



Agenda Item 4
For Endorsement

Issued: 22 September 2017

An allocation strategy for the CGIAR System

Purpose

This document presents a proposed strategy to create a clear and effective allocation process for CGIAR system-level funding.

Action Requested

The Board is requested to endorse the approaches proposed to inform the development of a revised draft ahead of the System Council's 5th meeting on 9-10 November 2017.

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Draft paper for SC5 on
An allocation strategy for the CGIAR System

Part A - Background

This paper sets out a proposed strategy to address the longstanding challenge of finding a compelling and successful approach to “system-level” allocation of funding in the CGIAR system. It aims to present a clear and achievable approach to allow for resolution of this issue, with a view to the System Council being ready to establish target allocations in 2018 for a 4-year period.

This paper also responds to the role, as set out in Article 11 of the Charter of the System Organization, of the System Management Office to “*develop, taking into account the advice of ISPC and input from the Centers, a proposal for guidelines and criteria for prioritization and annual allocation of Unrestricted Funding across the CGIAR Portfolio, based on strategic priorities and performance*”.

Part B – Proposed objectives of a funds allocation approach

In many ways, the allocation question resembles the task of solving a differential equation to optimize multiple priorities to find the best solution – for CGIAR maximizing:

1. The impact of system-level funding on the wider portfolio’s contribution to the SRF targets; and
2. The extent to which the overall allocation meets the various and sometimes diverse funding preferences of the System Council.

This allocation strategy takes these two goals as guiding objectives.

Part C – 3 Proposed Steps

Step 1: Asses and reaffirm commitment to a system-level approach based on pooled funding and decision-making

A successful approach to allocation depends on having enough consensus among CGIAR’s funders on what kind of ‘system’ is desirable and achievable. This then defines a vision for a financing system, which then determines what kind of allocation approaches are possible.

The starting position of this paper is that the drivers of the original 2009 reform¹ of CGIAR are still valid, and that despite many implementation challenges the general philosophy of

¹ footnote to 2009 evaluation

that reform – that CGIAR’s future lies in collective multilateral action between funders and Centers. Step 1 of the strategy therefore would therefore aim to test and reaffirm two propositions:

- An integrated and mutually reinforcing set of research activities across Centers, themes, and stages of product development will have more impact than a broad spread of fragmented and atomized research activities; and
- Pooled funding and decision-making – when managed well – is more efficient and impactful than atomized funding².

Much is embedded in the term “when managed well” in the second bullet above. Unpacking this term adds a number of additional managerial objectives to any allocation system:

- that it supports prioritization rather than spreading research efforts too thinly;
- that it allocates system funding in a way that adds special value to the currently larger volume of W3 and bilateral funding; and
- that it is informed by the best-available objective sense of where system funding can make the most difference.

Step 2: Agree on essential building blocks of a successful allocation approach to allocation

The table below suggests 12 building blocks of an effective allocation approach, half of which are tabled for decision at this System Council meeting:

	12 proposed building blocks...	Target date	Status
1	Agree on allocation prioritization criteria – see proposed list in Annex 1	Nov 2017	
2	Agree on temporality of allocations – both on i) the anticipated overall envelope of system financing, and ii) CRP allocations. It is proposed that CGIAR adopt a 4-year business planning cycle from 2019-2023 onwards – see annex 2	Nov 2017	
3	Inform the allocation decision – conduct an annual polling of funder preferences according to the agree prioritization criteria (<u>starting in November 2017 meeting</u>)	Nov 2017	
4	Introduce manageable flexibilities into the CRP modality – to enable multi-year pledging with confidence that performance and preference-based changes will be absorbed into the portfolio.	Nov 2017	
5	Confirm that allocations will continue to made at the level of CRPs – irrespective of whether funders agree to allow for any flagship-level earmarking	Nov 2017	

² Note that CGIAR managed 2430 grants in 2016 with an average grant size of \$0.275 million, with only 6% of grants (by number) greater than \$1 million each.

	12 proposed building blocks...	Target date	Status
6	Clarify/develop key elements of a performance management in management of system funding - including a new results dashboard that draws together available and new information on overall progress.	June 2018	
7	Explore greater alignment on breadth and scope of CGIAR's work in a resource-constrained environment – through SC deliberations based in part on foresight discussions.	2018	
8	Develop an allocation decision tool – to frame and codify main decision parameters based on the agreed prioritization criteria. This is not intended as a classic allocation formula approach, but to draw on elements on this approach to develop a modelling tool to help inform different financing scenarios – see annex 3	June 2018	
9	Inform the allocation decision - establish clear review process and cycle within business planning cycle: IEA cycle, ISPC function, other aspects of RBM.	June 2018	
10	Agree on linkage between W1 and W2 for 2019 onwards – based on 3 options presented in paper and updated in annex 4	June 2018	
11	Develop cost-efficient multi-year budgets for system entity budgets and CRP management costs from 2019 onwards – to ensure that the potential funding consequences of System Council deliberations on the role of system entities, and an SMB stock-take on CRP management and governance arrangements	Nov 2018	
12	Improve the predictability of system-level funding – see analysis and initial proposals - see Annex 5.	Nov 2018	

Step 3 – Implementation in 2017/2018

It will take until 2018 to complete the proposed building blocks above. As such – and if this strategy is agreed – it is proposed that the System Council supports as two-part process:

- Adoption and implementation of the proposed allocation strategy above, with a view to adopting a 4-year business planning cycle starting in 2019
- A further 1 year allocation for 2018 that applies the current allocation approach – with a proposal set out for 2018 under Agenda item XXX in this System Council meeting.

Annex 1: Agree allocation criteria - and information sources

Domain	Information sources – informed by...
<p><u>Perceptions of likely results</u></p> <p>1. Estimates of projected future results</p> <p>2. Information on ongoing results when available</p>	<ul style="list-style-type: none"> Information on quality at entry (ISPC ratings - the original 2016 ISPC flagship-level ratings on the quality of proposals, plus their new ratings of the resubmitted GLDC and resubmitted flagship proposals), projected outputs and outcomes, CRP annual reports Accumulating performance data in CRP annual reports (a business intelligence tool that includes the latest projections of CRP results and funding levels), ISPC reviews, IEA evaluations (and implementation) (all including science quality work)
<p><u>Perceptions of CRP funding need</u></p> <p>3. Strategic case for current + future CRP funding need</p> <p>4. Case for system-level funding need in terms of value-added of W1/2 CRP funding</p>	<ul style="list-style-type: none"> SMB/SC qualitative assessment at time of allocation recommendation based on CRP proposals, Foresight analyses, ISPC quality at entry, annual performance reviews, accumulating results data for phase 2 and any relevant phase 1 performance and evaluation data. Qualitative assessment by SMB/SC taking into account ISPC quality at entry and performance reviews, total projected level of CRP (W1,2) funding relative to W3/bilateral and the ambition of the CRP
<p><u>Perceptions of funder priorities</u></p> <p>5. Level of funder interest in system-level funding of CRP</p>	<p>A “preference map” of top 10 Funders based on their:</p> <ul style="list-style-type: none"> CRP-level preferences (expressed in terms of actual bilateral intentions and preferred ideal overall collective distribution) and (where expressed) flagship-level preferences, Heat map of level of connectivity of individual flagships Preferences between funding stage (upstream discovery, delivery science, piloting + scaling up), types of program (platform, AFS and integrating CRPs), or objectives (IDOs/sub-IDOs)

Annex 2 – Adopting a 4-year planning cycle

Most international organizations with a diverse stakeholder base have some kind of multi-year business planning cycle. As of now, CGIAR as a system has 6-year CRPs funded by an annual funding cycle, and a multi-year plan for evaluations (currently under review). There is no alignment or completeness in the current arrangements.

It is proposed in this paper that CGIAR adopts a 4-year business planning cycle. This is a manageable period in which to plan and implement decisions, for funders to pledge funds, and for research priorities to remain highly relevant. This is within the norm for other multilateral institutions, which typically range from 3 years (IFAD, IDA) to 4 years (GEF) – given CGIAR’s business of research 4-year cycle may be more appropriate than a 3 year one. The business planning cycle could consist of:

- A 4-year cycle for **CGIAR’s strategic results framework** (maintaining the current SRF for the remainder of its coverage period)
- A 4-year **research planning cycle** (starting with the remaining 4 years of CRPs covering the period 2019-2023)
- A 4-year **major fundraising effort culminating in making a target allocation of the overall envelope of System-level (w1/2) funding**
- A 4-year **target allocation of CRP-level** funding (subject to review – see below)
- A 4-year **evaluation plan** to culminate in a major review of CRP performance to inform the next major (re)allocation of funds for the next cycle.
- A **2-year mid-cycle review of CRP performance**, linked to a decision on whether to maintain CRP allocations as planned for the remaining 2 years of the cycle.
- A new phase of ISPC’s **SPIA impact assessment work**
- A 4-year cycle of **institutional and policy development** for CGIAR, based on an interaction with the System Council on emerging priorities and perspectives on CGIAR’s effectiveness

Annex 3: An Allocation decision-support tool – some initial thoughts

A decision-support tool will be developed over the coming half-year that will aim to codify and generate allocation scenarios based on the agreed criteria (see annex 1) at various levels to inform CRP level allocations. This could enable

The ambition is to build a model that can generate scenarios based on:

Data-driven perceptions of likely results, needs and funding priorities

Test out different scenarios based on higher-order choices that intra-CRP trade-offs – for example, the tool could collate the preferences of different donors and other key stakeholder groups (e.g. SMB, ISPC) according to:

- funding upstream (or discovery) vs downstream (or delivery) research
- those wishing to fund research to inform policy and those wishing to fund research to directly enhance productivity
- Relevance to IDOs (it could be worth revisiting use of a heat map of donor preference at IDO level)
- CRP leaders could be asked to estimate the minimum W1/2 funding to make a particular FP/CRP viable.
- Analysis of the volume of research on particular topics globally could be used to identify areas of particular CGIAR comparative advantage.
- Analysis of public vs private sector funding not simply at commodity level but with sufficient granularity to identify priorities for smallholders could be undertaken in the next 6 months.

Annex 4: The linkage between W1 and W2

It is proposed that a decision on the linkage between Window 1 and Window 2 is made once the 2017 financial year has been completed and the new linkage formula has been tested in this real-world situation.

A key variable is how best to use W1 in support of achieving the strategic funding objectives of the System Council for 2017. Two key parameters are System Council indicative allocations – which are already known, and actual W2 outcomes – which will only become known at the end of each year.

The 5th meeting of the System Management Board decided on an approach for 2017 based on the “middle ground option” described below - whereby W1 is allocated across all funding gaps between W2 and System Council indicative W1/2 allocations such that these are reduced by the same percentage amount until W1 funding is exhausted (Platforms are excluded from such reductions). This aims to offer a middle ground between full and zero coverage of the gap with W1, thus creating a greater incentive for W2 financing while partially helping reduce potential funding gaps for all CRPs.

FINPLAN 2017 explored three alternative approaches, concluding that for 2017 the ‘middle ground’ approach was the best:

1. **“Undefined until year-end”**: an ex post approach which defers a decision on how to address funding gaps until later in the year. This would enable more flexibility in response depending on having clearer information at the end of the year, although would reduce the predictability and potentially therefore the credibility of system-level finance.
2. **“Fixed in advance – winner takes all (W2)”**: equal amount of W1 would be allocated to each CRP up to the System Council indicative W1/2 allocation and not adjusted for W2 end-of-year outcomes. This gives a major incentive for W2 fundraising for CRPs by not reducing W1 1:1 for each W2 contribution. However, when applied in 2016 this led to some CRPs only being made aware at the end of the year of receiving less funding than programmed. This approach provides the largest variation between CRP outcomes and System Council indicative allocations.
3. **“Middle ground – partial filling of funding gaps”**: the approach for 2017, whereby W1 is allocated across all funding gaps between W2 and System Council indicative W1/2 allocations such that these are reduced by the same percentage amount until W1 funding is exhausted (Platforms are excluded from such reductions). This offered a middle ground between full and zero coverage of the gap with W1, thus creating some incentive for W2 fund-raising while partially helping reduce gaps for all CRPs (just at different rates). Compared to approach 2 above, this would narrow the gap between W2 outcomes and System Council indicative allocations in the case of a financial underrun, but still add a greater level of unpredictability to the outcome than Approach 4 below.

4. **“Egalitarian – cuts applied equally across CRPs”**: equal application of a possible cut irrespective of the level of W2 funding already received by CRPs. W1 is allocated such that all CRPs face the same percentage reduction of W1/2 from their System Council allocation until W1 funds are exhausted. This has the advantage of being optimal in terms of getting closest to the original System Council allocation, although it does not provide an immediate incentive for CRP fundraising (except when 100% of the System Council can be raised from W2).

Annex 5 - How to improve funding reliability to make allocations more reliable

5 potential solution areas

The following measures could provide more predictability to CRP system-level financing annually and multi-annually:

1. **Maintain and increase the share of W1 contributions** – this would have a major impact on the ability of the system to honor annual or multi-annual allocations
2. **Continue to set System Council-level allocations that cover W1 and 2 as a combined financing** pool with combined strategic financial allocations – the W1 linkage to W2 is an essential element in rebalancing any anomalies between individual funder allocations and the overall expressed preference of the System Council on what should be the balance of funding effort between CRPs.
3. **Increase the share of multi-year system-level funding commitments to CGIAR** – establish a soft target at the System Council level for the share of multi-year funding pledges – to 50% of system financing up from current level of 16% in 2016.
4. **Make multi-year pledges at the CRP-level too** – shifting this dialogue into a multi-annual rather than annual planning process.
5. **Develop innovative funding arrangement to stabilize system funding.** This could, for example, be in the form of a guarantee or loan arrangement that could provide greater assurance for annual or multi-annual allocations.

Analysis

The credibility of system-level funding allocations rests in part on the predictability of system-level funding. The effort of making effective System Council allocations is wasted if those allocations do not reflect the actual funding reality at the end of allocation period. Centers have noted that the quality of finance is as important as its volume. This was a key element of the Funding Modalities Scoping paper, which noted (page 9) that:

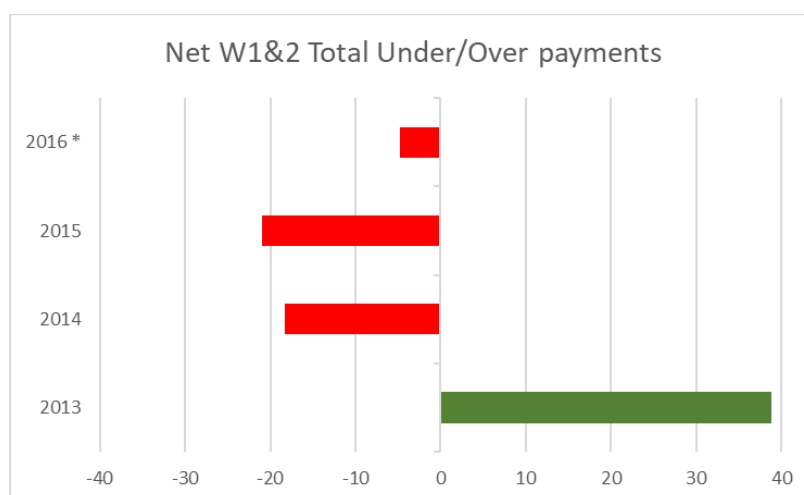
“Within-year and multi-year predictability of funds:

- a. **In the short term (within year)**, CRP funding from W3 and Bilateral is more predictable than System-level financing since these rely on typically 3- year project commitments. However, the W1&2 predictability of funding is poor – the last funders to announce their funding decisions are two major funders who together represent 30% of W1&2 funding, towards the end of the year, requiring centers to pre-finance the research and absorb the risk between budgeted and actual income.
- b. **In the medium and long term**: CRP funding from W1&2 is mostly unpredictable over the medium and long term. In terms of ‘revealed preference’, W2 *percentage* allocations to some CRPs by funders appears to be stable over

years but the corresponding *amount* received often varies because of changes in their total size of contributions (including due to exchange rate changes).”

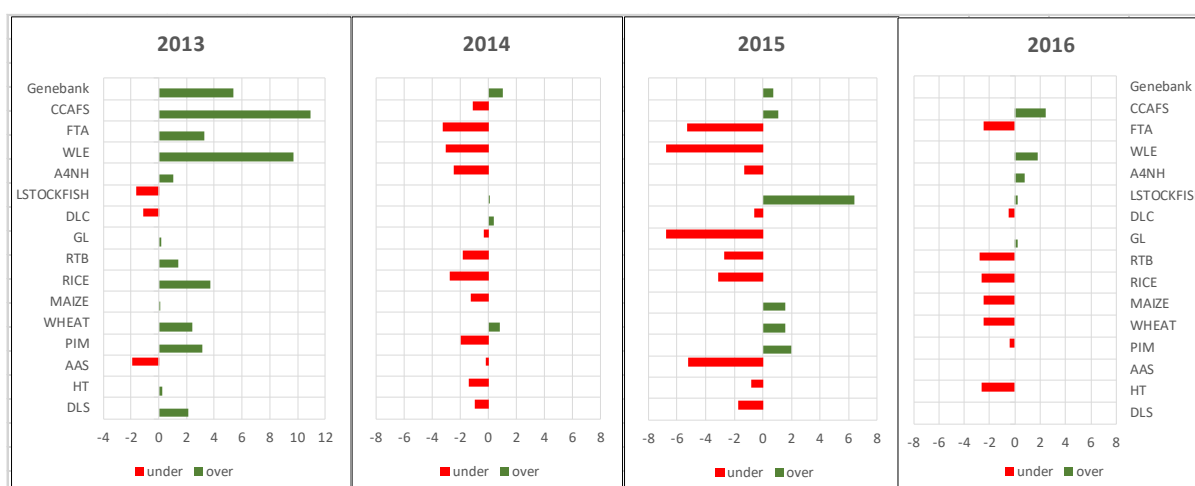
Within-year unpredictability

Each year, CGIAR develops a financing plan based on prior year funding experience as targets. However, the financing plan turns out to be unrealistic each year. End of year differences in actual funding received by CRPs compared to System Council allocations of system funding are significant. 2016 was a particular year in this regard since Window 1 was fixed in advance and not used to rebalance actual W2 contributions towards System Council allocations. This complete ‘de-linking’ led to about \$16.7m losses by 8 CRPs, which in turn drove a number of Center-level losses and declines in reserves.



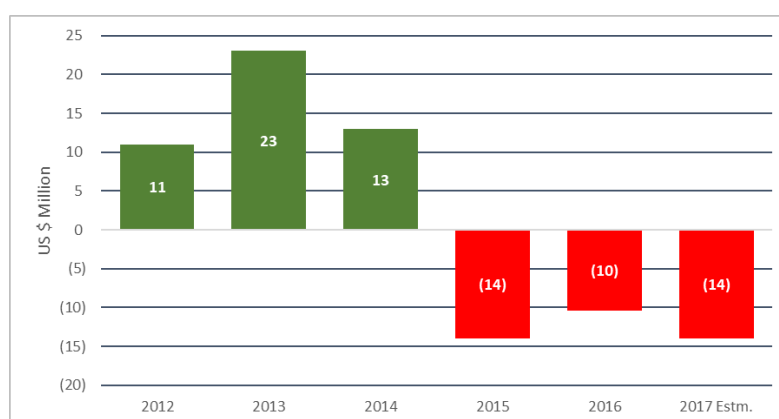
* Adjusted for A4NH \$6 million additional contribution resulting from revised calculations in 2014 and 2015

But end of year financing shocks also existed in past years when W1 and W2 were linked, as illustrated below:



The operational impacts of this unpredictability are pernicious in many ways:

- In terms of programming, Centers have to plan their research work less efficiently because they face incentives to under-program against SC allocations to factor in a level of risk that they can absorb in case of an actual funding shock. It also has an impact of the balance of fundraising preferences between W3 and system funding, since Centers see W3/bilateral as a more secure and predictable funding source.
- In terms of financial impacts, this instability is a major driver of Center losses and reserve depletion. The impact on System wide surpluses and shortfalls resulting from unpredictable funding realities is shown in the following illustration which includes the forecast from Centers submitted as of June 2017:

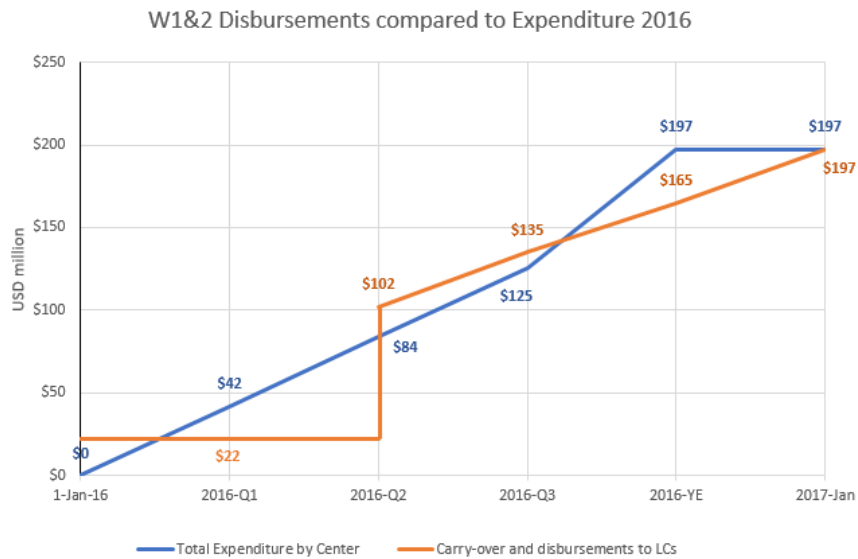


The drivers of this unpredictability are described in detail in the Improving System Financing Modalities paper presented to the last System Council meeting³. In summary, these are:

- Poor forecasting of overall financing levels of W1/W2 and late confirmation of W2 annual allocations
- Significant differences between assumptions of W2 which provides the bases for System Council W1&2 allocation and actual W2 allocations
- Changing policies on the use of W1 in terms of whether it should be used to rebalance the gap between actual W2 contributions and System Council W1&2 allocations
- Additionality of W2 which some Funders and Centers feel should not result in reduced W1 allocations
- Allowing any W2 allocated to CRPs beyond the System Council allocations to be kept for that CRP

Because Centers pre-finance CRPs, the risk of any shortfalls is held at the Center level and typically falls on reserves. The following table shows how within the year the total pre-financing of W1/2 CRP spend can rise to about \$60 million at its peak mid-year or \$30 million by year-end receiving the balance in January of the following year:

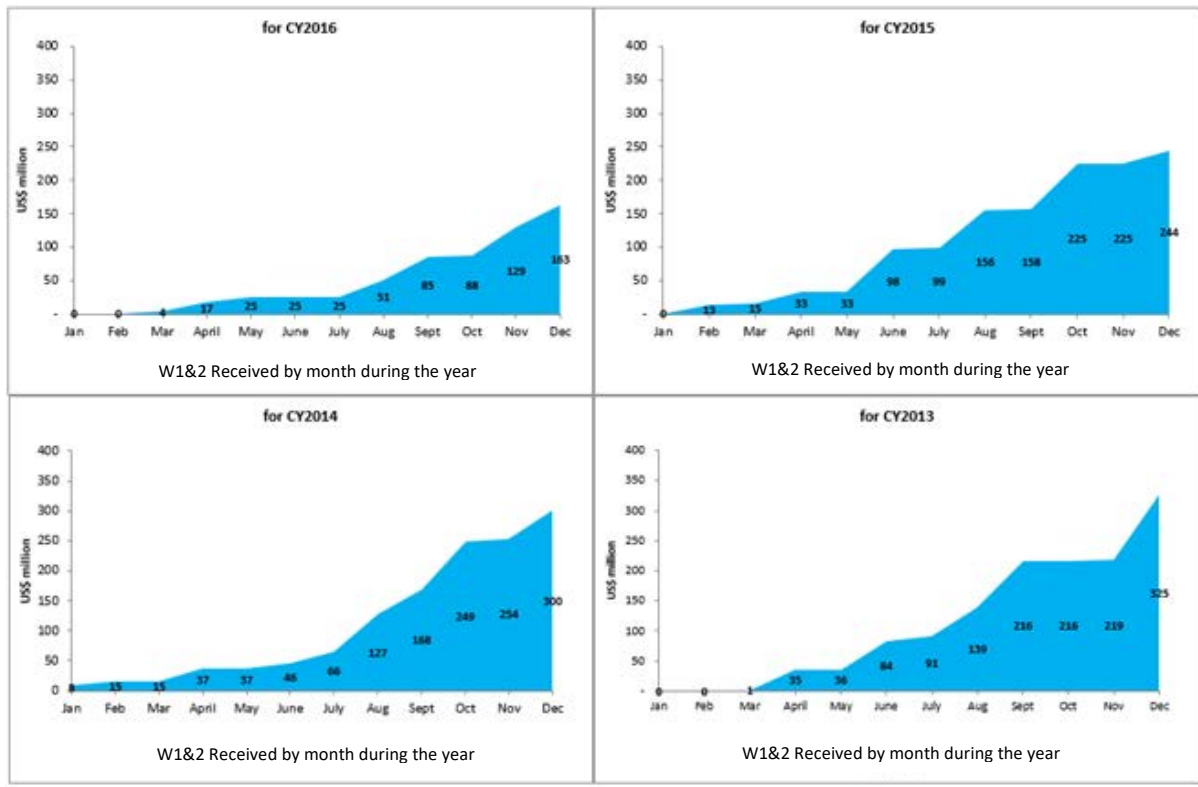
³ Improving System Financing Modalities SC4-03 http://www.cgiar.org/wp-content/uploads/2017/05/SC4-03_Funding-Modalities-ScopingPaper_Revision-1_4May2017.pdf



Most of the funding becomes available only towards the second half of the year and sometimes, towards the end of the calendar year and this results in an asymmetric spending pattern which is illustrated for demonstration purposes in the following graph.

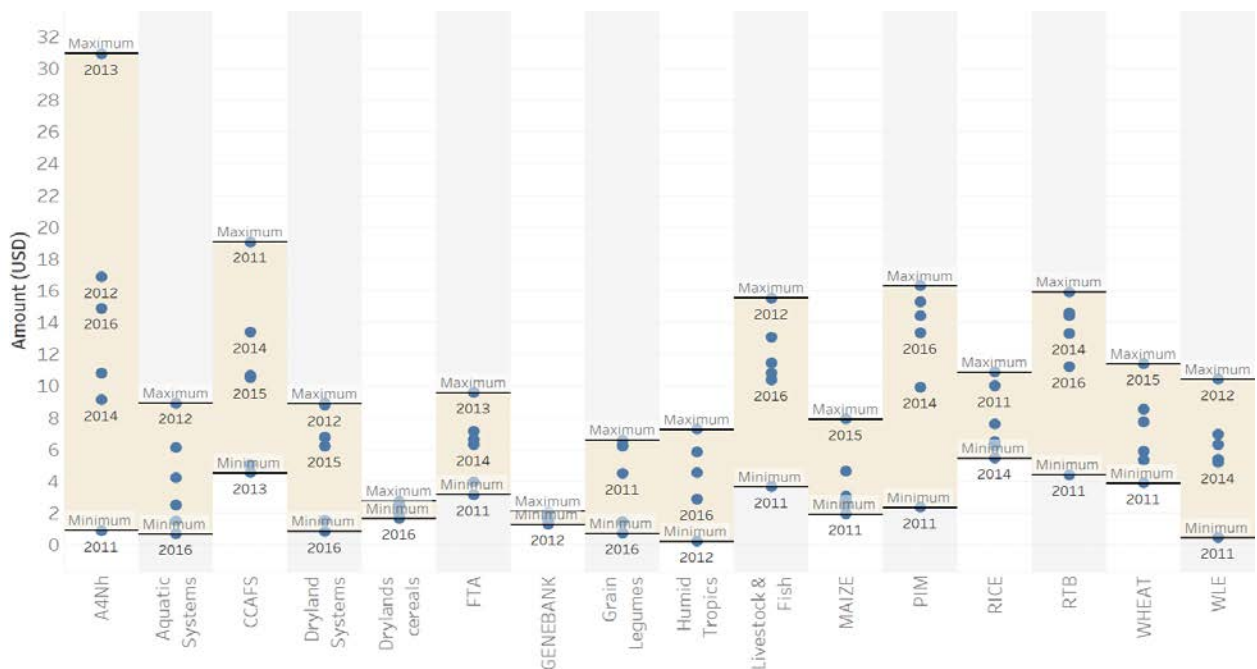


The following tables shows how W1 and W2 contribution are concentrated towards the end of the year which a root cause of the unpredictability of the current funding caused system



Multi-year unpredictability

A major further element of unpredictability is at the multi-year level. There are large annual variations of W2 amounts allocated to CRPs, which have partially been offset by the use of W1:



This chart shows the band (minimum/maximum between 2011 and 2016) of W2 amount received by CRPs.

Annex 6: Governance - Agreed Roles on allocation

The Charter of CGIAR sets out the following roles on prioritization and allocation:

- The **System Council** (Article 6 of the Charter) is to “approve, taking into account advice from the ISPC and proposals from the System Management Board, guidelines and criteria for prioritization and for annual allocation of Unrestricted Funding across CGIAR Research based on strategic priorities and performance” and approve allocation of Unrestricted Funding for CGIAR Research, taking into account advice from the ISPC and proposals from the System Management Board”.
- The **System Management Board** functions (Article 8 of the Charter) is expected to “recommend to the System Council guidelines and criteria for prioritization and for annual allocation of Unrestricted Funding across CGIAR Research based on strategic priorities and results”, and “recommend to the System Council the allocation of Unrestricted Funding for CGIAR Research”.
- The **System Management Office** functions (Article 11 of the Charter) is tasked to “develop, taking into account the advice of ISPC and input from the Centers, a proposal for guidelines and criteria for prioritization and annual allocation of Unrestricted Funding across the CGIAR Portfolio, based on strategic priorities and results”, and to “lead a consultative process with the ISPC and other CGIAR System entities for the development of an integrated framework for a results--based management system for CGIAR Research that provides feedback on progress and results and contributes to decisions on the allocation of resources.”