Budgeting, Financial Management, and Reporting in the CGIAR

Discussion Draft
October 1985

Final Version Published in March 1986 - Supposedly.

"Clifford Report"

I could not find it. Unless you can, please scan this draft, supposed to be very similar.

Curt
Financial Reporting and Budget Study

1. The second review of the CGIAR suggested several studies aimed at the improvement of the operation of the system. One of the important areas has been the planning, programming and budgeting of center activities as well as presentation of the financial information to the various parties in the CGIAR. The review pointed out the need for consistent financial practices and accounting procedures across the system. The review also highlighted the need for modifying the existing resource allocation system to take account of the transition in availability of funds from a resource surplus situation to that of rationing resources among centers.

2. The basis for long-term systemwide planning was being addressed elsewhere in the system, e.g. through the Strategy study conducted by the TAC. To address the financial concerns, the CG secretariat commissioned a financial reporting and budget study in November 1983 with the following specific objectives:

   (a) defining common accounting standards to ensure consistency of reporting by centers;
   (b) improving the presentation of financial information;
   (c) proposing modifications in the resource allocation procedures to improve its efficiency.

3. The format of the study consists of a single study director advised by a panel of practitioners drawn from the TAC, the center staff, the donor community and the secretariats. Mr. William Gormley of the Ford Foundation put together the detailed terms of reference and the design of the study; Mr. Richard Clifford, financial officer of CIMMYT, has served as the study director for the past eighteen months.

4. From its very inception the study has been conducted in a participatory fashion. The study director has individually met with many donors and with center staff. In addition the study has been discussed on at least one occasion by the TAC, the center directors, center board chairmen and the financial staff of the centers as well as the CGIAR. TAC and the...
center directors have also discussed the preliminary results on several occasions including test applications of the proposed budget procedures. Finally, the advisory panel which has met on four occasions has been an important source of advice from all quarters of the system.

5. The draft report of the study is now being circulated (attachment) for further discussion by the centers and TAC at their forthcoming meetings in October. It will also be available to the members of the Group at International Centers Week. However, the Group will not discuss the report until the mid-term meeting in Ottawa in May 1986. We hope that the readers of this report will be able to provide their comments prior to its final publication planned for December 1985.

Next Steps

6. The study recommends actions on several fronts. They relate to adoption of common accounting standards by all centers, the use of a new budget procedure by centers and the TAC, improvements in the systemwide reporting by the CGIAR secretariat as well as some suggestions of principles the CGIAR donors could use in allocating their funds.

7. None of the actions will be formally undertaken until the Group has approved the recommendations. To set the stage for implementation several processes have been initiated to define the detailed aspects of some of the recommendations. These relate to the budget procedure and the accounting standards.

8. The new budget procedure requires a common understanding of center activities, to be termed base, considered essential for operation of a center and other activities. Three centers tested this procedure in June 1985 and presented the results to other centers and to the TAC. In view of the encouraging results the centers and the TAC have agreed to extend the testing to all centers.

9. The first step is the preparation of exhaustive lists of center activities. This will be done by October 1985 for a joint discussion between TAC and the centers to arrive at a common systemwide glossary by the end of the October meetings. Following this all centers would prepare test base proposals for substantive discussions with the TAC during the course of 1986. While the precise timetable needs to worked out, it is likely that these discussions will form a basis for preparing the 1988 programs and budgets under the new budget procedure. During the course of these discussions an operational manual for use by all centers in preparing budgets will also be developed by an independent consultant.

10. As to the common accounting standards, the financial officers will meet in October, during the center directors' meetings, to discuss the proposed procedures. Following this meeting it is expected that one or more members of that group would undertake to prepare a detailed operational manual for use by all centers. This manual should be ready in time for implementation of the accounting standards effective January 1987. Several related issues such as overheads and common reporting to restricted donors would also be addressed during this period.
Acknowledgement

A number of people gave freely of their time and knowledge to assist in this study. The Advisory Panel was a very effective source of counsel and helped to keep the study on track. Donald Winkelmann and Alex McCalla contributed to the development of a base concept and the notion of CGIAR advantage. The centers that tested the new budget technique-CIMMYT, CIP and ICRISAT—quite bravely exposed their operations to a new way of thinking and a different type of review. Curtis Farrar and Guy Camus made available their assistance and counsel throughout the study. The CIMMYT communications staff assisted in the preparation of the tables, and Chris Dowswell helped to edit several drafts of the study. A small group composed of Bill Gormbley, Alexander von der Osten, Peter Greening and Ravi Tadvalkar met to help edit this discussion draft. And finally, Pilar Junco typed what must have seemed like an interminable number of drafts of the report. Quite apart from all the help that has been given me, however, any errors in interpretation or presentation are mine.

R.L.C.

October 1985
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Chapter 1

Introduction

- Origins of the Study
- Objectives
- Approach Taken
- Summary of Findings and Recommendations
- Outline of this Report
- Notes
1.1 Origins of the Study

The Consultative Group on International Agricultural Research (CGIAR) has been in existence now for over 10 years. In 1972, its first year of operation, it supported the work of five international agricultural research centers (IARCs) with contributions amounting to $20.1 million. By 1976, the network of centers and programs had increased to eleven and financial support had grown to $62.9 million. By 1979, there were 13 centers receiving $99.5 million in funding. In 1982, ten years after its start, the Consultative Group provided $143.8 million to these same 13 international centers. Looking back, in just one decade the number of centers nearly tripled, the number of donors doubled, and funding increased by more than seven-fold. This rapid and high rate of growth reflects the importance of the problems being addressed by the CGIAR, the quality of the work being done by the centers, and the ability of donors to direct funding to these areas.

During those ten years the CGIAR changed dramatically. In its inception it was a small group of donors, each providing a relatively large percentage of the total funding for a small number of centers with a limited range of activities. At the end of the decade it had become a larger group of varied donor institutions, funding more centers with a much broader range of research and training programs. The effects of these changes were manifested in a number of ways. As total funding grew, centers' requests became larger proportions of donors' total aid budgets and, therefore, subject to greater scrutiny and competition. With more and larger centers there also developed a need for greater skills in the adjudication of funds within and between centers. And these changes, in turn, brought on others, most specifically in the way the CGIAR carries out its tasks. Longer and more frequent meetings of the CGIAR, the use of various review mechanisms, and restrictions by donors on the use of their funds were all indications of the increasing complexity in the operations of the CGIAR.

In recent years a number of financial factors have also come to the forefront, affecting in significant ways the management of the CGIAR. The sheer size of the System today has made annual fund raising and disbursing a major
and difficult task. The international character of the CGIAR, with its mix of currencies, raises immediately the potential problem of foreign exchange management. The growth of non-CGIAR funds (usually called extra-core or special projects) in the IARCs also has become important for a number of reasons. Non-CGIAR funds have provided a mechanism for growth for some centers and have permitted new activities in research, training, and support to national programs. Because they have their origins outside the CGIAR, though, they have a potentially distorting impact on the influence and effectiveness of the CGIAR as an on-going entity or organization. Within host countries, inflation and exchange rates have affected operating conditions. And finally the costs associated with capital construction have made it difficult for the newer centers to come fully "on stream" with the older institutions of the CGIAR. All these factors have contributed to a great deal of discussion within the CGIAR on operating strategies, efficiency and effectiveness, accountability and comparability, fund raising, types of funding and funds management, and the optimal size or "market share" of the centers in the CGIAR.

The Second CGIAR Review recognized the importance of these issues and their implications for the continued success of the System. The Review looked extensively at management issues and in Recommendation 8 called specifically for the CGIAR secretariat to undertake a comprehensive review of the process of assembling budget estimates, evaluating competitive demands, and deciding on the final allocation of resources. Following up on this, the CGIAR secretariat asked Dr. William P. Gormley of the Ford Foundation to look at the issues that might be covered by such a study, and a suggested methodology and format.

In light of the changed nature of the CGIAR, the strong and variable external financial factors within which the System must work, and the recommendations of both the Second Review and Dr. Gormley, a comprehensive and systematic review of financial management, reporting and budgeting in the CGIAR was thought to be in order. This study was commissioned by the CGIAR secretariat in January of 1984.
1.2 Objectives

The study had three broad objectives that were designed to address the concerns brought on by the evolution and development of the CGIAR and by the financial environment within which it operates:

- To improve the budget process so that it better meets the needs of its users by relating budgeting and financial reporting more closely to program planning and decision making.
- To make suggestions for improving financial management within the CGIAR system.
- To improve the comparability of financial reporting from the centers so that reports can give a more accurate picture of resource allocation and overall financial status, and make possible better comparisons for budgeting and other system-wide purposes.

In any study as broad and complex as this, a principal concern was to maintain focus on a specific set of objectives. A number of operating parameters were identified to assist in this task. The emphasis of the study was on the development of management tools for financial management, reporting, and budgeting in the CGIAR. In doing so, the study examined the financial policies, procedures and products of the CGIAR and its constituent parts. The study was also viewed to be complementary to others being undertaken or planned in the CGIAR, such as the TAC review of priorities, management reviews and the impact study.

1.3 Approach Taken

From the very start the study took the view that the CGIAR was an institution worth preserving; its fundamental premise was that if the CGIAR was to prosper in the years ahead then its budgeting, financial management and reporting had to be based upon the needs of the participants in the System. This led to a focus on three major questions:
- What kinds of financial policies and procedures could be developed to support the needs of the CGIAR and, at the same time, provide assurances that the funds continue to be well spent?

- What kind of financial planning framework was most relevant for the understanding and presentation of objectives, strategies, programs and costs?

- What kinds of financial information should the centers and the support units such as the CGIAR secretariat be providing to the CGIAR and in what format?

Together these questions touched on all areas of finance, i.e., the planning, raising and use of funds in the CGIAR. Question one looked at a number of issues as they related to financial management, particularly accounting. In the context of this study accounting refers to a set of policies and procedures by which the transactions of an economic entity (either an individual center or all centers as a group) are processed, measured and assembled, and the information contained therein is conveyed to users. Question two was a budgeting or resource allocation question. In its most narrow definition a budget is a financial plan. More broadly, budgeting embodies a process, a set of techniques and an analytical framework by which an entity's goals and objectives are translated into programs and costs. It does not refer to resource allocation itself, rather it describes the steps and procedures leading up to it. The distinction is important: one refers to management tools or inputs and the other to the actual decision making. It is also important to note the distinction between budgeting (planning) and the flow and types of funds (raising). Notwithstanding this distinction, the two processes by which plans are made and funds are raised are interrelated such that the analysis of one must take into account the necessities of the other. Question three looked at reporting and the financial information set most appropriate for the CGIAR. The answers to all three questions helped to provide a perspective to the mission of the CGIAR: forward looking through the articulation of plans, goals and objectives; current through the results of operations; backward looking through a set of financial standards by which to measure the efficiency and effectiveness of investments.
The study was carried out over a two-year period. Year one was devoted to discovery, discussion and hypothesis formulation. Year two was one of testing, analysis and development of recommendations.

The study emphasized wide-ranging discussion and consultation throughout the CGIAR, focusing on two groups: practitioners of financial management, and users of financial information and other financial management products. Twelve of the 13 centers were visited and substantive discussions were held with both scientific and financial staff. Among the donors a large cross section was visited, including those providing unrestricted, restricted and extra-core support, as well as those requiring different kinds of financial reporting. Considerable input was also received from the TAC and its secretariat, and from the CGIAR secretariat. For professional input and feedback an independent Advisory Panel was formed. Although the members were representatives of the participants in the CGIAR, each served in a personal capacity. And on occasion, special working groups composed of center directors, TAC members and Advisory Panel members met to discuss specific issues. In June and October of 1985 the principal financial staff of most centers also met to discuss the draft accounting recommendations and made suggestions for their improvement. In short, the views and opinions of those having an interest in the finances of the CGIAR were heard and considered during the course of the study.

1.4 Summary of Findings and Recommendations

The study concentrated on the needs of the participants — centers, donors, TAC and its secretariat, and the CGIAR secretariat — in the System. In large measure these were derived from their expressed or perceived responsibilities and authorities in the CGIAR, as described in the accompanying Table 1. At a very generalized level those needs were found to be:

- a mechanism for the evaluation and selection of operating strategies in response to expressed CGIAR objectives.
<table>
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<th>AUTHORITIES</th>
<th>NEEDS</th>
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<td>CENTERS Management</td>
<td>1. To expend funds in line with stated objectives.</td>
<td>1. To manage, in every aspect, the operations of the center.</td>
<td>1. Security, stability and certainty of funding.</td>
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<td></td>
<td>2. To ensure that the institution has a sound financial structure covering both the quality and quantity of assets, liabilities, and fund balances.</td>
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<td>2. Operational structure that ties financial plans to actual activities of the centers.</td>
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<td></td>
<td>3. To maintain adequate cash flow throughout the year.</td>
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<td>Budgets should reflect the way the centers functions.</td>
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<td>4. To maintain books of accounts and provide financial reports.</td>
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<td>3. Analytical framework that is consistent with other centers in the CGIAR.</td>
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<td>5. To maintain adequate control measures.</td>
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<td>4. Reporting system with three perspectives.</td>
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<td>6. To prepare program of work in line with both center and CGIAR objectives, [Long, medium, short-term perspective]</td>
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<td>a) ex ante for tying plans to priorities, goals and objectives (program of work and financial plan).</td>
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<td>7. To prepare budgets based on accurate and up-to-date financial information giving assurance that the institution is funded in accordance with needs nd that funds are applied as efficiently as possible</td>
<td></td>
<td>b) current for the control of operations (operating budgets and expenses).</td>
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<td></td>
<td>8. To oversee financial management, including, as necessary, the establishment of Audit, Finance or Executive committees.</td>
<td></td>
<td>c) ex post for the evaluation of returns to investment in research and training.</td>
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<td></td>
<td>9. To review program of work budget and other financial plans.</td>
<td></td>
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<tr>
<td>Board of Trustees</td>
<td>1. To oversee financial management, including, as necessary, the establishment of Audit, Finance or Executive committees.</td>
<td>1. To approve a Center's financial report (external audit) for the year.</td>
<td>1. In addition to management needs noted above, Boards need to maintain a center-specific view of priorities and goals, also a CGIAR view of priorities, goals and objectives.</td>
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<td></td>
<td>2. To review program of work budget and other financial plans.</td>
<td>2. To engage external auditors.</td>
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<td></td>
<td>3. To approve priorities for the center [Long, medium, short-term perspective].</td>
<td>3. To approve priorities for the center [Long, medium, short-term perspective].</td>
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<td>4. To approve Center’s program of work and budget.</td>
<td>4. To approve Center’s program of work and budget.</td>
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<td>5. To request funds from CGIAR.</td>
<td>5. To request funds from CGIAR.</td>
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### TABLE 1: FINANCIAL RESPONSIBILITIES, AUTHORITIES AND NEEDS IN THE CGIAR (CONT)

<table>
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<th>AUTHORITIES</th>
<th>NEEDS</th>
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<td>Donors</td>
<td>1. To provide funds</td>
<td>1. To require financial reports from CGIAR and individual centers.</td>
<td>1. Information that permits evaluation of competing demands.</td>
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<td>2. To assist in providing adequate cash flow to centers.</td>
<td>2. To have input in CGIAR-level priority setting [donors acting as a group] and in individual center priorities [individual donors working with individual centers].</td>
<td>2. Information that ties programs or activities in centers to CGIAR priorities, goals and objectives.</td>
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<td>3. To work within existing mechanisms of CGIAR for program and financial review, i.e., to not make undue requests on centers for information that could be obtained through standard CGIAR reports.</td>
<td>3. To be selective in funding individual centers.</td>
<td>4. Comparability of financial information and analytical framework in centers.</td>
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<td></td>
<td>5. Like Boards, need to maintain two viewpoints: a) CGIAR view of priorities, goals and objectives and b) their country's or institution's priorities, goals and objectives.</td>
</tr>
<tr>
<td>TAC and its Secretariat</td>
<td>1. To advise the CGIAR on priorities and programs for future work, with a short, medium and long-term perspectives.</td>
<td>1. To coordinate System-level priority setting.</td>
<td>1. Framework for evaluation of competing demands.</td>
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<td>2. To advise the CGIAR on scientific aspects of a center's work.</td>
<td>2. To make recommendations to CGIAR about annual program of work for System as a whole and for individual centers.</td>
<td>2. Comparability and full disclosure of financial information.</td>
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<td></td>
<td>3. To coordinate external program review.</td>
<td>3. Common basis for the evaluation and selection of program activities in centers.</td>
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<td>CGIAR Secretariat</td>
<td>1. To manage the stabilisation fund.</td>
<td>1. To request information from Centers, Donors and TAC for the purpose of providing reports.</td>
<td>1. Comparability and full disclosure of financial information.</td>
</tr>
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<td>2. To provide financial analysis to the CGIAR.</td>
<td>2. To issue budget preparation guidelines.</td>
<td>2. Financial information for the purpose of making System-level funding estimates.</td>
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<tr>
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<td>3. To provide economic analysis to the CGIAR.</td>
<td>3. To recommend financial policies and procedures to the CGIAR.</td>
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<td>4. To coordinate the budget process</td>
<td>4. To coordinate external management reviews.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. To coordinate the funding raising (core) process.</td>
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security, stability and certainty of funding.

- comparability of financial information and standardization in presentation.

- financial information that provided a means for measuring that funds were spent in line with objectives and were applied in an efficient fashion.

- a financial system — encompassing budgeting, management and reporting — that fits with the structure and operations of the CGIAR. This implied a system that is largely self governing, i.e. that works through checks and balances, runs on self discipline, and is able to highlight trends, imbalances and imperfections.

Emerging from these needs were three broad themes that highlighted not only the past development of the CGIAR but also its possible future direction:

- managing size and growth. This was repeated many times during the course of the discussion on budgeting, financial management and reporting in the CGIAR. How does the CGIAR optimize size and rationalize growth in the activities that it undertakes? From the perspective of this study this implied the development of a planning technique and an information product that highlighted the financial costs and expected benefits of the alternatives weighed by decision makers.

- encouraging innovation. The major challenge here was not simply in designing a financial system that helped to maintain focus on the primary tasks in the CGIAR — research and training — but one that encouraged the development of growth points in the System. The challenge was to capture the entrepreneurial spirit so important to research within a financial structure containing sufficient checks and balances.
• managing change in a complex and dynamic scientific environment. In what way could both flexibility and stability be built in to the CGIAR's financial structure to meet the needs of the IARCs and ultimately of their clients and collaborators?

Following from these needs and themes a number of recommendations were made. Also coming out of the study was a series of guidelines covering certain responsibilities and standards that needed to be met if these recommendations were to have their optimum impact.

1.4.1 Recommendations

Accounting

Accounting policy. This calls for the adoption of a CGIAR-wide accounting policy by the centers based on generally accepted accounting principles (GAAP). The objective is to have a system based on a common set of concepts, principles and definitions and thereby achieve a degree of standardization and comparability in financial information.

Financial statement. This suggests a common format for the centers' Financial Statements, again with an eye to a standardization and comparability of information.

Other financial reports. In a similar vein a recommendation is made for the format and content of the periodic reports that centers submit to restricted and extra core donors.

Overhead expenses. These should be charged and paid on every restricted and extra core project. The preferred method would be a ratio of general administration and plant operations in the overall activities of the center.

Financial Management

Operating funds (working capital). The centers should be permitted to make charges to operating funds in any amount in a given year, at the
discretion of their Boards of Trustees, for up to three consecutive years. Effectively this removes the previous upper limit of 30 days working capital. This change is viewed as critical to enhanced financial management in the CGIAR, addressing directly the security, stability and certainty of funding issues. Operating funds are then expected to be used to smooth out small-scale financial fluctuations.

**Inflation and foreign exchange.** Following from the above recommendation the centers are made responsible for financing small scale requirements with respect to inflation and exchange rates. A necessary first step in this process is between the centers and the CGIAR secretariat on the monitoring mechanism and the information set used in arriving at estimates of needs.

**Fixed assets.** Also following from the increased resources available through operating funds the centers would be expected to finance, partially or in full, small scale additions to fixed assets.

**Self-sustaining activities.** Centers are required to define clearly these activities and are also required to show financial results of these operations in their Financial Statement. Again this is intended to provide full disclosure of financial information and make for easier comparisons of the actual research and training costs of a center.

**CGIAR administered funds.** Currently only the stabilization mechanism can be considered a CGIAR fund. It represents an important development in the System but now, with the possibility of increased operating funds in the centers, it has the potential to provide additional assistance. It must be permitted to grow to meet the larger scale instabilities and uncertainties that the CGIAR also faces. Possibilities for other CGIAR funds exist also and these should be explored. Through the fund-raising unit, the CGIAR secretariat should investigate the potential of both a capital development fund and an endowment fund.

**Budgeting**

**Strengthening the criteria for the evaluation and selection of activities.** This recommendation calls for the centers to classify all their
activities (core and extra core) in two ways: 1) a program base and 2) additional program activities. This program base is defined as the array of a center's activities for which the CGIAR has a clear advantage in the production of international agricultural research and training goods and services. This program base is fixed for five years and has first call on CGIAR funds. Additional activities outside the base represent areas in which each individual center enjoys an advantage. These are identified and reviewed annually and are open for both CGIAR and non-CGIAR funding. The distinction is important. The base describes a CGIAR advantage and thus the optimum use of its funds; items outside the base encompass a center advantage which is funded through an open-ended process, i.e., from both CGIAR and non-CGIAR sources.

**TAC's participation in the review process.** TAC should work with centers in defining their base. It should also incorporate the base concept into external program reviews. And finally as part of the annual review of budgets TAC should assess the continued appropriateness of a center's base and classify its other activities as being appropriate for CGIAR and non CGIAR funds, using the guidelines suggested above.

**Strengthening in the information products of the budget process.** Three kinds of information products are suggested. Centers would be required to produce for publication a request for funds. This is essentially a strategic document explaining the demand for its goods and services (core and extra core), how that has shaped the center's priorities, what "baseline" set of activities has been agreed upon and why, what "other" activities have been identified, and what is the expected cost of these operations. For their internal use the centers would produce a management oriented budget document. The Integrative Report produced by the CGIAR Secretariat would be changed to an Annual Report and strengthened by providing a broad range of information on the financial performance of the CGIAR and of the individual centers. This report would be facilitated by the standardized financial statements and requests for funds prepared by the centers. The Annual Report thus would contain results of performance, financial analysis of past years, and comments on future plans. The individual commentaries on centers, currently published separately, should be streamlined and incorporated into the Annual Report.
Open-ended funding. No change is suggested in the current resource allocation procedure: individual donors will still support individual centers. It is recommended, though, that the base have first call on CGIAR funds and that any other activities above the base be open for funding from any source, i.e., CGIAR or non-CGIAR funds.

1.4.2 Guidelines

Centers. The recommendations contained in the report imply an enhanced role for boards and management in the planning, use, and raising of funds. As a balance to this, the centers are required to adopt a common set of accounting policies and financial information products that permit the evaluation and comparison of activities and results. The recommendations concerning the use of funds have as their key element the increase in operating funds. They provide centers with a mechanism for more financial flexibility, and assumes that management and Boards will use these funds wisely, drawing down on them in ways that are beneficial to the centers as well as the System. It is suggested that these measures would be considerably more successful if the centers - particularly their Boards - were able to maintain both a System and a center view of priorities and objectives. This implies a commitment to the baseline set of activities, accepting its conceptual basis and applying its criteria in a fashion consistent with other centers in the CGIAR. It also assumes guidance from Boards in striking a balance between CGIAR and non-CGIAR sources of funds.

Donors. The recommendations on budgeting act to identify the thread that binds the System together but also to permit the expression of individual donors priorities. The base describes the reasons why the CGIAR exists; additional activities identify individual funding opportunities. The intention is to identify the optimal uses of funds in the System. In order for this to occur the donors must agree that, for the centers they choose to support, the base has priority. Much like the centers, the donors must always maintain a balance between needs at the System level and their individual priorities.
TAC. In order to make the budget base an effective management tool TAC needs to be able to apply consistently the criteria for the evaluation and selection of activities. This implies the review of project proposals as well as ongoing performance evaluations. This means an explicit tie to the external program reviews. Two questions need to be asked: 1) are the activities identified in a centers base correct, i.e., is there really a critical mass and a System-level efficiency?; and 2) what is the qualitative assessment of the activities that are being carried out?

CGIAR secretariat. The CGIAR secretariat is a service unit. In carrying out its tasks it is often required to strike a fine line between administration, governance and oversight. The finance function in the CGIAR secretariat is an example of this, and involves several facets. One covers financial analysis including the review and consolidation of centers' financial statements and requests for funds. Another involves analysis of the economic environment in major operating and donor countries, looking primarily at inflation and exchange rates with an eye towards making predictions and setting trend lines. And lastly, it also involves financial management itself, i.e., coordinating the flow of funds, coordinating the steps in the budget process, managing the stabilization mechanism, working with donors and centers, and maintaining a tie to the fund raising activities in the CGIAR secretariat. Providing information on these fronts, while maintaining a focus on coordination, will make a major contribution to the success of the budgeting and financial management recommendations.

1.5 Outline of this Report

Chapter 1 has provided a brief description of the study, its origins, objectives, approach taken and a summary of its findings and recommendations. Chapter 2 describes the CGIAR, what makes it “special”, and what makes its financial needs complex. It also describes in detail some characteristics of the CGIAR that have financial implications. Finally, it looks at some financial trends, as a way of giving depth and perspective to the financial development of the CGIAR. Chapter 3 deals exclusively with financial management issues. It looks at both general and specific needs in this area,
then goes on to describe current policies, procedures and products, and finally makes a series of recommendations for improvement. Chapter 4 covers budgets using the same methodology as Chapter 3: current practices and recommendations for improvement. Chapter 5 looks at CGIAR-wide structural and management issues, and the implications that the study’s recommendations will have for the operations of the CGIAR particularly as they relate to roles and responsibilities, functions and flows.

The report also contains three technical appendices that demonstrate how to implement the recommendations contained in this report. The first is a statement of accounting policies and procedures for the IARCs and includes the suggested format for the presentation of financial information. The second appendix covers budgeting and financial management, describing the steps in building the budget using the new techniques, and providing a suggested outline and layout of the recommended request for funds document. This appendix also gives specific guidelines for the management of inflation and foreign exchange. And lastly, the third appendix covers financial information products prepared by the CGIAR secretariat and makes suggestions for their objective and content. It is hoped that both practitioners of financial management and users of financial information will find these appendices helpful. Practitioners will be able to use them in carrying out their own internal operations while users will find here a reference document that helps to interpret and analyze the policies and information products of the CGIAR and the IARCs. Perhaps most important of all, though, is that by providing both practitioners and users with the same references, the standardization and comparability that is so necessary for discussion and analysis will have been achieved.
Chapter 1 Notes

1. US dollars throughout unless noted otherwise. Figures are from the 1983 Integrative Report.

2. The study was initiated in January of 1984, with the appointment of a Study Director by the CGIAR secretariat and the selection of an Advisory Panel. Since then the following activities have been carried out.

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January-March. This start-up phase concentrated on the development of a discussion paper and agenda for the initial meeting of the Advisory Panel held in February. At this meeting many of the conceptual underpinnings and formulations of the study were discussed. The meeting helped to focus on the desirability of preserving the CGIAR system, the notion that financial management and budgeting ought to be “needs driven” from both the centers’ and donors’ point of view, and the constraints, checks and balances that can prevail in an informal, consensus-oriented organization.

April. The Study Director visited CIP and CIAT for a program overview and discussions related to the study.

May. The Study Director attended the annual meeting for the Centers’ Board Chairmen at CIAT and gave a presentation on the study, its terms of reference, its conceptual foundations, and its anticipated outcome. Among the many ideas and suggestions from the Board Chairmen was that one way to improve the current budget process was to streamline it. The Study Director also visited donor representatives of the Netherlands, Switzerland, Germany and France, attended the May meeting of the CGIAR, met with the representatives of WARDA, and visited ICARDA.

June. The Study Director visited IITA, ILRAD and ILCA, and attended the joint meeting of the Center Directors and TAC. At this meeting discussions were held both individually and jointly with these groups. The urgency of certain reforms in the budget process was
noted, especially in the area of improved techniques, standardization of terms and procedures, communicating financial requirements to donors, analysis of competing demands, and monitoring of performance.

**July.** Following the TAC/Center Directors' meeting, the Advisory Panel met for the second time. At this meeting the Study Director's work to date was reviewed by the members of the panel. The substance of discussions with centers and donors was covered and certain issues, concepts and themes were highlighted. A good deal of discussion took place about the current budget process itself with an eye to making a preliminary, testable recommendation for change to the TAC and the centers for the 1986 funding cycle. Lastly, the Advisory Panel helped to clarify the roles and responsibilities of the participants in the CGIAR. Later, the Study Director visited IFAD, the TAC secretariat and the IBPGR.

**August.** The Study Director visited ICRISAT, IRRI, and Japan.

**September.** The Study Director visited USAID, the World Bank, the Inter-American Development Bank, IFPRI, CIDA, IDRC, United Kingdom, Sweden, ISNAR, and the European Economic Community.

**October.** The Study Director visited the Ford Foundation. A midterm status report was also prepared and discussed with the Advisory Panel at its third meeting. The report was later discussed with the TAC and the Center Directors just prior to International Centers' Week, and a brief summary presented to the members of the CGIAR. One of the outcomes of discussions with the TAC and the Center Directors was the agreement to test a new budget technique. As a result, a working group was formed made up of TAC and Advisory Panel members, and Center Directors from the test case centers. The Study Director was requested to develop guidelines for the use of this budget technique.

**November-December.** The technique being tested involved the definition of the budget base for each center. The guidelines developed by the Study Director sought to provide a common framework for defining that base.
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January. The working group on these test cases met and reviewed the Study Director’s proposal for defining the budget base. After discussion and some revision a framework was agreed upon and the Study Director was requested to prepare general guidelines for the presentation of these test case budgets. These were mailed in late January.

February. The Study Director coordinated the preparation of CIM-MYT’s test case budget presentation.

March-May. Preparation of a draft report.

June. A meeting of the Advisory Panel was held to review this draft. Later, it was discussed with the Center Directors and TAC at their mid-year meetings at IRRI.

July-September. Review and revision of the draft report with assistance from special sub-committee of the Advisory Panel. A draft report for circulation to all parties in the CGIAR in October was the outcome of this process.

3. Advisory Panel for the Financial Management and Budgeting Study

Mr. Raymond Audet. Vice President (Resources), IDRC.

Dr. Dana Dalrymple. CGIAR Staff, USAID.

Dr. John Dillon. Professor of Agricultural Economics and Business Management, University of New England; Chairman of the Board, ICRISAT.

Dr. William Gormbley. Consultant to Management.

Mr. Peter Greening. Deputy Executive Secretary, CGIAR Secretariat.

Dr. Alexander F. McCalla. Professor of Agricultural Economics, University of California at Davis.

Mr. R. Tadvalkar. Senior Financial Officer, CGIAR Secretariat.
Dr. Guillermo Joandet. National Director for Research, National Institute for Agricultural Technology (INTA); Member of the Technical Advisory Committee of the CGIAR.

Dr. Roger Rowe. Director for Administration, ILRAD.

Mr. Edward Sayegh. Financial Controller and Treasurer, ICARDA.

Dr. Joab Thomas. President, University of Alabama, Former Chairman of Board of Trustees, CIP.

Dr. T. Davies. Overseas Development Administration.
Chapter 2

The Present CGIAR Financial System

- Structure and Operations of the CGIAR
- Some Financial Characteristics and their Implications
- The CGIAR over Time: A Financial Perspective
- Summing Up
- Notes
2.1 Structure and Operations of the CGIAR

The CGIAR is an association of individual entities having shared interests whose organization reflects a mission or mandate orientation. Two characteristics stand above all others when one thinks of the CGIAR: its unique structure and the complexity of its operations. The unique structure of the CGIAR is marked by informal rules, a non-hierarchical make-up and decision making by a consensus of its participants. Its complexity is manifested in the kinds of activities it supports, and the ways in which these activities are carried out.

There are at least five components distinguishable in the structure of the CGIAR:

- **the group**: the donors to the CGIAR plus fixed-term representatives;
- **the centers**: the thirteen independent international research centers supported by the CGIAR;
- **the TAC**: the Technical Advisory Committee and its secretariat;
- **the CGIAR secretariat**: a service mechanism for the CGIAR.

Collectively the above four groups are known as the System. And, increasingly, cooperators and client institutions are becoming a part of the structure of the CGIAR. This is happening through networking arrangements and bilateral collaborative research agreements with individual IARCs.

The informal, non hierarchical structure is partly by design and partly due to the complexity — with its implications for governance — of its operations. A list of some of the attributes of the CGIAR gives an indication of just how complex these operations are:

- a concentration on agricultural research and training in a variety of areas, with a mix of “upstream” and “downstream” activities;
• global, international or super-regional mandates with operations or relations with virtually every developing country in the world;

• multiplicity of kinds of IARC's being supported: crops, livestock, agroecological zone, economics and management.

The way in which the operations of the CGIAR are carried out is also important. Underlying each activity is a demand function (for the research and training goods and services produced by the IARCs) and a production function (describing inputs and their combinations) that circumscribes a mode of operation. Understanding these demand and production functions, the operating strategies that go with them, and the technical and physical environments in which they take place, poses a major challenge for all components of the CGIAR, and has implications for the planning and use of funds invested in the CGIAR.

The CGIAR’s attributes, its array of activities, and the production and demand functions underlying each all seem to call for a structure that is at once flexible, i.e., able to operate effectively in a changing environment, and also has a dispersed decision-making structure. For this reason the configuration of the components of the CGIAR is largely decentralized. But even if the System is not a system but instead a configuration of shared interests, something must hold it together. This suggests a set of needs quite the opposite, i.e., a centralizing factor in the configuration. One implication of this is an underlying tension — not necessarily negative — in the CGIAR between centralizing and de-centralizing tendencies, i.e., reasons for combining or binding together the structure in a more unified way and reasons for leaving it dispersed.

2.2 Financial Characteristics and their Implications

The purpose of the above discussion was to provide a brief look at some of the forces that shape the financial characteristics of the CGIAR today.
These characteristics are derived from both its structure and the complexity of its operations. Five are notable:

- individual and collective funding decisions made by donors, reflecting both their individual autonomy and their commitment to the goals and objectives of the CGIAR;

- individual and collective financial plans submitted by the centers, with much the same viewpoint as donors mentioned above;

- mode of financial support, e.g., institutional vs project; unrestricted, restricted, and extra core funds;

- international character of the CGIAR;

- non-profit financial environment.

Individual and collective funding decisions made by donors are a reflection of the CGIAR as an association of shared interests as well as its informal, consensus-oriented structure and management. The donors, collectively, approve a budget level for the centers (and implicitly for each individual center) and then, individually, make pledges to fund the centers. The key point is that while the aggregate budget level is approved by the donors collectively, evaluations of competing demands and allocations are made individually. A center's level of donations is, therefore, the sum of a number of such individual decisions, rather than the reflection of the will and desire of the CGIAR as a whole. Total funding to the System is the aggregate of these individual decisions. Donors can also restrict their funds to a particular activity and thus reinforce their individual view of the CGIAR's goals and objectives. This suggests that what has come to be called "market forces", i.e., the sum total of donors' individual funding decisions, is an important element in the resource allocation process. As a corollary to this, there is the role of the donor of last resort. Two extremes are possible: the donor of last resort serves as a buffer against market forces or its funds flow in accordance with other donor resource allocation decisions. This is a topic that will be mentioned later in the report.
The obverse of the individual and collective funding decisions made by donors are the individual and collective financial plans presented by the centers. Their implications focus mainly on the budgeting or planning process. The impact of centralizing and decentralizing tendencies is also evident. The centers, acting individually, currently prepare plans for submission to the CGIAR for approval and funding. The plans are first reviewed and approved by each Board of Trustees, and then reviewed again and recommended for funding by the TAC. Once the donors approve an overall budget level, the individual and collective funding decisions, and all that implies about funding, types of funds, etc., comes into play. Two important issues present themselves in the process, i.e., the role of individual Boards of Trustees, and the role of TAC in the review process. At the System level the issues of evaluating competing demands, decision making, and articulating objectives, strategies and plans are again important. Here, too, the reasons that bind the centers together and those that keep them apart are important. The desire for a CGIAR-wide perspective and vision of goals and objectives necessitates some kind of System-level review and this, in turn, requires standardization and comparability of definitions, analytical frameworks, formats, etc. This System-level orientation brings out also the issue of balance and growth in the CGIAR. What keeps the centers apart is the recognized need for independence in the pursuit of their goals and objectives and the desire to avoid an excessive bureaucratization of the CGIAR. The implication of these disparate tendencies is a need for harmonization in the planning process and an understanding of the roles and responsibilities of the various constituent parts of the CGIAR as they relate to financial matters.

By themselves these individual and collective decisions on funding and planning are important for understanding the way the System works. But their interaction is also important for it is this interaction that constitutes resource allocation in the CGIAR. By understanding this, especially the role of “market forces”, one gains insight into the kinds of financial policies and procedures appropriate for the CGIAR.

Types of funding have increased in importance and complexity in recent years. 1/ At the CGIAR's inception, financing for the centers was done largely in an "institutional mode", i.e., funds were donated to a center for
use in research and training activities as decided by the center. Over time these activities supported by the CGIAR in an institutional mode came to be called “core activities” and received the bulk of the center’s funding. At the same time certain special projects or activities engaged in by the centers were funded outside the CGIAR mechanism. In the early years of the CGIAR the term “special projects” referred, not only to a different source of funds but also to a different type of activity. However, as the centers sought to grow and core funding became increasingly constrained, they turned to special project funding to finance in many cases “core-like” activities. Special project funding came to be known as “extra core”, not because it described different activities, but because it described a source of funds that was outside the CGIAR mechanism. In many cases this extra-core funding was a very close cousin of core funding, often coming from the bilateral side of a donor agency while the CGIAR or core donation came from the multilateral side. Over time the result was: 1) that the original distinction between core and extra core became blurred, and 2) that the terms “core unrestricted”, “core restricted” and “extra core” grants came to describe sources of funds rather than types of activities.

This change in the mode of financing in the CGIAR is one of the more important financial developments in recent years. The desired growth of the centers, the donors expressing their preferences, donors following domestic or internal funding restrictions, and the budget procedure that encourages a core/extra-core distinction have all played a role. The current challenge is to design a financial structure whose foundation is long-term institutional support, but which also encourages centers to take on additional projects, especially those that might be future growth points for the center and the CGIAR as a whole. At the same time this ideal structure must also satisfy prevailing financial requirements and restrictions.

As an international entity the CGIAR adheres to certain financial norms and procedures. It is a dollar denominated organization, meaning that the books of account of the centers are kept in US dollars and reported in the same currency. This “dollarization” of the CGIAR is a construct common to many international organizations: books of account and reports are normally shown in one currency and in many cases the dollar is the logical choice. This construct, however, is entirely artificial, i.e., it says
nothing about the actual financial flows of the centers. In fact, these take place in many currencies. The implication of this is that the centers and the CGIAR system are faced with a series of issues such as the management of foreign currencies, translation of foreign currencies, and the valuation of assets and liabilities.

As not-for-profit entities, as well, the centers operate in a financial environment somewhat different from other organizations. This has a number of implications, as for example in accounting rules and financial analysis techniques. Also important is the centers' revenue structure which is based predominantly on grants or contributions, with over 95% of revenues to the centers coming in this form. While pointing out the potential for some center-specific problems such as cash flow, at the System level this reinforces the need to develop a workable funding process that better matches a center's programs with available funds.

One other issue relates to the kind of work the centers do and the type of financial and management structure they have adopted. Like many other not-for-profit entities, the centers produce goods and services that are difficult to measure. The output of research and training, for example, might be knowledge, procedures, or intermediate goods such as germplasm. This points out the need for a clear, well-defined information system that permits comparision and accountability of the centers and facilitates both ex-ante forecasts and ex-post measurements. One objective in a reporting system might therefore be for the centers' (and the CGIAR’s) financial information to reflect the activities that comprise their “raison d’etre”. The information system, for example, should define and place the centers and the System in the universe of development assistance programs. It should also facilitate as a first step and integrate at a later step the vision, long-range plans and strategic considerations as articulated by the System. This has implications for fund raising, resource allocation, budget monitoring, and measurement of the CGIAR’s past and future returns on investment in research and training.
2.3 The CGIAR over Time: A Financial Perspective

A description of structure and operations provides a snapshot view of the CGIAR and a glimpse at the principal characteristics shaping the System's finances today. But how has the CGIAR changed over time and what conclusions may be drawn from this? Certainly a notable trend has been the System's success: CGIAR funding has grown almost 10-fold in 13 years, new centers have been established, new donors added, and perhaps most importantly of all, the notion of an international research center providing specific services and collaborating in a number of ways with national agricultural research systems has been firmly established.

Figure 1 on the following page describes CGIAR funding to the IARCs (i.e., not including extra-core or special projects) for the period 1972 to 1983, in both nominal and constant 1980 dollars. Both lines show a dramatic upward slope indicative of high annual rates of growth. In nominal terms the average annual rate of increase during the period was 19%; in real terms the figure was 12%. This funding trend can be divided into two sections: pre- and post-1980. Prior to 1980, the System was adding new centers and acquiring new activities. Significantly, though, the fixed investments in physical plant and operating costs common to established centers had not yet come "on stream". The dramatic increases in this period — nominal average annual rates of 22% and real rates of 15% — were reflective of a period expansion in the CGIAR. 1980 was a watershed year, though, for beyond it the growth curve takes on a different character. Between 1980 and 1981 the real change is negligible, partly because of high rates of inflation in the US. From 1981 to 1982 the curve turns upward again, although a part of this is due to the entry of ISNAR into the CGIAR. By 1982, US inflation had begun to fall and this also contributed to the real increase. In 1983, two events took place that contributed heavily to the real upward movement: the transfer of some special projects into core (and thus funded by the CGIAR) and the devaluation of the Mexican peso (which over time resulted in the return of some $9 million to the System). Without these events, funding in 1983 would likely have been lower in real terms than in 1982. Thus, the two periods present rather different images:
pre-1980 impressive real and annual rates of growth and post-1980, still with dramatic increases in nominal terms but perhaps a levelling off in real terms.

Figure 1. CGIAR Funding to the IARCs 1972-1983
Source: Integrative Reports 1973-1984
The effects of this levelling off are demonstrated in a different way in Figure 2. This relates eventual levels of CGIAR funding to requests made by centers. In its early years (1973 - 1975) the CGIAR sometimes had funds available in excess of requirements (no data are available for 1972). By 1976, however, an apparent gap existed between the eventual level of funding and the centers' requests. By then, some capital programs of the newly established centers were underway, and some of the older centers were adding new dimensions to their research programs with the establishment of regional offices, and the expansion of collaborative networks. From 1976 to 1979, these gaps were largely manageable through the deferment of certain activities. Beginning with the 1980 budget cycle, however, reductions in the demand for funds on the part of the centers were required to be incorporated into the planning cycle.

Figure 2. Actual CGIAR Funding Compared to Totals Requested

Source: Integrative Reports 1973-1984
Without assessing cause and effect, Figure 2 shows quite clearly that from 1980 onward the demand for CGIAR funds was greater than its supply. From 1980 through 1982, the gap grew each year until 1983, when it finally was narrowed. What is even more remarkable is that the funding estimates that established the total demand for funds incorporated the actual funding experiences of the previous years. Thus a shortfall in one year was presumably incorporated into the planning process for the following years. Hence the gaps shown in Figure 2 probably underestimate the degree to which the demand for CGIAR funds outstripped their supply. 2/

The previous tables showed a levelling off of CGIAR funding to the IARCs and an apparent gap in supply and demand for funds. Table 3 below shows another dimension of the funding process: extra core and special project grants to the IARCs. Over the 1972 to 1983 time period the trends on special project grants are just the reverse of the CGIAR trends; in the initial phase the growth of special projects was moderate but in beginning in 1979 they increased at a rapid rate. Again without drawing any precipitous conclusions (partially because the data are less reliable on special projects), it appears that non-CGIAR sources of funds have become especially important to the IARCs in recent years as CGIAR sources have tailed off.

Figure 3. Extra Core and Special Project Funding to the IARCs


*Note: Beginning in 1983 some special projects were transferred to "core"
Another aspect of funding relates to the process by which funds are pledged and distributed among centers. Figure 4 gives one perspective on this funding process and Figure 5 shows the distribution of funds to the centers. In 1972, three donors provided 65% of the funds to the CGIAR, eight donors gave 31% and five donors 4%. By 1983, with the growth in the number of donors, 7 donors were now providing 65% of the funds, 13 donors 31%, and 15 donors the remaining 4%. As shown in Figure 4, in 1972 the distribution of donor contributions had a degree of balance, i.e., the largest number were providing about one-third of total funds while those providing relatively small and large portions were approximately the same in number. By 1982, however, the largest number of donors were providing a small portion of total CGIAR funds, thus giving a skewed character to the distribution of funds. As a structural change, this alone is important, and it undoubtedly has played a role in matching the supply and demand for funds. The changes in absolute numbers of donors between 1972 and 1983 have also had an impact on funds distribution. Raising close to $200 million a year is by itself difficult, and doing it from 40 different entities requires significant administrative and coordinating efforts. But mobilizing 4% of total funds from 15 of the 40 donors increases those efforts by an order of magnitude.

![Figure 4. Distribution of CGIAR Donor Funds](source: Integrative Reports 1973-1984)
Just as the process by which funds are pledged and made available to the CGIAR has become more complex so has the adjudication of funds between centers. Figure 5 compares this distribution between centers in 1973 and 1983. In 1973 four centers received half of the donors' funds; and two others the remaining half. By 1983, nine relatively smaller centers were receiving 50% of funds and four larger centers the remainder. Balance and growth in the CGIAR, critical mass, and the optimum size of centers are the issues that immediately come to mind in looking at these comparisons.

Figure 5. Center Shares of CGIAR Funding

Source: Integrative Reports 1973-1984
But the System has been shaped by more than funding trends. Operating conditions, often the result of external financial forces, have also played a role in determining the level of funds made available to the centers and the effectiveness with which these funds are put to use. The two dominant factors have been inflation and exchange rates.

Figure 6 shows the value of the US dollar against the currencies of 18 industrialized countries for the period 1972 through 1983. It can be broken into three major periods.

- **1972 to 1977**: The dollar fluctuated slightly, and probably lent an aura of stability to a period when the CGIAR was expanding.

- **1977 to 1979**: The dollar weakened considerably, the effect being to increase the numbers of dollars made available to the System from pledges made in any of these currencies. This favorable trend came at a time when centers' funding requests were increasing as newer centers were coming on stream, and when the first funding gaps were beginning to appear. (See Figures 1 and 2). The juxtaposition — more dollars being made available and funding gaps appearing — is a curious one and perhaps contains within it a suggestion for financial management in the CGIAR. Quite possibly, between 1977 and 1979 the weakness of the dollar masked the beginning of the funding gap. What this suggests is the need for a reporting system that clarifies these kinds of trends and encourages their correct and meaningful interpretation.

- **1979 to Present**: A quite opposite and more powerful trend began: the strengthening of the dollar. This reduced the number of dollars made available to the System, possibly overstated slightly the funding gap in that period, and introduced an element of instability and uncertainty in the finances of the CGIAR. Neither of these are new to the System because under freely floating exchange rates they are always present. But beginning in 1979 they had a decidedly negative impact on the operations of the centers. What this suggests is the need for a mechanism — a management tool — that has the potential to smooth out this instability and remove this kind of financial
uncertainty in the planning and use of funds. And to carry this just one step further this mechanism should not just make ex-post adjustments for, in many cases, this only adds to the instability and does little to relieve the uncertainty.

Figure 6. Value of US Dollar Compared to 18 Industrialized Countries

Source: IMF International Financial Statistics 1984 Yearbook
Figure 7 shows another aspect of the financial environment during the period 1972 to 1983. This covers inflation rates in the major operating countries of the centers and compares them with inflation in the USA over the same period. One special case is notable: Mexico. Beginning in 1981 it began to suffer from hyperinflation which flowed throughout the System via funding requests. Though less dramatic, inflation in other countries was also serious. In 1972, their starting points on the index were all lower than that of the USA, but by 1983 their index numbers, with one exception, were all higher. They thus faced steeper rates of price increases over the period, which were reflected in increased funds requests. Certainly this also contributed to the funding gap shown previously in Figure 2. From an operating standpoint, though, inflation, much like exchange rates, led to the instability and uncertainty that has permeated the financial environment of the 1980s.

Figure 7. Inflation Rates in Selected Home Countries of IARCs

Source: IMF International Financial Statistics 1984 Yearbook
2.4 Summing Up

How do all these pieces fit together and what implications might be drawn from them? First, like any organization, the CGIAR is shaped by the environment in which it operates. Inflation, exchange rates, operating costs and funding trends have all had an important influence on the activities of the System. Second, the structure and operations of the CGIAR, and its financial characteristics give rise to a host of issues, such as the process for evaluating and reviewing competing demands, "market forces", types of funds, standardization and comparability of financial procedures and information, and the measurement of investment efficiency and effectiveness. The eventual solution to the CGIAR's financial needs must address both the external environment and the System's characteristics, and do it in such a way as to maintain at the forefront the continuing commitment that the donors and centers have to international agricultural research and training.
Chapter 2 Notes

1. See also the 1984 Integrative Report

2. It is important to note the aggregate nature of these figures. While the supply and demand for CGIAR funds did not match in an aggregate sense the gaps in individual centers varied considerably.

3. This hyperinflation precipitated a devaluation in Mexico which is not discussed here. The effect was to free up $9 million for redistribution in 1982-83 to other centers. Other countries with high rates of inflation suffered devaluations as well, though none of the magnitude of Mexico's.

4. The exception is Nigeria which was close to the US level. In Nigeria an overvalued currency contributed to high dollar-denominated operating costs. This also pushed up requests for funds.
Chapter 3

Financial Management

- A Financial Management Overview

- Accounting Issues
  - Needs and Objectives
  - Present Policies, Procedures and Products
  - Recommendations

- Other Financial Management Issues
  - Needs and Objectives
  - Present Policies, Procedures and Products
  - Recommendations
3.1 A Financial Management Overview

This chapter looks at several aspects of the management of funds. It first covers the policies and procedures that relate to the collection, measurement and assembly of financial data, and then at the manner in which the resulting information is conveyed to users. Broadly speaking, this means the accounting system used by the international agricultural research centers. The second part of this chapter describes certain issues related to the management of financial resources in the CGIAR. These include inflation, foreign exchange, acquisition of fixed assets, and surpluses or carryovers of funds.

The general objective of financial management in any enterprise —profit or non-profit— is to maximize the return on investments through the efficient and effective use of funds. In doing so, the financial management system should have at its foundation a data base that permits the measurement and classification of transactions that over time describes the condition and activities of an entity, and permits the communication of meaningful information to user groups. This user orientation is important. Principally it means the full disclosure and comparability of financial information. Implicit in this is a need for standard concepts, definitions and procedures flowing into the data set. This is what makes comparison of financial information possible and gives meaning or substance to its full disclosure.

In the CGIAR some financial management needs are more specific. Because the System is informal, mission-oriented, and largely decentralized, the eventual financial management structure should be easy to understand, contain self-regulating mechanisms, and should encourage all participants to focus on scientific research and training. Two kinds of viewpoints should be kept in mind. One, which could be called a “System view”, looks for the optimum use of funds in the CGIAR. The second, called a “center view”, looks at their major operating concerns: certainty (divergence of approved from actual funds), stability (foreign exchange fluctuations) and security (erosion due to inflation) of funding.
3.2 Accounting Issues

3.2.1 Needs and Objectives

As ongoing legal and financial entities, the centers are obligated to maintain financial records and produce year-end reports on their activities. In doing so, they are expected to follow generally accepted accounting principles (GAAP), i.e., the conventions, rules and procedures that together define accepted accounting practice. Throughout the world organizations have a degree of flexibility in interpreting and applying GAAP, and non-profit organizations, such as the IARC's, usually have more flexibility than most others. Among the centers this has sometimes resulted in different accounting policies that make financial comparisons difficult. As a start, then, what is required for financial management in the CGIAR is an agreement on a common set of policies based on generally accepted accounting principles.

Why is GAAP so important to the accounting systems of the IARCs? Two reasons come to mind. First because it provides a logical and consistent viewpoint for the financial transactions in which the centers engage. And second because it embodies six principles that are fundamental to the functioning of the accounting systems of the centers. These are:

- **historical cost**: This forms the basis for assigning value to transactions. By historical cost it is generally meant the exchange price on the date of the transaction.

- **revenue realization**: "To give accounting reports uniform meaning, a rule of revenue realization is essential. This rule states that revenue is realized when 1) the earning process is virtually complete and 2) an exchange transaction has occurred". This rule is important because most revenue is in the form of pledges or grants. This topic is discussed later in the report.

- **matching**: This is related to revenue recognition and is the rationale for the accrual basis of accounting. Its fundamental principle is that
expenses may be matched in the same accounting period with the related revenues, regardless of whether a cash outflow has occurred. This has especially important connotations for the management of certain types of grants in the IARCs.

- **consistency**: This means that the entity should use the same methods from one accounting period to the next. It does not mean that a change in accounting methods cannot be made; but if that is done then the effect of the new method on the results of prior periods should be stated.

- **full disclosure**: This requires the presentation of sufficient information to permit the knowledgeable reader to reach an informed decision.

- **objectivity/verifiability**: Information related to financial transactions must have as its basis an objective determination and must be verifiable.

Figure 8 shows the structure and flow of an accounting system and its information products in an IARC. The accounting system has three major areas:

- **philosophy**, i.e., the basic axioms and concepts comprising GAAP. (These are covered in more detail in Appendix 1);

- **policies**, which set definitions and procedures for the processing and measurement of financial data; and

- **the chart of accounts**, which governs the assembly of data. Items contained within the chart of accounts measure financial stocks (assets, liabilities and fund balances) and flows (revenues, expenses and income).

The information products flowing from this system cover three perspectives:
- **ex-ante**, which covers mainly the data required for financial planning such as in budgets and projections of expected benefits from investments. This topic is discussed in the following chapter.

- **current**, which takes up-dated financial plans and converts them into detailed operating budgets and assists in controlling actual results against the operating budget. Because these are center specific issues, they are not discussed in detail in this report.

- **ex-post**, i.e., principally the audited financial statements presented by the centers. Financial statements report on financial stocks and flows. As a minimum they contain reports on a financial position at a point in time (balance sheet or financial condition), a report on changes in cash levels during a period of time, and a report on changes in net assets during a period of time (income or activity statement). Additionally, financial statements contain notes describing significant accounting policies, unusual occurrences, and explanations about selected items in the three major statements. Other financial information, which is not required but is commonplace, is contained in supplemental tables. These often include important data on performance, viability and segmentation. The presentation of the centers' financial statements is the major information product discussed in this chapter.
FIGURE 6: STRUCTURE OF AN ACCOUNTING SYSTEM AND ITS INFORMATION PRODUCTS

ACCOUNTING SYSTEM

- Philosophy
  - Basic Concepts and Principles
- Policies
  - Processing and Measurement of Data
- Chart of Accounts
  - Assembly of Data

INFORMATION PRODUCTS

- Ex Ante Perspective
  1. Financial Planning
  2. Projections
- Current Perspective
  1. Operating Budgets
  2. Financial Control
- Ex Post Perspective
  1. Financial Statements (Audited)
  2. Financial Analysis
3.2.2 Present Accounting Policies, Procedures and Products

A number of topics demonstrate the degree of divergence in the accounting policies of the centers. This is not meant to imply that the accounts are incorrect. On the contrary it shows why there is a need for an agreement on policies within this framework. Selected issues are discussed below; they are by no means the only accounting issues facing the centers, rather they demonstrate the potential impact of a standardized set of policies based on GAAP.

Revenue recognition (Grants)

This is an area of large divergence in policy and procedure. The importance of standardization in this area stems from the need that users have for an accurate and comparable data set from which to fulfill their information needs. Two kinds of grants are covered: unrestricted, and restricted or extra-core. (CGIAR vs non-CGIAR funds is irrelevant here). Unrestricted grants generally pose no problem. At the time a pledge is made, usually in the first month of the financial year, a donor receivable is established for the amount pledged and is cancelled when funds are received. Any uncollectible portion of the pledge applicable to the current year remains charged to accounts receivable and forms part of the center's revenue in that year. If the pledge is later judged to be uncollectible it is written off against revenue of the year in question. This is the general practice among the centers though only one center includes its policy concerning write-offs in the notes to its financial statements. Grants carrying some form of restriction (multi-year, program, etc) pose a different sort of problem. Suppose, for example, a donor pledges $500,000 for a five year project with annual budgets of $100,000. In the first year the donor pays $100,000 to the center, but the center only records $50,000 worth of expenses under the project. (Some donors require that budgets be spent in full each year. That is not an issue here.) What is the proper amount of revenue that the center should record in the first year? Some centers record the full $500,000, others $100,000, and still others $50,000. The correct amount is the last
one. Why? Because it meets in full the revenue realization, matching and full-disclosure principles that comprise GAAP. The important point is that because the grant is restricted in some way revenue can only be earned when those required activities have been carried out. The measure of those activities is the expenses incurred under the grant. The preferred treatment under GAAP is to record $50,000 in revenue, and the remaining $50,000 as a payment in advance to the center. By not doing so, i.e., recording $500,000 or $100,000 as revenue, the restriction implied under the grant is not being met and revenues are overstated.

**Overhead expenses**

Overheads are a group of non-allocable expenses (also called indirect costs) incurred in varying degrees by the centers. Plant operations (maintenance, etc) and general administration (accounting, purchasing, etc) are the two most common types of overheads. Centers also incur allocable costs or expenses. These, because they occur in easily identifiable units, are charged directly to a program, be it unrestricted, restricted or extra core. An example of this might be the salary and benefits of a plant pathologist working on a specific project. By contrast, non-allocable expenses are accumulated only as core-unrestricted expenses. Because of the nature of the general administrative and plant operation functions, their expenses are not easily identifiable with the activities of a particular project, and, therefore, are not allocated to restricted or extra-core projects. Overhead expenses originate from the attempt by centers to distribute as appropriate these non-allocable expenses to the various funds and projects that make up the centers, i.e., unrestricted, restricted and extra-core programs. The basis for this distribution is often the percentage involvement of general administration and plant operations in the overall activities of the center. As a financial management procedure this is common and acceptable, and for many non-manufacturing entities, also an efficient practice. This is not to say that all overheads should be the same. In fact, those centers with large physical plants or with overvalued local currencies can be expected to have relatively higher overheads. Donors can guard against excessive overhead rates by ensuring that as many project-related allocable costs as possible
are identified and costed in the budget, and that overall plant operations and general administration costs are as low as possible.

Few centers charge overheads consistently to restricted and extra-core donors. Others charge them occasionally, but not based on the consistent application of an overhead calculation. Some charge overheads but do not show their results in the financial statement (i.e., overhead expenses to restricted and special projects, and fee income on the unrestricted fund). The result is a potential subsidy of restricted or special project grants by unrestricted donors because indirect costs are not shared equitably. In 1983, eleven centers reported grants with some type of restriction that totalled over $56 million. Against that total, indirect costs or fees deriving from them amounted to less than $3.0 million (the calculation is an estimate due to the varying procedures and reporting practices of the centers). At an approximate 15% overhead rate, the net effect was subsidy of close to $5.5 million.

Methods for calculating overheads can differ; the cost accounting and ratio methods are the two extremes. Cost accounting provides a precise allocation of costs but is often expensive and sometimes unwieldy to administer. The ratio method provides an accurate allocation based on averages and is simple and inexpensive to apply. More important than the method, however, is the principle that the practice of charging overheads is legitimate, and that they should be paid on every restricted and extra-core project that a center undertakes. The effect of not charging overheads is that restricted and extra-core donors are paying less than their fair share of a center’s operating costs and are creating a financial burden for other donors and for the CGIAR as a whole.

Expenses arising from the translation of foreign currencies

This has been a topic of much discussion in the accounting profession since the advent of freely floating exchange rates in the early 1970s. At the centers there are a variety of procedures used, reflecting many points of view. The issue of foreign exchange accounting arises because financial entities operate in many currencies but report in only one. This requires the
conversion of these currencies into one base, which in the case of the centers is the U.S. dollar. There are two issues: 1) the conversion of transactions and their presentation in the financial statements and 2) the valuation of assets and liabilities denominated in currencies other than the dollar and their presentation in the financial statements. In the centers a transaction is converted at the going rate on the day on which it is completed and flows through the appropriate revenue and expense accounts. The valuation of assets and liabilities denominated in foreign currencies (i.e., other than the US dollar or base currency) presents a more difficult problem. In general, the accounting profession has opted to portray any gains or losses resulting from this translation of many currencies into one as an adjustment to the institution’s fund balance.

Much of the discussion on this subject has centered on the meaning and utility of the information conveyed. This primarily has related to profit-oriented firms and, particularly, how this information would affect their stock prices. Some discussion also took place as to whether foreign currency translations ought to apply to non-profit organizations at all. But because generally accepted accounting principles and information needs exist for both profit and non-profit entities, this is now applied to non-profit organizations with significant multi-currency operations.

Expenses arising from the depreciation of fixed assets

In 1983, the total value of fixed assets recorded by eleven centers was $181.6 million. As assets, these represent future benefits to the centers which are used up in the course of producing goods and services. The accounting treatment of fixed assets in the CGIAR is to charge the entire purchase price to expenses of the current year. This lumps all the value of the asset into the first year, and does not distribute the costs incurred by the centers as the asset is used up. Thus, expenses in one year are overstated and, for the rest of the useful life of the item, they are understated. The potential problem with this current treatment in the CGIAR is that the matching and full disclosure principles of GAAP are not met and the information needs, as they relate to viability, performance and costs of service provided, are not fulfilled.
For many years (including when the CGIAR rules were formulated) this full expense treatment of fixed assets was common among non-profit entities. In 1978, however, the American Institute of Certified Public Accountants (AICPA) issued a set of recommended guidelines for non-profit organizations in which it called for the adoption of depreciation accounting. The rationale was simple: the using up of the asset each year represented a cost to the organization and should therefore be recorded as an expense of the year. The amount expensed should be the purchase price (historical cost) amortized over the useful life of the asset.

The need for information on the depreciation of fixed assets in the centers is clear under GAAP; the problem lies in the mechanism for providing it. For example, items already listed as fixed assets by the centers have been fully expensed at the time of purchase and therefore can not now be depreciated. In other centers, where capital construction is underway or planned, the yearly charge-offs would be high compared to older centers and perhaps convey incorrect information about operating costs. The issue, therefore, is not so much accepting depreciation but finding a means for implementing and operating it.

**Assets: accounts receivable**

Currently, about half of the centers provide detailed information (i.e., breakdowns by major debtors) on these accounts in their financial statements. Full disclosure, verifiability, and matching would all seem to call for this disclosure as a required piece of information from the centers.

**Recording of liabilities**

Liabilities are obligations generated by 1) payments in advance received from donors, 2) acquisition of items for the research and training programs, 3) fixed-assets purchases, 4) salaries or benefits, and 5) loans and debts, which arise from operations related to the center's activities whose liquidation is expected to require the use of resources, the creation of other
liabilities or the application of advances received. The only liabilities that should be recorded in the IARCs are those originating from:

- **payments in advance from donors.** Only a few centers record these payments as liabilities on their balance sheets.

- **services and goods already in transit, shipped or received.** The current CGIAR treatment of such items calls for the recording of all vouchers payable as liabilities (with a corresponding charge to expenses) up to a certain cut-off date (December 15). Imposing a cut-off, however, is at odds with GAAP. This treatment originates from the rule prohibiting carryovers of funds, and is discussed further under financial management issues later in the report.

- **rights accrued in favor of employees when they are attributable to services.** This generally refers to the accrual of leave time, pensions or annuities. This accrual is sometimes incorrectly referred to as a reserve (see fund balances below). Very few centers accrue these costs.

- **loans and debts arising from operations related to the center's activities.** While not a significant factor in most centers, this information should be disclosed, with the accompanying terms and provisions listed in an explanatory footnote.

**Fund balances**

These refer to the net assets of an entity. As used in the CGIAR context fund balances refer to total assets minus total liabilities, and may be disaggregated according to unrestricted, restricted, extra-core and self-sustaining activities. In a small number of centers the fund balances include an item called reserves. In accounting, this has a very specific meaning: a claim on net assets. Thus a reserve is a claim (usually for a specific purpose) on fund balances. Current rules also permit the centers to maintain “working capital” in fund balances. This is an incorrect accounting use of the term (working capital means current assets minus current liabilities), and
most centers now refer to working or operating funds. However, only about
two-thirds of the centers portray this item among their fund balances.

Financial Statements and other financial reports.

All centers prepare a Financial Statement each year. They vary in format,
content, and perhaps most importantly because they reflect the different
accounting policies used by the centers, they lack comparability and stand-
ardization. As a start, a financial statement should provide the user with
information on:

- **compliance with intended objectives.** This provides assurance
  that the mandate and purpose of the organization have been complied
  with and the resources have been used for their intended objectives.

- **financial viability.** This gives an indication of the entity's ability
  to continue to provide the services for which it exists.

- **performance.** Users need to know not only that management is
  meeting its stated objectives but also how wisely its available funds
  are being spent.

- **cost of services provided.** Most entities consist of various segments
  or programs. The accounting system and its information products
  should give an indication of the costs associated with these various
  segments, and in particular in the CGIAR, costs associated with the
  various types of funds, e.g., unrestricted, restricted, etc.

Centers are also required to produce periodic reports for some donors.
These are mainly associated with restricted and extra-core projects. At
present, there are a variety of information requirements by donors. One ef-
fact of this is to increase administrative costs in the center, mainly because
reports are often "hand tailored" to specific information requests. Also,
because of this, information on the grant is probably slower in reaching the
donor. Agreement on a standard or minimum information set would greatly
facilitate centers' operations, reduce costs, and likely result in greater effi-
ciencies in grant management.
3.2.3 Recommendations

Accounting Policy. The centers should agree upon a set of accounting policies, procedures and products that are based upon generally accepted accounting principles for not-for-profit entities. By basing these policies on GAAP the centers' accounting systems would have as their foundation a common set of concepts, principles and definitions and would yield major benefits in the form of comparability and standardization of financial information. This will also make the centers' Financial Statements more easily understood by the users, will assist in the development of a financial data set, and will have a major impact on the cost data used in financial planning and budgeting.

This revised accounting policy will necessarily touch on certain specific issues. In revenue recognition the centers should follow the matching principle, recognizing revenue on restricted grants as it is earned (i.e., as expenses are incurred). This will permit an accurate accounting of total revenues in the CGIAR. The centers should also follow GAAP in translating foreign currencies, including both transactions and the valuation of assets and liabilities. This means that gains or losses should flow through the centers income accounts in the first case and its fund balance (except in certain specific cases judged to be hyper-inflationary) in the second case. The principal benefits will be an accurate recording of a center's operating costs and, consequently, provide a full disclosure of performance and viability data. On depreciation accounting the centers should disclose in a footnote to the financial statement the estimated charges for depreciation in a given year and the accumulated net value of fixed assets. This is not depreciation accounting in its strictest sense because the charges are not actually recorded but are entered as a footnote. It is, however, substantially in agreement with GAAP because it does give an accurate portrayal of a center's operating costs, it meets the matching principle, and it provides for a full disclosure of information. On the recording of liabilities the centers should recognize liabilities in accordance with the principles stated earlier: 1) payments in advance from donors; 2) goods and services already rendered; 3) rights accrued by employees and 4) loans and debts. This will place the centers in compliance with the matching principle fundamental to GAAP and will require the accrual of certain items such as employee
benefits. Specifically, the December 15 cut-off rule on vouchers payable should be dropped. Vouchers payable would be accrued in line with the principles established under GAAP without regard to an artificial cut off date. The issue of vouchers payable is related also to operating funds and is discussed later in this chapter.

Financial Statements. The centers should adopt a common format for their (externally audited) Financial Statements consisting of the following:

- **Basic Statements**: Balance Sheet or Statement of Condition; Income or Activity Statement; Statement of Changes in Financial Position.

- **Notes to Financial Statements**: Statement of purpose; Summary of significant account policies; Non US dollar balances; Accounts receivable/Payments in advance; Fixed assets/Depreciation; Operating Funds; Overhead rates; Other significant information.

- **Supplementary Information**: Income or Activity Statement by fund; Detail of sources of revenue from grants; Restricted and Extra Core pledges and expenses.

This recommendation on the content and format of the financial statements follows from the adoption of common accounting policies in the centers. Together they yield significant benefits to the users of financial information and permit the communication of data on operating costs and efficiencies.

Other Financial Reports. The centers should adopt a common format and content for periodic reports to restricted and extra core donors. It should have four major sections: 1) Financial, showing expenses against budget, using as the expense classifications personnel, supplies and services; training, travel and fixed assets (equipment); 2) Personnel, showing those staff sponsored under the grant; 3) Training, again showing those individuals sponsored; and 4) Fixed Assets, listing major items purchased with grant funds.

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Overhead Expenses. These should be charged and paid on every restricted and extra-core project. The preferred method would be a ratio of general administration and plant operations in the overall activities of the center. This is designed to eliminate the current subsidies by unrestricted donors to restricted and extra-core donors.

3.3 Other Financial Management Issues

3.3.1 Needs and Objectives

Chapter 2 described some of the characteristics of the CGIAR and their financial implications, touching on the structure of the System, recent financial trends, and certain powerful external financial forces. Principally, these demonstrated a need for mechanisms to deal with financial flows in the CGIAR. In addition to inflation and foreign currency fluctuations, these flows cover surpluses or carryovers (excess of revenue over expenses), financing additions to fixed assets, and the operation of self-sustaining funds. At the System level, these have implications for matching the overall supply and demand for funds in any given year and for coordinating their flow. At the center level, they entail the management of resources from one year to the next and have an impact on the ability of the center to carry out program objectives and engage in program planning. The understanding of these issues, and the resolution of the needs generated by them, comes back to the general objective of financial management in the CGIAR mentioned at the beginning of this chapter. Two kinds of viewpoints must be satisfied: 1) the "System view" that looks for the optimal use of funds in the CGIAR and 2) the "center view" that seeks to satisfy their major operating concerns: certainty (divergence of approved from actual funds), stability (foreign exchange fluctuations), and security (erosion due to inflation) of funding.
3.3.2 Present Policies, Procedures and Products

Inflation

The current procedure calls for the estimation by the centers of inflation requirements in their budget documents. In recent years, as pointed out in Chapter 2, the size of these inflationary increases has been large and usually above rates of inflation in donor countries. The effect has been that in order for the centers' budgets to stay even with financial conditions in their home countries, continuous real increases in donations from the donors have become necessary. Undoubtedly this had played a role in matching total requests for funds with the available supply. It has also made it more difficult to come to an accurate estimate of supply and demand for funds over time. The current procedure, because it is tied to the budget process, requires that estimates be compiled a full year before operations begin and two years before they end. In today's world this is a difficult task. In assembling these estimates the centers also rely often on the pattern of local expenditures and on local estimates, both of which are sometimes difficult to reconcile with official statistics. Given this situation, the discussion of inflation has come to occupy a larger position in the budget review process. Partially as a result, two very positive steps have been taken at the System level: 1) the establishment of a stabilization mechanism and 2) the World Bank acting as an inflation donor. Further improvements could be made by:

- Having an agreement between centers and those who review budgets and allocate resources on the data sets to be used in estimating inflation.

- Removing the ex-post orientation inherent in the current mechanism. The current procedure calls for an estimate of inflation at the start of the year and an adjustment at the end of the year. The latter thus takes place after the price rises have been incurred. But because all CGIAR funds must be spent in a given year the full amount of the adjustment must be spent in a relatively short period of time. This adds, rather than removes, instability in the System, does not make
funds available as price rises are occurring, and may lead to unwise expenditures at the end of the year.

- Distinguishing between a predicted inflation rate and unforeseen deviations from that rate. By concentrating on predicted rates and providing a mechanism for funding any deviations as they occur, the process of estimating inflation would be much simplified. The stabilization mechanism is a good start in this area but it has relatively small resources and limited flexibility to meet price rises as they occur. What is required, in addition to the stabilization mechanism is increased flexibility for management within the centers.

Management of Foreign Exchange Exposure

This originates from the multi-currency financial flows of the centers and is distinct from the accounting treatment mentioned earlier. There are two issues here. One is what possibilities are open to the centers and the System for managing currency exposures, and the second is the adequacy of current mechanisms for smoothing out currency fluctuations. Most likely, given the current structure and desired operating mechanisms, the possibilities for managing currency exposures at the System level are few. Certainly there is no desire or need to request pledges in dollars nor is there a structure in place for centralizing all the financial flows of the System. This implies that the management of foreign currencies is an individual center decision. As they trade in foreign exchange the centers may opt to hedge their transactions and to protect assets and liabilities, and thus reduce the likely accounting effects of foreign currency fluctuations. The desirability and possibility of doing so, because it is an individual center decision, is not a subject of this report. At the System level, though, policies can be implemented to reduce the risk of fluctuation and to smooth out any consequent instabilities. The stabilization fund tries to do this, but it has some limitations mainly because it is relatively small compared to foreign exchange losses in any given year. Transaction losses in 1984, (not including write downs on net assets) amounted to $3.0 million compared to a total stabilization mechanism of about $5.0 million. Finally, as in the case of inflation, the mechanism can only make ex-post adjustments. This
suggests the need for a System-wide policy that would provide centers with a financial buffer to manage foreign currency fluctuations as they occur, and as with inflation, a mechanism that distinguishes between predictable trends for currencies (expressed by forward exchange rates) and unforeseen gains or declines.

**Financing additions to fixed assets**

The principal issue here is the flow of funds for the acquisition of capital stocks (new and replacement). The evolution of the CGIAR, with the establishment of new centers with physical plants, and the continued development of older centers, with more and more replacements, has meant a built-in need for continuing funds for capital. Also, the environment in which this development is taking place — the centers' bases of operations — is often physically harsh and difficult financially, with high costs of local goods and/or expensive imports. The combination of these factors has meant that financing additions to fixed assets has become very difficult for the System and may become more so as centers move into further "upstream" research. Current budgeting procedures have added to the confusion: new items are shown under the capital line item and replacements are treated under recurring operating costs. The effect has been to create many unknowns and uncertainties about the actual operating costs of a center. The implication of all is this twofold: 1) the need for a better portrayal of a center's capital needs and 2) imaginative arrangements for financing additions to fixed assets.

**Self-sustaining activities**

Most centers have certain kinds of activities that are designed to be self sustaining. This generally includes guest houses, cafeteria, etc. There is no standard treatment of these activities either relating to profit intentions or to their display in the financial statements. Standardization in this area would give a clear indication of a centers' operating efficiencies and its objectives.
Surplus or carryovers

These are generally not permitted within the CGIAR, though the degree to which this is observed varies. One center has a carryover of about $1.0 million that it has set aside for capital development. Another center has set aside $0.8 million for improvements/replacements of training facilities. The provision against carryovers probably originated to guard against the center building up large surpluses which could possibly turn it away from research and training and encourage it to be a money manager. (Some donors are prohibited also by their own governments from permitting carryovers of surpluses of funds.) The effect of this carryover provision has, unfortunately, probably been quite the opposite of what was originally intended, because it has required the centers to pay an inordinate amount of attention to funds management. The reason for this is that each year the centers must balance revenue and expenditures exactly, taking care not to leave any surplus (or deficit). The task is difficult and time consuming, and is made all the more difficult by the great uncertainty in funding throughout the year. By having the centers operate during the year at highly uncertain funding levels and then requiring them to spend all the funds in a given year, the current policy is inefficient, and most important of all, discourages thrift and forward planning. Its implications are felt throughout the financial management structure of the CGIAR: bunching of purchase orders at the end of the year, inability to deal with instability due to inflation and foreign exchange fluctuations, financing additions to fixed assets, uncertainty in financial planning and meeting shortfalls in funds requests. Not having the financial security that a surplus would provide makes the centers adopt short-term financial orientations that makes it difficult to plan or use their funds in the most effective and efficient manner.

3.3.3 Recommendations

Operating Funds. The centers should be permitted to make charges to operating funds in any amount in a given year at the discretion of their Boards of Trustees for up to three consecutive years. This addresses directly the security, stability and certainty of funding issues in the centers and the
problems created by not being able to carry funds forward from year to year. It can be considered the key to providing enhanced financial management in the CGIAR. A number of benefits would flow from this change in policy. Most importantly the centers would acquire the required degree of financial flexibility in planning their operations. At the System level this would encourage thrift and forward planning. Effectively this would eliminate the need for a 15 December cutoff on purchase orders, a practice that is at odds with generally accepted accounting principles and which, in the past, has probably resulted in the bunching of purchase orders at the end of each year. In this sense both the centers and the donors benefit; the centers by obtaining better flexibility and greater resources, and the donors by being assured of maximum efficiencies in operations.

**Inflation and Foreign Exchange.** Following from the above, the centers would be expected to finance from operating funds the small scale variations in inflation and exchange rates. This also provides important benefits. Mainly the centers would now have financial resources to meet their needs as they occur. This removes the current ex-post bias in the process. It also removes, to a considerable extent, these two issues from the review process and, in doing so, permits the CGIAR to focus on scientific issues.

**Fixed Assets.** Also following from the increased resources available through operating funds the centers would be expected to finance, partially or in full, small scale additions to fixed assets.

**CGIAR administered funds.** Currently, only the stabilization mechanism can be considered a CGIAR fund. It represents an important development in the System but now, with the possibility of increased operating funds in the centers, it has the potential to provide additional assistance. Currently it is only able to meet small-scale needs; now operating funds will largely take over this role. Given this, the stabilization mechanism must be permitted to grow to meet the larger-scale instabilities and uncertainties that the CGIAR also faces. For example, it could act as a reserve for certain risks or liabilities incurred throughout the System or even act as a loan fund. Much as any institution is able to leverage its capital for its own benefit the CGIAR should have the same opportunity. With the present preferred structure and management in the System the stabilization mechanism is the only tool available for doing that. Possibilities for
other CGIAR funds exist also and these should be explored. Through the
fund-raising unit, the CGIAR secretariat should investigate the potential
of a capital development fund to meet the large medium term needs of the
centers. Though operating funds will provide much needed assistance and
facilitate financial planning they are not designed to meet major fixed assets
needs. Nor is it likely that the current flow of funds can make a major con-
tribution to fixed assets. A capital development fund should, therefore, be
a priority of the CGIAR secretariat’s fund raising unit. Another possibility
along these lines are endowed funds. Both at the CGIAR and individual
center level these can provide a measure of stability, especially for long-term
institutional needs. Their development should also be encouraged.

Self-sustaining funds. The centers are required to define clearly the ac-
tivities to be included and are also required to show the results of their
operations in their Financial Statements (Table 1, Supplementary Infor-
mation). These would be expected to be self financing and would be en-
couraged to build up surpluses. This recommendation has two objectives:
1) to provide full disclosure of financial information and 2) to encourage
centers to look for ways to increase their revenues. This has the poten-
tial to decrease requests for funds from CGIAR donors and to increase the
financial resources at the disposal of the center.
Chapter 3 Notes

1. D. Kieso and J. Weygandt, Intermediate Accounting, 2nd ed. (Santa Barbara, CA.: John Wiley and Sons, 1977) p.27

2. Ibid., p.33

Chapter 4

The Budget Process

- Needs and Objectives
- Present Policies, Procedures and Products
- Recommendations
4.1 Needs and Objectives

This chapter looks at the budget process in the CGIAR. As described earlier in Chapter 1, a budget is a financial plan. A budget process is something larger, covering the steps leading up to the completion of that plan and embodying an analytical framework and a set of techniques by which an entity's goals and objectives are translated into activities, programs and costs. And as one element within the general finance function the budget process does not stand alone. It has ties to fund raising, the flow of funds and ex-post qualitative and quantitative reviews.

The budget process looks to answer four questions:

- What goals and objectives are being pursued?
- What activities does that imply and why are they important?
- How will these activities be carried out?
- How much will they cost?

Budgeting involves four management tools that makes this process possible.

- **Priority studies** that help set objectives.
- **An analytical framework** that translates objectives into programs. It is the consistent application of a set of criteria to objectives for the purpose of planning an array of activities. As a management tool it provides focus and an underlying rationale to activities.
- **A financial data base** that permits the development of cost estimates for each program. This data base flows from the accounting system described in Chapter 3. (see also Figure 8, Chapter 3).
- **An information product** that ties together the steps in the process, and communicates their outcome.
Many of the characteristics and trends of the CGIAR that were described earlier in Chapter 2 have important implications for the budget process. For example:

- **Individual and collective plans by centers, and funding decisions by the donors.** This is the overriding constraint on the budget process and, as such, implies certain needs. The most important of these is a mechanism for evaluating competing demands within the System and in the centers. One of the things the budget process ought to do is provide an understanding of the way in which the CGIAR sees its mission, and how and over what time frame it intends to implement it. This requires vision and priorities, and a mechanism for ranking and deciding among them. Collectively, this would seem to call for a common analytical or planning framework, perhaps describing a thread that binds the System together. Individually, though, that framework must also be applicable at the center level. This again is evidence of the pull of centralizing and decentralizing tendencies in the CGIAR. Accommodating these, and capturing their positive attributes, are a major challenge in designing a budget process.

- **Flow of funds.** The need here is for the best possible link between a financing mode — with its explicit donor restrictions and non-CGIAR sources of funds — and the planning process. There are two kinds of needs. One is related to the kinds of funding in the CGIAR, and the other to fluctuations in the flow of funds caused by inflation and exchange rates. The major obstacle in both of these needs lies in the potential instability of the financial flows and the consequent difficulty in making financial planning estimates. How can the budget process satisfy the need for security, stability and certainty in the operations of the centers and, at the same time, ensure optimal allocations at the System level?

- **The decentralized nature of the CGIAR.** The principal considerations here are roles and responsibilities as they relate to the budget process. The TAC and individual Boards of Trustees are two groups that immediately come to mind. What division of roles is
most appropriate? Here again one sees the need for both a System and a center orientation: the TAC providing a consistent overview of the System’s priorities and Boards providing the point of view of individual institutions. The budget process needs not only to find a congruence between those two viewpoints but also it needs to identify and understand the reasons why they might not always be in agreement.

• The distribution of funds in the System. As shown in Chapter 2 (see Figure 5), the adjudication of funds between centers has become increasingly difficult. Without providing a method for resource allocation (i.e., a decision-making algorithm), the budget process should make it more effective in two ways: 1) by using a common analytical framework, based on goals, objectives and strategies, the budget process can give an indication of choices for the CGIAR; and 2) by using a standard and comparable financial information set the budget process can shed light on the potential benefits and costs of alternative choices.

• The apparent gap between the supply and demand for funds. Should the budget process be supply driven, i.e., based on an expected level of funds, or should it be demand driven, i.e., based on intended uses of funds? Fundamentally, a budget is needs driven, based on goals and objectives (expressed individually and collectively in the CGIAR). The process of formulating that budget builds a demand for funds curve. What is lacking in the current process in the CGIAR is a corresponding supply of funds curve, in which donors’ preferences are expressed. In its absence, the demand for funds tends to overshoot. This suggests a need for some kind of adjustment mechanism when supply and demand are not in agreement. Ideally, this would take into account donor preferences (i.e., market forces), and would reward innovation and excellence, but would not alter collective priorities and would not be subject to short-term vagaries. Fulfilling these needs within a budget process is a major step in resolving the apparent disequilibrium in the supply and demand for funds.

Figure 9 shows the flow of the budget process for both the general and the
CGIAR case. It has two broad phases, first the assessment of demands or needs, and then the development of the means to satisfy them. Note that the management tools mentioned earlier are what tie the process together by giving substance to the outcome of each step.

Figure 9. The Budget Process
As a starting point in the budget process, System-level priority studies permit an assessment of the demands placed upon the CGIAR. Though not specifically a part of this study they are important for the way they shape priorities and influence the activities in which the centers engage. (This is not to discount the individual priority setting exercises that the centers themselves undertake). The process of setting priorities is one of distilling demands from a general level to those specifically related to international agricultural research. Having done this, priority studies are used to rank those demands and to come to an agreement on System-wide mandates, goals, and objectives.

The transition from mandates, goals and objectives to the design of program strategies or activities requires a criteria for evaluation. The objective here is to provide an underlying rationale for the activities selected, by stating, in response to expressed priorities, what activities are most appropriate for the centers. The criterion is essentially an efficiency one and is based on the assumption that a center (and the System) undertakes an activity because it has an advantage in doing so. These advantages manifest themselves in a number of ways, for example:

- **Derived from the international character of the centers and of the System.** This might favor addressing multilateral issues, demands, or problems, over those that are site-specific or bilateral in nature. Also included here would be specific aspects of a center's mandate, such as germplasm conservation.

- **Based on the existence of a critical mass in a center to address a specific problem.** In this case the center is endowed with a comparative advantage to undertake certain research and training activities.

- **Based on the underlying economics involved in satisfying a particular demand.** This goes back to an earlier statement about the complexity of the CGIAR and the need to understand the demand curve and the associated production function for the goods and services produced by the System. In such cases, three factors of production are important: human capital (scientific knowhow and
administrative capacity), physical capital (facilities) and institutional capital (stability, continuity, non-political structure, networking arrangements). The interaction of these production and demand functions might indicate potential economies of scale, unique capabilities in satisfying demand, or simple efficiencies in production.

The criteria for evaluation of activities distills priorities into actual plans. The effect is that the resulting array of activities has an internal consistency, i.e., each planned activity is designed to address a priority and to do so in an efficient way. The third management tool takes these programs and assigns cost estimates to them. The basis for doing this is the accounting system described in Chapter 3. It is based on the concepts and principles of generally accepted accounting principles, and is assembled according to a common (at least at a macro-level) chart of accounts. Thus the cost estimates have a similar internal consistency. Together, the result is a plan that is standardized and comparable both in its approach to priorities and activities, and in its financial data set. The combination of these goes a long way to satisfying the need for evaluating competing demands.

The final step is the preparation of the budget itself. The result is an information product with two kinds of uses. The first is as a management control device to coordinate activities during the year. It thus has an implementation emphasis. The second use, which is of greater concern to this study, is the link that the budget provides to program review, fund raising and allocation. This reflects a planning emphasis by tying goals and objectives to activities and costs.

4.2 Present Policies, Procedures and Products

The current process has five perspectives:

- **Technique.** This describes the way in which the financial plan is prepared, specifically the management tools used to derive activities and cost estimates from an agreed upon set of priorities.
• **Review.** This mainly tries to answer the questions: By whom?; At what stages of the process?; And what kinds of outcomes are expected?

• **Information.** This is concerned with the information product, i.e., whether it provides sufficient and appropriate data for review and eventual allocation. It also recognizes the different users of information and their specific needs. Those users include management, trustees, donors, TAC, the secretariats and various client groups.

• **Flow.** This is mainly concerned with the logistics of the process, i.e., dates and required activities. Effectively, this prescribes a planning horizon for the System and is important for the way in which financial projections are made, and for the link-up with other functions such as fund raising.

• **Allocation.** The budget process is intended to make the task of resource allocation easier and to give optimal results by making clear the potential costs and benefits of alternatives. The budget process should also facilitate the allocation of funds, particularly in the CGIAR, where donors make individual decisions and can apply varying degrees of restrictions.

Each of these is discussed below.

**Technique.** Under the current process the centers receive estimates of funds available and build programs around them. In the early years of the CGIAR this meant the planning of program additions. Later, with the advent of funding shortfalls and following the Second Review of the CGIAR the concept of a budget bracket was introduced, and with it, fallback and forward lists. Then for the 1986 budget cycle, a simple change list was implemented, which was conceptually similar to the fallback and forward lists. Taking a given amount as a budget base or starting point (usually the previous year's funding) the bottom of the bracket looked at program changes in the face of a real decline in funding while the top looked at increases. The purpose of this technique is to demonstrate changes in a center's program at the margin. It addresses a very legitimate planning
question: what would the institution do if it had more resources or if it had fewer resources?

Is this a useful management tool for the CGIAR planning process? As far as it goes - yes - but it is not without flaws. For example does it permit the evaluation of competing demands? Yes, but only at the margin; the remainder of a center’s program is untouched. The reason for this is that in the current process much of the budget is based on the past, i.e., fixed on an historical basis (though there have been some exceptions). But the major problem is that because the technique looks only at the margin it does not provide an understanding of the “whys” and “wherefores” of a centers array of activities. As a management tool, then, it does not explain fully the relationship between programs and priorities, particularly why those programs have been designed to address a set of needs and why those are superior to any other alternative.

One other issue related to the current budget technique is that the budget for the CGIAR is drawn up mainly for core funds. Extra-core projects are reported but do not enter into the planning framework. The omission is important because of the marked growth in extra-core funds in recent years. The current procedure perhaps errs by trying to match a budget with CGIAR sources of funds exclusively. By distinguishing between core and extra core in the plan, and approving only a core funded segment, the System effectively places an artificial distinction on a center’s program and on the flow of funds. This makes it difficult to respond to market forces, to donors individual needs, and to attract new core initiatives into the System. The result has been the growth of “core-like” extra-core projects funded on a bilateral basis, a possible decline in actual core funds, and the potential loss of the matching funds provided by two donors.

Review. In the current process review takes place in three stages by different groups:

- by an individual Board of Trustees which approves a draft budget for submission to the CGIAR;
• by the TAC, which reviews draft budgets for the purpose of making a budget recommendation for each center based on the expressed priorities and objectives of the System;

• by the donors who individually and collectively approve a CGIAR budget and allocate funds individually in support of it.

Because of the current flows and budget techniques in the System, the review process is heavily weighted to the consideration of short term issues. The combination of the current one year cycle and the consideration of annual changes at the margin is the cause. Also because of the quality of information flowing from the financial data set, much of the review process is taken up with the techniques that the centers use to assemble the cost estimates that make up their forward, fallback and change lists. The result is a review process that is probably less than optimal because the reviewers are not able to make judgments in light of priorities, program effectiveness and efficiency, or comparable alternatives.

Information. The principal information products of the budget process are the individual budget documents prepared by the centers. At various stages in the process these are used by five distinct groups: 1) Boards of Trustees for the review and approval of a draft budget; 2) the TAC and its secretariat for program review and budget recommendation; 3) the CGIAR secretariat for coordinating the flow of funds and preparing budget commentaries; 4) donors for deciding on allocations; and 5) management of individual centers for drawing up the year's operating budgets. In their budget document the centers prepare standard financial tables and follow, though loosely, a narrative format suggested in the budget guidelines.

Two kinds of problems present themselves with the current information set. First, because of the differing accounting policies and procedures currently in use, the financial data flowing into the budget process is neither standardized nor comparable. Second, the current budget document, with so many users, must satisfy a multitude of needs. Boards of Trustees and management, for example, require an operational orientation in their information, covering such things as staffing plans and financial analysis. The TAC, CGIAR secretariat, and donor groups, however, have a different set
of needs. Theirs is related more towards planning, specifically how does the budget relate to System-level and individual donors' priorities. Also, some information needs, such as efficiencies and total funds required, are common to both groups.

A number of other information products are important to the budget process. The minutes of TAC meetings, special reports such as the training and the priorities studies, the budget commentaries mentioned above, and the integrative report all provide information about budgets. With the exception of special studies, they report on outcomes or results of deliberations and as such are useful in the review of programs and the allocation of funds.

Flow. The current budget process covers twelve months. It begins late in the year when the CGIAR and TAC secretariats jointly prepare budget guidelines that deal with procedures, logistics, the expected financial environment, and specific instructions for each center. In January these are sent to the centers. From January to March (and in some centers beginning much earlier) the centers prepare draft budgets for review and approval by their Boards of Trustees. In late March, the centers send these draft budgets to the TAC and its secretariat for review, and to the CGIAR secretariat for the preparation of draft budget commentaries. These draft budgets are discussed in June at the joint meeting of center directors, TAC and the CGIAR secretariat. The outcome of the meeting is a recommended level of funding for each center based on TAC's review of programs, up to date information on likely funding levels, and agreed upon estimates of inflation. Based on this recommendation the centers publish a final budget and distribute it to donors. From June through November, these are reviewed by the individual donors. In November, at International Centers Week, the membership of the CGIAR discusses and adopts formally a budget level, and then individual donors make pledges to the System. Though adopted formally, the budget is only a notional figure and does not represent committed funding by donors. By December, the process has come full cycle, the centers are preparing their operating budgets for the coming year and the secretariat is beginning to prepare the budget guidelines for the next planning cycle.

A number of points are worth mentioning about the flow and the way it addresses the System's budgeting needs and objectives:
The process has only tenuous links to fund raising. This is more structural than intentional, and is related to the difficulty donors have in making estimates or projections of their pledges more than one year in advance. The effect is important nonetheless and needs to be considered in making recommendations. The question concerns centers as well as donors, i.e., is there a way in which a firm estimate of needs can be conveyed to donors for them to incorporate into their own planning process?

The process is largely supply driven. Ideally it should be needs driven, with perhaps an “escape mechanism” for when supply and demand are not in equilibrium. If the process is to be fully demand driven then an understanding of the supply of funds curve, e.g., its slope, is essential in planning activities. But for structural reasons the supply of funds curve is not readily forthcoming. (Indeed because of parliamentary restrictions it is not well known even by donors).

Allocation. Allocation of funds is done by individual donors, following, hopefully, the recommendations of TAC. In most cases the funds flow directly to individual centers. Chapter 2 showed that in recent years a gap has existed between the funds requested from the CGIAR and those actually flowing to the System. Because of the allocation mechanism and the apparent gap in funding a number of issues arise. The principal concern is over the development of an adjustment mechanism for reacting to shortfalls in funding. This has implications for the donor of last resort, for the role of “market forces” in the CGIAR, and for those donors whose funding is based
on a percentage of total CGIAR funding. In the latter case it is important for those donors to have a reasonably precise estimate of funding on which to base their calculation. But it is the former — market forces — that is of prime importance to the CGIAR. If individual funding decisions are to remain, how does the System make up shortfalls in individual centers? Should it make them up at all? By virtue of being a member of the System the center has a claim on resources. But if because of changing priorities or qualitative assessments, the sum total of individual funding decisions for a particular center are significantly less than requested what can or should be done? Conversely, what about centers that are able to attract additional funds to the System. Under the current structure the core budget places a ceiling on CGIAR funds. With the recent growth of extra-core funds for core-like activities this suggests that ceiling may be low for some centers. Should there be a mechanism for rewarding centers that are able to attract funds for “core-like” projects? Again this goes back to the role of market forces in the System. Is there a way to capture their positive attributes, while at the same time preserving the security and continuity of funding in the CGIAR?

4.3 Recommendations

These recommendations are formulated around the five perspectives in the budget process, and address the wide ranging and complex set of needs, objectives, and issues described above. Not all of the issues discussed in this Chapter, such as roles and responsibilities, are covered in these recommendations. Some that are more appropriate to System-level structure and management issues that are discussed in the following Chapter.

Technique

Strengthening the criteria for the evaluation and selection of activities. All centers would be required to classify all their activities (core and extra core) in two ways: 1) a program base and 2) additional activities. This program base would be defined as the array of a center’s activities for which the CGIAR has a clear advantage in the production of international...
agricultural research and training goods and services. This would be fixed for five years and would have first call on CGIAR funds. The additional activities outside the base would represent areas in which an individual center enjoys an advantage. These would be identified and reviewed annually and would be open for both CGIAR and non-CGIAR funding. The distinction is important. The base describes a CGIAR advantage and thus the optimum use of its funds; items outside the base encompassing a center advantage which would be funded through an open-ended process, i.e., from both CGIAR and non-CGIAR sources. (see below)

Activities included in the base would be exclusively multilateral, emphasizing the advantage accruing from being an international organization. They would draw on mandates, human, physical and institutional capital, and on the demand and production functions associated with specific goods and services. The criteria for inclusion in the base would be:

- Can the center provide an efficient response to an international demand, i.e., by engaging in the activity, can the center draw on its international character to produce a good or service at a lower average cost than others? This would include cases where the center is the lowest-cost producer, i.e., where it has a unique capability to produce the good or where economies of scale exist, and cases where it is low cost producer, i.e., one of several producing at a lower cost than others.

- Is the center endowed with resources to produce the goods and services, i.e., does a sufficient critical mass (human, physical, and institutional capital) exist to give the center a comparative advantage.

- Is the activity within the center’s mandate.

The activities that would fall into the base using these criteria would include:

- Germplasm collection and conservation, e.g., banks.
- Germplasm testing and improvement programs and networks (crops and livestock) for mega and macro environments
Other activities in so far as they contribute to lowering the average cost of producing 1) and 2) above including:

- most disciplinary research,
- research liaison aspects of regional programs but not institution building within specific countries,
- some training,
- some communications activities,
- some economics activities, e.g., policy studies, data collection, and research procedures, and farming systems research as it contributes to the understanding of production systems in mega and macro environments, but not site specific research.

Items falling outside the base would be no less important in meeting a center's set of objectives, but their basis would be derived from a different type of advantage. This would encompass a set of activities that an individual center does well but for which, as yet, no System-wide advantage in producing the good or service can be discerned. The distinction is between the set of advantages that the CGIAR enjoys by virtue of being international, and a different set of advantages that a center may enjoy by virtue of location, history, or particular competence in an area. Some of these activities outside the base may be appropriate for funding by the CGIAR because their benefits may accrue to the international community but not be appropriate for inclusion in the baseline set of activities, because there is no System level advantage in producing the good. Other activities would not be appropriate for funding by the CGIAR because both the mode of operation and the expected benefits are strictly bilateral. Activities that might fall outside the base would include:

- Appropriate for CGIAR funding:
  - pilot projects, testing innovative or exploratory research topics
  - some site-specific work whose findings might have broader implications, such as farming systems and agronomy research
- training
- communications
- regional programs

- Appropriate for non-CGIAR funding:
  - country programs
  - bilateral activities
  - some training
  - some communications

What kinds of advantages would the introduction of the base provide and what kinds of needs or objectives would it fulfill? Principally it fulfills the need for a mechanism — a management tool — to evaluate competing demands, it meets the objective of maintaining a System view and center view, and it also fills in gaps or weaknesses in the current process.

- **Evaluating competing demands.** By providing the means for an internally consistent classification of activities the base fulfills the need for a management tool that connects priorities with programs. By requiring an understanding of the demands for goods and services, and the production functions necessary to meet those demands, the base goes a long way to explaining the whys and wherefores, and providing focus to the centers’ activities. The base technique also makes an explicit distinction between CGIAR and non-CGIAR activities. It thus provides a program basis for assigning restrictions that can be matched easily with different sources of funds. Notwithstanding this, it also encourages institutional support by defining activities for a five-year period.

- **System view/center view.** Because the base identifies those activities for which the System has an advantage, over time this should result in the optimal allocation of funds. And because it has first call on CGIAR funds over a five-year period the centers need for security,
stability and certainty (in combination with recommendations contained in Chapter 3) is satisfied. The "base/other" distinction also captures the positive attributes of market forces while preserving the factors that bind the System together. The latter is found in the base, while individual expressions of support are manifested in funding for other activities. The open-ended nature of this funding (described later) also serves to permit the expression of market forces. The base also addresses the issues of balance and growth in the CGIAR. Its internal consistency permits the comparison of alternatives, and its delineation along CGIAR advantages and center advantages gives an objective viewpoint of balance and growth.

- Gaps in the current process. The introduction of the base removes the current short-term horizon to the process (it also changes the review function considerably. This is mentioned below and discussed further in Chapter 5.) Also, because constant dollar requirements are known up to five years in advance the minimum requirements are known to donors, who may then be able to plan their allocations with greater anticipation. As a planning device the base/other technique is essentially needs driven (as a budget ought to be) but takes account of supply conditions. Instead of the current ceiling imposed on core funds, the base/other technique establishes a funding floor for the System (i.e., the base), yet permits a ceiling in individual centers (i.e., all others) as high as donors, expressing market forces, wish to make it. It also improves upon the current technique of the budget bracket by introducing a zero base element through the definition of a base once every five years.

Review

TAC's participation in the review process. Following the introduction of a new budget technique, the TAC should take a number of steps to strengthen its participation in the budget review process. These are in addition to the very positive developments that have occurred in recent years, among them the priorities framework and the concentration on program issues in the annual review. Most importantly, the TAC should work with centers in defining their base, using the guidelines mentioned
above. The TAC should also seek to incorporate the base concept into the external program reviews. And finally, as part of the annual revision of the centers' budgets, the TAC should review the continued appropriateness of a center's base and classify its other activities as being appropriate for CGIAR or non-CGIAR funding, again using the guidelines developed above. This classification of each center's program would then serve as a guideline for donors in making their funding decisions. This recommendation for the TAC draws on its expertise as a scientific body and reinforces its role in the CGIAR of assessing priorities, providing a consistent System level viewpoint of research and training activities, and assisting donors in their evaluation and funding decisions.

Information

Strengthening the information products of the budget process Centers would be required to produce for publication a request for funds only. This request for funds would be essentially a program document explaining the demand for its goods and services (core and extra core), how that demand has shaped the center's priorities, what baseline set of activities has been agreed upon and why, what other activities have been identified, how they have been classified by TAC, and what is the expected cost of these operations.

The request for funds should define and place the centers in the universe of international agricultural development assistance programs. Using the criteria for the evaluation and assessment of activities and the standardized financial data, the request for funds document conveys to users the alternatives faced by the CGIAR and permits informed choices to be made. This forms the beginnings of a framework for ex-ante projections and ex-post measurements of rates of return, impact and cost and benefits of goods and services provided. And because it is standardized and comparable from both the standpoint of activities and financial concepts, it can also be used as a base for special studies such as regional impacts, research efforts by crop, etc. The overall effect is an information product that meets the varying needs of users and focuses on the mission of the CGIAR.

For internal use only, the centers would also produce a management-oriented budget document.
At the System level, the Integrative Report currently produced by the CGIAR Secretariat should be changed to an Annual Report and strengthened by providing a broad range of information on the financial performance of the CGIAR and of the individual centers. This would be facilitated by the standardized financial statements and request for funds prepared by the centers. The Annual Report would thus contain results of performance, financial analysis of past years, and comments on future plans. The individual commentaries on centers, currently published separately, would be streamlined and incorporated into the Annual Report. There would thus be two kinds of documents made available to the CGIAR: 1) a request for funds published by each center and 2) an Annual Report prepared by the CGIAR secretariat, containing mainly consolidated System-level information.

Flow

No basic change in the current flow of the budget process is suggested. It will continue to be an annual cycle with five year forward estimates. A number of changes will take place however as a result of other recommendations. First the annual estimate of requirements will be more accurate using the base as a starting point and will have lessened the impact of inflation and exchange rates (by virtue of the financial management recommendations made earlier) on the budget process. Second, the five-year forward plan, will now become a description of base needs. These developments will help donors in making their contribution plans and centers in making manpower and other estimates. Also, the TAC review process will take on a cycle of its own: priority studies over the longer term, base definitions and external program reviews over the medium term, and CGIAR/non-CGIAR program classifications each year in the review of the centers' requests for funds.

Allocation

Open-ended funding. No change is suggested in the current resource allocation procedure: individual donors will still support individual centers. Furthermore, no recommendation is made concerning restricted, extra core or special project grants. In fact, the budget recommendations are intended to be compatible with all of these types of funding. Indeed, a recommendation to the contrary could be harmful to the CGIAR and to the IARCs.
Some donors, for example, can only make restricted contributions. (Potential excesses on these restrictions are discussed in Chapter 5). And for the centers and the donors extra core funds represent ways of exploring new areas of research and training, for reinforcing individual expressions of priority, and for encouraging innovation.

One change, however, is recommended in the way funds are allocated and that is that the CGIAR adopt an open ended funding process. Under this any activities above the base would be open for funding from any source. The way this would work is as follows. After making contributions to the base of a center the donor would have the opportunity to select for funding "other" activities as designated by the center. There would be no limit on this and any funds flowing to the center from this process would be characterized as CGIAR funds. A guide for the donor in this process would be TAC's classification — as appropriate for CGIAR or non-CGIAR funding — of the other activities described in a centers request for funds. But this is a guide only, and the donor would have the opportunity to also select, for example, activities classified as appropriate for non-CGIAR funding. Centers would have similar opportunities, i.e., other activities not funded by CGIAR donors — whether classified as CGIAR or non-CGIAR — could be presented for funding to donors outside the CGIAR system.

The introduction of this kind of a process would yield a number of important advantages to the CGIAR, and address many of the current needs of donors and centers as they relate to funding. It would, for example:

- capture, in a positive way, donor preferences;
- encourage entrepreneurism on the part of centers and donors;
- have the potential to increase CGIAR funding and thereby possibly attract matching funds;
- encourage centers to propose innovative projects for funding;
- in no way affect funding of the base and, therefore, not detract from institutional support;
• remove the current ceiling imposed by core funding; and

• have the potential to ameliorate the gap between the supply and demand for funds, and especially to reward centers for attracting funding from donors.
Chapter 5

Structure and Management in the CGIAR

- Roles and Responsibilities, Functions and Flows
- Implications of Study Recommendations
- Operating Guidelines
5.1 Roles and Responsibilities, Functions and Flows

This chapter seeks to bring together the recommendations on accounting, financial management, budgeting and reporting, and look at the ways in which they affect the structure and management of the CGIAR. These recommendations cover a broad range of needs and objectives in the CGIAR, and address present policies, procedures and products. They include:

- Adoption of a common accounting policy based on generally accepted accounting principles (GAAP) for the CGIAR.
- Adoption of a common format and content for the centers' (externally audited) financial statements.
- Adoption of a common format and content for periodic reports to restricted and extra core donors.
- Guidelines for charging overhead expenses.
- Increased flexibility in operating funds (working capital).
- Management of inflation and foreign exchange.
- Guidelines for financing additions to fixed assets.
- Suggestions for CGIAR-administered funds.
- Suggestions for the management of self-sustaining funds.
- Strengthening the criteria for the evaluation and selection of activities.
- Strengthening the information products related to the budget process.
- Suggestions for TAC's role in budget review.
- Adoption of an open-ended funding process.
The recommendations introduce new or revised techniques that will lead to increased effectiveness in financial management, budgeting and reporting. The expectation is that these management tools will improve the operations of the CGIAR by increasing efficiency, by providing better information and by streamlining procedures. The manner in which this is achieved and its likely implications on the way the CGIAR approaches its tasks today and in the future are the subject of this chapter.

As a general objective the recommendations seek to provide the System with management tools that will help it better carry out its scientific research and training mission. They do this in a number of ways. First, the accounting and financial management recommendations provide added assurance that resources are managed effectively and efficiently and that the information products are able to highlight any imbalances or unusual items. They also provide sufficient financial flexibility and stability to operate in a rapidly changing environment. The recommendations related to budgeting give an internal consistency to the planning of resources that permits the evaluation of competing demands in the CGIAR. The standardization and comparability that results from these recommendations — both in program evaluation and cost estimates — facilitates the maintenance of a System-wide view of goals and objectives.

More specifically, though, in what way do these recommendations affect the structure and management of the CGIAR? Structure in the case of the CGIAR implies a set of norms that gives shape to the organization and holds it together. Management indicates a series of tasks and processes that are derived from this structure and describes the way in which the organization approaches and carries out its tasks. Even an informal organization meets these criteria. In the CGIAR, structure comes from an understanding of individual roles and responsibilities on the part of its components, i.e., donors, centers, TAC and the two secretariats. Management encompasses the functions and flows of the System. Functions include System-level tasks such administration, coordination and finance. And flows describe the planning, review, and funding processes that occur at the System level. Together, these roles and responsibilities, functions and flows constitute the structure and management of the CGIAR. Each one of these is affected in some way by the recommendations contained in
5.2 Implications of Study Recommendations

Roles and responsibilities

The recommendations attempt to draw on the comparative advantage of the CGIAR's components. The centers' management and Boards, for example, have an enhanced role in attracting funds and reacting to funding situations. The latter comes from the increased flexibility in operating funds. The centers role in fund raising is increased in the open ended funding process, in which centers can enter more easily into bilateral relations with donors to supplement on-going programs. The role of TAC also draws on its comparative advantage, i.e., scientific priority setting and program review. Following the recommendations, TAC is responsible for helping to develop and maintain a System-level view of the application of criteria for the evaluation of programs by centers. Also following the recommendations, the evaluation of competing demands and allocation of funds by individual donors is preserved. And finally, the CGIAR secretariat draws on its advantage in System-level coordination and is responsible for the consolidation and presentation of financial information. The standardized database and the common formats of individual center reports are what permit this.

These roles and responsibilities will establish more effective norms in the System and their interaction will make for the checks and balances by which it is governed. For example, as part of the revised budget process, TAC makes recommendations for CGIAR and non-CGIAR funding based on its scientific review and the criteria for evaluation. This is consistent with its responsibility for System-level review. Donors, however, have the final say in individual allocations. This balance preserves individual autonomy but also maintains a forum for the expression of System level views. In doing so, it protects the underlying basis for the formation of the CGIAR while
### Table 2: Principal Effects of Study Recommendations on Structure and Management in the CGIAR

<table>
<thead>
<tr>
<th><strong>Recommendations</strong></th>
<th><strong>Roles and Responsibilities</strong></th>
<th><strong>Functions</strong></th>
<th><strong>Flows</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Adoption of common accounting policy based on generally accepted accounting principles (GAAP).</td>
<td>1. Recommendations generally draw on comparative advantages of all actors, yet retains built in checks and balances on each.</td>
<td>1. Standardization and comparability in financial data improves quality of information gathered by the CGIAR secretariat and facilitates preparation of financial analysis and commentaries included in the Annual Report.</td>
<td>1. Adoption of common accounting policy and standardized financial statement format improves information about flow of funds.</td>
</tr>
<tr>
<td>3. Same as two above, as it relates to periodic reports to restricted and extra core donors.</td>
<td>3. Assists donors and TAC in their review and evaluations roles.</td>
<td>3. Review and evaluation processes improved through use of standardized data base.</td>
<td>3. Review and evaluation processes improved through use of standardized data base.</td>
</tr>
<tr>
<td>4. Guidelines for charging overhead expenses.</td>
<td>4. Improved financial information assists CGIAR secretariat in its coordination role.</td>
<td>4. Guidelines for charging overhead expenses.</td>
<td>4. Increased availability of operating funds will meet the security, stability and certainty needs in funding.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5. Because centers would be expected to make drawdowns on operating funds, there exists the potential to augment the flow of funds in a given year.</td>
</tr>
<tr>
<td><strong>Financial Management</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5. Increased flexibility in operating funds (working capital).</td>
<td>5. Centers - boards and management - have enhanced role in managing resources and reacting to funding shortfalls.</td>
<td>5. Centers - boards and management - have enhanced role in managing resources and reacting to funding shortfalls.</td>
<td>4. Increased availability of operating funds will meet the security, stability and certainty needs in funding.</td>
</tr>
<tr>
<td>6. Management of inflation and foreign exchange.</td>
<td>6. Centers also have the obligation to draw down on operating funds to finance small fluctuations due to inflation and exchange rates and to finance, at least partially, capital acquisitions.</td>
<td>6. Centers also have the obligation to draw down on operating funds to finance small fluctuations due to inflation and exchange rates and to finance, at least partially, capital acquisitions.</td>
<td>5. Because centers would be expected to make drawdowns on operating funds, there exists the potential to augment the flow of funds in a given year.</td>
</tr>
<tr>
<td>7. Guidelines for financing additions to fixed assets.</td>
<td>7. Suggestions for self-sustaining funds.</td>
<td>7. Suggestions for self-sustaining funds.</td>
<td></td>
</tr>
<tr>
<td>RECOMMENDATIONS</td>
<td>ROLES AND RESPONSIBILITIES</td>
<td>FUNCTIONS</td>
<td>FLOWS</td>
</tr>
<tr>
<td>-----------------</td>
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<td>-------</td>
</tr>
<tr>
<td>8. Centers have an enhanced role in fund raising through the relatively open ended funding of &quot;other&quot; activities.</td>
<td>4. The adoption of a baseline set of activities gives more stability to the demand for funds curve.</td>
<td>7. Open ended funding of other activities also has potential to augment flow of funds. It also encourages innovation in the planning and funding of other activities in the centers.</td>
<td></td>
</tr>
<tr>
<td>9. TAC role draws upon its expertise in scientific review. Its review of financial techniques is responsible for maintaining a System-wide view of the application of criteria for the evaluation of programs.</td>
<td>8. Coordinating the supply and demand for funds is also easier because the open ended funding in an outlet mechanism. The centers have the opportunity to seek other sources of fund without the current core/extra core ceilings or distinctions.</td>
<td>8. The criteria for evaluation clarifies the meaning of CGIAR and non-CGIAR sources of funds. It is also compatible with restrictions placed on CGIAR funds.</td>
<td></td>
</tr>
<tr>
<td>10. Donors role in making individual assessment of competing demands and allocations of funds is preserved.</td>
<td>10. Checks and balances are fortified. For example TAC makes recommendations for CGIAR and non-CGIAR funding base on its responsibility for System wide review. Donors however have final say in individual allocations. The preserves their autonomy but maintains a forum for the expression of system level views. In doing so it protects the underlying basis for the formation of the CGIAR but also encourages the positive expression of market forces.</td>
<td>9. The establishment of a baseline set of activities introduces an element of zero base budgeting in the review and evaluation process. It also streamlines the steps in the preparation of an annual request for funds.</td>
<td></td>
</tr>
<tr>
<td>11. Adoption of open ended funding process.</td>
<td></td>
<td>10. Because all activities are subject to the same criteria for evaluation and are grouped according to the same financial data base, the review and evaluation process can focus on scientific issues and the measurement of outputs.</td>
<td></td>
</tr>
</tbody>
</table>
encouraging the positive expression of market forces. And because the centers have greater opportunity to enter into bilateral funding relationships, and thus increase their funding levels, the autonomy of the centers (and especially of their Boards) is also protected. In this case, the TAC recommendations on programs become a guideline to both donors and centers, as well as a potential tool for raising funds. The wise use of this tool rests ultimately with the Boards, who seek funds, and donors, who grant funds. The counterpoint to this, though, is that TAC, in its review role, and the CGIAR secretariat, as a provider of System-level information, both have the opportunity to comment on the direction of a center’s program and the balance between CGIAR and non-CGIAR sources of funds. Thus, the revised policies, procedures and products emanating from the recommendations serve to strengthen roles and responsibilities and to preserve the checks and balances necessary for the structure and management of the CGIAR.

Functions

The finance and coordination functions in the CGIAR secretariat are the major issues addressed by the recommendations related to functions. For example, the recommendations on the management of inflation and foreign exchange make easier the estimation of a System-wide demand for funds by the CGIAR secretariat. Under these recommendations, inflation needs are largely predictable with small-scale deviations financed by the centers themselves from operating funds, and larger-scale fluctuations handled by the stabilization mechanism. The net effect of these changes is to reduce the impact of inflation needs in the planning process and thus lend more reliability to the estimated demand for funds.

Similarly, the adoption of a baseline set of activities that is fixed (in real terms) for five years, gives more stability to the demand for funds curve. Coordinating a match between the supply and demand for funds is also made easier because the impact of instabilities and uncertainties in the supply of funds is diminished. The baseline helps donors to plan their own funding intentions, while the open-ended funding of other activities provides the necessary outlet mechanism for those years in which supply and demand do not match.
And lastly the management of the stabilization mechanism is also made easier because it is no longer used to finance small-scale financial fluctuations. More importantly, it becomes a potentially useful System-level tool because it is permitted to grow to where it can be used to finance larger-scale needs.

Flows

The adoption of the recommendations concerning generally accepted accounting principles and a standardized format and content for the centers' financial statements will improve the quality and quantity of information about the flow of funds. The recommended policy on revenue recognition, for example, will lead to an accurate accounting of grants in a given year. The information products will give a better portrayal of the flow of funds especially as it relates to restrictions and to non-CGIAR sources. The review and evaluation processes also will be made easier and become streamlined through the use of a standard financial data base. For example, the current problem of having to evaluate the financial techniques used to build budgets in combination with the review of programs will be eliminated.

Financial management recommendations related primarily to the increase in operating funds could have a dramatic impact on the flow of funds. First, the increased availability of operating funds will meet the security, stability and certainty needs in funding. And because the centers would be expected to draw down on these funds to finance additions to capital stock (at least partially), there exists the potential to augment the flow of funds in a given year. The overall effect is a smoothing one, addressing both gaps in the supply and demand for funds and difficulties inherent in raising large sums of money from many sources on an annual basis.

The recommendations on budgeting have a broad impact on flows in the CGIAR. Because the base is fixed for five years the flow of funds is more stable. The classification of "other" activities may also affect the flow of funds by encouraging innovation in planning and fund raising. "Other" activities would enter the normal TAC review process and would be recommended as either appropriate for CGIAR or non-CGIAR funds. This recommendation, though, is a guideline only; its additional intention is to provide a link to funding raising activities. Any donor wishing to provide funding
would be encouraged to do so. The potential for increasing the flow of funds stems from the fact that, because all funding above the base is additive, the current ceiling imposed by the distinction “core” is removed. Even so, the budgeting recommendations are compatible with donor restrictions on funds. In fact, the classification of programs clarifies the meaning of CGIAR and non-CGIAR funds. The classification of other activities as being appropriate for CGIAR or non-CGIAR funds goes back to the original intention of funding restrictions to distinguish between kinds of activities. CGIAR funds can continue to carry the current unrestricted/restricted distinction and can be used to support either base or other activities. And lastly, the recommendations on budgeting can improve the review and evaluation process. The establishment of a baseline set of activities fixed for five years introduces an element of zero-base budgeting and streamlines considerably the current steps in the preparation of an annual request for funds. The classification of other activities, however, retains the notion of review at the margin. And because all activities are subject to the same criteria for evaluation and are grouped according to the same financial database, the review and evaluation processes can focus on scientific issues and the measurement of outputs. They thus can provide the means for a consistent analytical framework for evaluating competing demands. Without these, the CGIAR cannot plan or use funds in an efficient or effective manner.

Potential risks

As with any change in structure and management, the recommendations in this report contain a number of potential risks or downside effects. First, and perhaps most important, is the difficulty in arriving at a System-wide definition of what constitutes a “base” for all centers. The multiplicity of types of centers, the broad mandates that they sometimes have, and the consequent range of activities in which they engage all make a homogeneous base a difficult target to achieve. The guidelines contained in this report for setting a base — CGIAR vs non-CGIAR advantage — are intended only as starting points for discussion. Ultimately each center will have to decide for itself what constitutes a “base”. Perhaps the solution to this is to ask each center first what it feels is its base and then later to try to classify these base activities on a System-wide basis. If the results of tests carried out so far are any indication there will be a great deal of agreement.
on what constitutes a base activity and only small portion of what might be considered "grey" or hard to define activities.

Also related to the issue of the base is the degree to which the centers and donors accept the concept as a valid one for planning and funding activities. If either group deserts the base, the recommendations will fail. Donors must agree that the base, because it represents the area of CGIAR advantage, has first call on CGIAR funds. And centers in planning their activities must accept the base concept and not use the open-ended funding mechanism to attract support for what would otherwise be base activities. This too would destroy the underlying rationale for the CGIAR and would lead to a fragmentation of the System.

Some potential problems present themselves with the recommendations on accounting, specifically those related to generally accepted accounting principles (GAAP). The recommendation on depreciation for example, i.e., disclosure in a footnote only, is not completely in agreement with the treatment under GAAP. But because it meets virtually all the underlying principles, without actually implementing depreciation accounting, it is thought to be substantially in agreement with GAAP. This may create problems of interpretation for some external auditors. GAAP itself is also sometimes subject to different interpretation around the world, something which might have implications for the IARCs. For the most part, though, these issues for which varying interpretations exist relate mainly to the for-profit sector. Only the issue of foreign exchange gains and losses touches on the centers, and it is recommended that they adopt the treatment contained in the report.

### 5.3 Operating Guidelines

The recommendations contained in this report have an additional dimension. Beyond their effect on structure and management in the CGIAR, the recommendations imply certain requirements related to the way the CGIAR fulfills its mission. These are not so much changes in philosophy, or mode of operations, but responsibilities and standards that need to be
met if the recommendations are to have their optimum impact. As such they form the basic set of operating guidelines around which the financial system is built.

Centers

The recommendations contained in this report imply an enhanced role for management and Boards in the planning, use, and raising of funds. As a balance to this, the centers are required to adopt a common set of accounting policies and financial information products that permits evaluation and comparison of activities and results. The recommendations concerning the use of funds have as their key element the increase in operating funds. It provides centers with more financial flexibility, and assumes that management and Boards will use wisely these funds, drawing down on them in ways that are beneficial to the centers as well as the System. These measures will be considerably more successful if the centers — particularly their Boards — are able to maintain a sense of balance between a System and a center view of priorities and objectives.

A number of other center-specific issues will also enhance the impact of these recommendations. These include:

- cash management;
- the role of audit committees, external auditors, and internal auditors;
- the continued development of the finance function in the centers, looking specifically at new measures in foreign exchange management and cost accounting.

This is not meant to imply that concern for these issues does not exist in the centers. In fact they are addressed with specific policies and procedures. The interrelationship between these issues and the recommendations contained in this report is stressed, however, for together they have the potential to make a significant contribution to the financial strength of the CGIAR.
The recommendations seek to design a financial system that is in keeping with the spirit of the CGIAR. One thing that is lacking is any specific measure for ensuring their compliance. The center directors and their Boards can make an important contribution to the finances of the System if they take the leadership in seeing that the suggested policies and procedures are followed by all centers.

**Donors**

The recommendations on budgeting act to identify the thread that binds the System together and to permit the expression of individual donor’s priorities. The base describes the reasons why the CGIAR exists; additional activities identify individual funding opportunities. The intention is to identify the optimal uses of funds in the System. In order for this to occur the donors must agree that, for the centers they choose to support, the base has priority. Much like the centers, the donors must maintain a balance between needs at the System level and their individual priorities. These need not be mutually exclusive objectives and indeed, under the current recommendations, funding for the base combined with support for other activities provided donors with these kinds of opportunities.

Donors have certain other responsibilities that contribute to the operation of an effective and efficient financial system. All donors should accept, in principle the notion of overheads on restricted and extra-core grants and should indicate their willingness to pay a fair rate. Restricted and extra-core donors should also accept the suggestions for a standard financial report (see also Appendix 1) from the centers. And they should accept a center’s externally audited financial statements instead of requiring specific annual audits of their grants. Both of these suggestions would reduce the administrative burden on the centers without affecting significantly the quality of information from the centers. With regard to funds management the System would benefit considerably from donors meeting their pledge commitments at the agreed-upon times and preferably arranging, whenever possible to make payments in full in the first quarter of the year. This would greatly facilitate planning, would reduce expenses arising from bank loans and, in fact, could increase the flow of funds through short-term investments (where not prohibited by donor regulations). And finally, multi-year
pledging would streamline the current process, make planning easier, and reduce the cost of raising funds. While this study makes no recommendation for change in the current pledging horizon, a shift to multi-year pledging is desirable.

Additionally, there is the specific role and responsibility of the donor of last resort. Because of its special responsibility, the donor of last resort must achieve a degree of balance in its funding decisions that is unlike any other decision in the CGIAR. It must take great care to provide stability to the CGIAR by recognizing that the centers, by virtue of being members of the System, have a claim on funds. But the donor of last resort needs to recognize also that behind the System's market forces, i.e., the donors' individual funding decisions, are qualitative judgements of the centers' programs and potential. As an operating guideline the study suggests that the donor of last resort commit its funds to ensuring that the System level needs for the base are met.

TAC

The introduction of the base presents the TAC with a management tool to carry out its role of maintaining a System wide view of objectives and activities. Namely, the base:

- helps to identify CGIAR advantages;
- presents IARC activities in a consistent fashion, permitting their integration into CGIAR objectives, and;
- gives a longer term view of goals and objectives, and the strategies needed for achieving them.

In order to achieve all this, TAC needs to be able to apply consistently the criteria making up the base. This implies the review of activities, priorities and objectives, and requires an explicit tie to the external program reviews. The TAC needs to establish this link, and specifically needs to ask two questions in the external program review: 1) were the activities identified in a centers base correct, i.e., was there really a critical mass and a System-level efficiency? and 2) what is the qualitative assessment of the activities that were carried out?
CGIAR secretariat

The CGIAR secretariat is a service unit and in carrying out its tasks it is often called on to strike a fine line between administration, governance and oversight. The finance function in the CGIAR secretariat will have certain specific tasks if the recommendations in this report are followed. One task will cover financial analysis including the review and consolidation of centers' financial statements and requests for funds. Another will involve economic analysis of the environment in major operating and donor countries, looking primarily at inflation and exchange rates with an eye towards making predictions and setting trend lines. And lastly, an important task will involve financial management itself, i.e., coordinating the flow of funds, coordinating the steps in the budget process, managing the stabilization mechanism, working with donors and centers, and maintaining a tie to the fund-raising activities in the CGIAR secretariat. Providing information on these fronts, while maintaining a focus on coordination, will make a major contribution to the success of the budgeting and financial management recommendations.

Summary

These guidelines can help to strengthen structure and management in the CGIAR. They clarify roles and responsibilities, delineate functions, and provide reasonable expectations on the outcomes of the System's flows. Together with the recommendations of this report, the guidelines can help to make the next ten years of the CGIAR as exciting and successful as its first ten.
Appendix A
Accounting Policies and Procedures

- Guiding Principles
- Definitions and The Chart of Accounts
- Information Products
  - Financial Statements
  - Standard Financial Report For Restricted and Extra Core Donors
Guiding Principles

GAAP and Local Rules. The international agricultural research centers (IARCs) making up the CGIAR to follow generally accepted accounting principles (GAAP) for non-for-profit organizations. GAAP itself is based on six axioms relating to the environment in which transactions take place and four basic concepts:

Axioms

- **Economic entity**: This assumes that economic activity can be identified with a particular unit of accountability. It means that financial transactions can be identified with a specific operating entity. Without this assumption there would be no basis for accountability because transactions could not be separated from a multitude of producers. In the CGIAR context this provides the basis for distinguishing the transactions of center A from those of center B. It also provides a rationale for reporting by type of activity (e.g., research, training) and by type of funding (e.g., CGIAR, non-CGIAR).

- **Going concern**. This assumes that the entity is not a short-term (1 year or less) phenomenon. It has many implications for the eventual accounting procedures adopted, including depreciation, accruals, contingencies, and historical cost. All of these are important to the IARC's. This need not, however, assume an indefinite life for the entity, something that is also important to the CGIAR.

- **Monetary unit**. This assumes money is the common denominator by which economic activity is conducted, and that the monetary unit provides an appropriate basis for measurement and analysis. Perhaps an obvious assumption but one with implications for the IARCs, especially as it relates to valuations derived from historical costs and the conversion of many currencies into one for reporting purposes. It is also important in inflationary environments, because in those cases monetary units of different years may not be appropriate basis for comparison.
• **Periodicity.** This assumes that the activities and, therefore the financial flows of an entity, can be divided into arbitrary time periods.

These four axioms provide the underlying basis for an accounting system. Six principles provide the guidelines for recording financial transactions:

**Principles**

• **Historical Cost.** This forms the basis for assigning value to transactions. By historical cost it is generally meant the exchange price on the date of the transaction.

• **Revenue realization.** To give accounting reports uniform meaning, a rule of revenue realization is essential. This rule states that revenue is realized when 1) the earning process is virtually complete and 2) an exchange transaction has occurred. In non-profit entities this sometimes leads to confusion because most revenue is in the form of pledges or grants.

• **Matching.** This is the rationale for the accrual basis of accounting. Its fundamental principle is that revenue is realized when earned. Expenses may be incurred and matched against revenue even though no cash outflow has occurred. In non-profit organizations the converse is also true, i.e., revenue may be matched with a level of expenses even though grant payments in excess of expenses have occurred. This is related to the revenue recognition principle mentioned above, and has especially important connotations for the management of restricted types of grants.

• **Consistency.** This means that the entity should use the same accounting methods from one period to the next. It does not mean that a change in methods cannot be made; only that if that is done, the effect on the results of prior periods should be restated.

• **Full Disclosure.** This requires the presentation of sufficient information to permit the knowledgeable reader to reach an informed decision.
- Objectivity/verifiability. Information related to financial information must have as its basis an objective determination and must be verifiable.

Local Rules. Very occasionally local accounting standards for non-profit organizations in the countries in which the IARCs are located may require different or additional presentations of financial information. In those instances the IARC should comply with those regulations in addition to meeting the standards suggested by GAAP.

Currency. The centers present their financial information in one currency: the US dollar. This is standard practice for most international organizations.

Financial Year. The financial year is the same as the calendar year.

Translation of Non-dollar Currencies. There are two issues: 1) the conversion of transactions and their presentation in the financial statements and 2) the valuation of assets and liabilities denominated in currencies other than the dollar and their presentation in the financial statements. For the centers a transaction is converted at the going rate on the day on which it is completed and flows through the appropriate revenue and expense accounts. Alternatively an average for the period may be selected. For the valuation of assets and liabilities there are two possible treatments: 1) for those entities operating in countries with hyperinflation (cumulative 100% inflation in three years) using dollars as their base or functional currency, the gain or loss should appear on the income, or activity statement; and 2) where hyperinflation is not the case the gain or loss should flow directly to the fund balance.

Depreciation. The centers are only required to disclose in a footnote to their financial statements the estimated yearly charge to expenses for depreciation and the consequent accumulated net value of all fixed assets.

Replacement Cost and Inflation Accounting. The centers are not obligated to follow these practices largely because they continue to be the
subject of much discussion and experimentation within the profession. Centers do have the option, however, of providing this information if they feel that it adds meaningful information to their reports on financial condition and activities.

Surpluses. These have generally not been permitted within the CGIAR. However the centers now have the flexibility to increase the yearly charges to operating funds, that in the past were limited to 30 days operating requirements. Centers can continue to request this amount in their annual budget submission, but the operation of this as a ceiling on the total amount permissible is now removed and the centers, at the discretion of their Boards of Trustees, can make a charge in any amount to operating funds for up to three consecutive years.

Overheads. Centers should charge overheads on all restricted and extra core method using the ratio of general administration and plant operation expenses to total expenses as the preferred basis for calculations.

Definitions And The Chart of Accounts

In its simplest form the chart of accounts gives a logical framework to the compilation and presentation of financial transactions in an accounting system. Items contained within the chart of accounts describe the stocks and flows of the accounting system. Assets, liabilities and fund balances measure stocks, i.e., absolute financial amounts or levels. Revenues, expenses and income describe flows, i.e., changes in amounts or levels over time.

Within this configuration, the definition of the items in a chart of accounts and the procedures governing them are what give substance to processing and measurement of transactions. The major items are defined in Figure I on the following page.
Figure I: The Basic Chart of Accounts

<table>
<thead>
<tr>
<th>STOCK ITEMS</th>
<th>STATEMENT OF CONDITION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong>: economic resources with a future benefit or service potential. They are recognized only when a transaction has occurred.</td>
<td></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong>: obligation to pay a definite or reasonably certain amount at a definite or reasonably certain time in return for a current benefit.</td>
<td></td>
</tr>
<tr>
<td><strong>FUND BALANCE</strong>: assets minus liabilities, thus representing claims on an entity's net assets.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FLOW ITEMS</th>
<th>STATEMENT OF ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong>: monetary measure of a service rendered. A revenue transaction results in an increase in net assets.</td>
<td></td>
</tr>
<tr>
<td><strong>EXPENSES</strong>: the cost of assets used up in producing revenue</td>
<td></td>
</tr>
<tr>
<td><strong>INCOME</strong>: excess of revenues over expenses for a given period of time. It is usually referred to as an operating surplus in a not-for-profit entity.</td>
<td></td>
</tr>
</tbody>
</table>
The chart of accounts is important for the internal consistency it gives to the structure of financial transactions. It is a key element in achieving the standardization and comparability of financial information. Assets, liabilities and fund balances are grouped together in a centers balance sheet or statement of condition. Revenues, expenses and income are summarized in an income or activity statement. Their configuration is shown on the following page.

Specific items contained within the chart of accounts, their definition and treatment are described below.

**Assets**

**Current Assets:** These are assets that are expected to be used or converted to operating or capital requirements within the normal operating cycle of the IARC, usually one year. They are valued in US dollars, converted where necessary at the year-end rate of exchange.

**Cash and Short-Term Investments:** Currency and coins, negotiable checks, balances in bank accounts, and balances in short-term (less than one year) instruments. Normally the minimum cash requirement is set by management and the permissible range of investments by the Board of Trustees.

**Accounts Receivable: Core Unrestricted Donors:** A receivable is recognized when the amount of the pledge is made known, usually when the funding letter from the CGIAR secretariat is received. The receivable is cancelled when the pledge is actually received. Any uncollected portion of the pledge applicable to the current year remains charged to accounts receivable and forms part of the IARC's income in that year. If the pledge is later judged to be uncollectible it is written off against income of the year in which it is cancelled. An explanatory footnote in the Financial Statement should describe any material amounts outstanding.

**Accounts Receivable: Core Restricted and Extra Core Donors:** Because these grants carry some type of restriction and are sometimes for
Figure II: Configuration of Accounting Conventions

**STOCKS**
As of 31 December 19XX

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Capital</td>
<td>Current</td>
</tr>
<tr>
<td>Fixed</td>
<td>Non Current</td>
</tr>
<tr>
<td></td>
<td>Owners Equity or Fund Balance</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
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<td>TOTAL</td>
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<tr>
<td>TOTAL</td>
<td>TOTAL</td>
</tr>
</tbody>
</table>

**FLOWS**
From 1 January - 31 December 19XX

<table>
<thead>
<tr>
<th>REVENUES</th>
<th>EXPENSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>Programs</td>
</tr>
<tr>
<td>Fees</td>
<td>Capital</td>
</tr>
<tr>
<td>Investments</td>
<td>etc.</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
</tr>
<tr>
<td></td>
<td>INCOME Total</td>
</tr>
</tbody>
</table>
more than one year their treatment is somewhat different. In these cases
the amount recognized as a receivable is equal to the expenses incurred
under the grant. The uncollected portion of the pledge is not recognized as
a receivable and consequently does not contribute to income. This matches
revenues and expenses, and recognizes amounts due the center, in accord-
cance with the level of activities carried out under the grant (see also
revenue recognition). An explanatory footnote in the Financial Statement
should describe any material amounts outstanding.

Accounts Receivable: Others: These are recognized as they arise, and
cancelled when payment is received. Amounts judged uncollectible may be
written off in that year. Balances in accounts receivable and any breakdown
(such as due from staff, other advances) should be shown in the Financial
Statement.

Inventories: These are materials and supplies not expended at the time
of purchase but normally used up within the operating cycle. Centers may
adopt any valuation method they choose but must disclose it in the financial
statement.

Prepaid Expenses: An expenditure for benefits to be received in a future
period. Significant prepaid expenses should be deferred and shown in the
statement of condition at the estimated value of benefits to be received.

Other Current Assets: Any other items that meet the definition of
current assets. Wherever other current assets are material their breakdown
and valuation should be given in a footnote.

Fixed Assets: These are defined as items having lasting value (i.e., not
used up in the normal business cycle) and whose cost is material. Fixed as-
sets should be capitalized, and the full historical cost of the asset shown on
the balance sheet (statement of condition). Among other things this per-
mits the users of financial information to see the amount of assets for which
the Board of Trustees is responsible. Those fixed assets with a value greater
than $1,000 should be inventoried and controlled individually. Those with
individual values less than $1,000 may be controlled as homogeneous groups
(e.g. office equipment). Major modifications or improvements to fixed as-
sets should also be capitalized. When a fixed asset is replaced its historical
cost should be removed and the value of the new asset recorded in its place. Centers should disclose the make-up of fixed assets according to major categories: Research equipment, Furnishings and Office Equipment, Vehicles, Aircraft, Buildings, Land and Other fixed assets.

Liabilities

Current Liabilities. These normally are liquidated or cancelled within the operating cycle of the IARC, usually one year. They include:

- payments in advance received from donors;
- commitments for goods and services already in transit, shipped or received;
- payables to donors (e.g. of unused balances);
- accrued salaries or benefits (current portion) when they are attributable to services already rendered;
- loans and debts which arise from operations related to the center’s activities (current portion).

Long Term Liabilities. Most centers will have few such accounts.

Fund Balances

The fund balances of the IARCs consist of:

- capital fully expended on fixed assets;
- operating funds (see also under expenses);
- the unexpended balances of its core unrestricted, core restricted, extra core and auxiliary services funds;
- the cumulative effect of translating non-dollar currencies into dollars for the purpose of presentation in the Financial Statement.
Revenues

These are normally grouped in two ways: 1) by type and 2) by source. Together these form a revenue matrix, the rows representing types and the columns sources.

Sources. Each sources of revenue generally refers to a type of inflow that is distinct from all others. In the centers each source of revenue is organized as a fund. There are at least four funds: core unrestricted, core restricted, extra core and auxiliary (or self sustaining) services.

Types. These describe different kinds of revenues including the following.

- Grants. Revenues from donors. Core unrestricted grants are usually recognized as income when pledges are made. Restricted and extra core grants are recognized as expenses are incurred under the grant (see treatment of accounts receivable-donors). The amount registered as revenue is the dollar value of the cash received on the date on which it is received. Any difference, in dollars, from the amount pledged is carried to a foreign exchange gain or loss account.

- Fees from overhead. These are registered as revenues on the core unrestricted fund, and thereby serve to offset corresponding general administrative and operating expenses.

- Interest. This is recognized as earned.

- Other Revenues. Also recognized as earned. Items might include the sale of crops, or the sale of equipment.

Expenses

Like revenues these are arranged as a matrix, the rows represented by types of expenses and the columns by cost centers.

Cost Centers. By definition a cost center is a grouping of expenses that are directly attributable to an activity or a logical grouping of activities. As
the smallest grouping of expenses the cost center is the basic building block
in the compilation of expenditures and the fundamental means for associating
activities with expenses. Examples of cost centers might be the activities
associated with a germplasm bank or with a bread wheat breeding program.
Cost centers themselves are aggregated to form programs and these in turn
are summed to describe the same funds that are associated with sources of
revenues. For example the germplasm bank and bread wheat breeding cost
centers might be summed with others to form a wheat program and this in
turn might be aggregated with other programs to yield the expenses of a
core unrestricted fund. At this level then expenses can be compared with
revenues of the same core unrestricted fund.

Types. The actual number of types of expenses depends on management
needs for control and reporting. As a minimum, though, the IARC's classify
their expenses in five ways: personnel, supplies and services, travel,
training and fixed assets. In the latter case this includes both new and
replacement items. Also in keeping with the guidelines on depreciation the
full historical cost should be charged to expenses in a given year but man-
agement should maintain a separate depreciation schedule for the required
disclosure in a footnote to the financial statement. Two other categories of
expenses also exist.

Operating Funds. The centers are also permitted to make a charge to an
expense item called operating funds and credit the same account in fund
balances. This is exclusively a core unrestricted expense category. The
amount of the charge is at the discretion of the Boards of Trustees and can
be made for three consecutive years. They represent amounts that would
otherwise represent operating surpluses.

Indirect Costs. Overheads on core restricted and extra core grants are
charged here.

The configuration and interaction of these revenues and expenses is shown
in the accompanying Figure III
Figure III: The Revenue and Expense Matrices

**REVENUES**

Grants  
Fees From  
Overhead  
Interest  
Other Income  
TOTAL

<table>
<thead>
<tr>
<th>FUND A</th>
<th>FUND B</th>
<th>FUND C</th>
<th>TOTAL IARC</th>
</tr>
</thead>
</table>

**EXPENSES**

<table>
<thead>
<tr>
<th>FUND A</th>
<th>FUND B</th>
<th>FUND C</th>
<th>TOTAL IARC</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Program I</th>
<th>Program II</th>
<th>Program III</th>
<th>TOTAL IARC</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>COST Center 1</th>
<th>COST Center 2</th>
<th>COST Center 3</th>
<th>COST Center 4</th>
<th>COST Center 5</th>
<th>COST Center 6</th>
<th>TOTAL IARC</th>
</tr>
</thead>
</table>

PERSONNEL  
SUPPLIES AND  
SERVICES  
TRAINING  
TRAVEL  
equipment  
TOTAL
Information Products

The final step in the accounting process covers outputs, i.e., the kinds of information emanating from the system. This reflects the user orientation of accounting. In general accounting information seeks to meet four needs:

- **Compilance with intended objectives.** This provides assurance that the mandate and purpose of the organization have been complied with and resources used for their intended objectives.

- **Financial viability.** An indication of the entity's ability to continue to provide the services for which it exists.

- **Performance.** Users need to know not only that management is meeting its stated objectives but also how wisely funds are being spent.

- **Costs of services provided.** Most entities consist of various segments or programs. The information system should give an indication of the costs associated with these various segments, and in particular in the CGIAR, costs associated with the various types of funds.

The accounting system fulfills these needs with information products that cover three perspectives.

**Ex-Ante: Perspective**

- **Budgets.** (management and Board use) Flowing from the accounting system, particularly the cost centers and the revenue funds, is information that is useful for planning and costing future activities. The information contained here provides a useful data base for planning alternative courses of action. The eventual financial plan developed - built from the cost center up - is the budget for management presentation and Board approval. Because the format and presentation is a management decision these detailed budgets are not treated in this guide. It should be noted though that because all centers use the same accounting system, the financial information contained in these budgets is formulated in the same way.
Funds Request. (external use) This is an aggregated version of the centers' budgets, containing all the information required by external decision makers (e.g. donors) and omitting information necessary for planning day-to-day operations and effecting control. In addition the Funds Request contains important information on a centers priorities, objectives, and strategies. Its format is described in Appendix B.

CGIAR Level Information. Certain information is also required for planning activities at the System level. This is described in Appendix C.

Current Perspective

Operating Budgets. Once having received approval from their Boards and their donors, and having received a funding letter from the CGIAR/Secretariat, the centers are in a position to develop detailed operating budgets, covering primarily sources of revenue by fund, and detailed estimates for cost centers. These budgets govern the day-to-day operations of the centers. But again because they are specific to each center no standard format for them is suggested in this Guide.

Control Information. A number of reports or other information products are possible here. Some, such as the control of expenses against budget are strictly for management use and as a result no format is suggested here. At the CGIAR level, donors with restrictions on the use of their funds (mainly core restricted and extra core) sometimes require interim grant reports. These are often necessary for the release of new funds under the grant. In the interest of achieving standardization and comparability in this area and with an eye toward facilitating development of computer software, a standard format is suggested. This draws principally on the notion of cost centers and standard expense categories mentioned earlier.

CGIAR Level Information. Some financial information is required from the centers during the year, particularly as it relates to inflation
and foreign exchange movements. Also the continuing need to make System level estimates and forecasts requires up to date information from the centers. This topic is also dealt with in Appendix C.

Ex-Post Perspective

- **Financial Statements.** These report on the information flowing from the chart of accounts as determined by the definitions, procedures and guidelines for recording and compiling transactions. As a minimum they contain reports on a financial position at a point in time (balance sheet or statement of financial condition), a report on changes in cash or working capital during a period of time, and a report on changes in net assets during a period of time (income or activity statement). Additionally, financial statements contain notes describing significant accounting policies, unusual occurrences, and explanations about selected items in the three major statements. Other financial information, which is not required but is commonplace, is contained in supplemental tables. These often include important data on performance, viability and segmentation. The presentation of the centers financial statements is the major information product discussed in this chapter.

- **Financial Analysis.** This might include information on rates of return, factor analysis, or activities by fund and would usually be issued separately from the financial statements. The external program and management reviews and perhaps an impact study would all find this information useful. The format for this kind of information is not considered in this report.

- **CGIAR Level Information.** Consolidation of center specific information such as the financial analysis mentioned above is helpful in portraying the state of the CGIAR's finances and in spotlighting developing trends. This topic is also considered in Appendix C.

The two financial information products considered in this chapter are the centers’ Financial Statements and the Standard Financial Report for restricted and extra core donors.
Financial Statements

These should contain the following:

1. Basic financial statements
   (a) Statement of Condition (Exhibit 1)
       The statement of condition is a statement of financial position or status of funds resources as of a given reporting date.
   (b) Statement of Activity (Exhibit 2)
       The statement of activity is a statement that shows the details of funds revenues by source, expenditures by function, and changes in funds balances between reporting dates.
   (c) Statement of Changes in Financial Position (Exhibit 3)
       The statement of changes in financial position is a statement that shows information about the sources from which a center obtains funds and the uses to which such funds are put.

2. Notes to the financial statements

The financial statements should include explanatory notes to complement significant matters not completely disclosed in such statements. The information that should be disclosed is the following:

   (a) Statement of purpose
       Brief description of the center and its activities
   (b) Summary of significant accounting policies
       The description of the accounting principles prevailing in the CGIAR, and the methods of applying these principles that materially affect the determination of financial position, changes in financial position and changes in fund balances.
       Usually, the guidelines, definitions, and procedures mentioned earlier should be disclosed. The effect of any significant changes in accounting policies should also be disclosed.
(c) Non U.S. dollar balances
Accounts receivable or payable in currencies other than the U.S. dollar and the applicable exchange rates as of the date of the financial statements should be disclosed.

(d) Accounts receivable
A complete analysis of accounts receivable from donors and a brief analysis of other receivables should be presented in this note.

(e) Fixed assets
An integration of fixed assets and depreciation rates must be presented and, if applicable, commitments in and restrictions to fixed assets should be shown.

(f) Additional notes should be included giving any other information that could be necessary to understand the center's operations i.e., commitments, contingencies, long term receivables or payables, etc.

3. Supplementary information

Supplementary information to the basic financial statements, which might be useful to the various groups interested in the management of the center should be included. This information is the following:

(a) Detailed statement of activity (Exhibit 4)
A detailed statement of activity should be presented to distinguish between unrestricted, restricted, extra core and auxiliary services, revenues and expenses.

(b) Detail sources of revenues from grants (Exhibit 5)
An analysis of revenues by fund and donor.

(c) Core-restricted or Extra Core pledges and expenses (Exhibit 6).
A schedule showing a detail of pledges and expenses by project for each donor. These should be one schedule for core restricted and one for extra core donors.
### STATEMENT OF CONDITION

**Currency:** U.S. Dlls. (000's)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities, and Fund Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td><strong>Current liabilities</strong></td>
</tr>
<tr>
<td>Cash on hand and in banks</td>
<td>Payments in advance—donors</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>Vouchers payable</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>Accrued taxes</td>
</tr>
<tr>
<td>Donors</td>
<td>Accrued miscellaneous expenses</td>
</tr>
<tr>
<td>Others</td>
<td>Accounts payable—donors</td>
</tr>
<tr>
<td>Inventories</td>
<td>Accrued staff compensation</td>
</tr>
<tr>
<td>Total current assets</td>
<td>Total current liabilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed assets</th>
<th>Fund Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicles</td>
<td>Capital fully expended on fixed assets</td>
</tr>
<tr>
<td>Furniture, fixture and equipment</td>
<td>Operating funds</td>
</tr>
<tr>
<td>Buildings</td>
<td>Unexpended funds</td>
</tr>
<tr>
<td>Aircraft</td>
<td>Core unrestricted</td>
</tr>
<tr>
<td>Land</td>
<td>Extra core</td>
</tr>
<tr>
<td>Other fixed assets</td>
<td>Auxiliary services</td>
</tr>
<tr>
<td></td>
<td>Translation effect</td>
</tr>
<tr>
<td>Total fixed assets</td>
<td>Total Fund Balances</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other assets</th>
<th>Total liabilities and fund balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td></td>
</tr>
</tbody>
</table>
## Exhibit 2.

### COMPARATIVE STATEMENT OF ACTIVITY

Currency: U.S. Dlls. (000's)

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19XX</td>
</tr>
<tr>
<td></td>
<td>19XX</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td></td>
</tr>
<tr>
<td>Administrative fees</td>
<td></td>
</tr>
<tr>
<td>sale of crops</td>
<td></td>
</tr>
<tr>
<td>Interest on investments in marketable securities</td>
<td></td>
</tr>
<tr>
<td>Auxiliary services</td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td></td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Research programs</td>
<td></td>
</tr>
<tr>
<td>Conferences and training</td>
<td></td>
</tr>
<tr>
<td>Information services</td>
<td></td>
</tr>
<tr>
<td>General administration</td>
<td></td>
</tr>
<tr>
<td>Plant operations</td>
<td></td>
</tr>
<tr>
<td>Capital acquisitions</td>
<td></td>
</tr>
<tr>
<td>Auxiliary services</td>
<td></td>
</tr>
<tr>
<td>Indirect costs</td>
<td></td>
</tr>
<tr>
<td>Seniority premiums</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Excess of revenue over expenses before translation effect</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Translation effect for the year in temporary investments</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Cash and temporary investments on hand at beginning of year</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Cash and temporary investments on hand at end of year</strong></td>
<td></td>
</tr>
</tbody>
</table>

The attached notes numbered 1 to X form an integral part of these financial statements.
### Exhibit 3.

**STATEMENT OF CHANGES IN FINANCIAL POSITION ON A CASH BASIS**

Currency: U.S. Dlls. (000’s)

<table>
<thead>
<tr>
<th>Year ended December 31</th>
<th>19XX</th>
<th>19XX</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sources of cash</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Translation effect of the year – Net</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable-others</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments in advance-donors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued miscellaneous expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vouchers payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seniority premiums</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Applications of cash</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of fixed assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable-donors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vouchers payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seniority premiums</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable-donors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments in advance-donors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued miscellaneous expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Increase (decrease) in cash and in temporary investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and temporary investments on hand at beginning of year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and temporary investments on hand at end of year</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The attached notes numbered 1 to X form an integral part of these financial statements.
Exhibit 4

DETAILED STATEMENT OF ACTIVITY
For the period January 1 to December 31, 19XX
Currency: U.S. Dlls. (000's)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Core Unrestricted</th>
<th>Core Restricted</th>
<th>Extra Core Cooperative</th>
<th>Auxiliary Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of crops</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on investments in marketable securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total revenue

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Core Unrestricted</th>
<th>Core Restricted</th>
<th>Extra Core Cooperative</th>
<th>Auxiliary Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research programs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conferences and training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital acquisitions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seniority premiums</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total expenses

Excess of revenue over expenses before translation effect

Translation effect for the year

Net excess of revenue over expenses
Exhibit 5

**DETAIL OF SOURCE OF INCOME FROM GRANTS**
For the year ended December 31, 19XX

Currency: U.S. D. s. (000's)

<table>
<thead>
<tr>
<th>CORE UNRESTRICTED GRANTS</th>
<th>19XX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia, Government of</td>
<td></td>
</tr>
<tr>
<td>Canadian International Development Agency</td>
<td></td>
</tr>
<tr>
<td>Denmark, Government of</td>
<td></td>
</tr>
<tr>
<td>Germany, The Federal Republic of</td>
<td></td>
</tr>
<tr>
<td>Inter-American Development Bank</td>
<td></td>
</tr>
<tr>
<td>India, Government of</td>
<td></td>
</tr>
<tr>
<td>Philippines, Government of</td>
<td></td>
</tr>
<tr>
<td>Spain, Government of</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia, Government of</td>
<td></td>
</tr>
<tr>
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<td>Japan, Government of</td>
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<tr>
<td>The Rockefeller Foundation</td>
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<td>United Nations Development Programme</td>
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<table>
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<td>International Agricultural Development Service</td>
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<td>Instituto Nacional de Investigacion y Promocion Agropecuaria/World Bank</td>
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<td>Switzerland, Government of</td>
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<td>The Ford Foundation</td>
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<td>The Rockefeller Foundation</td>
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<tr>
<td>United Nations Development Programme</td>
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Total income from grants 119
Exhibit 6.

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<th>This Year</th>
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| European Economic Community | | | | |
| Andean Regional | | | | |
| Total | | | | |

| Ireland | | | | |
| Training | | | | |
| Total | | | | |

| Rockefeller Foundation | | | | |
| Training | | | | |
| Total | | | | |

| Norwegian Agency for International Development | | | | |
| Training | | | | |
| Total | | | | |

| Ford Foundation | | | | |
| East Africa | | | | |
| Total | | | | |

| Government of Federal Republic of Germany | | | | |
| Maize Improvement Program | | | | |
| Total | | | | |

| IDRC | | | | |
| Research Centre | | | | |
| Data Processing | | | | |
| Total | | | | |

Total Core Restricted or Extra Core

The format and content of this report is shown in Exhibit 7.
### Part I: Financial Report

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<tr>
<td><strong>SAUPLE FIBERICAL REPORT TO CORE</strong></td>
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<td><strong>BESTBCTED/EXTRA CORE DONORS</strong></td>
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<td><strong>THIS YEAR</strong></td>
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<td><strong>TO DATE</strong></td>
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</table>

#### Part II: Personnel
- Notes as required

#### Part III: Training
- Notes as required

#### Part IV: Fixed Assets
- Notes as required
Appendix B

Budgeting and Financial Management Guidelines

- Building the Budget
  - CGIAR Goals and Objectives and IARC Program Approaches
  - Translating Program Approaches into a Center’s Base and Other Program
  - Relating Program Approaches to Cost Centers
  - General Administration

- Capital (Fixed Assets)

- Inflation and Foreign Exchange

- Information Products
  - Request for Funds
Building the Budget

This chapter gives guidelines for building budgets in the IARCs. It looks at three steps:

1. Relating the common goals and objectives of the CGIAR to the program approaches or activities of the individual centers. This entails distilling approaches and CGIAR strategies into programs.

2. Defining these program approaches as base or other activities.

3. Relating these activities to cost centers and in the aggregate to research and training programs. These costs flow from the financial data set and are assembled according to the common chart of accounts defined and described earlier.

CGIAR Goals and Objectives and IARC Program Approaches

In 1985 the Technical Advisory Committee of the CGIAR (TAC) completed a long process of defining and developing a set of near- and medium-term priorities for the CGIAR. That paper defined the CGIAR's goals as follows:

Through international agricultural research and research related activities to contribute to increasing sustainable food production in developing countries in such a way that the nutritional levels and general economic well being of low income people is improved.

It went on to specify that this goal focuses on:

- research and research-related activities, not development or technical assistance activities;
- international, not national or regional research;
- food and feed, not industrial commodities;
- developing not developed countries;
• technologies for long term sustainable production, not technologies that sacrifice ecological stability for short-term gains in productivity;

• improved nutrition and economic well being of low income people not solely though increased food production but also through improved quality of food, more stable supplies, and increased income.

The TAC stated that the IARCs making up the CGIAR work to achieve this goal by concentrating their effort on eight objectives:

• Managing and conserving the natural resource base in developing countries (e.g., soil, water and genetic resources) for a stable and productive agriculture in the long-term.

• Increasing the productivity of essential food crops with a view to integrating them into improved sustainable production systems.

• Improving the productivity and ecological stability of livestock production systems.

• Achieving, through improvements in post harvest commodity conversion, storage and utilization, the more complete utilization of agricultural products in both rural and urban areas.

• Promoting better human health and economic well-being through improved nutritional quality of foods, enhanced equity in access to foods, expanded economic opportunities and better management of overall family resources.

• Improving the policy environment so as to ensure the formulation of rational agricultural and food policies which favor increases in food production and productivity through the adoption of enhanced technologies.

• Strengthening national agricultural research capacities in developing countries so as to accelerate the indigenous generation, adaptation and effective utilization of enhanced technologies.
• Integrating efforts both within and among centers of the CGIAR and, equally important, integrating the objectives of the CGIAR with those of its various partners in the global system.

The first step in building the budget is relating what the centers do, i.e., their strategies activities or program approaches, to these goals and objectives. To do this the centers should complete the matrix described in Figure IV.
### OBJECTIVES

1. Managing and conserving the natural resource base in developing countries (e.g., soil, water and genetic resources) for a stable and productive agriculture in the long term.

2. Increasing the productivity of essential food crops with a view to integrating them into improved sustainable production systems.

3. Improving the productivity and ecological capability of livestock production systems.

4. Achieving through improvements in post harvest commodity conversion, storage and utilisation, the more complete utilisation of agricultural products in both rural and urban areas.

5. Promoting better human health and economic well being through improved nutritional quality of foods, enhanced equity in access to foods, expanded economic opportunities and better management of overall family resources.

6. Improving the policy environment so as to ensure the formulation of rational agricultural and food policies which favor increases in food production and productivity through the adoption of enhanced technologies.

7. Strengthening national agricultural research capacities in developing countries so as to accelerate the indigenous generation, adoption and effective utilisation of enhanced technologies.

8. Integrating efforts both within and among centers of the CGIAR and equally important integrating the objectives of the CGIAR with those of its various partners in the global system.
Translating Program Approaches into a Center’s Base and Other Programs

The program base is defined as the array of a center's activities for which the CGIAR has a clear advantage in the production of international agricultural research and training goods and services. This is defined over a five year horizon and has first call on the CGIAR's donors' funds. The other activities outside the base represent areas in which an individual center enjoys an advantage. These are identified and reviewed annually and are open for both CGIAR and non-CGIAR funding.

Activities included in the base are exclusively multilateral, emphasizing the advantage accruing from being an international organization. They draw on the centers' mandates, their human, physical and institutional capital and goodwill, and on the demand and production functions associated with specific goods and services.

The criteria for inclusion in the base is:

- Can the center provide an efficient response to an international demand, i.e., by engaging in the activity can the center draw on its international character to produce a good or service at a lower average cost than others? This would include cases where the center is the lowest cost producer, i.e., where it has a unique capability to produce the good or where economies of scale exist, and cases where it is low cost producer, i.e., one of several producing at a lower cost than others.

- Is the center endowed with resources to produce the goods and services, i.e., does a sufficient critical mass (human, physical, and institutional capital) exist to give the center a comparative advantage.

Items falling outside the base are no less important in meeting a center's set of objectives, but their basis is derived from a different type of advantage. This encompasses a set of activities that an individual center does well but for which, as yet, no System-wide advantage in producing the good or service can be discerned. The distinction is between the set of advantages
that the CGIAR enjoys by virtue of being international, and a different set of advantages that a center may enjoy by virtue of location, history, or particular competence in an area. Some of these activities outside the base may be appropriate for funding by the CGIAR because their benefits may accrue to the international community but not be appropriate for inclusion in the baseline set of activities, because there is no System level advantage in producing the good. Other activities are not appropriate for funding by the CGIAR because both the mode of operation and the expected benefits are strictly bilateral.

Given this set of guidelines the centers should complete the matrix shown in Figure V to classify their activities or program approaches as base or other.
### Figure V: Base and Other Programs

<table>
<thead>
<tr>
<th>Program Approaches</th>
<th>Base</th>
<th>Other</th>
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<tbody>
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Relating Program Approaches to Cost Centers

The previous steps in building the budget are important for the two reasons:

1. They tie what the centers do, i.e., their program approaches or activities, to the goals and objectives of the CGIAR.

2. They provide a rationale for why the centers select these program approaches by defining or classifying them as base or other.

The third stage in the process looks to develop cost centers and programs around the activities of the center. Its end result is the financial plan itself, and because it is based on cost centers — the fundamental building block of expenses and costs in the IARCS — the financial information contained within the plan is standardized and directly comparable.

The mechanism for doing this is shown in Figure VI below.
<table>
<thead>
<tr>
<th>PROGRAM APPROACHES (BASE AND OTHER)</th>
<th>COST CENTER 001</th>
<th>COST CENTER 002</th>
<th>COST CENTER 003</th>
<th>COST CENTER 004</th>
<th>COST CENTER 005</th>
<th>COST CENTER 006</th>
<th>COST CENTER 007</th>
<th>COST CENTER 008</th>
<th>COST CENTER N</th>
<th>TOTAL PROGRAM APPROACHES</th>
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<td>SUB TOTAL COST CENTERS</td>
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<tr>
<td>TOTAL PROGRAMS</td>
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<td>PROGRAM B</td>
<td>PROGRAM C</td>
<td>PROGRAM D</td>
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</table>
Note that summing the value in each cost center related to an individual program approach (final column in the matrix) gives the total amount of resources devoted to a particular activity. And by summing the value in a cost center across all program approaches gives the full cost in each cost center (last row in the matrix). For most IARCs this latter number, i.e., the total for each cost center, will be directly related to the operating budget. On the other hand the total value for each program approach may only be an estimate. In any case the number in the last box of the matrix (n. row x n. column) gives the total value of research, training and research support in the IARC.

**General Administration**

The above steps result in a financial plan for a center's research, training and research support. What remains is to describe the costs associated with a center's general administration or plant operations. As in most organizations these are treated as administrative overheads and costed out separately. Like the other programs, though, the basic building block is the cost center associated with a set of activities. Examples of general administrative and plant operations cost centers might be the office of the Director General, Accounting and Maintenance.

The steps in the budget building process and the eventual configuration of programs in the center are summarized in Figure VII.
FIGURE VII

STEP 1
RELATING CGIAR GOALS AND OBJECTIVES WITH IARC PROGRAM APPROACHES

STEP 2
CLASSIFYING PROGRAM APPROACHES INTO BASE AND OTHER PROGRAM

STEP 3
RELATING PROGRAM APPROACHES TO COST CENTERS

STEP 4
PROGRAM CONFIGURATION
The eventual configuration of research, training, research support and general administration describe the cost of operations. Two other items required to come to a complete description of financial needs over the budget cycle. These are additions to capital (fixed assets) and inflation/exchange movement.

**Capital (Fixed Assets)**

One of the expense items included in each cost center is fixed assets (and remember that without depreciation all fixed assets are expensed in the year of purchase). Normally this would be included in the total estimate for each cost center and therefore shown as a program expense. But because capital or fixed assets needs are important and largely non-recurring the centers should portray them separately in their budget presentations. This includes both new and replacement items. The suggested presentation is shown later in the pro-forma request for funds.

Another item entering into capital is operating funds. In line with the revised procedures for increasing (i.e., at board discretion) and decreasing (i.e., to assist in financing fixed asset purchases) operating funds the center should portray this also in their request for funds. The suggested presentation is shown later in this appendix.

**Inflation and Foreign Exchange**

These too should be treated as separate cost elements in building the budget. The development of estimates for cost centers and program approaches is done on a constant dollar basis, using the year prior to the one covered by the budget cycle as the base year. Thus program estimates for the 1987 budget cycle would be shown in 1986 dollars. This facilities comparison and review. But it does require an additional line item to portray the value of funds required for the budget year. This line item is represented by inflation and exchange rate movements.

Most often inflation and exchange rate estimates must be made twelve months in advance of their actual occurrence. The effect of this is to give these estimates the character of best guesses and to require the development of workable alternatives in the face of unforeseen events. As a first step the
financial flexibility provided by the centers' operating funds goes a long way to smoothing out small scale unforseen fluctuations in inflation and exchange rates. Secondly the stabilization mechanism has the resources necessary to assist with larger scale needs.

The flexibility provided by operating funds and the stabilization mechanism removes much of the need for great precision in estimating future inflation rates. Given this, the centers should incorporate into their budgets the actual inflation rates they are facing at the time of budget preparation. After inputing this rate into their cost estimates the centers would be expected to operate on a self-financing basis within a band of 2% of this rate. Thus if a center predicted inflation of 7%, its operational band would be 5% - 9%. Eventual inflation greater than 9% would generate a drawdown on the stabilization mechanism and inflation less than 5% would require payments into it. The center's operating funds would be used to finance fluctuations within the 5% to 9% band.

In arriving at their inflation estimates the centers will normally look at host country and US rates. Some centers may need to include other countries in their estimates, for example a country where they make significant purchases. In other cases, such as countries hosting a regional program, the degree of local inflation is likely to be an insignificant amount in the center's overall cost structure. The USA is an important country to consider because most international salaries in the IARCs are dollar denominated and tend to be highly correlated with US rates of inflation. It should be emphasized though that host country inflation, will tend to dominate a center's overall estimates, where local wage rates and operating costs are important for the majority of centers.

The prediction of foreign exchange rates over the budget horizon tends to be more problematic for the centers. The foreign exchange of the centers can be classified in two groups:

1. host currencies, in which many transactions take place;

2. non-dollar denominated grant revenues, which are usually translated physically to dollars for operating purposes and always translated to dollars in an accounting sense for reporting purposes.
In budgeting for exchange rates the centers should take forward rates as the best possible predictor of future spot rates. In currencies where no forward rate is available the prevailing exchange at the time of budget preparation should be used. As with inflation rates, the center's operating funds should be used to smooth out small scale fluctuations within a pre-set band and make drawdowns on the stabilization mechanism for larger needs. Because each center's exposure to foreign exchange fluctuation is different, the size of its operating band will need to be set with the CGIAR Secretariat at the start of each year.

### Information Products

#### Request for Funds

The centers are required to produce each year a request for funds. A suggested outline follows:

1. **Narrative**
   
   **Introduction.** This might highlight recent trends in areas of concern to the center. For example a crop center might wish to comment on production, consumption, trade or policy issues in regions in which the center is operating.

   **The Demand for the Center's Goods and Services.** The principal purpose of the introduction is to set the stage for describing the demand for the center's goods and services. This demand is in response to needs expressed by the international community; each center is likely to have its own niche in fulfilling those demands.

   **Program Objectives, Strategies and Organization.** These demands lead to a set of objectives for the centers, and in turn to strategies for meeting those objectives and an effective organization for carrying them out.

   **Description of Base/Other Programs.** The strategies for meeting the center's objectives describe its program approaches. In this section the center should describe how and why those are classified according to base and other programs.
Program Highlights Most Recent Year Completed

Program Plans for this Budget Cycle. The centers should describe significant plans with respect to strategies, emphasis, regions, staffing, financial assumptions, etc. This section like all others should describe the total center, not just core or CGIAR funds. These are treated as financing not program issues.

2. Request For Funds

Table 1: Summary Request for Funds; Table 2: CGIAR Objectives and Program Approaches; Table 3: Estimation of Program Costs; Table 4: Source of Program Funds; Table 5: Description of Other Programs.

It should be noted that these tables are not themselves substitutes for the budget building process. Instead they are the result of the information flowing from that process.

Sample formats follow
### Table 1: Summary Request for Funds

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<td>SUB TOTAL</td>
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<td>2. General Administration</td>
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<td>3. Plant Operations</td>
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<td>4. Contingency</td>
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<td>SUB TOTAL Research and Training</td>
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<td>5. Operating Funds (Working Capital)</td>
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<td>6. Capital (Fixed Assets)</td>
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<td>7. Inflation/Exchange Rates</td>
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<td>GRAND TOTAL EXPENSES</td>
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<td>8. Interest Income</td>
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<td>9. Administrative Fees from Indirect Costs</td>
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<td>10. Other Income</td>
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<td>11. Drawdown on operating funds</td>
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</table>

**REQUEST FOR FUNDS**

**Notes to Table 1**

1. This is a summary table and is derived from Tables 2 - 5. Normally it would cover more than one year.

2. General Administration and Plant Operations only appear here. A footnote or reference to text may be desirable if additional information on the breakdown of these cost is necessary.

3. The institution's total administrative cost should be shown only under the CGIAR general administrative and Plant Operations lines. Administrative fees on non-CGIAR grants are then deducted in line 8 from CGIAR expenses. Administrative fees on non-CGIAR grants, however, should be included as expenses of the individual program. Thus if program A has a non-CGIAR grant of $115,000, of which 15,000 is an administrative fee, then 115,000 is listed as a program A non-CGIAR expense, and 15,000 is subtracted from CGIAR expenses on line 9. In this way the total cost of the grant is reflected for non-CGIAR donors and net cost of administration is given to CGIAR donors. Also this is the same treatment that administrative fee receive on this activity (income) statement.

4. Contingency: Up to 1% of the total of lines 1, 2, and 3 is permitted.

5. Operating Funds, capital, Inflation/exchange only appear in this table. Centers may wish to provide additional information.

6. Capital: This represents the net addition to fixed assets. Maintenance and other non-capitalized expenses appear under general administration or plant operations.

7. Lines 7, 8, 9, 10 would normally only have entries under the CGIAR column. If not, then a footnote should be provided explaining why.
1. This table is derived from the budget building process.

2. Note that two things are required: 1) a base/other breakdown according to program approach and 2) costs associated with base/other programs. Part two may be an estimate.

3. The main purposes in presenting this table are to permit an analysis of the program approaches and their costs, to give information on the magnitude of efforts devoted to each program approach and to give an idea of the balance between the base and other programs.

4. The table should be filled out in constant (n-1) dollars. Thus this table for the 1987 cycle would be shown in 1986 dollars.
<table>
<thead>
<tr>
<th>Approach</th>
<th>Program A</th>
<th>Program B</th>
<th>Program C</th>
<th>Program D</th>
<th>Program E</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
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<td></td>
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<tr>
<td>3.</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td></td>
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<td></td>
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<tr>
<td>5.</td>
<td></td>
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<td></td>
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<tr>
<td>6.</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>7.</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 4: Sources of Program Funds

<table>
<thead>
<tr>
<th>PROGRAM</th>
<th>CGIAR</th>
<th>NON-CGIAR</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>COST</td>
<td>COST</td>
<td>COST</td>
</tr>
<tr>
<td>BASE</td>
<td>MY</td>
<td>MY</td>
<td>MY</td>
</tr>
<tr>
<td>OTHER</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. This table is also derived from the budget building process and draws heavily on the expense matrix. The common financial information flowing into the cost centers and therefore also into programs is what ensures comparability across the CGIAR.

2. As in Table 2, it is shown in constant dollars.
Table 5: Description of Other Programs

<table>
<thead>
<tr>
<th>Approach</th>
<th>Program</th>
<th>Donor</th>
<th>Total Pledge</th>
<th>Grant Period</th>
<th>19XX Requirement Cost</th>
<th>My Funds</th>
</tr>
</thead>
</table>

ALREADY FUNDED

REQUIRING FUNDING

1. This table is required because other programs will likely represent the most important sources of growth in the 5 year period over which the base is defined.

2. Some other programs will be funded over a multi year period and therefore not subject to annual review. They should be shown separately from those requiring funding.

3. This table should be shown in nominal dollars. Thus 1987 dollars would be used when describing the 1987 budget cycle.
Appendix C

System Level Information Products

- Information Products
  - CGIAR Secretariat: Annual Guidelines
  - CGIAR Secretariat: Mid Year Budget and Funding Report
  - CGIAR Secretariat: Annual Report to the CGIAR
  - CGIAR Secretariat: Funding Letter
Information Products

One of the financial management tasks at the System level is the provision of information. This is done by the CGIAR secretariat and they provide four major reports during the year. These are described below. Several major improvements have occurred in the past few years in the development of an information system in the CGIAR secretariat, and wherever possible these are noted in the description of the financial information product.

Annual Guidelines. At the start of each budget cycle the CGIAR/Secretariat prepares a set of guidelines for the preparation and presentation of the centers' requests for funds. The Annual Guidelines set expectations for the cycle; the report gives information on the activities of the fund raising unit, and gives an indication of funds likely to be available from CGIAR donors. It also reports on the aid "climate" describing how economic and other conditions in the donor countries are affecting likely levels of aid. The Annual Guidelines also note the expected level of base requirements (this helping to make System wide estimates of needs). And finally the report also brings centers up to date on any policy changes or reporting requirements.

Mid-Year Budget and Funding Report. Mid-way through each year the center directors, TAC, and CGIAR secretariat meet to review 1) funding expectations for the current year and 2) "base" and "other" program activities for the purpose of making recommendations for funding. The CGIAR secretariat prepares a reference document for use during this meeting. This is one report where significant improvements have been made in recent years. The report contains up-to-date information on the funding situation and thus signals any needed changes. It also contains an analysis of funding requests, the balance between the base and other programs, the contribution of the donor of last resort, financial analysis of the center's programs according to CGIAR objectives, a review of capital needs, and a brief analysis of the centers financial situation.

Annual Report to the CGIAR. This replaces the Integrative Report prepared previously by the CGIAR secretariat. It incorporates:
- management and program highlights contained in the center's annual reports;
- consolidated financial information and analysis on the centers;
- funding information, including distribution, trends and indexes (e.g. non-dollar denominated contributions);
- inflation and exchange rate information as it affects donor's and centers' operations;
- information and analysis of center's funds requests (e.g., looking at funds devoted to CGIAR objectives, to regions, or to crops, balance between base and others);
- funding priorities as recommended by TAC; and
- use of funds from the donor of last resort.

**Funding Letter.** This closes out the budget cycle and reports on pledges made by donors. In this report the CGIAR secretariat gives its most recent information on likely funds available for operations. The information is important to the centers because it is usually the basis for revenue recognition and because it is the best information available for making an operating budget. In recent years the report has improved the quality of its information by giving an indication of the degree of certainty of the pledge. Additionally it can give information on likely exchange rates for the major non-dollar denominated contributions. This will assist centers considerably in their financial planning and will help serve to establish their operating bands with respect to exchange rates.