Progress Report to AGM on Restructuring ISNAR

CGIAR AGM 2003—Business Meeting
Thursday, October 30

Agenda Item 3 (a): ISNAR EPMR Follow-up

This note was prepared by the informal transition team of ISNAR and IFPRI in response to the following conclusions and recommendations reached by ExCo5 (Sept 19th, 2003):

- *ExCo endorsed the recommendations in the final report of the IRT (dated September 5, 2003) "The recommended alliance is important as it can serve as a model for the system going forward.*
- ***The recommended transition should proceed as quickly as possible. IFPRI and ISNAR should report to the CGIAR at AGM03 about progress, taking into consideration ExCo's concerns on finance, governance, and the HQ of the program.***
- ***ISNAR should report to the CGIAR at AGM03 specifically on financial implications of the restructuring and on location.***
- *As it applies to the ISNAR-IFPRI case, the term "alliance" refers to forming a bond between two parties that are members of the same "family," with the result that one of the parties would cease to remain as a sovereign entity. (see draft summary record of ExCo, Sept., 19th, 2003)*

The two centers welcome the endorsement of the IRT report by ExCo. While awaiting further guidance and actual decisions on the matter by AGM of CGIAR, the two Centers have initiated informal discussions as requested by ExCo on a set of issues.

1. Transition Team

A transition team was formed by the two Centers, including the two Board Chairs, a Board member from each Center, the two DGs, one senior research manager from each Center, and the Directors for Administration and Finance. Legal advice shall be called upon as needed from both centers.

2. Governance: Sequencing Transition and Guidance of the future ISNAR Program under IFPRI Governance

- After ISNAR's closing as an organization and legal entity - to be decided by ISNAR Board and endorsed by AGM - a new ISNAR program would be established at IFPRI.
- The decision making regarding closing and coverage of all financial obligations of ISNAR is a matter of ISNAR and its stakeholders, not an IFPRI matter.
- In the meantime, a mechanism for establishment and guidance of the future ISNAR program shall be set in motion by the IFPRI Board, in order to assure fast transition toward the IRT recommended agenda.
- The guidance of the ISNAR program under IFPRI governance is a function of the future thematic focus. As the IRT recommended, the primary theme should

be to produce new knowledge, with strong international public good characteristics, which contributes to *institutional change* and the secondary theme should be to enhance the performance of agricultural research institutions through attention to their *organization and management*, with a particular focus on Sub-Saharan Africa.

Accordingly, the guidance of the future ISNAR Program shall be provided by a small but effective Program Advisory Committee (PAC).

The PAC shall be appointed by the Board of IFPRI, to which it will report, and be composed of the following 7 members: [2]

- one ISNAR Board member (for a transition period of about 3 years),
- one IFPRI Board member
- DG IFPRI
- DG ISNAR (after closing of ISNAR, the Director of the ISNAR Program at IFPRI)
- one NARS/NARO leader
- one Institutions specialist
- one Organizations specialist

The transition team will not focus on programmatic issues, but will entrust this task to the PAC, to be established after endorsement by AGM.

3. Location of the ISNAR Program

- Two possible sites have been proposed by IRT (Pretoria, Addis Ababa).
- In consultation with the countries concerned and the CGIAR centers already based in these countries, a final decision shall be made on the location of the ISNAR Headquarters Program.
- An assessment of the relative advantages of each of the locations has been made earlier by ISNAR, on the basis of which the ISNAR's Board of Trustees concluded that a relocation either to Pretoria, South Africa, or Addis Ababa would be acceptable.
- Further concentration of CGIAR efforts around a hub in Pretoria or Addis Ababa with a sizeable presence of IFPRI could also be used to strengthen the ties to ARIs to ensure their further contribution to relevant research on poverty reduction and food security.

4. Management, Personnel and Budget Issues

- In 2004 a new coherent ISNAR Program along the lines recommended by IRT shall be integrated into the IFPRI MTP on the regular schedule. This also entails integration of ISNAR and IFPRI financial records.

- Future staffing of the program shall build on qualified existing and new expertise, as needed for the new agenda.
- The position of Director of the ISNAR Program, reporting to the IFPRI DG, shall be internationally advertised and competitively recruited as soon as possible after AGM. The first responsibility of the Program Director would be to elaborate the content of the New ISNAR program, in consultation with ISNAR's stakeholders and develop a recruitment plan, under the guidance of the Program Advisory Committee.
- The different types of projects currently being implemented by ISNAR staff need to be completed to the extent funding permits in collaboration with partners.
- Donors and stakeholders shall be informed systematically about the new operating conditions of the ISNAR Program at IFPRI, and their inputs shall be actively asked for. IFPRI will discuss and carefully monitor the donor interest in the emerging ISNAR program, to assure that the synergies between the new ISNAR program and IFPRI's other existing programs are enhanced, rather than cross-subsidization be the case.

ANNEX:

Recommendations of IRT (September 5, 2003)

Recommendation 1: Program

The IRT recommends that a restructured ISNAR Program is built on two major themes.

- ***The primary theme should be to produce new knowledge, with strong international public good characteristics, which contributes to institutional change for enhancing the impact of agricultural research.***
- ***The secondary theme should be to enhance the performance of agricultural research institutions through attention to their organization and management, with a particular focus on Sub-Saharan Africa.***

Recommendation 2: Governance

The IRT recommends that:

- ***ISNAR should not remain as a free standing CGIAR center; and***
- ***Governance of a restructured ISNAR Program should be undertaken through an alliance with an existing CGIAR center.***

Recommendation 3: Alliance

The IRT recommends that:

- ***A re-structured ISNAR Program should be operated under IFPRI governance;***
- ***The ISNAR Program should be maintained as an identifiable entity with a global perspective and strong integration between its two themes;***
- ***The Board of IFPRI should be responsible for the oversight of the ISNAR Program;***
- ***The IFPRI Board should be assisted in this task by a high level special Program Advisory Committee (PAC) for ISNAR. The PAC shall advise the IFPRI Board on the strategy, program of work and budget of the ISNAR Program. The initial composition of PAC should ensure some continuity from the ISNAR Board; and,***
- ***For a period of at least 3 years, donors continue to identify funding for the ISNAR Program with the contribution for IFPRI, subject to the satisfactory evolution of the restructured ISNAR Program.***

Recommendation 4: Location

The IRT recommends that:

- ***The ISNAR Program be conducted in a decentralized manner; and,***
- ***Headquarters and directorate be established in Sub-Saharan Africa, either in Addis Ababa or Pretoria.***

Recommendation 5: Transition

The IRT recommends that:

- ***Given the importance of refocusing and sustaining the program activities of ISNAR and minimising the costs of uncertainty to staff and stakeholders more broadly, there is an urgent need for a rapid resolution to the restructuring;***
- ***The Boards and management of ISNAR and IFPRI establish a transition team to address key issues involved in implementing the recommendations of the IRT and for achieving a transfer of governance;***
- ***The transition team should address such issues as financial and legal obligations of ISNAR;***
- ***The ISNAR and IFPRI be invited to brief the CGIAR on the process and plans for the transition at AGM 2003;***
- ***The transfer of governance be completed as soon as possible after the CGIAR reaches a decision on the restructuring (expected to be at AGM2003);***
- ***The CGIAR through the Executive Council should establish a process to closely monitor the transition and evolution of the restructured ISNAR Program including periodic briefings by the transition team; and,***
- ***During the transition period, donors should continue to provide the financial support needed for a successful transition and program redevelopment.***

Progress Report to AGM on Restructuring ISNAR
Part 2 – The Financial Requirements and Implications

CGIAR AGM 2003 – business Meeting
Thursday, October 30

Agenda Item 3 (a): ISNAR EPMR Follow-up

This note is the second part of the progress report to AGM on the ISNAR restructuring, and was prepared following the conclusions and recommendations reached by ExCo5 (September 19^{th}, 2003), specifically:

"ISNAR should report to the CGIAR at AGM03 specifically on financial implications of the restructuring and on location"

The decision on an African location for the ISNAR Program Base has not been finalized. Accordingly, this focuses only on the financial implications of the ExCo recommendations, and assumes a cost-neutral impact of relocation to different African locations.

Summary of financial requirements

The most likely scenario for the cessation of ISNAR operations in the Netherlands and the transformation from an independent center to a Program of another center, and based in Africa, is that the unavoidable direct transaction costs will total $3.3 million. In addition to these costs is the need to resolve the expected accumulated deficit of $1 million, and pay for the operations in The Hague for the remaining period in 2004 (average monthly operating costs are $350,000). Almost certainly, it will take four months (and possibly five) from the end of AGM03 to complete the transformation, meaning that the overall cost would be $5 million. A low-cost but relatively low-probability transaction cost scenario is $2.6 million (plus operating and deficit reversal costs). The highest cost scenario, but also hopefully a low probability one, would cost $3.9 million. The worst-case scenario (highest costs, end-of-operations only on April 30) would cost $6.3 million. Based on cash flow projections for the most likely scenarios, it will be necessary for ISNAR to have access to unrestricted resources of at least $4 million within the first two months of 2004, and another $1 million in March. The formal dissolution of ISNAR as a legal personality would occur at a later date, to be determined by the Board of Trustees taking into consideration logistical and legal realities.

ISNAR's Financial Position in 2003

ISNAR income has been somewhat erratic over the past six years, and so have the center's financial results in terms of surplus and deficits. In 1998, total income was $9.4 million. By 2002 income had dropped to $7.9 million (it is expected to increase slightly to $8.1 million in 2003), but there was considerable variance in the intervening years. Expenditures similarly varied. The net result was that ISNAR started 2003 having exhausted its reserves. Largely resulting from the exceptional staff separation program begun in 2003, by the end of this current year, ISNAR will have a negative net asset position of approximately $600,000. In other words, ISNAR is insolvent. Furthermore, as it is anticipated that much of the physical assets (net book value of about $400,000) will have very little salvage value, the accumulated deficit at the end of 2003 is expected to be $1 million. This is the essence of the ISNAR financial position entering 2004.

ISNAR's Operating Costs in early 2004

The monthly expenditure in early 2004 is going to be $520,000. This is based on the current staff complement, the fixed costs of overheads such as telecommunications and other basic expenses (power, other utilities, etc.), and finally a somewhat lower than the historical level of expenditure on special projects. This latter phenomenon is a result of various factors, some of which can be directly linked to the uncertainties surrounding the ISNAR Program. Understandably, most new project support is being suspended until the ISNAR Program has migrated to its new home. It is estimated that approximately 70% of the $520,000, or about $370,000, will be paid from unrestricted or very lightly restricted funds. This excludes rent which is being considered a transition cost since to leave The Netherlands carries a large fixed cost composed of penalties, fees, and months of rent to be paid regardless of occupancy.

There is essentially no way this monthly cost can be reduced without additional staff departures, which in the short term are very expensive. Savings from staff cuts are realized in the future, not immediately, unless the departures are in the form of staff resignations. Under the current circumstances at ISNAR, it is not realistic to expect that there will be additional resignations as we approach what is the likely end of ISNAR as an independent organization. It will be necessary to sever most staff contracts in the dissolution process, and consequently there are indemnities to be paid to the staff whose contracts are not continuing because of the dissolution of the center. These are legal requirements that cannot be avoided.

Thus, it is clear that the longer ISNAR remains in The Hague with its current complement of personnel, the more costly the transition becomes. The sooner the cessation of operations in Netherlands and the transfer occur, the sooner will it be possible to reduce the monthly operating costs in The Hague, and eventually eliminate them altogether. Overhead costs for the ISNAR program in its new location will be a very small fraction of what they are as an independent center. A conservative estimate is that there will be a minimum annual core cost savings of over $2 million.

Finally, it is assumed by ISNAR management that the existing contracts for restricted projects will be converted as necessary to permit the completion of the contracted activity. Until ISNAR is dissolved, there should be no changes in legal status or operating characteristics, but once the ISNAR Program transfers to another location and under a different governance, then there will have to be a transfer of responsibility which will require certain legal procedures, including personnel contract changes. It is an assumption, therefore, that the current staff engaged specifically for and assigned to those long-term projects, will remain until the end of their contracted employment. All of the staff that fall into this category are involved in long-term activities based outside of The Hague.

Transition Costs in 2004

As was noted in the IRT report, there are a number of cost components to the closure of ISNAR in The Hague. These components are:

- Separation costs for staff including indemnities and other transaction expenses
- Lease cancellation costs (ISNAR HQ building, equipment leases, etc.)
- Legal, accounting, and other fees

The following is a brief description of the factors that will influence the actual amounts required. The annex provides a tabular summary of the expected costs.

Staff separation costs

ISNAR's existing staff complement is 59, of which 26 are internationally recruited (IRS), and 33 are nationally recruited (NRS). Of the international staff, 5 are based outside of The Hague, and 4 are engaged on special projects in Coast Rica. Of the NRS, 6 are based outside The Hague. The computation of indemnities is somewhat complex, and there are several variables to take into account. One variable is the exact date on which their contracts will cease. The calculation involves two elements – a part that takes into account the length of service at ISNAR, and a second component that is based on the remaining time on the broken contract. As the most important (but not only) figure for the calculations is the base salary, it is obvious that separation of the IRS will be more costly on a per-staff basis than for the NRS. However, we expect there will be 2 ½ to 3 times the number of NRS separated, than IRS.

Building lease cancellation

ISNAR is 4 years into a ten-year lease of an office building in The Hague. To break this lease will be very costly, as there are significant penalties that will be incurred and a number of restrictive legal provisions that make it very difficult to negotiate a reduction in the prescribed penalties. Unfortunately, there is a surplus of quality office space in The Hague at present, and prospects for finding a replacement lessee and negotiating this with the landlord before dissolution, are not bright. The cost of breaking the lease will be a penalty of nearly $300,000, plus the cost of six months rent (approximately $480,000). The cost of this rent for the period when ISNAR would already have left The Netherlands would constitute part of the transition cost. The range of possible total costs is shown in the annex. There will be estate agent fees to pay, but the exact amount must be negotiated. Finally, there will be additional transaction costs, such as restoring the facility to its original condition (removing cabling, partitions, etc.). We estimate the agent's fee and restoration costs will total $150,000.

Other leases and service contracts

There are several service contracts which, when broken before the expiration date, will result in penalties and costs. These include various insurance contracts, computer and photocopier lease contracts, and partial repayment of a grant to the municipality of The Hague since that grant was provided on the condition that ISNAR was to remain in The Hague for 10 years.

Legal and accounting fees

The dissolution of an international organization is an exceptional event, with few precedents, and it is expected that there will be specialized and costly legal advice required. Additionally, the external auditors and a liquidator will have to be engaged to ensure the records are properly concluded, assets are transferred or otherwise disposed of, etc. A minimum of one month's professional time for both legal representation/advice and the external auditors in The Hague is expected to be required in the transformation process.

A Comment about Scenarios

The annex shows a range of scenarios and their associated costs, with three major components: (1) the actual transition costs – those items that are incurred only because of the transition of ISNAR into a Program and the closing down of operations in The Hague, (2) the accumulated deficit moving into 2004, and (3) the operating costs during the transition period starting in January 2004. The final cost scenarios are based on a low cost, a medium cost, and a larger cost transition estimate, and the date of closure. There is a theoretical scenario of closing out most operations in The Hague at the end of 2003. For this to be feasible, many negotiations and actions would have to be advanced very quickly, and it would mean essentially a suspension of ISNAR operations for several months while the necessary contractual and legal necessities are finalized. The main impact, apart from suspension of some program work, would be a very small reduction of operating costs in The Hague. It is estimated that the total cost of such a scenario (using the mid-range separation scenario in the annex) would be about $4.85 million, including all costs – operating, paying off the deficit, and all transition expenses. This cost is only slightly lower than a February end date, because the savings realized by separating staff early are offset by additional penalties for not having been able to provide adequate legal notice of termination.

Cost Estimates for ISNAR Transitional Requirements

Part 1: Costs to be incurred becaue of the transition/dissolution

		TRANSITION COSTS - ISNAR CLOSURE IN FEBRUARY 2004						
		Low Estimate		Mid Estimate		High estimate		
			cost		cost		cost	
A	Staff indemnity costs	# separated		# separated		# separated		
	International	9	0.45	18	0.90	all (26)	1.31	average costs used - specific staff unidentified
	National	28	0.59	30	0.63	all (33)	0.69	
	Contingency		0.08		0.11		0.15	
	Total indemnities	**37**	**1.1**	**48**	**1.6**	**59**	**2.1**	
B	Building lease cancellation		0.93		0.93		0.93	includes 6 mo rent
C	Other service contract cancellation		0.06		0.08		0.10	possible municipality penalty can be waived
D	Fees		0.30		0.30		0.35	legal, accounting, liquidator
E	Various and contingency		0.24		0.30		0.35	includes unforeseen, library relocation, etc.
TOTALS, direct transition elements			**2.6**		**3.3**		**3.9**	

Part 2: Other costs in 2004 - accumulated deficit and operating

Operating and other costs

Accumulated deficit	1.00	
Components of normal monthly operating cost:		
Salaries	0.30	
Rent	0.00	(included in transition cost)
Other	0.05	
Total	**0.35**	

Operating costs to different dates of subtantial end-of-operations in The Hague

Closure date	Total cost	Particulars
December 31	0.60	(two months salary for insufficient notice period)
January 31	0.65	(one month salary for insufficient notice period, plus one month regular salary, plus other)
February 29	0.70	(two months salary cost plus two months other operating cost)
March 31	1.05	(three months salary cost plus three months other operating cost)
April 30	1.40	(four months salary cost plus four months other operating cost)

Part 3: Summary - calculating total cash requirements, some examples

Scenario			
Scenario 1: ISNAR closes substantially at year-end 2003, with mid-range transition costs:	Deficit:	1.00	
	Transition:	3.30	
	Operating:	0.60	
	Indemnity	(0.05)	Slightly lower indemnity cost.
	Total	**4.85**	
Scenario 2: ISNAR closes substantially at Feb. 29, 2004, with mid-range transition costs:	Deficit:	1.00	
	Transition:	3.30	
	Operating:	0.70	
	Total	**5.00**	
Scenario 3: ISNAR closes substantially at March 31, 2004, with low transition costs:	Deficit:	1.00	
	Transition:	2.60	
	Operating:	1.05	
	Total	**4.65**	
Scenario 4: ISNAR closes substantially at April 30, 2004, with high transition costs:	Deficit:	1.00	
	Transition:	3.90	
	Operating:	1.40	
	Total	**6.30**	