

ALLIANCE RESPONSE TO STRIPE REVIEW

EXCO MEETING NO. 11 – OCTOBER 17-18 2006 - PARIS

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- Chairman ICRISAT and AB Corporate Governance Committee -

Introduction

As requested, the Alliance hereby provides a considered response to the Stripe Review Recommendations to ExCo. ExCo is asked to note that the timing of the Board Meetings of some Centres means that not all have been able to provide detailed input. This feedback is a composite of detailed feedback from 7 Centres have and substantive comments from a further 4. In addition, all AE/AB members have reviewed this document and had the chance to comment on it. It should be noted that some of those DGs and Board Chairs who haven't yet met with their Boards have responded in their personal capacities. As the comments are largely consistent, it is not anticipated that further Alliance feedback will throw up any major surprises. A second and final edition of this report reflecting the considered views of all Centres will be provided for consideration at the AGM.

General Comments

The comments made in the Alliance's preliminary response in April 2006 still stand and are attached as Appendix 1. The Alliance generally welcomes the Stripe recommendations noting that many of these had already been implemented. In particular, all Centres have already taken steps to recruit members with appropriate financial + governance skills. In a few cases, certain process recommendations have not been implemented but Centres are now planning to do this e.g. some Centres with strong, externally validated budget-driven financial control processes have not felt it necessary in the past to implement formal delegations of authority.

The consistency of Centre responses and the fact that they support the majority of recommendations means it is not necessary to respond to each recommendation individually. This document therefore focuses on those recommendations where disagreements by Alliance members are strongly held and/or concerns have been expressed by a significant number of Centres.

Where there are disagreements these are rooted in a general Governance issue which the Alliance feels was not really dealt with by the Stripe panel. Formally, Centres are autonomous Institutions with individual legal personality determined by Charters, Constitutions and/or Host Country Agreements (HCAs). Centres are voluntary members of the "CG system" which is in reality an informal federal structure. The Stripe process in some respects was conducted as if the CG system is more centralised and formally constituted than it really is. The Alliance

feels that not enough understanding or weight was given to the legal autonomy of Centres or acknowledgement given to the need to respect the formal obligations imposed by Charters, Constitutions and/or HCA's. Whilst these could be renegotiated, the Alliance strongly recommends against this. On consideration in light of the Stripe process, the Alliance feels that in most respects these founding instruments were well-conceived and remain helpful for both the Centres and the CG system as a whole to achieve their goals.

The Recommendations where the impact of Charters, Constitutions and HCAs a reflected are those covering Board size (Recommendation 5) , the number of HC members (Recommendation 6) and the number of CG Nominees (Recommendation 7). Detailed comments on each of these is provided below. The Alliance recommends that CG Secretariat, ExCo and the SC take a flexible approach of "comply or explain" with regard to Recommendations 5, 6 and 7 and that that this should be explicitly included in guidance to future EPMR processes.

The legal status and autonomy of Centres have further implications that have also not been addressed by the Stripe process with regard to recognise that the primary duties of "nominees" and "representatives" on Centre Boards are fiduciary in nature . Fiduciary duty means that "nominees" and "representatives" are responsible in their actions and decisions for ensuring for the best interests of the Centre as Board members and not those of their constituencies.

Overall, the Alliance feels that the Stripe Panel should have recognised more clearly the intrinsic tensions of the CG system arising from its rather unique structure. We all want to make it work better. This requires recognition of Centre autonomy and respect for their Charters, Constitutions and HCA's. The Alliance wishes to emphasise that the Stripe Panel has not argued convincingly that the benefits of the changes it advocates provide a strong case for renegotiating these.

There is widespread support for Recommendation 27 which stresses the responsibility of all CG Stakeholders for improving the coherence and effectiveness of the CG system as a whole.

There is also widespread support for Recommendation 28. In this regard, the Alliance wishes ExCo to note that the administrative burdens placed on the centers and their boards by the central bodies established by the CGIAR, such as the SC, ExCo, and the CGIAR Secretariat have increased significantly over the last few years and now require a very considerable input both in terms of time and resources at the expense of the work of the Centres. Scientists in particular, who have to provide a significant part of the information requested, are suffering from these increased transaction costs. The Alliance considers that a best practice in this respect would be to undertake an ex ante impact assessment of the net benefits to the system of any new request to implement a new procedure.

When it comes to the challenge that project funding poses to a board's accountability for the implementation of its strategic plan, the Report stresses that the board is responsible for developing a strategy corresponding to its mandate and to the CG as a whole. Recommendation 29 then insists that '...irrespective of the vagaries of donor funding...', the Board is responsible for the fit between the Center's programs and the overall CG strategy. At the end of the Report, in the paragraphs following Recommendation 31, the authors explain the difficulty boards face in carrying out their responsibilities with the increased dependence on project funding from donors whose priorities are still often not sufficiently aligned with those of the CG. All the components of the CG system should share accountability and responsibility for achieving alignment of priorities on the proposed 80:20 basis. At the moment however, the burden of increased accountability is falling disproportionately on Board members and Centers. This is an important issue that all the components of the CG system need to consider and to bring to the attention of donors concerned about Centre governance.

Responses deviating from specific Recommendations

Recommendation 3 (Increased Board Compensation)

Responses vary quite widely to this recommendation. Several Centres noted that they already pay some additional honoraria and expenses to their Chairman in light of the additional workload and responsibilities they bear. 2 Centres feel that compensation must be increased to further enhance the quality, skills and willingness of Board members to commit more time. However, 4 Centres feel either that it is unrealistic to consider increasing honoraria in a meaningful way given endemic funding constraints or inappropriate given our accountability to the poor. The Alliance would therefore like to debate this Recommendation further with ExCo.

Additional information received from Alliance Board Chair Jim Godfrey on September 26, 2006:

"Remuneration of Board members, most centers are paying \$350 per day for meeting days, some include a days reading. Travel days are half this rate. I know World Fish are paying higher rates, from recollection \$600 per day."

Recommendation 4 (Duration of Board Membership)

There is widespread support for this recommendation with the following exception - in the event that a Board Chair is appointed with less than 2-years to run of his or her second term, the Alliance recommends extending their term to include a 7th year.

Recommendation 5 (Board Size of 12 or less)

Whilst the majority of Centres already comply, this is the first example of a Recommendation which conflicts with the formal legal obligations of a Centre's Charter – in this case IRRI. Their response to this Recommendation is well articulated and is attached as Appendix 2.

Recommendation 6 (Number of Host Country Board Members)

This Recommendation conflicts with either the Host Country Agreements (HCA), or Constitutions and/or Charters of several Centres. In some cases, this is a contributory factor in pushing Board Size above 12 - in others, it is consistent with Board sizes of less than 12. The majority of Centres where this is the case feel strongly that there both were and are good reasons for having more than one Host Country Board Member and that this enhances delivery of their global responsibilities.

Recommendation 7 (Number of CG Nominated Board Members)

The Alliance supports this noting however, that it also conflicts with either the Host Country Agreements (HCA), or Constitutions and/or Charters of several Centres.

Recommendation 9 (Strategic Alignment)

The Alliance accepts this recommendation on an 80:20 basis noting that the Science Council only requires 80% of a Centres' program to be aligned with the system priorities.

Recommendation 11 (Joint Board Memberships)

The Alliance agrees that enhancing the oversight of intercentre collaboration is indeed essential but considers that this recommendation only makes sense for Centres which are either geographically close (e.g. ILRI and ICRAF, WARDA and IITA) and/or share core interests and responsibilities (e.g. CIMMYT and IRRI). The primary mechanism for achieving the objective of this Recommendation already exists. It is the Alliance Board (composed of the Chairs of the 15 Centre Boards) for which this is its most important function.

Recommendation 12 (Interaction with External Auditors)

Whilst the Alliance believes that it is neither necessary nor appropriate from the point of view of Corporate Governance best practise for the external auditors to routinely meet with the whole Board as well as the Audit Committee which should remain the External auditors primary point of contact. The Alliance feels it is

important for Boards to have at least 2 members with significant financial expertise. To ensure rigorous and independent financial review and control, one of these should chair the Audit Committee and should not be a member of the Executive Committee whilst the other should provide expertise solely as a member of the Executive Committee. The Audit committee can certainly recommend that the Auditors meet with the whole Board and the Board can certainly request this – however, this is neither necessary nor appropriate in the normal course of business.

Recommendation 19 (Board Involvement with DDG Hire)

Whilst a few Boards are already involved in the hiring processes for DDG's and other senior staff and/or support this Recommendation, the majority of Boards feel that, while their DG's ought to agree selection criteria with them and keep them informed of progress on a regular basis, recruitment is a management and therefore not a Board responsibility. The Alliance does not support this Recommendation.

Recommendation 31 (Frequency of Financial Reporting)

The Alliance supports half-yearly reporting and that summary financial information should be posted on the Web. However, it does not support quarterly reporting which tends not to reflect the true financial picture in view of the unpredictable nature of donor funding in terms of amount and timing and could therefore be misleading.

APPENDIX 1 Alliance initial response to Stripe Recommendations April 2006

Alliance Board Response to the Report of the Stripe Review of Corporate Governance of CGIAR Centers

On the occasion of its joint AB/AE meeting held in Cali, Colombia, on 26-27 April 2006, the Alliance reviewed and discussed the Report of the Stripe Review Panel on CGIAR Center Governance.

As an initial response, the Alliance welcomes the Report as an important contribution to adapt and improve the quality and efficiency of Center governance in a rapidly changing internal and external governance environment. The Alliance broadly accepts the recommendations put forward by the Panel and notes that considerable progress has already been made over recent years as a result of governance CCERs and EPMRs.

The Report provides valuable advice and guidance on basic governance housekeeping issues as well as on good practice recommendations for a number of governance tools and processes. Finally, the Report helps to initiate more in-depth thinking and discussion on some broader and more strategic governance issues.

In terms of next steps, individual Centers are committed to review and adapt their governance principles, structures and processes and to provide updates on the implementation of the Stripe Review recommendations (as: implemented/ will be implemented/ will not be implemented). A comprehensive and detailed response from all centers will be compiled, including decisions to implement or not implement (with reasons for the latter) on all recommendations. This detailed update on center responses will be shared with CGIAR membership.

Collectively, Centers will address a number of broader governance issues going beyond the Stripe Review recommendations with a focus on:

- Accountability and mechanisms for achieving accountability,
- Evolving nature of Center Boards,
- Effective availability of Center Board competencies, and
- Models and standards of best practices.

Brief Comment from CGIAR Secretariat:

We agree with the observations/comments of the Alliance Board/CBC., and welcome the contribution of the Stripe Review report on some key governance issues. We think that the report has flagged a number of concerns about center governance and has made some valuable suggestions on the way forward. We do feel however that the report could have contributed a lot more if it had included an assessment and evaluation of current Board performance of the

centers, as specified in its TORs. A more specific description of some best practices already existing in many centers would also have been useful. We welcome the Alliance Board /CBC decision to spell out next steps at the level of individual centers.

APPENDIX 2 Obligations on Board Size and Structure arising from IRRI's Charter

The IRRI's Board consists of 12 members at large and three ex-officio members. There are a few important considerations when we think about the optimum size of the IRRI Board. First, since rice is such an important crop in many countries in all continents of the world and there are many donors for IRRI, the well-balanced geographical representation is necessary in the selection of board members. Second, in order to select board members with expertise on finance, governance, and accounting, we had to sacrifice the geographical balance to some extent. Indeed, at present we do not have any board member from Europe, even though there are many important donors for IRRI in this region. Thirdly, since the IRRI's Charter, which specifies the number of board members, is part of the international agreement signed by 19 countries and now considered to be in force, we have to obtain consent of such member countries in any amendment of the Charter, including the change in the size and composition of board. For all these reasons, IRRI Board considers that the current size of 12 members at large is optimum.