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Agenda Item 4 - Finance Committee Report

Resource Mobilization in the CGIAR -  
Toward A CGIAR Financial Strategy

Attached is a paper entitled "Resource Mobilization in the CGIAR - Toward A CGIAR Financial Strategy" dated October 8, 1993 prepared by the CGIAR Secretariat. The document is transmitted as background material to the Finance Committee’s Report, Agenda Item 4.

Attachment

Distribution

CGIAR Members  
Center Board Chairs  
Center Directors  
TAC Chair  
TAC Members  
TAC Secretariat
October 8, 1993

To: Chairman and Members of CGIAR Finance Committee

From: CGIAR Secretariat

Resource Mobilization in the CGIAR -
Toward A CGIAR Financial Strategy

A financial strategy is required to ensure that the agreed 1994-98 Medium Term Plans can be implemented. To develop such a strategy, the attached paper reviews the strategic financial choices facing the CGIAR and explores their implications. Several propositions are advanced in the paper such as: CGIAR should consider new mechanisms for financing from existing donors, and that CGIAR should actively pursue the expansion of its donor base. If the Finance Committee agrees with the propositions the Secretariat intends to develop more specific proposals for implementation.

cc: Center Directors
Resource Mobilization in the CGIAR -
Toward A CGIAR Financial Strategy

I. The Need for a Financial Strategy

TAC's report on "CGIAR Medium-Term Resource allocation 1994-98", concurrently considered by ICW93, translates the CGIAR priorities and strategies endorsed by the Group at ICW91 into resource allocation proposals for the centers. Following the recommendations of a 1990 review of previous planning efforts, funding constraints have been built into the allocation proposals.

However, the System's current funding situation raises the question whether the assumptions about annual funding levels required to implement TAC's proposals are realistic. Since the initiation of TAC's present allocation planning process the funding situation has further deteriorated and has led to substantial ad hoc cuts in the expenditure of several centers.

As the CGIAR considers its 1994-98 allocation plans, it is therefore timely to develop a financial strategy that will ensure that the agreed medium-term allocation plans can, indeed, be implemented.

This paper reviews the financial choices facing the CGIAR: should it plan its center programs on the basis of increasing, constant or declining resource levels. Building on discussions in an earlier Secretariat paper presented at MTM93\textsuperscript{1}, the present paper surveys the traditional and potential new sources of funding, questions whether the historical funding mix, i.e. the funding shares provided by the various donor groups, should be expected to change, and proposes how funding sources might be approached. If the Finance Committee agrees with the propositions advanced in the present paper, more specific proposals will be developed for approaching the various funding sources.

II. Past Funding of CGIAR Research: The Legacy of Success

The early years of the CGIAR were marked by a rapid, almost explosive growth in membership, in funds provided, and in the number of centers and activities carried out under its auspices. "Fund raising in these early years was not difficult. The amounts involved were small relative to the aid budgets of most donor countries. The central objective of the Group -

\footnote{see Secretariat note of May 24, 1993, on "Trends in CGIAR Funding - Preliminary Observations"}
to reduce hunger by increasing food production in the developing countries - was universally popular.\textsuperscript{2} The US pledged to provide 25 percent of requirements, and the World Bank agreed to meet any shortfall in funding up to 10 percent of total requirements. When the number of centers supported by the Group rose to thirteen by 1979, funding was not a problem then. In fact, the World Bank, acting as donor of last resort, often did not have to put up its pledged maximum contribution of 10 percent of core funding requirements.

By 1978, all major OECD countries had become members of the CGIAR. After earlier increases of 25 to 38 percent, the annual increases had slowed to 10 percent. Thirteen centers could no longer be supported on an \textit{ad hoc} basis. Financial flows had to be stabilized. Time had come to introduce financial planning. A five-year plan with financial targets was proposed in 1979, anticipating sustained annual real growth at 10 percent. However, while the Group as a whole consented, several donors indicated that they would not be able to pledge contributions for longer than one-year periods. In the event, funding flows materialized at lower levels and in 1992 TAC was asked to adjust center needs to these lower rates of growth.

Funding had been flat between 1985 and 1991, keeping up with inflation, but without real increases. It has declined in real terms since 1992. Furthermore, as a result of adding five new centers in 1991/92, the same pie (in real terms) now had to be divided between the larger number of centers. In 1993, donor contributions, for the first time, declined also in nominal terms.

\section{The "Strategy" of the Past and Today's Changed Priorities: From Dividing the Cake to Finding the Dough}

The CGIAR prides itself on its informal set-up. With no legal status and a minimal corporate infrastructure it has nonetheless succeeded for more than two decades to build and sustain the largest international research network.

Its hallmarks have been the freedom of its donors to fund the centers of their choice among those supported by the Group and the freedom of the centers to program their research and present proposals for donor funding while at the same time agreeing on a common research strategy and agenda. While research is long-term, the CGIAR has funded itself on an annual basis.

As long as donor support was generous and steady, the arrangement worked well. Centers received funding to carry out their agreed programs. The balancing facility was provided by the World Bank, acting as "donor of last resort".

\textsuperscript{2} Baum, "Partners Against Hunger", Washington, D.C. 1986, p.65
As a system, the CGIAR has with only limited success grappled with the phenomenon of a resource base which no longer grew in pace with demand. It has been largely left to individual centers to scale back their operations. The balancing facility has continued to fill gaps, but less and less as those gaps grew larger. Currently, most centers are operating at levels substantially below their 1990-91 funding.

The TAC paper for a "CGIAR Medium-Term Resource Allocation 1994-98", concurrently before the Finance Committee, takes into account the recommendations of the 1990 task force report3' in an attempt to reign in demand. If adopted by the Group, the plan could well form the basis for the implementation of the Group's Strategies and Priorities over the next five-year period.

It would seem that the System has by now exploited and exhausted reasonable possibilities of reigning in and controlling demand without fundamental structural changes in its operating mode. In order to plan and carry out its mission, it will in future need a more predictable supply of funds.

IV. Basic Choices

The funding of the System is a function of what its stakeholder expect from it, and its donors want to accomplish with it. Do they want to continue using the System as a major conduit and instrument for supporting developing country agriculture and resource management? Or has the System accomplished its mission and should be phased down or out? These questions, not frequently asked, require an answer as a basis for sustainable longer-term planning.

A. Three Basic Scenarios

Donors could chose among three directions in which they want the System to develop: contraction, maintenance of current research levels, or expansion. Three simple scenarios can be developed and will be quantified to illustrate the ramifications of these choices. They are not actual planning figures.

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3' In 1990, the CGIAR adopted the recommendations of a task force (the McWilliams report) to build in supply constraints into centers' medium-term plans. "Although there is general support for a demand driven approach by centers in seeking funds from donors, it is important, as the growth in the supply of donor funds slows, that the system presents a request to donors based on a more rigorous analysis of needs and a more responsible appreciation of the likely supply of funds. For this reason, TAC's analysis of activities and programs must in future also consider the supply constraint when recommending individual center MTPs for approval by the CGIAR. To achieve this, the growth-curve of the CGIAR core programs over time should parallel the predicted growth in the supply of funds with a 5% up and down margin for error."
Scenario I (Phasing down or out)

The CGIAR could be restructured, reducing the number of centers, and -at an accelerated pace-devolving its functions to other institutions. Over time it would be phased out\(^4\). Two assumptions could justify this approach: (a) through their NARS, developing countries are well on their way to meeting agricultural research needs; (b) donors will increase their direct support to NARS. As a result, some centers should be terminated in the near-term, and programs of some or all others be driven down. There would be no new programs under this scenario. If the System were to be phased out entirely, this could be accomplished by repeating the reductions observed in 1993 when total contributions fell by almost 10% in real terms.

Scenario II (Maintaining capacity)

Under this scenario the CGIAR would roughly maintain its current capacity and level of activity. Supporting assumptions would be that while research needs increase, so would developing country research capacity, aided by direct donor support. As a consequence, there would be continued revision of priorities and restructuring within the System according to changing needs; center programs would be revised, scaled down, phased out, and new ones added. Similarly, some centers may be terminated, or merged with others, but there would be no contraction or expansion overall. Resources would remain constant in real terms.

Scenario III (Preparing for new challenges)

Under this scenario, projected population growth, food deficits, environmental deterioration and poverty, and the need for sustainable forms of agricultural production on a finite production base (land, water), would call for a vigorous, internationally sponsored agricultural and resource management research effort. For this initiative to succeed, available resources in terms of both research skills and genetic material, would have to be better harnessed. This effort would be part of an integrated global strategy to conserve and husband the world’s biodiversity (of which the CGIAR centers would be one of the prime movers, contributing their genebank operations and strategic research base) while alleviating poverty through plentiful food supplies at declining prices.

Table 1 illustrates the broad financial implications of the three scenarios. It involves total funding, i.e., does not differentiate between core and non-core funding. Amounts are in current US dollars, and percentages reflect annual increases in current terms, based on an inflation rate of 4 percent. Scenario III approximates the higher of two annual core funding levels proposed by TAC for 1998 at $280 million (in 1992 prices).

\(^4\) Certain basic functions would probably have to be maintained indefinitely, e.g., crop, forage and livestock germplasm collections held in trust for humanity, and the various databanks, information systems and libraries.
Table 1 - Funding Scenarios for 1994-98

<table>
<thead>
<tr>
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<th>Amounts in Current US dollar billions (percentage annual increases over preceding five-year period)</th>
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<tbody>
<tr>
<td>1984-1988</td>
<td>$1.15 b (11%)</td>
</tr>
<tr>
<td>1989-1993</td>
<td>$1.46 b (5%)</td>
</tr>
<tr>
<td>Scenario I</td>
<td>$1.46 b (0%)</td>
</tr>
<tr>
<td>Scenario II</td>
<td>$1.78 b (4%)</td>
</tr>
<tr>
<td>Scenario III</td>
<td>$2.06 b (6%)</td>
</tr>
<tr>
<td>1994-1998</td>
<td></td>
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</tbody>
</table>

B. Implications for the Funding Mix

Under the three scenarios, both donors and centers would face very different challenges. Under scenario I, donor contributions could decrease from year to year unless some center activities were to be maintained over a longer term. Scenario II would call for continued current funding levels, adjusted for inflation. And real increases from all donor groups would be required if scenario III were to be realized.

No particular financial strategy would be called for to implement scenario I: a phase-down/phase-out plan should be prepared to implement it.

By contrast, scenarios II and III would call for a financial strategy which maintains contributions from traditional donors and attempts to tap new sources. Under these scenarios, OECD countries would be expected to provide stable funding support. The World Bank would continue its traditional level of support, i.e., 15% of core funding. Other institutional donors would be invited to increase their contributions. Developing countries would assume larger financial responsibility for the System and demonstrate ownership, and support from foundations and the private sector would be sought.

Table 2 attempts to illustrate the resulting funding mix. It shows annualized historical contributions by donor groups for the five-year periods 1984-88 and 1989-93, and estimated annual contributions for 1994-98 under the three scenarios described above. Amounts are in millions of current US dollars; while percentages represent increases/decreases in real terms over previous five-year periods.
Table 2 - Funding by Donor Groups

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</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>ODA donors</td>
<td>155</td>
<td>7.0</td>
<td>206</td>
</tr>
<tr>
<td>Institutions</td>
<td>33</td>
<td>2.0</td>
<td>38</td>
</tr>
<tr>
<td>World Bank</td>
<td>79</td>
<td>10.0</td>
<td>36</td>
</tr>
<tr>
<td>Foundations</td>
<td>6</td>
<td>4.0</td>
<td>8</td>
</tr>
<tr>
<td>Developing</td>
<td>3</td>
<td>-3.0</td>
<td>5</td>
</tr>
<tr>
<td>Countries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Sources</td>
<td>5</td>
<td>46.0</td>
<td>5</td>
</tr>
<tr>
<td>New Sources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>251</td>
<td>7.0</td>
<td>292</td>
</tr>
</tbody>
</table>

Under all three scenarios, OECD countries would maintain their dominant role as financiers of the System, while institutional donors would continue providing roughly their current shares under the varying growth assumptions.

Under scenario II and III, it will be necessary to envisage increased contributions from developing countries and foundations (including new foundation donors) and from new sources to be tapped in the private sector.

Developing country contributions should increase from currently annually $2.2 million to $10 million annually over the five-year period 1994-98. This level would not appear to be unrealistic, since the current CGIAR membership includes only eight developing country donors.

A modest increase should be projected in the level of contributions currently provided by the two foundations. This together with contributions from other foundations in the U.S. and abroad which should be elicited, would raise total contributions from foundations to $10 million annually.

Other private sector sources would have to be identified and tapped. In the absence of an analysis of the funding potential of this source, estimates of possible private sector contributions, by necessity, are extremely speculative. As a planning number, an annual average of $10 million for 1994-98 would seem appropriate.
V. Funding Sources and Their Potential

A. ODA donors

OECD members have traditionally contributed around 70% of total funding requirements. Most of these contributions (about 80%) come out of aid budgets earmarked for multilateral programs and institutions. The balance comes out of sector or country aid allocations ("bilateral funds"). It is worth noting that CGIAR funding from these bilateral sources suffered less from recent cutbacks than multilateral funding; in fact, most of the growth in CGIAR support from ODA sources between 1988 and 1993 came from bilateral funds.

With the exception of Switzerland which in 1991 allocated 1.87% of its aid budget to center programs, CGIAR contributions of OECD countries account for less than 1% of their aid budgets. By comparison, contributions to IDA amount to about 8 - 9% of aid budgets of the same countries.
Aid funding has become more stringent since the mid-eighties, and with a notable time-lag of roughly five years this has affected contributions from OECD countries to the CGIAR. Efforts in individual countries to curtail public expenditures in response to the global recession appear to have had a disproportionate impact on CGIAR contributions. However, given the small share of aid allocations claimed by the CGIAR, and the extremely high priority attached to its research by Group members, one should not necessarily assume that CGIAR allocations will continue to be cut in the same proportion as larger aid programs. In fact, increased research funding for agriculture through the CGIAR might in some cases be seen as a legitimate way of compensating for reductions necessary in other agricultural development programs.

In assessing the funding potential of this donor group, one should also not overlook the considerable interest OECD countries may have in the continued existence of the CGIAR: many are important agricultural producers, have benefitted, and still stand to benefit substantially from windfall gains of CGIAR research.

To conclude, because amounts of OECD donor contributions when expressed in relation to GDP are small and represent a minute fraction of total aid allocations, even in times of severe budget constraints one should not anticipate absolute supply constraints.

B. Institutional Donors

This group which comprises the World Bank, the UNDP, FAO, the regional development banks (ADB, AfDB and IDB), the Kuwait Fund, the Arab Fund for Social and Economic Development, in some years the Saudi Fund, and the EC has traditionally provided between 25 and 30% of total resource requirements.

Past funding performance of these institutional donors has varied greatly. Some institutions have provided excellent support while others have contributed well below their possibilities, and still others to date have not been invited into the CGIAR such as the EBRD and the EIB. Some institutions are reluctant to make grant money directly available to CGIAR centers and instead propose to provide funds to client countries could be used to support research activities at the centers. The effectiveness of this approach is still to be tested.

Also for institutional donors, one should not assume the existence of binding internal constraints on the amounts that an institution can contribute to the CGIAR. When compared to their overall support to developing country agriculture, be this in the form of loans or technical assistance, amounts subscribed to the CGIAR are small.

\[3/\] Because agriculture is a prime factor in managing the environment, more environmental spending might translate into a renewed emphasis on funding research for agriculture, forestry, fisheries and related resource management.
C. Developing country donors

A consequence of the fact that CGIAR funding is coming mainly from aid budgets of OECD countries is the notion that the CGIAR is still widely seen among developing countries as a unilateral intervention of the North rather than a cooperative venture between North and South. The latter's ownership of the System still appears small. This is borne out by their very nominal financial contribution of $2.2 million to the core budget which amounts to less than 1% of total core requirements. Obviously, this bears no relation to the enormous benefits, which especially major agricultural producers among developing countries have to date derived from CGIAR research.

The case for higher contributions from developing countries can be made on several grounds: (a) their own efforts at building an indigenous research capacity need to be supplemented by the international centers providing strategic research access and exchange of germplasm and research experience worldwide; (b) considering the very high priority of agricultural research and its high returns to agricultural producers, contributions to the CGIAR represent rewarding investments for these countries; (c) since their contributions would still remain small in relation to per-capita income (the fairest and most reasonable benchmark), the often heard argument of a lacking capacity to pay cannot be sustained.

D. Foundations

When the CGIAR was established, the Ford and Rockefeller Foundations which had shouldered the investment and running expenses of four pre-CGIAR almost alone, each set a ceiling of $3 million for their annual contributions to the CGIAR. They currently contribute US$4 million, or less than US$2 million in 1972 dollars, i.e., well below their self-imposed ceiling. Thus, there would seem to be a case for increasing their contributions, possibly through provision of more project funds.

Except for the Kellogg and Leverhulme Foundations, no other foundations have financially supported the CGIAR. There would seem to be potential for inviting other foundations in the U.S. and abroad into the CGIAR, which must be explored.

E. Private sector

Except for the foundations, the private sector has not yet contributed to the CGIAR. For several reasons, it should. Agro-based industries in the developed countries benefit substantially from CGIAR research through which they gain access to research products and germplasm, and indirectly by benefiting from rapidly expanding developing country markets for agro-industry products and services.
A private sector potential could be tapped through (a) philanthropic fund-raising campaigns in key industrial countries; (b) corporate donations; and (c) possibly by combining the two, the establishment of an endowment fund.

F. Fund raising approaches

To ensure availability of the resources to maintain current levels of activities or allow for some growth would require stronger and longer-term commitments, at least from the System’s major donors. While there should be no attempt to tinker with the three key principles of collective agenda setting, donor autonomy in allocating their funds, and center freedom in designing their programs, there should be more than a moral commitment to supporting the System over the long haul.

Within these parameters, several possibilities to enhance the level of financial commitment come to mind. They would maintain the self-assessment rule while giving recognition to donors for the level and volume of their support:

First, there could be periodic reviews of donor performance within peer groups (ODA countries, developing countries, institutional donors) which would establish pledging targets for each donor, e.g., in relation to a donor’s per capita GDP (for countries) and total annual lending (for development institutions).

Second, donor privileges and responsibilities would be commensurate with levels of contribution. Only "senior" donors could be part of donor committees (e.g. finance and oversight committees) and participate in executive sessions at donor meetings. A donor who exceeded the above established indicated pledging target would be considered "senior", and thus eligible.

Third, multi-annual contributions from OECD donors could be negotiated. This would follow the example of IDA replenishment negotiations, and would carry a legal commitment to fund centers over a period of time. Donors would be expected to undertake such pluri-annual commitments for, say, three or five years\(^6\). Ideally, such funding commitments should correspond to the period covered by five-year allocation plans. It would seem important to have donor commitments cover at least 90% of such plans. The balance could be made up from new sources.

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\(^6\) Multi-annual commitments would, in many countries, require parliamentary approval. While seemingly complicating the donor’s role, parliamentary action could turn out to be beneficial for the level of CGIAR awareness among political and decision-making constituencies in the country, thus helping to facilitate donor work.
Fourth, the establishment of a high level advisory panel of eminent, independent personalities (the "Blue Ribbon" Committee proposed by many observers) would enhance visibility of, and provide a boost to, the CGIAR’s fund-raising drives in regard to all donor groups.

VI. Recommendations

The Finance Committee may want to decide

- on the broad parameters of a future funding strategy for the CGIAR: that such strategy aim at scaling down or phasing out the System, maintaining its current level of activities, or increasing it in real terms;

- that in keeping with the parameters so decided, a CGIAR financing plan be drawn up that would indicate pledging targets for individual donors, supplemented by a special "fund-raising" campaign for the contribution by private sector; requesting the Secretariat to develop detailed strategies for mobilizing resources from each donor group;

- that the formation of a high-level advisory panel (Blue Ribbon Panel) be pursued vigorously to support fund-raising efforts vis-a-vis traditional and new donors.

CGIAR Secretariat