair and Members
NGO Committee Chair and Members
Private Sector Committee Co-Chairs and Members
Genetic Resources Policy Committee Chair and Members

Eleventh Meeting of the CGIAR Finance Committee

The CGIAR Finance Committee (FC) held its eleventh meeting in Cairo, Egypt, on May 24 and May 27, 1997 concurrent with the Mid-Term Meeting. On May 24, the Finance Committee also held a consultation with the Oversight Committee with CGIAR Chairman Ismail Serageldin in chair. The FC reviewed the overall financial outcome for 1996, the progress in meeting the approved financing plan for 1997, the funding requirements of the 1998 research agenda, and the investments recommended by TAC for 1998-2000. Documentation for the meeting comprised: draft 1996 financial report, notes from the Secretariat on the status of the 1997 financing plan and 1998 funding prospects, and Financial requirements of the 1998-2000 medium term plans (MTM/97/14 dated May 6, 1997). The outcome of the meeting was reported by the Finance Committee Chair under the agenda item "Report of the Finance Committee" (a copy of the presentation is attached) and is recorded in the Summary of Proceedings for MTM97.

Michel Petit (World Bank) chaired the meeting with participation by Australia (Ian Bevege), Canada (Derek Eaton and Iain MacGillivray), Egypt (Saad Nassar), European Commission (Anton Riethinger), Germany (Jürgen Friedrichsen), India (Rajinder Paroda), IFAD (Abdelmajid Slama and Shantanu Mathur), Japan (Kunio Nakamura), and Sweden (Carl-Gustaf Thornstorm). Messrs. Ian Haines (United Kingdom) and Mr. Rob Bertram (USAID) observed the meeting. Dr. Winkelmann, TAC Chair participated during the session on the 1998-2000 medium term plans.

1996 Financial Outcome

The CGIAR Secretariat presented the draft 1996 financial report for the Committee's approval. Total agenda support in 1996 amounted to \$304 million, an increase over the 1995 level of \$270 million, indicating that, in the aggregate, CGIAR funding was healthy. Most centers were on target, however, five centers faced shortfalls early in the year. Special efforts were taken at MTM96 to avert a funding crisis at these centers. Members provided an additional \$10 million to five older centers, and four centers—CIAT, ICRISAT, IITA, and IRRI—took action to reduce staff. Clearly, the pain experienced by these centers was very significant.

Systemwide activities were underfunded in 1996; only \$5 million in targeted support was provided against approved requirements of \$13 million, although actual support was likely higher, as this figure does not include unrestricted funding allocated by centers to these activities. There was a major shortfall in 1996 in targeted funding to the systemwide livestock program, and several centers reported lack of targeted financing to support coordination costs.

Disbursements of funds by members were slower in 1997 than in 1996. Disbursement targets of 50 percent of funding to the centers on January 1, and the remaining 50 percent disbursed by mid-year were not met. A related issue is that of late payments by members to centers. As of MTM97, 10 to 15 percent of commitments made to centers for 1997, amounting to some \$45 million, had not yet been disbursed. This presents serious financial management problem for centers. Late payments also have a negative impact on center income, particularly for those centers that have to draw down reserves, resulting in an aggregated decline in center income.

The FC asked the CGIAR Secretariat to prepare an issues paper on the subject of late payments, which the committee will revisit at ICW97. The FC also decided to urge members to make every effort to accelerate disbursements and to avoid delays of payment to centers. Centers were urged to respond to a forthcoming request from the CGIAR Secretariat to provide examples of best practice in terms of financial management.

The FC commended the CGIAR Secretariat for the 1996 financial report. The FC strongly urged that such an annual report become a

regular publication and that it be widely circulated within the CGIAR.

1997 Progress

At ICW96, the Group approved an overall financing plan of \$325 million for 1997. It was stressed that the financing plan was not a ceiling. As well, individual centers were urged to exercise caution in spending. The FC reviewed a note from the Secretariat which indicated that in overall terms the financing plan remained on target. Assuming that the special action aimed at older centers that was proposed at ICW96 were implemented, funding was expected to cover the requirements of the 1997 research agenda, except for ICRISAT, ILRI, ICARDA, and several systemwide programs, all of which had funding shortfalls as compared to the financing plan approved at ICW96. Changes in other center funding was noted in context of providing matching funds from the World Bank.

The FC reviewed the allocation and disbursement decisions it had made at ICW96 regarding the World Bank's 1997 contribution of \$45 million.

- It had been decided that the bulk of the funds, or \$26.6 million, would be allocated to centers on a 9 percent matching basis, in line with the modified financing arrangements adopted by the Group at MTM96. 50% of the amount would be disbursed at the start of 1997.
- In recognition of the difficulties experienced by some centers in adjusting to the modifications, particularly those that were heavily dependent on World Bank support in the past, \$12 million of the Bank's 1997 contribution was allocated for one-time payments to centers facing difficult transitions. The entire amount would be disbursed at the start of the year.
- An additional \$500,000 was allocated for support to the NGO Committee, the Private Sector Committee, and the Genetic Resources Policy Committee, \$200,000 for costs associated with the celebration of the CGIAR's twenty-fifth anniversary, and \$500,000 for a small grants program.
- \$5.2 million remained unallocated for review at MTM97.

The FC discussed, over two sessions, the center circumstances and the options for redressing, at least partially, some of the difficulties. The actions taken should ensure that the research agenda is not only fully financed at the system level, but at the level of individual centers as well. These steps would indicate the priority accorded by the Group to protecting the heartland of the CGIAR research agenda and to ensuring its financing. The Committee decided the following:

- implement the special action aimed at resulting in the allocation of \$3.2 million to older centers that was proposed at ICW96, CIAT, ICRISAT, and IRRI;
- maintain the integrity of the modified financing arrangements, while assisting those centers in need on an exceptional basis, allocation of \$1.5 million to ICRISAT (60 percent), ILRI (25 percent), and ICARDA (15 percent) and \$500,000 to systemwide activities to help alleviate funding shortfalls;
- allocation of additional matching funds of \$0.8 million and disbursement of the second tranche.

The importance of members providing centers with unrestricted funding was emphasized. Concern was expressed that there are now incentives for members to restrict funding, and not enough incentives for members to continue to provide unrestricted funding. It was stressed that funds should be directed in support of those activities deemed highest priority by TAC, and that this situation be continuously monitored.

1998-2000 Medium-Term Plans

The FC reviewed the financial parameters of TAC's recommendations for the 1998 to 2000 medium-term planning period, including the proposed distribution of resources among centers. Members expressed serious concerns about the size of the \$400 million investment recommended for 2000 in view of constraints on ODA budgets. The FC, therefore, decided to recommend to the Group that a no-growth scenario be explored, in addition to the main scenario above that was endorsed. Hence, approval of the 1998-2000 plan would be subject to the current procedure of reviewing financial requirements on an annual basis.

1998 Funding Requirements

TAC Chair, Donald Winkelmann, indicated that TAC's recommendations on funding for 1998 grew out of TAC's perceptions about expenditures in the year 2000, and a judgment to move from 1997 to 2000 in equal amounts. This led to expenditures in 1998 of \$364 million, of which \$350 million would be from members and \$14 million from earned income. The distribution of those amounts among centers also emerged from the conclusions that had been drawn about an appropriate distribution in 2000, and with that a strategy for moving from 1997 to 2000.

Based on a note prepared by the Secretariat, the FC discussed 1998 financial prospects and the Committees' recommendations thereon. The indicative financial requirements of the 1998 research agenda as recommended by TAC represent a 7.7 percent increase over 1997 financing plans. The FC noted that several centers will have major fund raising challenges from 1997 to 1998, including ILRI, ICARDA, ICRISAT, IRRI, and CIMMYT.

Members were concerned that a planning target of \$350 million might be too optimistic. Instead, the FC decided to recommend a planning target of \$335 to \$340 million. This figure was not a ceiling, and did not prohibit the centers from soliciting resources for the activities in the agreed agenda. It was hoped that members would indeed be able to provide the \$350 million desired.

Regarding the allocation of the World Bank's 1998 contribution, it was determined that the bulk would be disbursed on a matching basis. In 1997 this figure was 9 percent. In 1998, the percentage has not been as precisely defined. In setting the percentage, the FC was concerned about the potential for some difficulties in 1998, particularly if there are distortions between the aggregate financing plan and TAC's recommendations. Consequently, of the Bank's

\$45 million contribution, \$30 million is expected to be allocated on a matching basis, and \$15 million will remain unallocated, to be used to address very serious problems. It was important to understand that this provision was set aside to resolve serious problems and was not a slide back towards gap filling which had been abandoned in 1996 due to the perverse incentives it had created. It was emphasized that the unallocated funds would not be allocated on a gap filling basis, but to help any center in serious difficulty. If there are no problems, the unallocated amounts could in part be allocated on a matching basis, and part put in a reserve.

The indicative financing plan for the 1998 research agenda of \$335-340 million would provide guidance to the centers as they prepare their financing plans following MTM97. Those plans will be reviewed by TAC in September, and TAC will comment on whether the aggregate financing plan is consistent with the approved agenda, or whether it introduces distortions. The plans will then be examined by the FC, which will make recommendations to the Group at ICW97, when a financing plan for 1998 will be adopted. In their funding discussions with members, centers were urged to pay particular attention to systemwide activities, to ensure that they are funded at appropriate levels.

Other Business

Due to late payments by members and the resulting cash flow problems created, ICLARM had requested a line of credit. The FC endorsed the request but cautioned the Secretariat to not disburse the funds in one tranche but in separate tranches based on the requirements.

Next Meeting

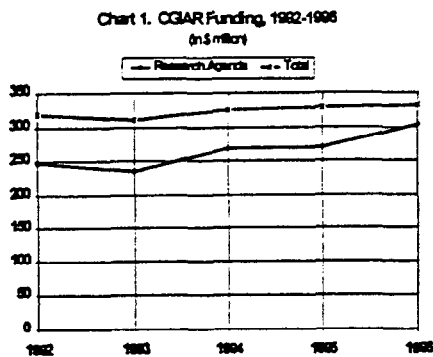
The Committee will hold its next meeting in Washington D.C. on October 25, 1997 prior to International Centers Week, and October 27—31, 1997.

Finance Committee: MTM97

- 1996 Results
- 1997 Progress Report
 - 1998 Prospects
 - Other Business

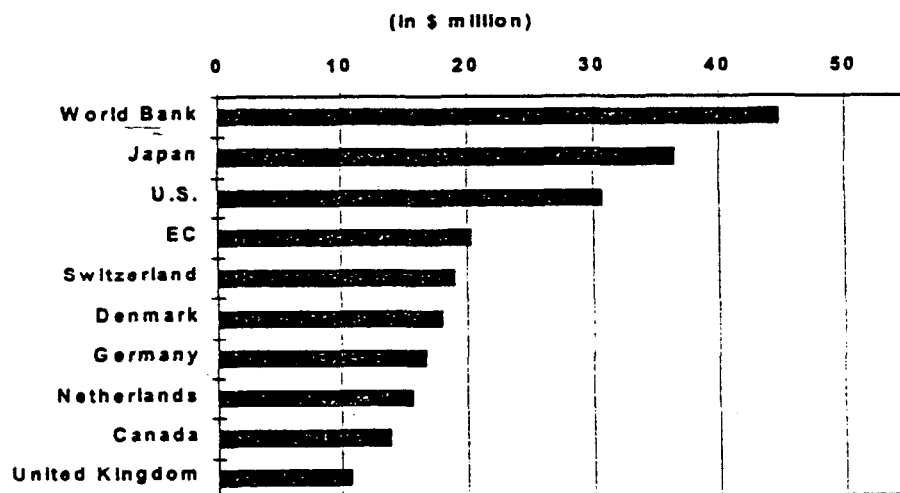
• 1996 Financial Results

• 1996 Results



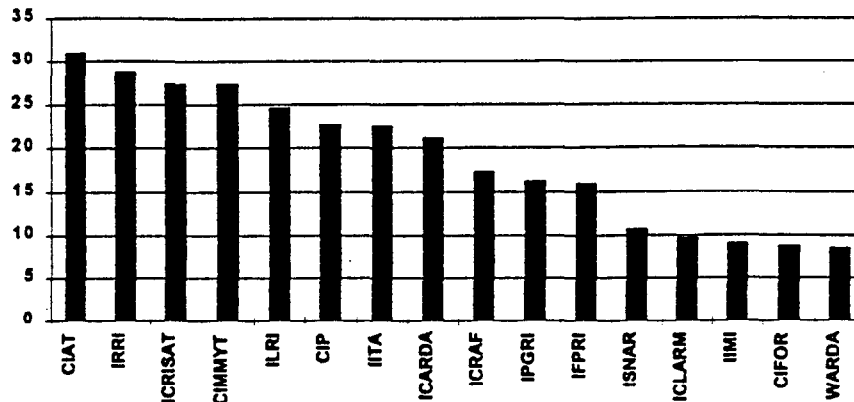
- Agenda support: \$304 million
 - Most Centers on target
- Following MTM96 member actions:
 - \$10 million provided to older Centers

Top Ten CGIAR Supporters



Center Perspective

Chart 5. 1996 Research Agenda Funding
(by Center in \$ million)

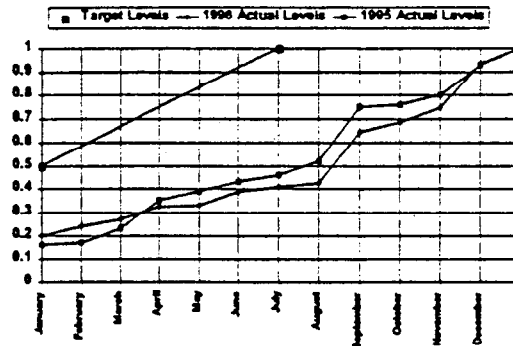


ISSUE: Systemwide activities

- Reported financing \$5 million vs \$13 million requirements. Actual support likely higher including unrestricted financing.
- Major shortfall: Livestock program
- Several Centers report lack of targeted financing to support co-ordination costs.

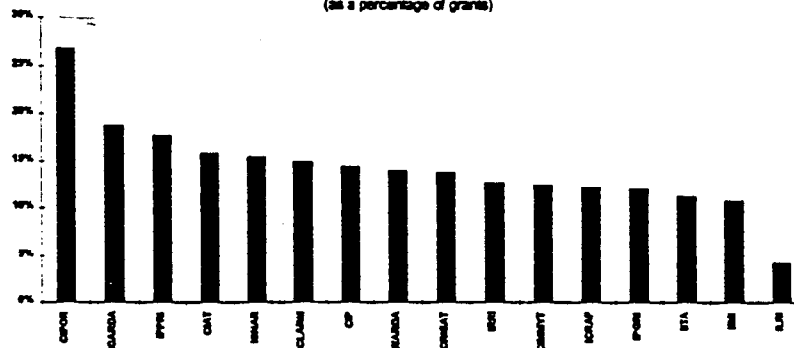
Issue: Disbursement

Chart 4. 1996 Disbursement of Funds
(cumulative percentages)



Issue: Late Payments

Chart 16. 1996 Donor Receivables by Center
(as a percentage of grants)



Conclusions

- **Funding has stabilized**
- **members financial support has been instrumental to resolve crisis for the five centers. However, painful staff separations have been necessary.**
- **Members need to act to speed disbursements**

•1997 Progress Report

Summary: ICW96

- 1997 overall Financing Plan -- \$325 million
- Members to provide additional support to:
 - larger Centers
- Financing Plan not a ceiling
- Centers to exercise caution in spending
- World Bank: Transition payments and the first tranche of matching funds disbursed now.
 - Second tranche at MTM97 following FC review
- Special monitoring of CIAT, CIMMYT, ICRISAT and IRRI

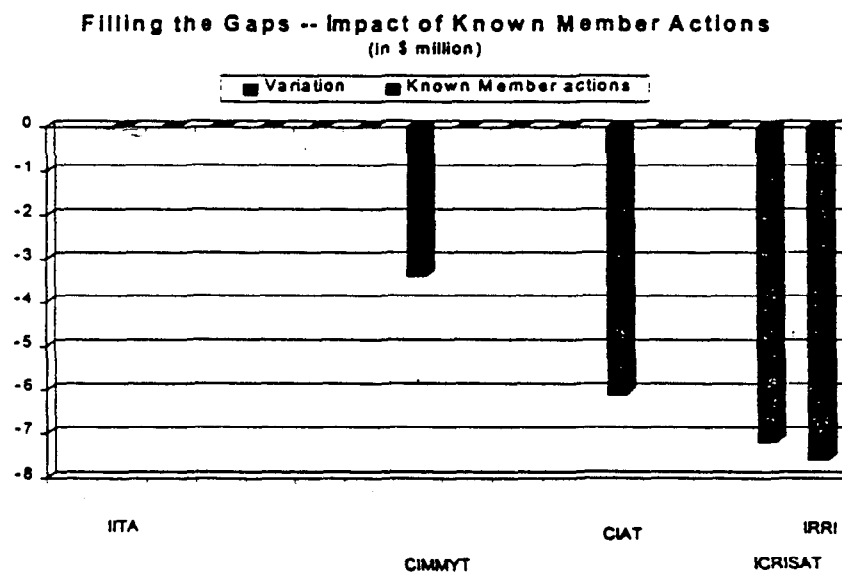
World Bank Allocations: ICW96

- \$26.6 million: 9% matching funding in relation to \$295 m non-Bank financing
- \$12 million: one-time transition payments
- \$0.5million: financing for Committees (NGO, PS, GRPC), \$0.2 million anniversary costs
- \$0.5 million: small grants program
- \$5.2 million: unallocated

World Bank decisions: MTM97

- Drawdown from unallocated funds as indicated at ICW96 to support centers facing special problems
- allocation and disbursement of the second tranche of matching funds
- Other allocations

Problems at older Centers:ICW96



Special Financing actions

		1997 Special Actions					
		CIAT	CIMMYT	ICRISAT	IRRI	TOTAL	
ICW96							
Remaining Gaps		-4.6	-2.6	-5.8	-6.6	-19.6	
Finance Committee proposal		-1.2	-0.7	-1.5	-1.7	-4.9	
MTM97							
	EC	0.25	0.25			0.5	
	USA	0.27	0.40		0.60	1.3	
	Proposed action:						
	CGIAR Reserve	0.6	0.0	1.5	1.1	3.2	

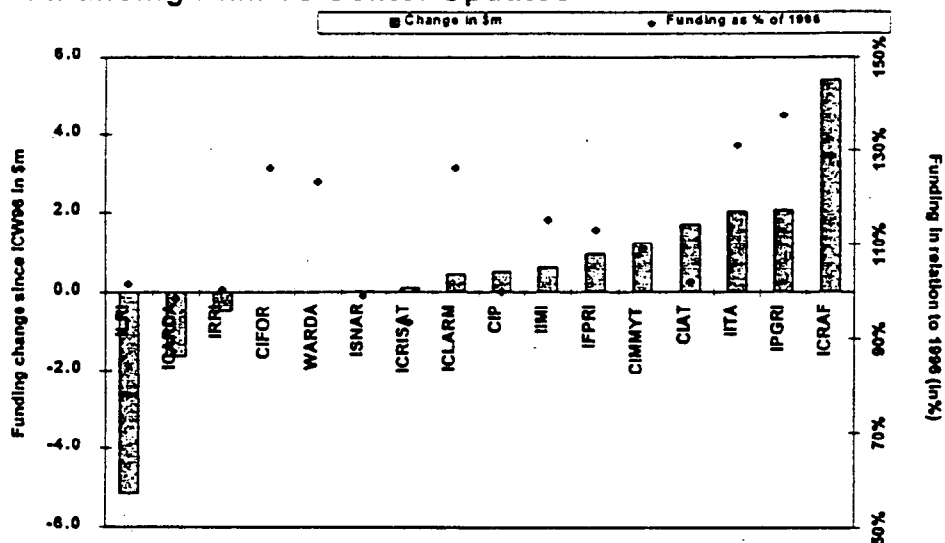
- Confirm drawdown from reserve as indicated at ICW96: \$3 million

World Bank decisions: MTM97

- Additional matching for ICRAF, IFPRI, IPGRI, IITA possibly CIAT and CIMMYT as well
- Refund by ICARDA and ILRI
- Confirm disbursement of the second tranche of matching funds

1997 Financing Update

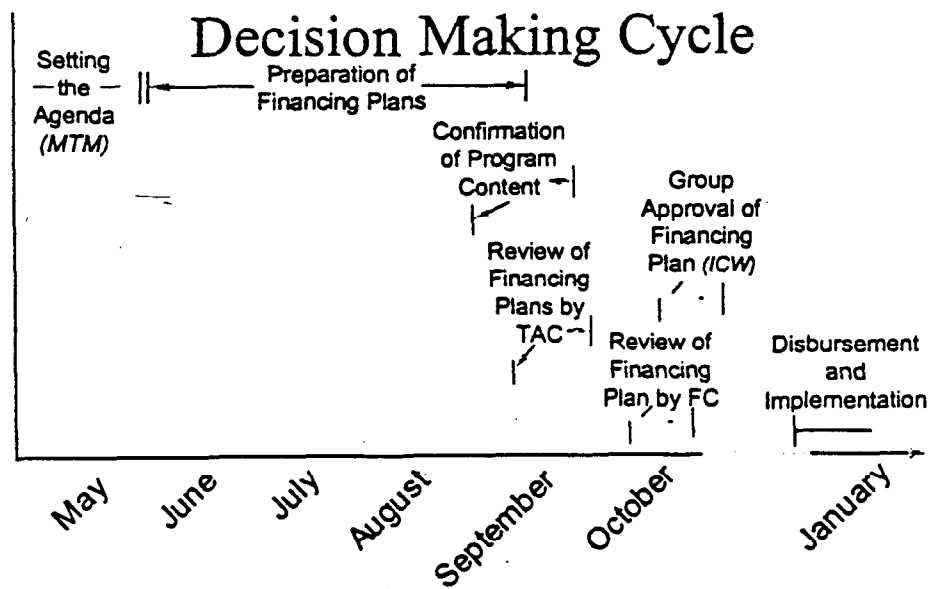
Financing Plan vs Center Updates



Other Actions

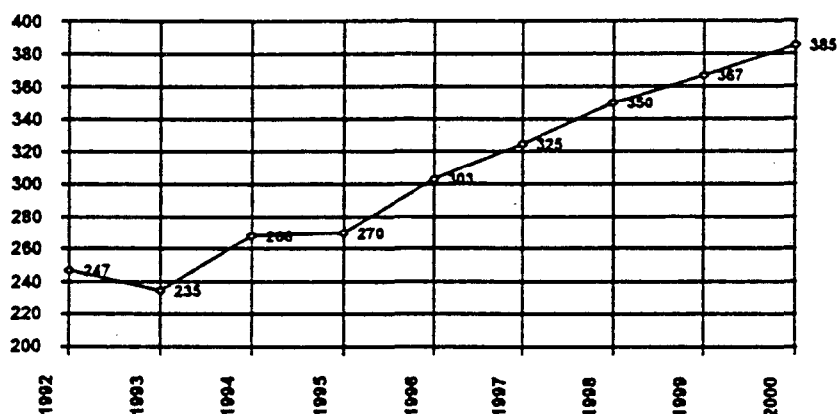
- Propose special support from remaining unallocated funds of \$2 m
 - ICRISAT (\$0.9 m), ILRI (\$0.4 m) and ICARDA (\$0.2 m)
 - Systemwide activities: Rice/Wheat and Desert margins (\$0.5 m)

•1998 Financial Requirements



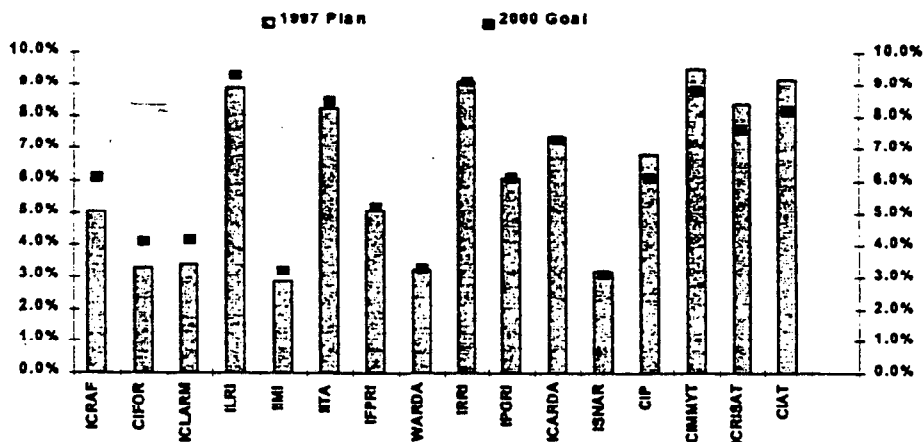
Funding of the CGIAR Research Agenda:1992-2000

(In \$ million)



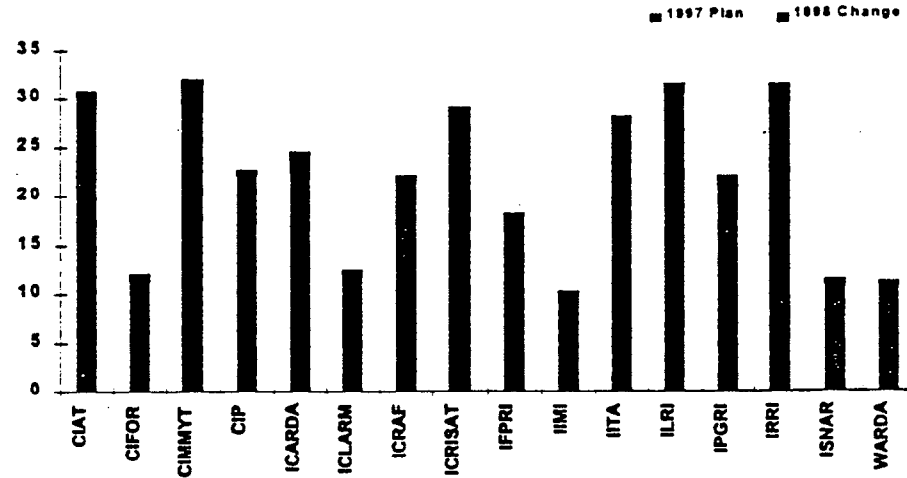
CGIAR Resource distribution: 2000 vs 1997

TAC 2000 Recommendations vs. 1997 Financing Plan
CGIAR Investment Shares (%)



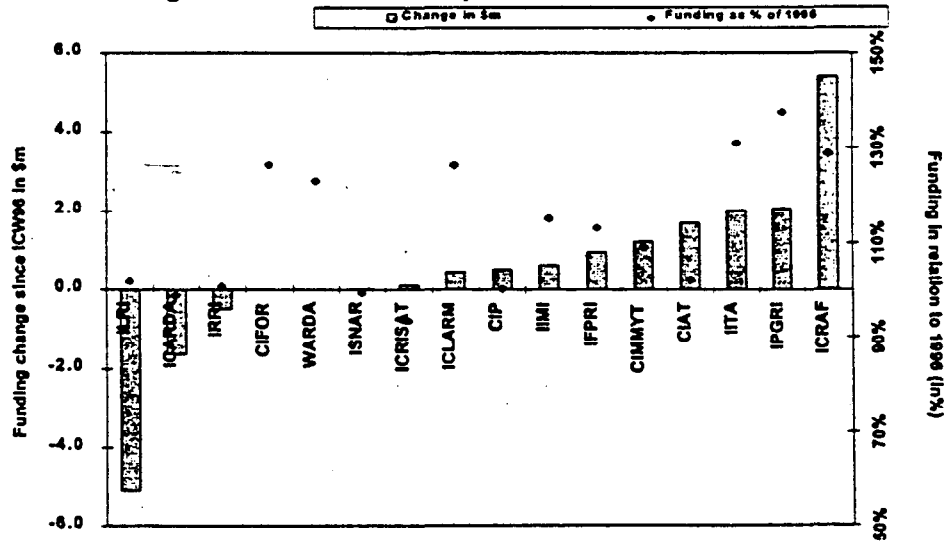
1998 research agenda requirements: TAC recommendations

1998 Requirements: Change from 1997 Plan



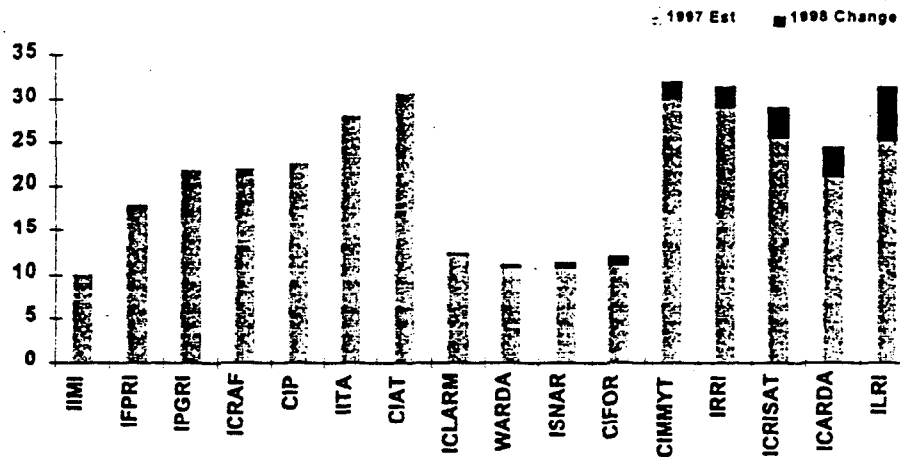
1997 Financing Update

Financing Plan vs Center Updates



1998 research agenda requirements: TAC recommendations

1998 Requirements: Change from 1997 Estimate



•1998 Financial Recommendation

- Financial planning target of \$335-\$340 million
- Commission preparation of Center financing plans