From: The Secretariat  
February 5, 1986

Budgeting, Financial Management, and Reporting in the CGIAR
Agenda Item 5, Mid-year Meeting of the CGIAR
May 19-23, 1986 in Ottawa, Canada

Summary: This circular lists the major recommendations of the study and urges donors to prepare positions on these issues so that decisions can be taken at the Ottawa meeting. The final version of the study will be sent to members by the middle of March, and may be received by some donors too late for all of the issues to be considered before the May meeting. It is expected that the differences from the draft version of October 1985 will be minor in most respects. Members are, therefore, requested to use the draft version which they already have as a basis for developing positions on the issues listed.

1. At centers week in November 1985 a copy of the October 1985 draft of this report was circulated to the members. Another copy was mailed in late November 1985 to ensure circulation to all members. Comments were requested by the end of December, but very few were received.

2. The draft report was presented to the TAC and centers during their meetings in October 1985. Parts of the report have also been considered at meetings of center finance officers. There appears to be general agreement on most of the recommendations; those concerning the allocation of funds were believed to require further consideration. Consequently, sub-committees of TAC and the center directors met January 26-28 to examine in detail the resource allocation method proposed by the study. Further work will be done by both TAC and the center directors.

3. The final report will be circulated in mid-March 1986. It will be accompanied by a commentary reflecting the conclusions of the further discussion of the allocation process, and other comments based in part on the reactions received from donors in the interval. It will also propose follow-up actions assuming Group approval of the report at Ottawa.

4. To facilitate and focus the discussion of the report in Ottawa, the secretariat has summarized below the principal recommendations of the study, emphasizing items requiring Group approval. We do not expect that the substance of these recommendations will be affected by changes in the report, or in the position of TAC or the centers.

Distribution:
CG Members  
TAC Chairman, Members and Secretariat  
Center Board Chairpersons  
Center Directors
5. **Accounting Recommendations:**

(a) All centers should adopt the U.S. version of generally accepted accounting principles (GAAP) for non-profit institutions as a basis for uniform accounting practices. Most centers already follow aspects of GAAP. This recommendation, therefore, reinforces the existing situation, but would extend GAAP to virtually all policies and procedures. As an exception to the GAAP, the study recommends against adopting depreciation accounting. Instead, the proposal is to include annual depreciation information in a footnote to the published accounts. The reason for this exception is the potential confusion caused by introducing depreciation accounting at this stage in the development of the centers.

6. **Financial Reporting Recommendations:**

(a) The centers should adopt a common format for reporting annual financial information. This format has been designed to provide fuller disclosure of the finances including ancillary center activities such as food service and lodging.

(b) It is suggested that the donors accept these annual accounts after an external audit in lieu of separate audited reports of their individual grants.

(c) The study proposes that the centers also adopt a common format for periodic reporting to the donors on restricted activities. The study recommends that donors accept this common format instead of requiring individualized reports.

7. **Funding Recommendations:**

(a) That all donors agree to pay reasonable overhead charges on every restricted activity including both restricted core and special projects.

(b) That donors make every effort to make pledges to centers as early as possible, meet pledge commitments on time and when possible make full payments in the first quarter of the year. The study also recommends multi-year pledging by donors, even if on an informal basis.

8. **Financial Management Recommendations:**

(a) Removal of the limitation on the working capital (operating funds) carried by centers, currently one month's operating expenses. Instead, a flexible standard is proposed. The boards of trustees of each center would have discretion to fix the appropriate level depending on the situation of the center. This flexibility would allow centers to meet small fluctuations in income due to exchange rate and inflation deviations as well as to finance unexpected minor variations in capital costs.
(b) The CGIAR secretariat is asked to examine the potential for additional uses of the funds in the stabilization mechanism as they approach $10 million. At present the stabilization mechanism provides insurance to the centers against adverse variations during the calendar year in exchange rates and inflation. The study also suggests that the secretariat explore the establishment of other funds such as an endowment or a fund for capital development.

9. Resource Allocation Recommendations:

As mentioned above, these topics are being subjected to continuing study by TAC and the center directors. Further proposals concerning them will be sent as soon as possible. In the meantime, however, there are a number of recommendations on which donor views will be needed whatever the outcome of these further discussions:

(a) TAC would review periodically the full extent of a center's programs in a schedule linked to the external review process. This would not only give an opportunity for a full consideration of a center program and budget, but would also reduce the scope of the annual review, and reduce the workload of budget reviews on TAC and the centers.

(b) One of the products of this periodic review would be a portion of the center program which would be approved for a period of several years, perhaps five. It would be hoped that donors could agree to the Group authorizing such long-term approvals and reflecting them in their funding behavior, without necessarily engaging in formal long-term pledges.

(c) Another product would be a list of specific activities not approved for five years, but subject to annual review by the TAC. Special projects would be included, and the sharp distinction between special projects and restricted core would be removed.

(d) The study also recommends that the annual program and budget documents prepared by the centers be improved to focus more on the annual objectives of the program of work and its financing requirements rather than purely budgetary detail, and further that the annual program and budget documentation prepared by the CGIAR secretariat focus more on the systemwide information on priorities and finances to complement the center detail provided in the individual center documents. Donors should consider whether documentation of this type will meet their needs.

10. Additional copies of the October 1985 draft of the study are available if required by members. The secretariat would very much appreciate being informed of issues which members feel need further work or require detailed discussion at Ottawa.
From: The Secretariat

Consultative Group Meeting

May 19-23, 1986

Ottawa

Agenda Item 5

Commentary on the Budgeting, Financial Management
and Reporting in the CGIAR Study

Summary: This study was initiated at the November 1983 Group meeting in response to questions raised in the second review of the CGIAR. Group members saw a draft of the study report in November 1985 and a note was circulated on February 5, 1986 summarizing the recommendations of the study. The final report is now being circulated and is on the Group agenda for the May 1986 meeting in Ottawa. This discussion note amplifies some of the recommendations of the study that require actions by the Group and the donors. It may also assist the members by providing a suggested outline for discussion of the report in Ottawa.

Recommendations on accounting policies to be followed by the centers

1. These recommendations would formalize uniform standards of accounting across the centers.

   The objective is to ensure consistency and comparability of center accounting information. The proposed accounting policies have been discussed extensively with the financial staffs of the centers and there are no outstanding issues.

2. Upon Group approval the new accounting policies would be implemented by all centers in 1987. The recommendations should not result in significant change-over costs in any center.

Distribution:

CGIAR Members
Center Board Chairmen
Center Directors
TAC Chairman
TAC Members
TAC Secretariat
Recommendations on financial reporting

3. These recommendations, which are based on the accounting policies mentioned in the previous section, would establish uniform standards of financial reporting across the centers.

The objective is to establish a framework of reports that provide fuller disclosure of financial information in a form comparable across centers.

4. Group approval is also sought on the following recommendations to donors: (a) that these annual reports after an external audit be accepted by donors in lieu of separate audited reports of individual grants, and (b) that donors accept uniform reporting formats for periodic reporting on restricted activities. Individual donors are requested to indicate whether these recommendations are acceptable in their own agencies. The secretariat would be happy to arrange for further consultations with individual donors to explore these matters and facilitate acceptance.

5. The new reporting structure should produce comparable information from centers so that their relative positions are clear and so that the amounts and types of reserves that they carry are specified. In general, donors and others will be in a better position to understand the financial position of the centers, both individually and in comparison with one another. If centers can reduce the number of financial reports that they are required to file, and substitute them with standard progress reports and audited statements in a uniform format, there should be a reduction in workloads.

6. Upon Group approval the new financial reporting system would be implemented by the centers in 1987.

Recommendations on funding practices

7. Group approval is also requested for a proposal stating that reasonable overhead charges be included in all restricted, project-type activities, whether considered core or extra-core under present terminology.

The objective is to ensure that reasonable overhead costs necessary for center operations are collected from all donors. In several instances donors who sponsor restricted activities cover only the direct costs of their projects. This places the burden of paying overhead costs solely on unrestricted donors whereas all donors should share these costs. The impact over time would be that a center's basic operating costs would be covered by all donors which would help to stabilize funding and provide more balance on the use of unrestricted funds for research.

8. Upon Group approval the overhead requirement would be implemented for all new restricted activities.

9. The Group is asked to endorse the recommendations on early pledging, informal indications of future pledges and disbursement practices. Individual donors are urged to implement them to the extent feasible.
**Recommendations on financial practices**

10. Group approval is requested for removing the current limitation on the centers' working capital, presently one month's expenditures.

11. As argued in the report, this is a critical problem for centers. Under current disbursement practices, funding available to the centers in the first half of each of the past two years has amounted to less than 40% of the yearly total. Some 6% of all pledges were outstanding at the end of the pledge year. Since centers do not have access to any other non-commercial sources of financing, except limited short-term credits from funds made available by the World Bank to the secretariat, this directly affects the centers' ability to meet operating costs such as staff salaries without expensive commercial borrowing.

The objective, therefore, is to introduce an element of flexibility in center management of operating funds. The method proposed is to allow working capital to increase beyond the current limitation of thirty days' expenses.

12. Increases of working capital above one month would not be accepted as justification for center budget requests. Experience has shown that centers frequently have some funds left over at the end of the year because of conservative management. These funds could be added to working capital instead of being spent or deducted from the following year's needs. This would create incentives for better management. As part of its annual financial reviews of the system, the CC secretariat would undertake to monitor center handling of working capital to ensure that it was not being misused; for example, to build up program levels in any year beyond what would be sustainable over a longer period. The impact of this approach would be greater flexibility for center management in scheduling expenditures and a greater ability to meet small emergencies without cutting back on ongoing activities on short notice.

13. The Group is asked to concur that the secretariat examine the potential for alternate uses of the stabilization fund, which is presently approaching some $10 million. This exercise should also establish an optimum size for the fund's existing uses. Alternate uses to be examined might include serving as a medium-term loan facility for centers supplementing the short-term credit facility operated out of the World Bank contribution.

14. **Role of donor of last resort.** The study points out that by using World Bank funds to approximate as closely as possible the allocations of funding recommended by the TAC and approved by the Group, the Bank is masking overall donor priorities as expressed in their allocation of funds to individual centers. The secretariat suggests that the close examination of this topic be deferred until there is some experience with the proposed resource allocation system. The issue is of sufficient importance that the Group might want to have it addressed in the third review of the system rather than in the context of a study of financial and budget processes.
Recommendations on resource allocation

15. The study recommends that the CGIAR adopt a new resource allocation process with strengthened criteria for evaluation of center proposals and a longer-term objective than the current annual process.

The objective is to construct a process that takes into account the research horizon, the need for continued decentralization and incentives to entrepreneurship, balanced with the need for funding stability and financial accountability.

The specific method proposed in the study has been under detailed examination by the TAC and the centers. A small working group composed of TAC, center and secretariat representatives met in January 1986. The specifics of the proposal for a new process arising out of this working group will be discussed by the TAC and the Board chairs at their forthcoming meetings in March and by the center directors in May prior to the Ottawa meeting. The main elements of this process are:

(a) A TAC review at intervals of several years of an entire center program in a schedule linked to the external review process. The review would include special projects.

(b) The review would be conducted under general guidelines being developed by the TAC and the secretariats.

(c) The review should substantially reduce the scope of the annual examination of center programs by TAC. During the review, TAC would separate center activities into those that should be reviewed annually and those that require only periodic examination.

(d) It is hoped that the donors agree, without making a formal commitment, to finance the portion of the program not subject to annual reviews for a period of five years, or the period until the next full review. This would provide funding stability for the conduct of research.

(e) Annual program and budget documentation would focus more on the annual objectives of the program of work and its financing requirements rather than purely on budgetary detail. This would also apply to the documentation prepared for the Group by the CGIAR secretariat. It would be helpful if individual donors would inform the secretariat of the specific requirements of their agencies which should be met in center or Group documentation.

16. Group approval is requested on the adoption of these principles for constructing a new resource allocation process.