

Responding to COVID-19:
A package of proposed financial measures to facilitate funder support

Purpose

This document sets out a proposed package of financial responses to facilitate funder support to CGIAR, particularly during the time of COVID-19. It draws on discussions and inputs during the System Council's ad hoc briefing call on 30 April 2020 and guidance from the System Management Board during its 17th meeting on 5-7 May 2020.

This document was reissued on 3 June 2020 with an amendment to Paragraph 9 to reflect the dynamic situation. An update will be provided on the day of the SC10 discussion.

Action Requested

The System Council is requested to **approve** the package of financial measures to facilitate funder support, as set out in this document.

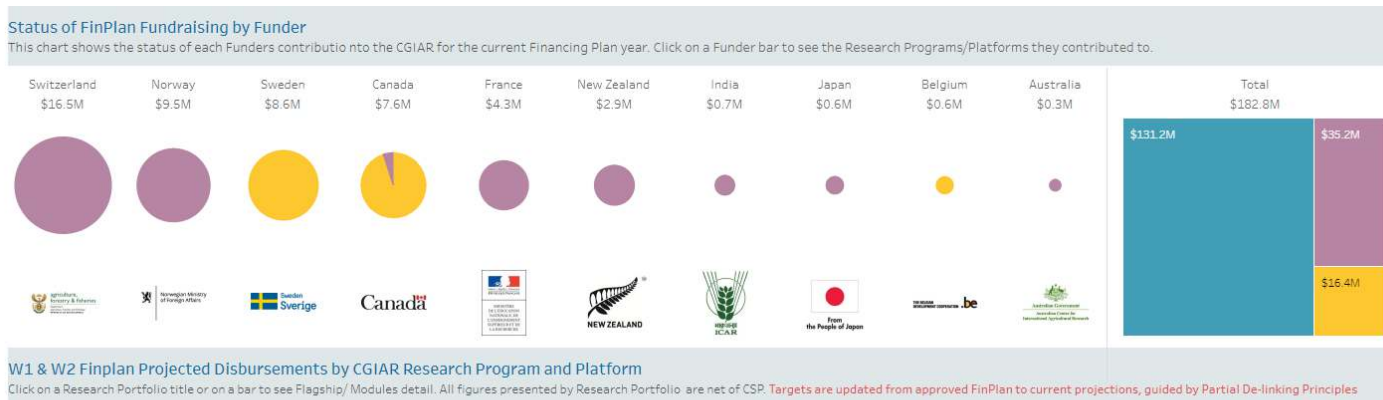
<p>Document category: Working document of the System Council There is no restriction on the circulation of this document</p>

Prepared by: CGIAR System Management Office, based on discussions at SMB17, and broad cross-system inputs.

Background

1. Following the onset of COVID-19, on 30 January 2020 the World Health Organization declared a global health emergency. On 11 March 2020, COVID-19 was further declared a pandemic by the World Health Organization. Most governments are taking restrictive measures to contain its further spread, affecting free movement of people and goods, which has placed the global economy into a state of uncertainty. It is unknown how long these conditions will last.
2. CGIAR has taken a risk-based approach to continually assess, monitor and mitigate the potential impacts on 2020 budgets, funding, cash flows, operations, and planned research activities (See information and projections from the [slide deck resource](#) provided for the SC adhoc briefing, 30 April 2020, which continue to be generally relevant).
3. In the absence of remedial action, CGIAR is projecting a cumulative reduction in revenues of approximately 20% (\$187M) in 2020.
4. Individual Centers and the CGIAR System Organization are implementing a variety of mitigating measures, dependent on their respective operating contexts, to minimize the financial impact whilst preserving critical assets and research capacity.
5. The range of mitigating actions include, but are not limited to:
 - a. Identification of avoidable operating costs (travel, workshops, facilities, consultancies, etc.)
 - b. Choosing to not award annual salary increments or bonuses
 - c. Negotiating salary and benefit reductions for staff
 - d. Delayed recruitment of some new positions, reassignment of existing staff to any open positions, reconsideration of contract renewal terms and conditions
 - e. Delaying the planned implementation of capital projects (i.e. facility and/or laboratory upgrades)
6. Despite relevant mitigations being applied to the respective contexts, Centers are currently projecting an aggregate net deficit of US\$ 42M in 2020 which will consume over 10% of accumulated accounting reserves within the System. These expected losses will be derived from a combination of the following:
 - a. Reticence and/or delays from funders in signing new bilateral agreements in the pipeline;
 - b. Delays or slowdown of fieldwork reducing activity spend in 2020, thus reducing the amount of revenue that can be recognized; and
 - c. Gap between permissible recoveries (direct service chargebacks and indirect costs) from projects and unavoidable fixed costs of maintaining facilities and services.

7. Individual Centers have varying levels of reserves and thus varying resilience to absorb financial losses. Appendix 1 summarizes Net Assets and reserves across the System as at 31 December 2018.
8. The current pooled funding financing modality requires Centers to take the risk of pre-financing W1/W2 activities with funding coming from Funders throughout the year, but mostly in the final quarter. As at 26 May 2020, only 19% of projected 2020 W1/W2 funds have been received. In the face of significant losses due to COVID-19, Centers have less flexibility to pre-finance than in prior years.
9. At the date of issue of this paper (27 May 2020), the then current projections for pooled fundraising in 2020 (recognizing that the situation is very dynamic, and an update will be provided on the day of the SC10 discussion) indicate an expected increase in W2 funding of \$0.9M (1%) and a decrease in expected W1 funding of \$13.8M (15%). The projected shortfall in W1 is due to expected funder currency forex degradation against the USD and shifts in funder W2 allocations amongst programs, thus causing a larger than expected draw from W1 according to the partial de-linking guidelines. The aggregate projected W1/W2 of \$182.8M is comparable to the current (COVID-19 adjusted) projected spend within the research portfolio of US \$ 179M.



W1 ▼ **15%** in relation to target

Current Projected Amount: \$77.4M corresponds to 85% of 2020's target of \$91.2M
 Note: Shortfall of 10% or below is within the approved FinPlan guidance

W2 ▲ **1%** in relation to target

Current Projected Amount: \$101.7M corresponds to 101% of 2020's target of \$100.6M

▲ : above target

▼ : below target

Proposed Measures

10. **Measure 1: Continue current planned contributions and bringing them forward where possible**
 - a. Funders to maintain planned and indicated W1/W2 investments in CGIAR Research Portfolio for 2020 and 2021 to ensure stability and confidence;
 - b. Request to Funders to provide 2020 and 2021 planned cash contributions at earliest date possible to optimize liquidity within the system (see paragraph 8 above); and

- c. Adjust partial de-linking rules to ensure Funder interests met¹.

11. Measure 2: Make additional investments in Pivot towards COVID-19:

As set out in the accompanying COVID-19 research paper, there is an immediate opportunity to strengthen the coordination and implementation of CGIAR's response through a COVID-19 Hub. Such an arrangement would also facilitate the programming of additional potential COVID-19 related funding for near and medium-term actions.

- a. Invest additional funds in newly established COVID-19 Hub within existing "improving human health" flagship in A4NH (IFPRI lead with co-leads ILRI and London School of Hygiene and Tropical Medicine).

12. Measure 3: Provide special support to address one-off falls in Center revenues

This is the potentially most financially significant set of measures. As set out above, Centers face a one-off income drop if their program/project funding drops because of lockdowns. The measures proposed below are calibrated to address that impact.

- a. For W3 and Bilateral agreements, in principle agreement on one or more of 3 options:
 - i. full-cost, 6 months extensions of all existing agreements;
 - ii. temporary increase (for 2020) in level of Indirect Cost Recovery (ICR) of 15% (For example, if the originally planned or negotiated indirect cost rate to be applied for a given project for 2020 was 15%, this would allow for a temporary increase in 2020 to 17.25% - thus an increase of 15%); and
 - iii. reorientation of project level outputs, deliverables and targets.
- b. For W1/2 funded activities, agreement for a temporary increase (for 2020) of indirect Cost Rates (ICR) by 15%.

¹ A footnote to paragraph 6 of the W1/2 Partial de-linking principles to expand current funding rules will be added to exempt from partial de-linking treatment any additional W2 contributions for which the funder has expressly communicated that their desired outcome is to reduce the amount of W1 otherwise allocated to the Program or Platform.

Appendix 1 – Net Assets and Reserves Positions as at 31 December 2018

	Total Net Assets	Unrestricted Net Assets	Reserves expressed as # of Days of Operations
	Millions of US \$	Millions of US \$	
Africa Rice	5.26	1.88	62
Bioversity	11.24	10.12	118
CIAT	64.73	26.22	146
CIFOR	8.82	7.95	82
CIMMYT	66.87	44.97	154
CIP	16.61	11.97	90
ICARDA	6.77	4.96	57
ICRAF	20.14	15.56	100
ICRISAT	40.89	26.26	168
IFPRI	28.06	26.57	85
IITA	36.48	7.16	32
ILRI	34.75	21.5	116
IRRI	31.85	18.19	106
IWMI	11.85	10.21	172
WorldFish	8.75	8.75	107
System Organization	1.44	1.44	27
	394.51	243.71	n/a