CHAIRMAN'S LETTER TO HEADS OF DELEGATION

June 28, 1996

Dear Colleagues:

Before recollections of the Jakarta Mid-Term Meeting (MTM96) recede too far back in our memories, let me again express my appreciation of the tremendous effort made by all concerned to bring our deliberations to a positive conclusion. The collective contribution of so many individuals and groups combined to make MTM96 substantial, significant, and well organized.

I have written on your behalf to President Suharto as well as to other officials of the Indonesian Government who assisted us, thanking them for their contribution to the successful outcome of MTM96. For a busy head of government to host the formal opening ceremony of a Mid-Term Meeting and to inaugurate it personally was most gracious and supportive. President Suharto's actions and remarks reflected his personal philosophy of development while reaffirming the importance of the work of the CGIAR to the South.

As we gear up for the second quarter century of the CGIAR, we will have that message pressing on us: The work of the CGIAR is truly an essential component of development. Unless agriculture is transformed -- to become, simultaneously, more productive and more protective of the natural resource base on which productivity depends -- poverty will remain pervasive, hunger will be acute, and the environment will be endangered. Research has to be the basis of that transformation. The CGIAR system, therefore, is not some remote instrument for arcane intellectualism but a living mechanism that makes a difference in the day-to-day lives of people.

Many challenges will confront us in the future, as in the past. I am confident that the CGIAR will be focused and purposeful as it turns challenges into opportunities. This came through very clearly at the Jakarta MTM as it has on other occasions.

In Jakarta, we endorsed a set of priorities and strategies based on an analytical framework which integrated the dimension of poverty alleviation with agricultural production and environmental considerations. The approach to research proposed by TAC and adopted by the Group was unequivocally people-centered. The Centers in collaboration with TAC can now move on to producing the 1998-2000 business plans, based on that approach.

As important, the Group demonstrated its commitment to ensuring that the research agenda it adopts will be fully funded. We entered MTM96 facing some
uncertainties in this area. However, as a result of a concerted effort by members and Centers -- redefinition and/or reclassification of funding and activities, as well as additional contributions by some members -- the funding level for 1996 has reached the system target of $300 million. An annex to this letter sets out the issues and describes how they were resolved. Additionally, the annex outlines future financing procedures on which we agreed in Jakarta. Transparency, accountability, and predictability must remain the foundation on which the structure of CGIAR funding is built.

Also in Jakarta, we saw many wonderful examples of the new openness of the CGIAR, and the consequent broadening of its partnerships. The spirit in which the preparatory meeting for the Global Forum was conducted, and the substance of discussion at that meeting, demonstrated creative interaction between the CGIAR and other segments of the global agricultural research system. Meanwhile, the fact that NGOs and the private sector as well as NARS were part of the Stakeholders Group -- the innermost circle of CGIAR leadership -- that met in Jakarta speaks for itself.

These are all heartening developments. But, as I said in Jakarta, "the tasks of renewal are never done." We must remain committed, resolute, and active. I have no doubt that we will be, as we move into commemoration of the CGIAR 25th anniversary...and beyond.

Warm regards.

Sincerely,

Ismail Serageldin
Chairman

Attachment

cc:
Regional Representatives
Board Chairs
Center Directors
TAC Chair
TAC Executive Secretary
Chair, NGO Committee
Chair, Private Sector Committee
Chair, IAEG
Modifications in the CGIAR Financing Arrangements

Renewal Program Reforms

Financing arrangements were reformed by the Group in 1994 and 1995 under the renewal program to introduce transparency, accountability, and predictability in CGIAR funding. Members responded positively to the changes implemented, and confirmed their intention to fully support the Agreed Agenda. As well, some Members also expressed their intention to take on a stabilizing role in the System by supporting, through unrestricted funding, less popular but promising research.

The financing arrangements in place at the time of MTM96 were characterized by the following reforms, developed and implemented during the renewal program:

- a matrix, to better articulate the Research Agenda for the purposes of program development and financing, and to facilitate multiple financing modalities;
- a project based approach for program preparation, targeted to achieve full transparency by 1997;
- a financing plan, to secure full financing for programs under the Agreed Agenda, while retaining the sovereignty of individual Members to fund the programs of their choice; and
- a new decision making cycle, to ensure adequate time between consideration of the Research Agenda by the Group and decision making regarding its financing by Members, as well as to negotiate full funding of the Agreed Agenda.

Remaining Impediments to Full Efficiency

Despite the advances achieved in 1995, it became evident at MTM96 that further fine tuning of the financing arrangements was required to remove several remaining impediments, which hampered the full effectiveness of the existing arrangements. These impediments included:

- the perceived rigidity of the financing arrangements and the restrictive nature of individual Center budget envelopes, which were seen as stifling the entrepreneurship of Centers to seek financing of sound research proposals within the parameters of the Agreed Agenda;
the persistence of disincentives for Centers to seek funding for the Research Agenda from Members, due to the perception that it would result in a loss of funding from the World Bank for the Center concerned, once the funding envelopes had been fully subscribed;

- the perceived lack of clarity regarding the criteria for determining the inclusion of Center activities within the Agreed Agenda, and the resulting confusion created among Members and Centers;

- the lack of stability in Center funding;

- the confusion regarding the responsibility for financial planning at the Center level; and

- the concern with the amount of paperwork generated by the existing allocation process, which was perceived as limiting TAC's capacity to fully engage in the strategic issues of concern to the CGIAR.

1996 Funding - Issues and their Resolution

At the commencement of MTM96, there was widespread concern over three interrelated developments pertaining to financing of the 1996 CGIAR Research Agenda. First, the 1996 Agenda, which required support of $300 million as approved at ICW95, would be underfunded by some 6 percent, or approximately $20 million, while some $47 million in funding remained outside of the Agenda in support of complementary programs. Second, the shortfall of funding for the Research Agenda was unevenly distributed among Centers, placing several Centers at serious risk due to insufficient funding in 1996. Third, the World Bank's matching contribution was placed in jeopardy as a consequence of the shortfall, raising the possibility that a refund of part of the Bank's contribution would be required.

In his opening statement, the Chairman urged the Group to take action to resolve the funding shortfall in 1996, and to reverse the perverse incentives motivating Center financing that were at the root of its cause. Consequently, discussions by the Group on the CGIAR's financing arrangements were focused on proposed measures to close the funding gap in 1996 and to modify financing arrangements to create positive incentives to avoid a recurrence of the funding crisis in future years.

Two measures were used to close the funding gap. First, through redefinition and/or reclassification of funding currently in support of complementary programs outside of the Agreed Agenda, moneys would be identified to fund the Agreed Agenda. Through a process of consultation, involving Center Directors, TAC, the Finance Committee, and the CGIAR Secretariat, complementary activities consistent with the Agreed Agenda were identified during MTM96 and relevant funding totaling approximately $15 million was contributed toward closing the funding gap. Secondly, during the course of MTM96, Members mobilized additional resources at a level of about $5 million for Centers facing the most severe funding shortfalls. These exceptional efforts, in particular of Denmark, and as well as those of Japan, Australia, and France, and the partial drawing down of reserves previously set aside, will
contribute substantially toward solving the problem. Although the concerned Centers must curtail spending, a crisis has been avoided.

The steps taken at MTM96—redefinition and/or reclassification of funding and the provision of additional resources by Members—have closed the funding gap in 1996 by ensuring funding of about $300 million and full access to the Bank's matching contribution.

Towards the Future - Modifications Proposed

Recognition of the obstacles created by these impediments have led the Chairman to propose significant modifications in the existing financing arrangements for the Group's consideration. At the heart of the modifications proposed is a shift in emphasis from confining Center initiative through the mechanism of a fixed budget envelope, to promoting Center entrepreneurship by decentralizing responsibility for financing decisions to Centers and Members. World Bank support would shift from partial gap filling to reinforcing membership support. It was felt these measures would remove the remaining impediments and disincentives in the existing financing arrangements, and would increase predictability, introduce flexibility, and preserve transparency and accountability in the funding of the CGIAR Research Agenda.

The proposed modifications were discussed by the Group in plenary, as well as by the Finance Committee, Center Directors, Center Board Chairs, TAC, and the CGIAR Secretariat, meeting both in small groupings and jointly, throughout and immediately following the conclusion of MTM96, to reach agreement on the proposed modifications and their implementation.

These modifications would allow flexible planning by Centers to respond to new opportunities; provide incentives to Centers to expand funding for the Agreed Agenda; bring realism into CGIAR planning; and streamline processes and decisionmaking, thereby reducing unnecessary paperwork by the Centers and by TAC. Centers were given full responsibility for developing their individual financing plans, subject to TAC's certification of their proposed activities. thereby decentralizing CGIAR financial planning and basing it squarely on Center projections. World Bank support would shift from partial gap filling to reinforcing membership support. A new, albeit small, scheme of competitive grant funding would be instituted, to be allocated based on TAC recommendations. The purpose is to foster innovation as well as inter-Center collaboration. A provision for a systemwide reserve was established.

At the same time, mechanisms would be established to ensure that the process of decentralization does not jeopardize the overall priorities of the CGIAR as approved by the Group. Specifically, TAC's critical role in priority setting and resource allocation was reaffirmed, to ensure the continued integrity of the CGIAR System and the pursuit of high value science opportunities. The content of the Center programs following the development of their financing plans would be subject to TAC's certification of their proposed activities. Members would take on the role, traditionally assumed only by the World Bank, of ensuring that individual funding decisions do not compromise high priority activities of the CGIAR System as a whole.

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Distribution of World Bank Funds

Under the modified financing arrangements, the World Bank will continue to finance 15 percent of the total Research Agenda; however, the allocation of Bank funds will change. A large part (say 12-13 percent) of the World Bank funds will now be allocated to Centers across the five major CGIAR undertakings—as represented on an aggregate matrix of the five undertakings (columns) by sixteen Centers (rows). This will be done on the basis of projections by the Centers of expected support from Members. The remaining 2-3 percent would go toward competitive grants and a reserve fund. To avoid unrealistic projections, the Centers will be required to refund World Bank funding proportionately if their projected support from Members for activities under the five undertakings is not forthcoming. As an additional safeguard, the World Bank will disburse its funding to the Centers in two equal tranches, with the second tranche subject to prior review by the Finance Committee at the MTM.

There will be a transition period of one year, in 1997, to facilitate the changes in the World Bank allocation being implemented. In 1997, to facilitate special one-time payments by the World Bank to Centers with high levels of Bank support in 1996\(^1\), the percentage of World Bank support to Centers on the basis of funding secured by Members will be 9 percent, rising to 12 or 13 percent in 1998.

The modified financing arrangements thus recognize the Centers as being intrinsically entrepreneurial and highly motivated to maintain their status as centers of excellence, where the best science is being done for the purposes of sustainable agriculture for food security in the developing countries. By removing unnecessary barriers, the talents and entrepreneurship of the Centers have been unleashed, with those Centers proactively securing funding for their missions being rewarded with World Bank funds.

Clearly, special efforts must be made by the Centers and the Members to ensure the integrity of the research agenda and the promotion of inter-Center collaboration so that the whole System is more than the sum of the Centers.

1997 Financing Arrangements

1997 will be a transitional year toward the full implementation of the modified financing arrangements in 1998. The modifications to be implemented in 1997 are: decentralization of the responsibility for financial planning to Centers, partial implementation of the changes in the distribution of World Bank funding, TAC's role in certifying the program content of the Center financing plans and the increased role of Members in ensuring that high priority activities of the CGIAR System are funded.

\(^1\) In 1996, the World Bank continued to finance 15 percent of the total Research Agenda, with 14 percent being distributed to the Centers and 1 percent being held as a reserve. The allocation methodology used in 1996 to distribute Bank support was twofold: first, the allocation at about equal levels across the board as "first donor" to the Centers; and, second, gap filling support. Thus, four Centers received 8 to 9 percent of their budgets from the World Bank in 1996, seven Centers received 10 to 15 percent, and five Centers received 16 to 23 percent.
In 1997, World Bank will continue the shift, initiated in 1995, from gap filling toward reinforcing membership support. However, those Centers receiving high levels of World Bank funding for gap filling in 1996 will continue to receive Bank support for this purpose, albeit at lower levels, in 1997. Such gap filling support by the World Bank will be completely phased out in 1998. Accordingly, in 1997, of the 15 percent of the Research Agenda the Bank finances, 9 percent will be allocated to Centers on the basis of the support Centers expect to receive from Members, 1 percent to competitive grants, and 1 percent to a systemwide reserve. The remaining 4 percent will be allocated as a special one-time payment to those Centers with higher than 9 percent Bank support in 1996. This represents a provision of 80 percent of the total amount provided by the Bank for gap filling in 1996 to individual Centers. The Finance Committee is studying this proposal and may amend it somewhat, but will retain the general thrust of the scheme.

**Modified Decisionmaking Process and Schedule**

The modified process for decisionmaking on the Research Agenda and the allocation of resources by the Group would be as follows:

**Setting the Agenda (MTM—May)**

At the Mid-Term Meeting of the current year, TAC proposes the Research Agenda for the following year, including competitive grants, based on interaction with the Centers. The Group debates TAC's recommendations, taking into consideration advice from the Finance Committee on funding prospects. The Group endorses the proposed Research Agenda and notional budget, with or without modification. As well, competitive grants are allocated to the Centers. Following MTM, the CGIAR Secretariat solicits overall financing indications from Members.

**Preparation of Financing Plans (June-September)**

Centers prepare their individual financing plans for the following year, unconstrained by the notional budget indicated at the time of the approval of the Research Agenda at the MTM. Centers project the level of expected funding they will receive, based on specific financing information solicited through bilateral contacts with Members. World Bank funding is included on a percentage basis of funding secured by Centers—probably around 9 percent in 1997 and 12-13 percent in 1998 (depending on the final decisions of the Finance Committee).

**Confirmation of Program Content (mid-end September)**

Following the preparation of Center financing plans, Centers indicate to TAC and the CGIAR Secretariat the changes to the notional budget for the following year, as endorsed by the Group at MTM, resulting from subsequent interactions with individual Members on expected funding, and their implications to the program content of the Research Agenda. TAC reviews the program content, certifies or disapproves additional projects proposed for inclusion in the Research Agenda since the MTM, and highlights any significant implications to program content for the Group's attention at ICW.
Review of Financing Plans (end-September and October)

Following the confirmation of program content by TAC, the Finance Committee reviews Center financing plans for the following year for consistency and feasibility, based on funding information solicited by the CGIAR Secretariat. As well, the Finance Committee confirms the contribution of the World Bank, earmarked to the five major CGIAR undertakings.

Approval of the Research Agenda and Financing Plan (ICW—October)

At ICW of the current year, the Group considers the finalized Research Agenda and financing plan for the following year, leading to the Group's approval of its financing and implementation.

Disbursement and Implementation (January)

Following approval by the Group at ICW (in the previous year) of the Research Agenda and financing plan, Centers commence implementation of the Agenda on January 1 of the current year, and Members disburse funds to the Centers. Of the World Bank funds, half are distributed in January. The remaining half are disbursed in June, upon the authorization of the Group at the MTM of the current year, based on a review by the Finance Committee of updated Center financing plans.

Accountability (December-January)

At the end of the current year, Centers prepare financial statements showing the use of funds received in support of the Research Agenda. As well, Centers confirm the use of funds provided by the World Bank according to the five major CGIAR undertakings, and refund any overcommitted funds to the Bank.