

## Annex 1a

### Financial and Governance Crisis at CIMMYT<sup>1</sup>

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## **Early History and Impact**

The International Maize and Wheat Improvement Center (CIMMYT by its Spanish abbreviation) is the second oldest of the Centers supported by the Consultative Group on International Agricultural Research (CGIAR), after the International Rice Research Institute (IRRI). It was established 1966 in Mexico with a mandate to promote and carry out national and international programs to improve, in all its aspects, maize and wheat production, through research, distributing germplasm, training, scientific and technical meetings, and information generation and dissemination. Its mission was to increase the quantity and quality of maize and wheat produced in the developing countries of the world.

IRRI and CIMMYT are widely regarded as the “flagship Centers” of the CGIAR. They and their partners in developing countries — in particular in India and Pakistan — are largely credited with the Green Revolution of the late 1960s and early 1970s sparked by high-yielding varieties of rice and wheat developed at these institutes. One could say that it was the successes of IRRI and CIMMYT that led Robert McNamara, then president of the World Bank, to expand the effort to other areas of agriculture by sponsoring, together with the Food and Agriculture Organization (FAO) of the United Nations and the United Nations Development Programme (UNDP), the founding in 1971 of a consultative group of donor agencies interested in funding agricultural research — the CGIAR.

CIMMYT has an enviable track record as a research institution, highlighted by the awarding of the 1970 Nobel Peace Prize to Norman Borlaug, the leader of CIMMYT’s wheat research program, in recognition of his contributions to world peace by increasing food supply and preventing famine and hunger. Indeed, India and Pakistan doubled their wheat production between 1966 and 1971 through their partnership with CIMMYT. According to recent estimates, wheat varieties developed by CIMMYT and its partners are planted on more than 64 million hectares in developing countries, representing more than 75 percent of the area planted to modern wheat varieties in those countries. Similarly, maize varieties developed by CIMMYT and its partners are planted on nearly half of the area sown to improved varieties in tropical and subtropical areas of the developing world. CIMMYT has also played a major role in helping to develop wheat and maize research capacity in developing countries, with more than 5,000 alumni of the Center distributed around the world.

CIMMYT’s success has been well appreciated by the donor community. By the turn of the 21st century, CGIAR Members had invested about US\$600 million (in current prices) in the Center since its inclusion in the CGIAR in 1971, averaging over \$20 million per year. By comparison, CIMMYT-related wheat and maize varieties are now contribute each year over \$3 billion in extra grain production in the developing world.

## **Culture and Legacy**

CIMMYT has traditionally been almost “two Centers in one” in the sense that, from the start, the wheat and maize programs operated with autonomy, each developing a strong

and independent identity. The autonomy of the programs was consistent with a management style that gave each scientist a great deal of freedom. One consequence was that there was little inter-program coordination. The first few directors general (DGs) of the Center saw their role as supporting the conduct of good science, leaving program leadership to the research program directors.

Another strong feature of CIMMYT was its field-oriented, “dirty boots” approach to research. The Center became famous largely through the strength of its breeding at headquarters and in the field. CIMMYT scientists were hands-on and pragmatic, with strong self-confidence, a “can do” mentality and a deeply felt commitment to help the poor.

Attention to management was not a strong suit of CIMMYT. An anecdote helps illustrate this. Early in the 1990s, when one of the annual CGIAR financial reports was being compiled, the DG of CIMMYT was asked about the relatively low financial reserves — specifically, if this was not a risky position for a large Center to be in, as the trend toward less unrestricted funding (see below) was becoming clear even then? The reply was, “Donors give CIMMYT funds to do research, not to keep in the bank or to invest.”

This attitude was perhaps understandable. CIMMYT was CIMMYT, after all, and it was for a long time unthinkable that the CGIAR System could allow one of its flagships to financially flounder — and it did not. The way CIMMYT was treated by the System following devaluation of the Mexican peso in the mid-1990s illustrates this. Unlike the policy applied in the case of at least one other Center that enjoyed similar devaluation gains at about the same time, CIMMYT was able to keep all of the windfall, which very dramatically lowered its local costs for a sustained period.

In the mid-1990s, some financing mechanisms of the CGIAR were modified, and different Centers reacted differently to these changes. One modification was a reversal in how the World Bank grant was paid out to Centers: from being the donor of last resort who fills gaps between CGIAR-approved budgets and actual income, the World Bank moved to a mechanism of matching funds. This reflected, in part, changes in the donor community toward supporting programs, not institutions. In this new scheme, Centers were encouraged to actively raise funds, which a World Bank grant would then add to on a percentage basis.

This was effectively a 180 degree turn from the disincentive to raise resources heretofore in force (because funds from the donor of last resort were there anyway) to one in which a Center was rewarded with additional unrestricted funds if it was successful in attracting new grants. While Centers were expected to raise resources for their agreed core research agenda, the fact remained that there was little chance of any funding being deemed outside of the research agenda by the System, and so World Bank funding for a number of years played an important role in changing the culture of resource mobilization in the CGIAR System. Success in the CGIAR was no longer only a programmatic issue, it became, in the eyes of some for a time, a function of how quickly and how large a Center could grow financially, regardless of the type and source of the funds. CIMMYT’s response to these changes in CGIAR policy may well have contributed to the financial difficulty that the Center eventually found itself facing by the end of the decade.

### **CIMMYT in the 1990s**

As was the case for many of the CGIAR Centers during this period, CIMMYT went through a period of deep financial difficulty between 1989 and 1993, in spite of the availability of some funds from the donor of last resort, requiring it to downsize its operation and reposition its work. During that time, expenditures for the agreed research agenda decreased steadily from \$28 million to \$23 million. The number of locally and internationally recruited staff was reduced by a third.

A new DG, Tim Reeves, took office at the end of 1995. Reeves put priority on fundraising and improving relations with national programs. He also made an effort to develop a more participatory management system and instill a new culture. He promoted the transition from a program-based organization to a project-based one more multidisciplinary in nature and oriented toward outputs.

Although CIMMYT used a multidisciplinary approach to research, this was practiced mainly within the maize and wheat programs. The exception was economics, which had traditionally remained outside the two crop programs and collaborated with both. There had been major changes in CIMMYT's environment, including the rapid rise of biotechnology as a new tool and the increased emphasis on research conducted on an eco-regional basis and with greater focus on natural resource management. As it would not be efficient to have separate biotechnology facilities for maize and wheat, CIMMYT established its Applied Biotechnology Center to serve both crop programs. The new Natural Resources Group was also formed.

In 1997, CIMMYT underwent an external program and management review (EPMR) commissioned by the CGIAR. At the time, it had an annual budget of \$32 million and 83 internationally recruited, core-funded staff, 18 post doctoral fellows and associate scientists, and 708 locally recruited staff. The original mission statement had been modified to helping to alleviate poverty by increasing the profitability, productivity and sustainability of maize and wheat farming systems.

The panel's overall assessment of CIMMYT was extremely favorable:

The panel has concluded that CIMMYT's contributions to the mission and goal of the CGIAR are truly outstanding. The Center has expanded its strategic partnerships, enhanced its external relations and improved its funding.... The Center conducts high-quality science and has an impressive record of achievements as well as impact on the daily livelihood of hundreds of millions of rural and urban poor. CIMMYT is well managed, has strong leadership, and is a flagship Center of the CGIAR System.

The review panel praised CIMMYT's participation in the CGIAR's systemwide and eco-regional programs. CIMMYT was actively participating in eight such programs, co-leading with IRRI the highly successful Rice-Wheat Consortium for the Indo-Gangetic Plains. It was also identified, along with three other Centers — the International Center for Tropical Agriculture (CIAT by its Spanish abbreviation), International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) and IRRI — as having the broadest involvement with private sector institutions. CIMMYT's regional programs were seen as providing good value for money, and its networks as providing strong potential to disseminate its products through national agricultural research systems.

The EPMR panel was equally impressed with advances CIMMYT had made in the areas of governance and management. With respect to the current leadership it noted: “There is no doubt in the minds of the panel members that the director general is demonstrating very good and effective leadership. He and the program directors have high standing in the broader CGIAR community.”

The CIMMYT Board was seen as having “competent leadership experience” and being “composed of highly qualified, dedicated individuals.” It observed that “there is a need to enhance the relationships between the mission and strategy of the Center and the decisions taken by the Board, particularly with respect to budgets” and singled out flow of information as a key area of weakness:

The panel recommends that the CIMMYT Board ensure that adequate information on the budget and important policy decisions are provided to all Board members irrespective of the specific committee on which they serve, and that the flow of information from committees and the Board be improved.

Regarding finance, the panel recognized the improvements made but saw a need for further enhancements, especially in accounting systems, developing a project-based information system, and integrating the headquarters and regional financial systems. The key recommendation made on finance was on full project costing: “The panel recommends that CIMMYT management prepare all future budget proposals on the basis of full project costing, showing both income and expenditure for all project outputs.”

The CIMMYT Board endorsed all of the panel’s recommendations on governance and management, while qualifying its endorsement of a few recommendations on programs. The Center’s response to the Technical Advisory Committee (TAC) of the CGIAR and the CGIAR Secretariat included a statement by then Board Chair Walter Falcon, a distinguished agricultural economist with significant experience in the CGIAR System, which reflected the Board’s philosophy on board-management relationships in the CGIAR:

The CIMMYT Board’s view is that Trustees, with the assistance of TAC and other System-level committees, should define carefully the boundaries of what research it regards as legitimate. The Board should also make clear to management what it expects at year’s end with respect to reserves, or reserve draw-downs, i.e., a bottom line, which may or may not be zero (meaning the differences between income and expenditures) for a given year. Within these boundary and bottom-line parameters, however, the CIMMYT Board feels that management must have considerable financial discretion. Moreover, it is unlikely that a Board can become sufficiently well informed to monitor decisions on a monthly basis, without at the same time intruding into questions that rightfully belong to management. For example, it may be impossible to specify with precision the amount of expenditures for a given commodity or area of inquiry, if the financial market for research in a particular area says otherwise. Clearly the Board needs to monitor research objectives and to press management towards preferred outcomes. But when the income situation for a Center may be very unclear as late as September, new budget and budget-control processes are required. These circumstances emphasize the need for astute financial capability in the Center’s director general, for in some fundamental sense, a Board can only monitor the bottom line and the director general’s performance in meeting financial objectives.

### **Deterioration of CIMMYT's Financial Health, 1993-2002**

CIMMYT had been able to respond to most changes in its (mostly favorable) financial environment from its inception — that is, until the mid-1990s. Partly as a result, the focus of its Board was mostly on ensuring that CIMMYT's programs were responsive to changing needs in developing countries and that they were of high quality. Thus, the Board's principal focus in the 1990s was ensuring that structural and programmatic adjustments were made to operations as changes took place in the landscape for international agricultural research.

Table 1 (next page) shows a number of financial statistics for CIMMYT and for the CGIAR, 1993-2002 (data are from CIMMYT financial statements and CGIAR annual financial reports). Comparisons of trends for CIMMYT with those for the CGIAR can help illustrate the evolution of CIMMYT's financial health over the decade.

**Operating results.** The operating performance of CIMMYT during the decade was poor in financial terms. Overall, the Center experienced an aggregate net deficit of \$3 million, even with two extraordinary years of surplus. During the decade, CIMMYT had an operating deficit in 7 of the 10 years. The deficit for the decade would have been even worse had the Center not benefited from peso devaluations in 1994 and 1995. The operating result for these 2 years was a surplus of almost \$8 million. In fact, one can conclude that, during the decade, the only time CIMMYT really had positive financial results was during the exceptional period when the Mexican currency was devalued, resulting in a windfall for CIMMYT.

**Table 1. CIMMYT and CGIAR System Resource Summary, 1993-2002**  
(\$ million)

<b>CIMMYT Center Data</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Unrestricted funding	20.2	19.8	18.6	17.2	16.0	15.2	14.5	13.9	14.1	12.3
Restricted funding	9.0	11.4	13.0	11.8	12.9	14.8	19.6	24.6	25.9	23.5
Earned income	1.3	0.8	1.4	1.9	1.8	1.4	1.3	1.3	1.1	0.7
<b>Total Revenue</b>	<b>30.5</b>	<b>32.0</b>	<b>33.0</b>	<b>30.9</b>	<b>30.6</b>	<b>31.5</b>	<b>35.4</b>	<b>39.8</b>	<b>41.0</b>	<b>36.5</b>
Core funding as % of total revenue	66%	62%	56%	56%	52%	48%	41%	35%	34%	34%
Total Expenditure	32.8	29.6	27.6	30.9	31.0	32.2	37.6	39.6	41.3	41.5
<b>Net income</b>	<b>(2.2)</b>	<b>2.4</b>	<b>5.4</b>	<b>(0.0)</b>	<b>(0.4)</b>	<b>(0.7)</b>	<b>(2.2)</b>	<b>0.2</b>	<b>(0.3)</b>	<b>(4.9)</b>
Total staff	791	773	718	742	856	814	848	902	897	791

  

<b>CIMMYT Balance sheet</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Cash	1.5	5.8	9.3	10.1	4.6	3.6	8.0	3.9	2.9	1.1
Total current assets	9.2	11.2	14.6	14.7	12.3	11.7	14.5	13.8	15.4	9.2
Net fixed assets	12.5	12.2	13.1	14.3	14.0	14.2	14.5	14.3	14.5	8.8
Working capital	2.0	4.7	9.4	8.2	8.2	7.4	4.9	5.3	4.9	0.3
Current ratio	1.3	1.7	2.8	2.3	3.0	2.7	1.5	1.6	1.5	1.0
Donor receivables % of restricted income	71%	38%	27%	31%	44%	42%	25%	34%	42%	29%
Donor payables % of restricted income	33%	41%	19%	38%	18%	16%	32%	11%	5%	16%
Unrestricted net assets (excl fixed)	2.2	4.8	9.2	8.0	8.0	7.2	4.8	5.4	4.8	0.4

  

<b>Additional CIMMYT indicators</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Net income as % of revenue	-7.4%	7.6%	16.4%	0.0%	-1.2%	-2.3%	-6.1%	0.5%	-0.7%	-13.5%
WC in days (short term liquidity)	23	61	132	102	102	88	50	51	45	3
Net assets in days (long term reserves)	25	62	129	100	99	85	49	51	44	3

  

<b>CGIAR system data</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Unrestricted funding	195	205	207	196	203	206	178	165	145	150
Restricted funding	117	120	122	136	130	132	151	166	192	207
Center earned income	7	12	15	14	13	13	13	14	16	14
<b>Total Revenue</b>	<b>319</b>	<b>337</b>	<b>344</b>	<b>346</b>	<b>346</b>	<b>351</b>	<b>342</b>	<b>345</b>	<b>353</b>	<b>371</b>
Core funding as % of total revenue	61%	61%	60%	57%	59%	59%	52%	48%	41%	40%
Total Expenditure	323	322	338	355	346	337	349	339	355	381
<b>Net income</b>	<b>(4)</b>	<b>15</b>	<b>6</b>	<b>(9)</b>	<b>0</b>	<b>14</b>	<b>(7)</b>	<b>6</b>	<b>(2)</b>	<b>(10)</b>

  

<b>CGIAR Balance sheet</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Cash	142	173	165	174	147	171	212	151	142	149
Total current assets	215	252	255	257	251	266	296	244	234	251
Net fixed assets	221	220	218	231	231	227	174	98	89	78
Working capital	92	108	120	94	104	119	113	104	125	126
Current ratio	1.8	1.8	1.9	1.6	1.7	1.8	1.6	1.7	1.9	1.8
Donor receivables % of restricted income			35%	35%	55%	50%	36%	37%	33%	35%
Donor payables % of restricted income		50%	49%	62%	56%	51%	67%	34%	28%	38%
Unrestricted net assets (excl fixed)	77	98	99	101	85	96	90	105	100	96

  

<b>Additional CGIAR indicators</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Net income as % of revenue	-1.3%	4.5%	1.7%	-2.6%	0.0%	4.0%	-2.0%	1.7%	-0.6%	-2.7%
WC in days (short term liquidity)	110	130	138	102	117	137	125	118	134	125
Net assets in days (long term reserves)	92	118	114	110	95	111	99	119	107	95

During the same period, the aggregate of the CGIAR Centers was essentially the reverse: there was a net operating surplus in 5 of the years, with the System building a total operating surplus of \$9 million in that decade.

**Net Assets.** Notable for CIMMYT was the deterioration in its unrestricted net assets, which was inevitable given that the total operating result for the decade was in deficit. After a dramatic rise for a short period (1994 and 1995, as explained above) there was a progressively downward spiral for the remainder of the period, to a point in 2002 where CIMMYT was almost technically insolvent (\$0.4 million of reserves, representing 3 days of operational costs).

Over the same period, the CGIAR System increased net assets by 25 percent in dollar terms to nearly \$100 million — equivalent to almost 100 days of operational costs.

**Funding Structure.** CIMMYT's unrestricted funding in 1993 constituted 66 percent of its revenue. By 2002, this has declined to 34 percent. Statistics for the CGIAR overall were 61 and 40 percent, respectively. In other words, CIMMYT started the decade with more financial flexibility for its operations than did the CGIAR System and ended it with significantly less. The implication here is that it should have been relatively easier for CIMMYT to maintain positive financial results than for the System as a whole.

**Qualified Audits, Bad Debts, Misinformation and a Downward Spiral.** By 2001, the financial situation at CIMMYT was descending into crisis. At mid-year 2001, CIMMYT was unable to pay its salaries without CGIAR Secretariat intervention to arrange a loan from another Center. The loan of \$1.5 million was re-paid before year-end, meaning that it did not show up on the balance sheet and did not attract as much attention as it otherwise might have.

A new DG, Masa Iwanaga, took office in 2002 in the midst of a financial crisis but not fully aware that this was the case. At that point, the quality of financial information available to the DG and the Board was very poor, and the projections of financial outcome turned out to be seriously flawed. By year-end 2002, the Center was almost insolvent. The new external auditors (the auditor until 2001, Arthur Anderson, had ceased operations) declared that it was unable to provide an opinion on several of elements of the financial statements, including the value of some buildings, treatment of some capital equipment write-offs, and "bad debts" resulting from uncollectible grants that had already been booked as income in prior years. (See Annex: A Primer on CGIAR Policy on Revenue Recognition, which reviews CIMMYT's actions in this area.)

### **Strategic Change in the Midst of Financial Crisis, 2002-2005**

CIMMYT underwent major leadership changes in 2002. Walter Falcon turned over the chairmanship of the Board to Alex McCalla, who had joined the Board a year earlier. McCalla was a respected veteran of the CGIAR, having served as the study director of the first System review in 1976 and, later, as TAC member and chair, and as Cosponsor representing the World Bank. As was quite typical of CGIAR Boards, the composition of the CIMMYT Board was oriented to the specialties of the technical business of the Center. Most trustees were biologists, plant breeders or geneticists, or socio-economists. In fact, none of the 26 trustees who served on the Board from 1998 to 2005 was an experienced financial specialist.

The highest priority for the new chair and DG was renewal of CIMMYT, with a vision and strategy that were aligned with recent and emerging developments in science, the CGIAR and the needs of developing countries. Extensive consultations were held with CIMMYT's stakeholders — perhaps the most inclusive in CIMMYT's history. The result was a new strategy, called Seeds of Innovation, which reflected significant departures from its traditional posture. Some of these are evident in the new mission statement:

CIMMYT acts as catalyst and leader in a global maize and wheat innovation network that serves the poor in developing countries. Drawing on strong science and effective partnerships, we create, share and use knowledge and technology

to increase food security, improve the productivity and profitability of farming systems, and sustain natural resources.

The strategy highlighted four sources (or “seeds”) of innovation:

- a focus on people and livelihoods (i.e., CIMMYT would consider the full context in which households operate and not focus exclusively on the maize and wheat components of livelihoods);
- an emphasis on global and eco-regional priorities;
- more emphasis on partnerships and networks for innovation and impact; and
- a commitment to sharing and using knowledge for innovation across scientific, institutional and national boundaries.

The new vision called for greater regional presence for CIMMYT scientists and a program structure that differentiated among the needs of different eco-regions. CIMMYT’s research structure was modified to reflect these changes. A matrix organization structure was adopted, with six broad thematic programs:

- Genetic resources (global)
- Global and strategic research (global)
- Sustaining African livelihoods (eco-regional)
- Rainfed systems (eco-regional)
- Tropical ecosystems (eco-regional)
- Irrigated, high-potential maize and wheat systems (eco-regional).

In a major reorganization of staff, CIMMYT appointed new directors to the six programs. On the other axis of the matrix, five disciplinary groups (maize improvement, wheat improvement, biotechnology, social science, and crop and resource management) were formed to help ensure continuing scientific excellence. The main focus of the new CIMMYT program would be on livelihoods and production systems, rather than on commodities and disciplines.

Introducing strategic change was not the only challenge faced by CIMMYT’s Board and management. The Center’s financial health was very poor. The Board had been unaware, or at least did not sufficiently address, the magnitude of the financial problems until very late. At his first Board meeting (November 2002) the new DG reported that a major deficit is projected for 2002, unlike the earlier forecasts made by the former DG, and recommended significant belt-tightening measures, including reductions in staff and activities. Later, when the CGIAR Executive Council (ExCo) reviewed the 2002 financial results in May 2003, CIMMYT received “red flags” on several financial indicators. ExCo asked the CGIAR chair to write to the Board chairs of those Centers receiving red flags regarding the financial health indicators, inquiring what actions the Center planned to take to correct the situation. CIMMYT Board Chair responded basically indicating it had full control over the issues.

When the magnitude of the financial problem became clear, the Board decided to get the Center back to solvency and start rebuilding reserves. It set a target of rebuilding the financial health of CIMMYT by the end of 2007. As shown in Table 2, the net operating results started to turn around, and by 2003 the Center seemed to have turned the corner, at least financially. The Board chair continued to report annually to ExCo on the steady progress being made. While still well below recommended CGIAR guidelines for net assets, the change by 2006 was significant.

**Table 2. CIMMYT Revenue and Expenditure, 1998-2005**  
(\$ million)

<b>CIMMYT Center Data</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Unrestricted funding	15.2	14.5	13.9	14.1	12.3	12.6	13.7	18.7
Restricted funding	14.8	19.6	24.6	25.9	23.5	23.2	23.7	20.6
Earned income	1.4	1.3	1.3	1.1	0.7	2.0	1.3	1.5
Total Revenue	31.5	35.4	39.8	41.0	36.5	37.8	38.7	40.8
Total Expenditure	32.2	37.6	39.6	41.3	41.5	37.1	37.3	38.8
<b>Net income</b>	<b>(0.7)</b>	<b>(2.2)</b>	<b>0.2</b>	<b>(0.3)</b>	<b>(4.9)</b>	<b>0.7</b>	<b>1.4</b>	<b>2.0</b>
Net assets in days	85	49	51	44	3	33	50	72

### The 2005 EPMR

In 2005, CIMMYT underwent another external review. The panel commended the Center for continuing to produce high-quality research outputs and impacts, despite the turmoil created from the financial crisis and the shifts in strategy and structure. Staff quality was judged to be good to very good, and the panel was impressed with the uniformly high quality of the newly appointed program directors. Lack of critical mass in plant breeding expertise was identified as a major weakness. The panel also noted low staff morale (caused, in part, by successive and frequent staff downsizing) as a major issue requiring attention by the Board and management.

The review was highly critical of several aspects of CIMMYT's organizational performance, including its governance. The covering letter of transmittal from the review panel chair to the CGIAR stated:

CIMMYT suffered a severe financial crisis in mid-2002 provoked by the complete rundown of the Center's capital reserve. A number of factors appear to have contributed to this financial crisis. However, deficiencies in the oversight of the Center's finances by the Board of Trustees of CIMMYT appear to have been a significant contributing factor.

The report proper emphasized this theme by noting: "The Board, which carries ultimate responsibility for maintaining adequate internal controls, failed in its oversight role of the Center's finances and management. The cost of this failure was borne not only by the Board but by the staff and programs of the Center." The review did recognize, however, that financial materials provided to the Board from 1998 through 2001 were grossly inadequate, incomplete and superficial, making it difficult (but not impossible) for trustees to fully grasp the seriousness of the developing financial situation. The external and internal audits, while themselves flawed, did raise concerns that should have been red flags for trustees.

While observing that governance at CIMMYT appeared to be better at the time of the review than in years preceding the EPMR, the panel concluded that it was "still not good enough, and that an opportunity exists to rethink the role and value of the Board as CIMMYT moves forward." One solution suggested by the panel was for the Board to place a sharper focus on CIMMYT as an enterprise by defining its role more precisely,

approaching its composition more strategically, and directing its energy to its critical responsibilities.

The report also commented on other Board problems, which it noted existed in several other CGIAR Centers. These included

- a lack of good orientation for new trustees at both the System and Center level, partly because of a high comfort level resulting from many trustees having had experience on other CGIAR Boards in the past;
- an inadequate Board leadership succession plan and process; and
- inadequate processes for DG and Board chair evaluation and Board self-evaluation.

Regarding management, the EPMR listed a series of systems that either were not in existence or failed during the review period. These included

- the lack of an effective computerized financial management system,
- a poorly functioning project management system,
- the lack of a full-cost recovery/pricing system for support services,
- inadequate audit systems, and
- inadequate financial reporting to the Board by management.

The last of the above elements is so important that the review panel further commented as follows:

Boards are heavily dependent on staff for the quality, timing and presentation of the information necessary for them to become knowledgeable, support good decision-making and anticipate problems. Good governance depends in part on the staff's capacity to frame issues in a way that directs the Board's attention to policy, strategy and accountability issues central to a Board's role. This dependency of the Board on staff for the quality of its own work requires that Boards have a structure and processes in place that overcome the dysfunctional politeness that inhibits Board members from challenging each other or challenging staff for fear of being seen as aggressive or difficult.

The bottom line of the review was that CIMMYT should continue to be supported by the CGIAR in view of the strong global need for developing germplasm with multiple stress resistance specifically for poor farmers dependent on wheat and maize and living in harsh environments. ExCo and the CGIAR agreed. At the same time, they endorsed the recommendations of the EPMR and asked the CIMMYT Board chair to provide a detailed update on the key issues raised by the panel on programs, strategy, governance, finance and staff morale. In addition, it was agreed that the chair of the EPMR and an expert on governance and finance should conduct a focused follow-up review in 2006 to appraise CIMMYT's progress in bringing the Center back to a healthy financial state.

Having agreed with practically all the recommendations of the external review, CIMMYT embarked on a serious program of change, including a major initiative to reform its governance—the latter emerging from a full-day brainstorm session by the Board on governance in March 2005. Lene Lange took over the chairmanship of the Board later that year from Alex McCalla, who had resigned. She reported at the CGIAR Annual General Meeting in Morocco in December 2005 that more than half of the 23

recommendations of the EPMR had either been fully implemented or were in the process of being implemented.

The July 2006 follow-up review to the EPMR concluded that “CIMMYT had made very substantial improvements in many areas relating to its finances, governance, and research management.” CIMMYT had made significant progress in rebuilding its reserves and improving its financial management. The Board had restructured its governance arrangements, with a smaller size, a more strategic role, a new, more-focused committee structure, and the appointment of a senior member of staff as Board Secretary. The review panel noted: “CIMMYT can now move ahead with confidence and optimism.”

## Questions for Discussion

### Governance

1. What went wrong at CIMMYT during the 1990s and early 2000s? What actions by the Center Board could have prevented the crisis?
2. How do you assess the Board's overall performance in the period of 1993-2005? What could it have done differently?
3. How do you assess management's actions over the same period? Did the Board provide appropriate guidance and oversight to management?
4. How about the CGIAR? What could the CGIAR Members or Secretariat have done to help avoid a crisis at CIMMYT?
5. If you had been a trustee at CIMMYT and unsure that what was occurring was a sustainable financial situation, what would you have done?
6. What type of Board reform would you advocate for a Center like CIMMYT?

### Finance

1. When did CIMMYT's financial problems actually begin?
2. Did the external auditors do an adequate job during the decade when the problems were occurring? If not, what should they have done?
3. Should the CGIAR or its committees assume some blame for poor oversight when a Center has deficits in 7 of 10 years from 1993 to 2002?
4. Was there some kind of perverse incentive in the CGIAR that contributed to the lack of action in the face of what should have been clearly perceived as deteriorating resources? If so, why did this happen only at CIMMYT?

## Annex

### A Primer on CGIAR Policy on Revenue Recognition

Trustees are expected to have a basic understanding of the financial policies of the Consultative Group on International Agricultural Research (CGIAR). Some of these policies are related to Center financial management — for example, policies to recover overhead and indirect costs, budgeting guidelines of the CGIAR, and very basic accounting principles followed by the Centers (accrual, not cash, accounting, for example). Extremely important is the CGIAR policy regarding revenue: When does a Center receive (and declare that it has received) income, and what rules guide this?

In the early days of the CGIAR, this was simple. Virtually all income was in the form of core grants, so as long as there was a credible pledge from a donor, the income could be considered booked, even if not all of the cash had been received. However, as funding became increasingly restricted to specified projects and activities, income recognition became more complex. The basic rule is that, not only does there have to be a contract to support the activity, the Center must respect the terms of the contract before income can be counted. The most common condition on project-restricted funds is that some spending must have been made (expenditure incurred) on an activity included in the project. Thus, there are two main conditions to be satisfied: (i) a donor must offer a contract to specify the level of restriction it wants the Center to abide by, and (ii) the Center must have undertaken the activity to earn the revenue from that grant. The receipt (or not) of cash in advance of the action is not the defining factor in declaring the grant as income. A donor may make grant payments in advance, or it may make them after the fact.

Similarly, the CGIAR Centers' accounts are audited and reported annually. Income is recognized whenever it is earned. Therefore, if there is a 3-year pledge, a Center may not book the income until it is earned.

Thus, trustees are expected to be attentive to the fact that the structure of activity and granting at a Center is changing. Financial statements are a prime source of information in addition to the reports prepared by management for the Board. Until 1998, the CIMMYT audited financial statements included a standard note that reflected the CGIAR policy:

Core restricted and special project pledges, which are often for more than 1 year, are treated differently [from core unrestricted grants]. The uncollected portion of the pledge is not recognized as a receivable and consequently is not recorded as income. An account receivable is created and income recorded only when expenses are incurred under the grant. This treatment matches income and expenses in accordance with the level of activities carried out under the grant. This accounting policy permits CIMMYT to distinguish between income and amounts pledged in core-restricted and special project grants. This is necessary since these grants often cover more than 1 year's activities or contain provisions for carrying funds forward in cases of under-expenditure. Recognizing the total pledge in a given year as income could result in an overstatement of income.

In 1999, CIMMYT changed its policy for revenue recognition. It began recording all pledges when notification was received. The auditors justified this in the financial statements by explaining that “at the end of the period the amount of any income

recorded for which the expenses have not yet been incurred is recorded as an expense with an accrual for 'committed funds.' This new procedure has no effect on the statement of activity."

There were three problems with this new treatment:

- It was in violation of CGIAR policy.
- While the statement of revenue (income statement) may not have been impacted in terms of net income, the revenue was overstated, and so the last sentence in the audit comment is wrong.
- It assumed that the pledges were 100 percent guaranteed in the future and that CIMMYT would respect all the conditions attached to them even if they were valid pledges. Any later default by a donor would have a negative impact on the income in the period in which the write-off was declared. And, in fact, this did occur.