

A Mutual Benefit Fund from Pooled Reserves of International Agricultural Research Centers [IARCs]

EXECUTIVE SUMMARY

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October 3, 2006

As per the Terms of Reference [TOR], the report focuses almost entirely on the feasibility, design, and operations of a prospective “common fund” – called a Mutual Benefit Fund [MBF] – created by pooling unrestricted, unspent funds [reserves] potentially of the 15 IARCs, i.e., those decide to join such an enterprise.

Brief Background

In 2005, the centres collectively held in reserves, US\$ 158 million – an equivalent of over 140 days of operations compared with the CGIAR guideline of minimum desirable range of 75 to 90 days for individual centres. The actual level of reserves varies considerably among the centres – from US\$2.3 for the smallest to US\$36.8 for the largest centre; the median was US\$8.2 million in 2005. In terms of number of days, the average in 2004 was 145 days of reserves but the range was 50 to 490 days with three centres had 230 days, 271 days, and 490 days of reserves. Four centres fell below CGIAR guideline of 75 to 90 days.

The question raised in the TOR is: whether it is feasible to reduce the total size of reserves needed if the centres were to pool all or part of their reserves, thus freeing up funds, for at least some centres, for other purposes. A second consideration was that some form of pooling or joint management of reserves might bring higher investment returns which in turn may be used for certain agreed upon, high priority activities, but not for bailing out centres facing financial difficulties.

Feasibility

The question posed is: is it feasible to pool reserves held by 15 independent legal entities to surrender all or part of their reserves to form some sort of a “common fund”? The short answer is: yes, depending on several factors relating to the centres’ external and internal environments.

A scan of centres’ external environment focused on two areas: donor perspective and regulatory regimes. With respect to the donor perspective, the following general proposition may be stated: Donor entities contribute funds to not-for-profit organizations

either for the general support or to accomplish some specific purpose of the funded entity but not for reserves accumulation. As a general rule, “excessive” reserves are discouraged and frowned upon, if not completely disallowed. Some grant-makers actually demand a refund of unused funds. But exceptions prevail if a legitimate case is made for holding a high level of reserves and some centres may qualify because of special circumstances. The question is: what is “excessive”?

In his search for an answer – a standard – the consultant conducted extensive research and found only one example of a standard on this subject. The Better Business Bureau [BBB] Wise Giving Alliance, Standard # 10 says:

Avoid accumulating funds that could be used for current program activities. To meet this standard, the charity's unrestricted net assets available for use should not be more than three times the size of the past year's expenses or three times the size of current year's budget, whichever is higher.

The BBB standards are widely recognized and respected by donors and nonprofits alike but do not carry the weight of the law.

Finally, a review of the accounting literature and consultation with experts did not reveal any restrictions on reserves accumulation nor on pooling reserves to form a common fund. Further, pooling per se would not necessitate the consolidation of financial statements of participating centres.

With respect to the regulatory regimes applicable to US registered nonprofits, our research found no specific legal restriction to reserves accumulation or to the creation of a common fund out of reserves held by several independent participating entities.

With respect to the centres' internal environment, the question posed is: whether the centres' own internal situation, characteristics and milieu are hospitable to their joining forces to create a Fund by pooling their reserves. This required studying a variety of aspects of the centres: size, age, level of maturity, trustee/executive relationships, level of trust among and between centres and between centres and CGIAR and the financial condition and capacity of the centres.

Perhaps the most critical element with respect to pooling centre reserves is the attitude and disposition of the centre leadership at the DG and the Board levels and how they view the centres' autonomy and fiduciary responsibility. In this connection and with respect to the evolving relationship between CGIAR and the centres, we examined the March 2006 *Stripe Review of Corporate Governance of CGIAR Centers* for guidance. The report reveals some tension and differences of opinion between CGIAR and some of the centres on some issues. While this review may foretell some potential difficulties in pooling centre reserves, they are certainly not insurmountable. In the final analysis, however, the question is: will the centre leadership see pooling as both in their individual centre interest and also for the collective benefit of all centres, advancing scientific research at the aggregate level.

The Fund Design and Management

The blue-print of the MBF is to be incorporated in a legal compact to be signed by the leadership of the participating centres. This compact will define the various elements of the Fund, its operations and management, and the rights and responsibilities of the participants. [Please see the full report for details.] The compact also specifies the uses and nonuses of Fund income and the proportional distribution of net revenue. The Fund is conceptualized as a long term investment vehicle open to all centres with a prescribed procedure for exit for those who decide to terminate their participation.

The Fund is managed by a Board composed of DGs of the participating centres. This Board acts as the decision-making and supervisory body. [The functions of the MBF Board are detailed in the full final report.] A number of potential entities are considered to house the MBF, including CGIAR-related entities – AIARC, FHA, and MDTF.

The overarching goal of the MBF should be to achieve optimal returns with minimal risk. This requires retaining the highest quality managers with diversified and complementary investment strategies. A track record of superior results over long periods of time should be in evidence. While it is true that most managers fail to outperform the market, it is also true that some managers consistently outperform the market. There is also a well-worn adage not to lose sight of – *past performance is no guarantee of future results*.

With regard to what is realistic and possible in terms of net investment returns in the hands of professional money managers, we looked into a recent study of 247 endowments worth US\$350 billion, covering a wide range of large nonprofits. The median investment return achieved by organizations in the survey was 9.6 percent. The three top performers earned returns of 22.3 / 20.9 / 20.6 percent respectively. The survey showed that 2005 was the third straight year of solid gains following poor results from 2000 to 2002. Large endowments earned returns of 50 percent higher than those earned by small endowments. The larger the pot of funds available for investment, the greater the access to investment products and fund managers not readily available to smaller investors – a case for pooling.

The above discussion is not intended as investment advice. We are not qualified to do so. Successful investment requires a rigorous analysis and evaluation of risks due to market volatility, inflation, currency fluctuation and exchange rates and several other factors too complex to cover here.

Collective Action for Collective Benefit

A collective system such as CGIAR/ FHA/IARCs must be imbued with the spirit of “collectivism” in order to succeed. In the final analysis, whether the centres agree to join forces to form a pooled reserves fund will depend on how each centre sees itself. Do they see themselves as completely sovereign, independent entities unrelated to other centres or do they share a common goal of advancing scientific research in agriculture to reduce hunger on our planet? This consultant believes that there is some evidence that the former

is the case. What the centres can accomplish collectively, cannot be accomplished individually. Working in unity through collective action will strengthen all 15 centres and, ultimately, benefit the least well-off on earth.