

Improving System Financing Modalities

Purpose

This document presents proposals on improving system financing modalities in two key areas:

1. Managing CRP Revisions
2. Flagship-level earmarking

Action Requested

The Board's endorsement on the approached suggested is sought, ahead of the draft being shared with the System Council's SIMEC for inputs ahead of submission to the System Council for decision at their 5th meeting in November 2017.

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Draft paper for SC5 on
Improving System Financing Modalities

Part A - Background

The following action was agreed at the November 2016 3rd System Council meeting:

SC/M3/AP1 – Genebanks and broader funding discussion

*Recognizing the importance of the former Fund Council's decision at FC14 on funding the Genebanks, **the System Management Office will put in motion a wider funding discussion amongst the System Council members** (which includes the Genebanks decision, builds on the work done on the transition, and does not seek to reinvent the wheel). This work is to be overseen in due course by the System Council's Strategic Impact, Monitoring and Evaluation Committee.*

An initial 'Scoping Paper' was developed for the System Council's 4th meeting in May 2017 (Paper reference SC4-03)¹. Many follow-up elements of that Financing Modalities scoping paper are carried forward in various agenda items in this System Council agenda, including allocation criteria and approach (including the issue of system funding predictability) and innovative resource mobilization (an Agricultural Research Summary and Investors Roundtable). This paper addresses two other follow-up items to the scoping paper: a) managing CRP revisions, and b) flagship-level earmarking.

Part B - Managing CRP Revisions

An important foundation of a dynamic and impactful portfolio is an appropriate balance between predictability and change in our research programs. A successful multi-year allocation strategy is also contingent upon the ability to modify the portfolio when necessary to reflect major changes in funding preferences, the research landscape or performance. This must be balanced against efforts to provide the maximum predictability to enable adequate forward planning of research programs.

The Financing Modalities Scoping Paper (p.10, Part D, Paragraph 3)² made the following points:

“portfolio-level flexibility and breadth: a concern is expressed by some funders on i) ‘locking up’ the whole potential funding envelope for half a decade without an

¹ http://www.cgiar.org/wp-content/uploads/2017/05/SC4-03_Funding-Modalities-ScopingPaper_Revision-1_4May2017.pdf

² From meeting document SMB6-03 (14 April draft version)

ongoing role for the System Council to actively manage the portfolio on an ongoing basis; and ii) the breadth of the CRP/platform portfolio relative to the funding available. However, it should be noted that through W3 and bilateral funding individual Funders steer approximately 80% of the portfolio directly.”

The proposed Allocation Strategy identifies a process to make periodic reassessments of the entire portfolio based on a 4-year planning cycle. But within this period, a process for within-cycle adjustments should be clarified to enable the portfolio to respond to urgent needs or take up unforeseen opportunities (e.g. a new pipeline of funding).

A proposed process is set out as follows:

1. **Adding a new flagship/or major expansion in scope to a flagship** – one approach would be i) SMB agrees to receive a new flagship proposal [that brings additional financing into the system], ii) this is given a ‘light review’ by ISPC, iii) SMB circulates to SC for approval alongside a recommended funding decision.
2. **Major changes to a CRP/platform without adding a new flagship** - SMB manages this process with the Lead Center, resubmitting to ISPC and then (if given a green light) to System Council for approval.
3. **Adding a new CRP/platform** – maintain existing practice.
4. **Major reduction in scope/dropping a flagship** - SMB takes decision based on recommendation of the Lead Center, releasing funding back to common pool or other flagships in that CRP.

Part C - Flagship-level earmarking – pros and cons, and how to manage the risks

The Financing Modalities Scoping Paper p.37, Appendix 2, Paragraph 2³ made the following points:

“Funder earmarking capability at system-level: the choice for CGIAR funders could be characterized as a wide divergence between two domains – bilateral, with significant funder and recipient transaction costs, and pooled, for which Funders have options to allocate funding to large “buckets” e.g. CRPs and Platforms. An observation from conversations with various funders is that there is no option in between these two domains, noting that i) the breadth of CRPs does not accommodate the granularity of interests by funders, ii) despite strong efforts to manage perceived quality differences between flagships, there is still a perception by some funders that some differences remain such that they would like to choose between flagships in targeting funding, and iii) in the face of funding pressures broader W1 or CRP-level pooling of funds may

³ http://www.cgiar.org/wp-content/uploads/2017/05/SC4-03_Funding-Modalities-ScopingPaper_Revision-1_4May2017.pdf

in some cases make it harder to make an attribution link to activities and to create a sense of ‘ownership’.”

The scoping paper thus floated the idea of allowing flagship level earmarking in W2: contributors would be able to earmark some or all of their resources, if desired, to specific flagships. This could be in the form of a negative ‘exclusion list’ to accompany any W2 CRP funder allocations or positive quantified allocations to specified flagships. This would be implemented not by creating sub-accounts in the Trust Fund, but rather by the System Management Office’s accounting measures in releasing funds.

Potential *pros*:

- Enabling major new funding initiatives to enter the system-funding portfolio as new flagships (see proposed modality above) with potentially earmarked funding at the flagship level.
- Maintaining system-level funding: some funders inside W2 have expressed a strong desire for flagship-level earmarking to remain in W2, expressing a desire to pool funding but at a more granular level, and to be able to target funding more precisely within a pooled funding arrangement.
- Potentially increasing system-level funding: as set out in the financing modalities scoping paper, ability to target financing in CRPs might attract new and additional funding into the system.
- Providing a greater information and expression of funder preferences.

Potential *cons*:

- A risk of disequilibrium: a System Management Office estimate is that about one-half of all flagships (FPs) are highly integrated with the rest of portfolio, while about 40% are moderately integrated and 10% not so integrated. Uncoordinated flagship earmarking might lead to some negative externalities on other related flagships in the same or other CRPs.
- Some flagships are led by partners not by CGIAR entities – there may be incentive to fund home-country institutes.
- Flagship-level earmarking would present additional management challenges for CRP management teams, Centers and the System Management Office in terms of restricting the fungibility of financing and additional financial management requirements.
- Earmarking would not necessarily lead to a rebalancing of funding between flagships at the CRP level - earmarked funding (unless the levels are very significant) to a flagship

would displace existing unearmarked funding which would be used to finance other CRP activities.

Risk management

The risks of flagship-level earmarking are considered to be manageable. Key risk management elements might include:

- Encouraging funders to only earmark to FPs if there is a strong need, and as an exclusion list to maintain the spread of funding,
- Agreeing this measure as a temporary arrangement while efforts to address underlying funder concerns are tackled,
- Fundraising for additional finance for W1/2,
- Devising a light-touch accounting arrangement led by SMO, using existing flagship-level budgeting procedures.
- Encouraging greater dialogue (e.g. funders invited to participate in special session of CRP Advisory Steering Group meetings) between CRP funders and CRP management units to facilitate alignment between CRP funder preferences and distribution of efforts across CRP flagships.

Based on the balance of analysis above, it is recommended that the System Council [allow][do not allow] earmarking of W2 contributions.