

A MUTUAL BENEFIT FUND
Created from the Pooled Reserves of
International Agricultural Research Centres

Feasibility · Architecture · Operations

A Research Report Commissioned by
The Future Harvest Alliance Organization
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For
International Agricultural Research Centers

The Future Harvest Alliance [FHA] has commissioned this consultant to develop a report discussing the feasibility, creation, and management of a “common fund” [hereinafter referred to as a Mutual Benefit Fund] to be created by pooling reserves held by 15 international agricultural research centres [IARCs] and designed for the shared benefit of the centres participating in such a Fund. Each one of the 15 centres, is a legally independent entity, funded primarily by an informal “club” of donors called the Consultative Group on International Agricultural Research [CGIAR]. The report in the ensuing pages is in response to this commission as per the Terms of Reference [TOR] ¹ and follow-up clarifications by e-mail with FHA Chief Alliance Officer. The report is roughly organized in five parts:

- Brief background and context
- Feasibility of creating a MBF
- Structure / Design of a MBF
- Implementation: Management / Operations
- Concluding thoughts

I. Background and Context

The Concept of an International Agricultural Research Center²

The concept of a “center” grew out of various technical assistance programs funded by the Ford and Rockefeller Foundations during the 1940’s and 1950’s based on ideas developed by two Foundation researchers, F.F. Hill and J.G. Harrar. These researchers proposed that tropical agriculture was

¹ For a copy of TOR please see Annex - A

² The material for this section was liberally drawn from CIAT Board Policies and Procedures Manual, May 2006. CIAT Cali, Colombia. It provides an excellent summary of history and evolution of the CGIAR system

different from that in temperate regions and therefore required a different set of technologies specific to the tropics. Such technologies did not exist at the time in the tropics to meet the then demand for food. The researchers conjectured that if appropriate technologies were made available to farmers of developing nations, they would readily adopt them. They also recognized that most developing nations lacked the necessary scientific infrastructure and resources to produce new technologies without timely assistance from outside. Hence, the notion of a research “center” was born.

The centers were conceptualized as independent entities, highly efficient research institutions with global perspective of mandates and programs with a focus on problems demanding transnational solutions. Among others, the centers were to be assured continuity of funding, protection from political pressure, and were to complement and not compete with existing national research programs. The center programs were designed to be commodity focused with multi-disciplinary teams devoted to research, training, and information dissemination.

Broadly based on the above-mentioned concept of an international agricultural research center, the first center – International Rice Research Institute [IRRI] -- was established by the Ford and Rockefeller Foundations in 1959. Soon after, the two foundations recognized the need for a network of international centers and by the time IRRI began operations the following three centers were already on the drawing boards:

- Centro Internacional de Mejoramiento de Maiz y Trigo [CIMMYT]
- Centro Internacional de Agricultura Tropical [CIAT]
- International Institute for Tropical Agriculture [IITA]

Thus began the “center” movement. The above is but the briefest history of the beginnings of the IARCs, subject of this report. Today, there are 15 IARCs members of FHA co-funded by the World Bank, UNDP, FAO and others under the auspices of CGIAR. The remaining 11 IARCs are listed below as additional potential participants in the MBF proposed in this paper.

- WARDA: Africa Rice Center
- CIFOR: Center for International Forestry Research
- CIP: Centro Internacional de la Papa
- ICARDA: International Center for Agricultural Research in Dry Areas
- ICRISAT: International Crop Research Institute for the Semi-Arid Tropics

- IFPRI: International Food Policy Research Institute
- ILRI: International Livestock Research Institute
- IPGRI: International Plant Genetic Resources Institute
- IWMI: International Water Management Institute
- ICRAF: World Agroforestry Center
- ICLARM: International Center for Living Aquatic Resources Management, now WorldFish Center

As can be surmised from the names alone of the 15 IARCs, one sees a wide range of scientific research being embraced by them with each center having its own specialization and sub-topic of research covering practically the entire waterfront of agricultural research. However, the overarching goal of the 15 centers is to help achieve global food security and alleviate poverty. This leads us to the important role played by CGIAR in the evolution and development of IARCs in different parts of the world.

The Advent of CGIAR

Created in 1971 at the initiative of the World Bank and UNDP and joined by FAO as original co-sponsors, CGIAR, over its 35-year history, played a pivotal role in continuing and extending the support for a network of IARCs. CGIAR's avowed mission was to increase the quantity and quality of food production in developing countries by: [1] developing new technologies with potential for immediate application through national programs; and, [2] strengthening national agricultural research programs.

It is neither the purpose of this paper nor the intent of this consultant to dwell upon the interesting history of CGIAR, instrumental in creating, nurturing and sustaining the growth and development of the IARCs. Suffice it just to note, in summary, what the international panel of experts led by Maurice Strong, the then Secretary-General of the United Nations Conference of Environment and Development and Chairman of the Earth Council, had to say in conclusion about CGIAR³ in its third review of the CGIAR system in 1997/1998:

... investment in CGIAR has been the single most effective use of official development assistance(ODA), bar none. There can be no long-term agenda for eradicating poverty, ending hunger, and ensuring sustainable food security

³ *Ibid*, p.10

without CGIAR.

It is instructive to note that the goals and objectives of the CGIAR system and the 15 IARCs are completely in concordance with the *UN Millennium Development Goals*. Specifically, Goal # 1: **Eradicate Extreme Poverty and Hunger** with the target of halving the proportion of people living on less than a dollar a day and those who suffer from hunger, by 2015. These goals were reaffirmed by the over 150 heads of governments and states meeting in New York in September 2005 at the UN World Summit. The scientific research undertaken by the IARCs is aimed at making a substantial contribution toward achieving this goal.

In closing this brief discussion on background and context, it would be pertinent to mention the role of FHA which commissioned this report⁴. During the 1990's the CGIAR system launched a number of initiatives – some hosted and funded by the IARCs – to formalize and promote collaboration among the centres, including the creation of a CGIAR System Office in 2001. The collective purpose of these very successful initiatives, system-wide and ecoregional programs, was to allow the centres to share costs and best practices, including: a shared salary, pension and benefit system; a communally organized contract for telecommunications; shared library subscriptions at lower service costs; an internal audit unit; and human resources, gender and diversity and intellectual property programs that are developing leading-edge policies for the benefit of all centres.

The centres soon recognized the need for “... greater attention to institutional learning, a sharper analysis of when collective action is more effective than action by individual centers, the development of incentives for rewarding collective action and tools to measure the performance of collective action ...”⁵, and an effective mechanism for conflict resolution. Hence, the centers created the Alliance for Future Harvest to promote and achieve successful coordination where needed and effective collective action

⁴ See generally, *Principles and Procedures for the Alliance of Future Harvest Centers of the Consultative Group on International Agricultural Research*, December 8, 2005

⁵ *Ibid*, p.3

for the benefit of the entire CGIAR system. The mission of the Alliance is: *To enable the Future Harvest Centers of the CGIAR to contribute more effectively and efficiently to the mission of the CGIAR by cooperating and pooling their resources whenever and wherever needed.*

It is the view of this consultant that these collective initiatives and activities of the centers under auspices of the Alliance may provide a precedent for the “mutual benefit fund”, subject of this report.

Context Specific to Pooling Centres’ Reserves

Over the years [1972 to 2005] the cumulative contributions from the CGIAR member [donor] groups amounted to US\$7.2 billion. The TOR for this report informs that the 15 IARCs annual aggregate expenditures exceed US\$400 million. As most prudent organizations do, each centre maintains financial reserves for a variety of purposes, among them: working capital, the eventuality of a major, unexpected shortfall of funding, uninsured damage to buildings and capital equipment due to natural disasters or civil strife, or to compensate staff in the event that they have to be laid-off.

According to the TOR, the total funds held collectively by the centres in reserves in 2005 was over US\$158 million. This is equivalent to over 140 days of operations compared to the current minimum desirable range for individual centers of 75 to 90 days, according to CGIAR guideline. Clearly, the actual level of reserves today varies across centers for a variety of reasons. In US\$ terms in 2005, the centre with the smallest reserves had reserves of US\$2.3 million and the largest held reserves of US\$36.8 million. The average for the 15 centres was US\$10.5 million and the median was US\$8.2 million. In 2004, the average number for the 15 centres was 145 days of reserves -- the range was 50 to 490 days. However, four centres failed to meet the CGIAR guideline of minimum desirable range of 75 to 90 days. Another four centres fell in the 90 to 120 days range; the next four fell in the 120 to 180 days range; and the last three had 230, 271, and 490 days of reserves.

The fact that 11 out of the 15 centres held reserves in excess of the CGIAR guideline of 75-90 days range may have been part of the reason that some donors considered this to be an issue as it suggested that donor funds have not been used as intended. As per TOR, the question raised 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. Another 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, excluding rescuing centres with financial difficulties.

At the 2005 annual general meeting of the CGIAR in Marrakesh, CGIAR requested the *Alliance to explore and develop options for the system-wide pooling of reserves*.

This report is an attempt to respond to this request.

II. Feasibility of Pooling Reserves

The question that is raised is: is it feasible to pool reserves held by 15 independent, legal entities – each with its own investment policies and procedures and independent Board of Trustees – to surrender all or part of their reserves to form some sort of a “common fund”?

The short answer is: yes. But it depends on several factors. These factors relate to the centres’ external and internal environments. It must be recognized up front that whenever two or more legal entities come together for whatever purpose, complexities and difficulties are inevitable, but not always insurmountable. The question is whether the difficulties are worth the anticipated desired outcome. Let us then examine the external and internal environments of the centres to see if the difficulties are surmountable.

External Environment

With respect to the centres’ external environment two areas deserve our attention: donor perspective and regulatory and accountability/transparency framework.

◆ The Donor Perspective

The general proposition is as follows: Society grants special status to not-for-profit organizations [NPOs] because they exist in the public interest and for public benefit. They are exempt from paying taxes on the

excess of income over expenses. For the same reason, contributions made by donors to NPOs are tax-deductible – at least in the U.S. – as provided for in the law. Donors – regardless of whether they are individuals, foundations, or corporations – are always concerned about how their gifts/grants are utilized. “Excessive” reserves are discouraged and frowned upon. Some grant-makers actually demand a return of unused funds. This is usually spelled out in the letter awarding the grant. This issue is particularly acute in the case of NPOs that raise money from the public at large [i.e. individual donations]. Grant-makers want NPOs to use funds for programs for which they were intended and not “hoard” them. Of course, exceptions are made depending upon the type, size, and nature of the organization funded and where a legitimate case is made for holding a large reserves. While this is a general practice among grant-makers, IARCs fall in the exception category. But even for the centres a question may be posed why should any centre hold funds in reserves that are three times the average for the 15 centres [145 days] and far above the upper range of 90 days.

In his search for a “standard” in this regard, this consultant reviewed existing literature and spoke with several very knowledgeable professionals and practitioners, including:

- The general counsel of Council on Foundations in Washington, DC,
- A senior officer of the Ford Foundation,
- The director of accountability at United Way of America,
- President of American Institute of Philanthropy, and
- Vice President, Better Business Bureau [BBB] Wise Giving Alliance

While as a matter of practice, donors discourage holding large reserves by funded organizations, the consensus among the experts is that they know of no such “standard” prohibiting the same. Only one organization was able to point to a standard directly on this issue of reserves. The BBB Wise Giving Alliance, Standards for Charity Accountability, Standard # 10 says:⁶

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

⁶ See www.give.org for the Wise Giving Alliance Standards

past year's expenses or three times the size of the current year's budget, whichever is higher.

The term “Charity” here is meant to include all tax-exempt NPOs. Note also, that the exhortation in the Standard above is to “avoid” and not, “do not accumulate”. Further, while the Wise Giving Alliance standards, are widely recognized and respected by NPOs, they do not carry the force of law. All the same, these standards are widely used by donors, grant-makers and the media to rate and evaluate tax-exempt organizations.

It is instructive to note also that some grant-makers see a robust reserves as a sign of prudent management of resources by funded entities.

Finally, does the accounting profession have to say anything on the subject? A review of financial accounting and reporting standards – the “generally accepted accounting principles” or GAAP – did not reveal any restrictions on the accumulation of reserves nor on pooling of reserves of independent entities. There was a question with respect to the requirement of producing “consolidated” financial statements. However, our research indicates that just the fact of pooling will not trigger the consolidation issue because the Boards of Trustees retain the final say in how and where to invest or use their organization’s reserves.

.. **Regulatory Perspective**

Are there any legal or regulatory rules or restrictions as to how much a NPO may hold in reserves? Here we can only speak about the rules and regulations in the U.S. applicable to tax-exempt organizations registered with the Internal Revenue Service. Furthermore, in the U.S., these organizations may be regulated at local, state, and federal levels. After reviewing the current literature, we consulted the following governmental regulators:

- A senior staff of the New York State Attorney General’s office,
- A former and the current president of National Association of State Charity Officers [NASCO]; and
- A former senior executive of the Internal Revenue Service

All three experts confirmed what we already knew that there is no legal

restriction on the extent to which unrestricted funds may be held in reserves by tax-exempt organizations [that are not private foundations].

Thus, our conclusion is that the external environment – both from the donor and the regulatory perspective – does not pose any problem for the creation of a single Fund – a MBF -- out of the pooled reserves of participating centres, so far as the U.S. registered organizations are concerned.

Internal Environment

The notion of a pooled reserves for centres is not new. It goes back to 1984 when a CGIAR Stabilization Mechanism was put in place and used until 1991 when the System decided to dissolve this mechanism and transfer the financial risk management to the individual centres. Efforts to revive this mechanism in some form in 1996 were unsuccessful. Creating a special Fund out of pooled centres reserves is not exactly the same as the Stabilization Mechanism of the past. However, there are enough similarities between the two to lead us to examine some of the internal dynamics of the centres which may influence decision-making in this area.

By internal environment, we mean the characteristics of each centre, the relationship between and among centres, the relationship between the centres and the CGIAR system. The question is: whether the centres' own internal situation and the milieu are hospitable to their joining forces to create a MBF by pooling their unused unrestricted funds. Here, we get into a variety of aspects of the centres, such as: the centre size, age, level of maturity and sophistication, trustee/executive leadership, level of trust among centres and between centres and CGIAR, and the financial condition and capacity of the centres. To answer all of the above questions one needs deep knowledge and familiarity with the history and operations of the centres. The consultant will briefly discuss some of these topics to the extent that the information is available to him .

The size of the centres vary considerably in terms of total annual revenues and expenditures: the largest centre – IITA -- is roughly five times the size of the smallest – WARDA. In terms of the centre budgets, the range is roughly from US\$8 million to US\$41 million. Size does have some influence on the state of readiness or willingness of a centre to join forces with others but may not pose a significant barrier. There is also a variation in the age of centres. The first centre, IRRI, was established in 1959 but several

centres were not created until the 1980's and the 1990's. Age usually implies experience and maturity and may have some bearing on the interest in "pooling".

It is difficult to assess the level of trust between and among the centres in the absence of a special study of the subject. However, based on the current level of inter-centre activities, collaboration and cooperation – especially those promoted and initiated by the Future Harvest Alliance – it would seem that a fairly high level of trust exists among the centres. Whether that trust extends to being favorable to putting a centre's reserves in a pool is another question.

Perhaps the most critical element with respect to pooling centre reserves is the attitude and disposition of centre leadership at the director-general [DG] and the Board levels and how they view the centre's autonomy and fiduciary responsibility. In this connection, and with respect to the evolving relationship between CGIAR and the centres, it is instructive to read the following excerpts from the report of the *Stripe Review of Corporate Governance of CGIAR Centers*⁷:

Center board members served on [sic] their personal capacities ... Boards essentially became "self-perpetuating" and this transformation resulted in greater center board autonomy. Center autonomy has since then become one of the defining characteristics of the CGIAR (along with shared vision, donor sovereignty independent scientific advice, and consensus decision-making). However, accountability became a key issue.. As autonomous and self-perpetuating entities center boards were generally regarded as self-accountable bodies. ... There was no direct accountability to donors, and even for system-related issues, board decisions did not necessarily agree with the consensus decisions of CGIAR.

And note, the following excerpted observations from the same Stripe Review regarding "The Changing Environment of CGIAR Centers"⁸:

The major stakeholders are increasingly playing an "activist" role with respect to governance in contrast to the role they played during the formative era of the System.

.....

It is the interaction between these environmental shifts that has resulted

⁷ CGIAR Committee of Board Chairs and CGIAR Secretariat, *Stripe Review*, etc., March 2006, p.10

⁸ *Ibid*, p.12-14

in a growing tendency on the part of CGIAR members to be more critical and activist in their oversight of the centers in recent years.

.....
The evolving patterns of center finances and inter-center alliances have created new pressures on board autonomy and governance.

In the context of the current discussion, it is worth noting the responses of some of the centres to CGIAR Chairman's letters on 2004 financial indicators. This correspondence throws some light on centres attitude and issues vis-à-vis CGIAR guideline for reserves.

One of the centres has argued that the inclusion of pass-through funds in calculating reserves distorts the centre's compliance with CGIAR guideline⁹

CIAT has steadily increased the amount of funds it passes through the Center to partners to spend on special projects ...it shows that CIAT is open to partner contribution and cooperation more so today than in the past. The funds provided to partners increased from \$2.730 million in 2003 to ...\$6.00 million in 2005 and to a projected \$10.19 million in 2006. When these funds ... are excluded from the expenditures at CIAT, CIAT's actual daily expenditures decrease and financial indicators increase.

Thus, how centres account for pass-through funds to partners and the liability associated with those funds have a direct bearing on the centre's compliance with CGIAR guideline; and consequently, also, the amount that is available in the reserves for pooling. This issue relates to the definition of "reserves": what is included and what is excluded for the purposes of compliance with CGIAR guideline.

Another centre, IWMI, raised a similar issue:¹⁰

You should also be aware that the CGIAR Secretariat in calculating IWMI reserves at 65 days have included all of the Challenge Programs on Water and food (CPWF) expenditures ...It is ..the view of the IWMI Board.. that non-IWMI CPWF expenditures should be excluded from the calculation of IMI reserves on the grounds that IWMI reserves will not be utilized to fund non-IWMI CPWF deficit should the need arise.

⁹ Letter of 12.30.2005 from James W. Jones, Chair Board of Trustees, CIAT to Dr. Ian Johnson, Chair, CGIAR

¹⁰ Letter dated 8.25.2005 from Remo Gaustchi, Chair, Board of Governors, IWMI to Dr. Ian Johnson, Chair, CGIAR

Yet another centre argued that “one size does not fit all” referring to the CGIAR reserves guideline. Responding to CGIAR Chair’s letter regarding excessive levels of reserves, ILRI explained¹¹ in part:

The issue has been thoroughly .. discussed between ILRI Board and management ... Research in the field of livestock production and animal health is highly complex, lengthy and hence, more expensive and risky as compared to research in crop sector ... ILRI must adopt a more prudent financial management than other CG Centres.

And, finally, there seems to be a fundamental disagreement between CGIAR and one of the centres, IRRI, with respect to the CGIAR reserves guideline. This is well summarized in the following assertion by IRRI:¹²

4) We believe that it is correct and appropriate for the donor community, via ExCo or other mechanisms to set a minimum level of reserves below which a Center must not fall. However, the absolute level of reserves, if accumulated properly, is within the responsibility of BOT and management. This will be determined by their perceptions of risks facing the Center and the priority they give to addressing future challenges and opportunities.

While the above examples deal specifically with differences of opinion between CGIAR and some centres regarding the CGIAR reserves guideline, the nuances of the correspondence do foretell potential difficulties in getting the centres to agree to pooling their reserves in a single facility to be jointly managed.

To conclude this brief discussion of “feasibility”, we may note that while the external environment does not pose any problems, the environment intrinsic to CGIAR and centres indicate potential difficulties in pooling centres reserves. In the final analysis, however, it boils down to this: will the centre leadership see pooling as both in their individual centre-interest and also in the collective benefit of all centres, advancing scientific research at the aggregate level. A convincing case must be made.

¹¹ Letter dated 11.24.2005 from UWE Werblow, Chair, Board of Directors, ILRI to Dr. Ian Johnson, Chair CGIAR.

¹² Letter dated 10.11.2005 from Dr. Robert S. Zigler, Director General, IRRI to Dr. Ian Johnson CGIAR Chair. Attached to this letter was an 8-page statement/case for the extent of IRRI’s reserves

Assuming that at least some – if not all -- of the centres may be amenable to exploring the possibility of pooling, we present, in the next section, a rough outline of the shape and structure of the pooled reserves arrangement.

III. Pooled Reserves Fund: The Design

The architecture and the success of the MBF proposed here is based on three fundamental premises and conditions:

- That the participating centres retain control over their share of the net asset value of the Fund; i.e., they have an “out”, if they wish to withdraw from the arrangement;
- That the Fund is designed for the good not only of individual centres but for the benefit of all participating centres; and,
- That the Fund will perform substantially better than what the individual centres are currently able to produce in terms of investment income.

In the next section, we will elaborate on the three core concepts mentioned above. For now, let us briefly discuss the role and function of the various elements on the MBF structure presented on the next page.

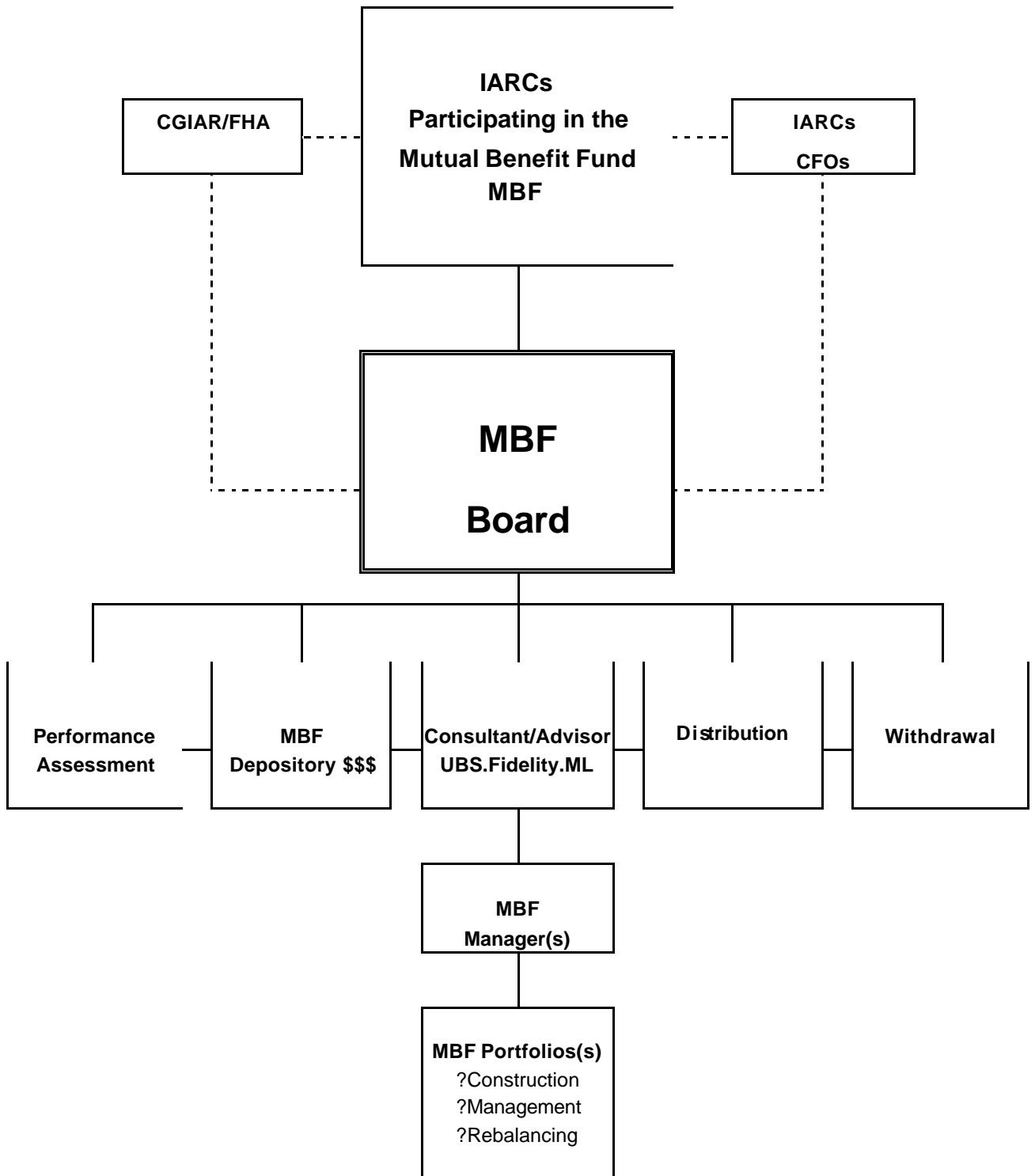
IARCs Participating in the MBF

Assuming that some of the centres – say, a minimum of five – have decided to participate in the MBF and signed a protocol/compact defining the rights and responsibilities of the participating entities, these centres become the founding members of the MBF. A minimum of five is recommended here to make the entire effort economically meaningful and worth the trouble. Ideally, of course, the Fund would be that much more robust if all 15 centres were to decide to join it. A minimum initial investment should be agreed upon as entry level to participate in the Fund. Also, it should be clear to the participants that the Fund is designed as a long term investment vehicle. It should not be used for constant “in and out”. Funds needed to meet current budgetary requirements should not be placed in the Fund

The MBF Board

The MBF Board is conceptualized as the decision-making and supervisory body. It is composed of the CEOs [Directors General or her/his designee] of

IARC-MBF : PROPOSED STRUCTURE



the participating centres who in turn obtain their authority from their respective centre Boards. The functions of the MBF Board include:

- Putting out RFPs or inviting a small number of firms/prospects to present proposals. Depending upon the size of the Fund – say US\$100+ million – a consulting firm may be hired to conduct this search.
- Reviewing and evaluating the proposals and selecting the best firm or other facility
- Opening an account and authorizing the transfer of funds to an agreed upon depository [e.g., Deutsche Bank, State Street Bank, UBS]. Each centre decides what portion of their reserves they would place in the pooled Fund -- between 50 and 75 percent of the total reserves is suggested.
- Determining the acceptable level of risk, agreeing on portfolio(s) design and basic asset allocation, and agreeing on selection of Fund manager(s).
- Receiving and reviewing monthly Fund performance reports and meeting in person – at least annually – the firm/facility representative/advisor in charge of the Fund account to discuss appropriate investment strategies.
- Distributing pro rata share of the net investment income. Here, it is recommended that about 25 percent of income is set aside for future funding of projects/activities/programs of benefit to all centres and for “rainy day” eventualities.
- Entertaining requests for and processing withdrawal from the Fund. This is an important aspect of the MBF concept. Centres have to know that they are at liberty to “walk out” of the Fund and that the compact provides for it. A 30-day notice and a small administrative charge – say, US\$1,000 -- is recommended for a centre to withdraw.
- Engaging CGIAR and the Future Harvest Alliance in an advisory capacity. Both CGIAR and the Future Harvest Alliance have substantial stake in the outcome of pooling reserves of the centres. The fact that the original idea for pooling came from CGIAR and that FHA commissioned this report testify to their stake in the outcome. We see the two entities playing an important advisory, policy and facilitating roles – i.e., advisory to MBF Board and through them to the centre Boards.
- Engaging the chief financial officers [CFOs] in an advisory capacity. The CFOs or chairs of the participating centres’ investment committees also have an important advisory role, particularly with respect to the Fund performance assessment and other technical aspects of investment policy and options. Depending upon the size of the Fund, an advisory committee of CFOs may be written in, in the compact.

Among the various functions of the MBF Board outlined above, a key strategic decision involves the selection of the entity that will manage and operate the Fund. Several options present themselves, among them: major international investment and financial management firms such as, Vanguard, Fidelity, UBS, Citigroup, HSBC, etc.; Association of International Agricultural Research Centres [AIARC]; the Commonfund; FHA; and the Multi Donor Trust Fund. Let us briefly discuss these options.

Investment and Brokerage Houses. The investment and brokerage houses mentioned above are well known, and easy and simple to work with. Most of them manage billions of dollars in both individual and institutional accounts and have access to stables of fund managers and offer a wide range of investment products. They would welcome the opportunity to take up the challenge.

AIARC. While a separately incorporated nonprofit organization, this entity is no stranger to CGIAR, IARCs and FHA. It was created in 1992 by CGIAR to handle personnel benefits for the centres. AIARC is probably the most logical entity to be charged with managing the proposed Fund. It already works closely with the centres and handles annual disbursements of over \$74 million in payroll. It is also the administrator and fiduciary of over \$250 million in pension fund assets for about 1500 participants. We have reviewed AIARC's articles of incorporation and bylaws and see nothing in them to prevent them from administering the Fund.

The Commonfund.¹³ The Common Fund for Nonprofit Organizations [now called just Commonfund] was started in 1971 with a Ford Foundation grant of \$2.8 million as a service to educational institutions' endowments. Within months of founding the Commonfund, 63 institutional endowments invested \$73 million. In 2005, the Commonfund passed \$34 billion in assets under management. Since its creation in 1971, the Commonfund has provided nonprofit organizations in the U.S., and later in Canada, with superior investment funds and financial tools at relatively low cost together with educational programs and publications. According to the Commonfund Benchmark Study – Foundations 2004, the U.S. independent/private, community, and public foundations reported an average total annual return of 17.0 percent net of fees, in fiscal year 2003. It is not clear at this time of

¹³ For more information on Commonfund, please refer to www.commonfund.org

writing whether the IARCs will qualify for acceptance by the Commonfund. Regardless, however, it provides a good model – albeit on a much smaller scale and deserves our further exploration.

FHA. This entity is another logical candidate to “house” the MBF. However, since it is not a separate legal entity and closely related to CGIAR, it is not clear whether it is feasible to give this responsibility to FHA. In the event that FHA is asked to take this on, it will need additional staffing.

Multi Donor Trust Fund [MDTF]. This entity was established within the World Bank [WB] in 2005 to more clearly define the roles and responsibilities of various organizations involved in the disbursements of CGIAR member contributions to the centres through the WB. We see no reason why MDTF shouldn’t be considered to house the proposed Fund and deserves further exploration.

Finally, as mentioned above, if the proposed MBF is large enough – i.e., exceeding US\$100 million – it may be worth considering hiring a consulting firm such as, Mercer Investment Consulting or Cambridge Associates. These firms assist clients with every aspect of institutional investment from strategy to structure to ongoing portfolio management. They have access to large data bases of fund managers and investment firms from which they match the requirements of their clients. Mercer Global Investments provides global multi-manager investment solutions to institutional and individual investors.

IV. Implementation: MBF Management and Operations

In this section we shall briefly describe the processes of implementation, management, and operational details, and to some extent “the rules of engagement”.

The process begins with the circulation and thorough discussion of the final draft of this paper and placing the topic on the agenda of one of the future meetings of the centres DGs. This may be followed up [or perhaps even precede] with intra-centre discussion with the Board and senior staff. The process may provoke additional questions or clarifications which may need to be answered. Depending upon the outcome of this deliberative process, both intra- and inter-centre, the following next steps are considered.

1. A legal compact/agreement will have to be created and agreed upon to include the following elements:
 - (a) Name, location, and purpose of the Fund. Suggested purpose:
To optimize investment income of IARCs in support of scientific agricultural research to meet human needs;
 - (b) Membership – open to all IARCs able to invest a minimum amount of money [suggest \$1 million or 50 percent of reserves held on date of membership whichever is higher];
 - (c) Composition, duties, and responsibilities of the Board of Directors who shall be centre DGs [or their designees]. Key responsibilities of the Board were identified in the Fund Design section above. A unanimous vote of the Board should be required for all non-procedural, finance-related decisions; and, two-thirds of the members voting in the affirmative should be required on procedural matters;
 - (d) Procedures for periodical net income distribution and the percent of net income to be set aside for the use of specified purposes agreed upon, such as, emergency loans to Fund members; “rainy day” eventualities; system-wide uses that benefit all centres and agricultural research. It is critical to specify as many uses of this special “fund within the fund” as possible and as agreed upon in advance to avoid future difficulties; likewise, it may also specify “excluded uses”, i.e., what the Fund may **not** be used for.
[Note: The Stabilization Mechanism proposed in 1983 was designed to compensate centres for two types of unforeseen losses: for losses caused by variations in the exchange rates of the currencies in which contributions are made; and losses due to unforeseen inflation not compensated by changes in the exchange rates of currency in which expenditures are made. Unforeseen problems of other kinds were also considered as grounds for the use of stabilization resources.]¹⁴
 - (e) A proviso for withdrawal from the Fund. Requirement of notice [suggest 30 days] and an administrative charge for withdrawal from the Fund;
 - (f) Allowance for funds to be transferred electronically to the MBF

¹⁴ See generally, CGIAR Meeting, November 2-4, 1983, Agenda Item 15. Operating a Stabilization Mechanism

account and provision for addition and /or replenishment with a limit on size [e.g., not less than \$10,000 at a time] to avoid having to handle small amounts.

(g) Specifying an administrator and her/his duties.

2. Since this involves fiduciary responsibility, each Board of the participating centre will need to vote affirmatively to enter into this compact with other centres and the compact must be signed by the DGs, preferably by both the centre Board Chair and by the DG. The Board would also need to vote affirmatively on the amount/percent of reserves they agree to place in the Fund. Each centre Board should also review its investment policy and amend it as necessary.

Once these two steps are taken, then the real work starts: a decision on which direction to go. Hire a consulting firm to do the search for an appropriate financial management/investment company and fund managers or to pick from among well established reputable companies such as those mentioned above. This is a difficult task and requires time and concentrated effort. A major difficulty is that most DGs are scientists who are extremely busy persons managing their individual centres. The world of financial management and long term investment is a specialized field and not easily mastered quickly. However, regardless of the direction chosen, below we provide a general guideline as to the investment process and philosophy to be considered.

The overarching goal of the Fund should be to achieve optimal returns with minimal risk. This should be a paramount consideration particularly for donor-funded, nonprofit organizations. 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. It is often stated that “most money managers fail to outperform the market”. While fund performance data support this assertion, it is also true that some money managers consistently outperform the market and there is empirical evidence to support that. It takes research and knowledge to find them. But one must also never forget the axiom that “past performance is no guarantee of future results”. It requires continuous evaluation of markets, benchmarks and investment strategies. For successful investment strategy it is necessary to understand the underlying fundamental and technical factors that impact returns in every asset class. It calls for special attention to changes in the composition of benchmarks with respect to marketable

securities. This is a job for the “professional”. A “manager of managers” type of approach may be needed particularly if it involves several managers with different investment styles, different portfolio designs, and a large amount of funds to be invested. CGIAR-WB expertise and counsel may be sought in this regard.

We conclude this section with a summary discussion of what is possible in terms of net investment returns of large nonprofit organizations in the hands of professional money managers and their companies. For this we refer to a recent study of returns of endowments of 247 major nonprofit organizations.¹⁵

The 247 endowments held almost US\$350 billion. The study covered a wide range of organizations including, institutions of higher education, health, environmental, philanthropic foundations, international, religious, and human service. Just to name a few:

- Harvard, Yale, Princeton, Amherst and Mass. Inst. of Tech. [MIT]
- Bill & Melinda Gates Foundation, Ford and Rockefeller Foundations
- Salvation Army, American National Red Cross
- National Academy of Sciences, the RAND corporation
- American Cancer Society, Memorial Sloan-Kettering Cancer Center
- Metropolitan Museum of Art, Smithsonian Institution
- Nature Conservancy, Wildlife Conservation Society
- International Rescue Committee, Save the Children, CARE

The combined market value of all endowments in this fiscal 2005 study exceeded the gross domestic product of Hong Kong and Thailand combined. The median investment return achieved by the organizations in the survey was 9.6 percent. The five top performers were:

- Yale University: 22.3 %
- Carnegie Corporation of New York: 20.9 %
- California Institute of Technology: 20.6 %
- Northwestern University: 19.8 %
- Partners Healthcare System: 19.5 %

¹⁵ Chronicle of Higher Education Chronicle of Philanthropy, *Endowments*, June 1-2, 2006

The five organizations at the bottom were:

- United Way of King County: 0.9 %
- Robert W. Woodruff Foundation: 0.1 %
- United Way of Southwestern Pennsylvania: -0.8 %
- United Way of Metropolitan Dallas Foundation: -0.9 %
- Natural History Museum of Los Angeles: -5.4 %

According to the above-mentioned study, endowments with large allocations to the so-called alternative investments – including private equity, hedge funds, venture capital, oil and gas partnerships, timber and real estate – outperformed those who played safe and stayed with stocks, bonds, and cash. The survey showed that 2005 was the third straight year of solid investment gains following the poor results from 2000 to 2002. Large endowments [\$1 billion or more] earned returns that were 50 percent higher than those earned by small [\$100 million or less] 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.

The above information should not be construed as investment advice. We are not qualified to provide investment advice. What needs to be said is that successful investment requires a rigorous analysis and evaluation of risks due to market volatility, inflation, currency fluctuations and exchange rates, and several other factors too complex to discuss here. The chairs of centres' investment committees should be well-versed in these matters.

V. Concluding Thoughts

As centres leadership and CGIAR contemplate on a course(s) of action, two additional thoughts come to mind: one relates to the pooling of centres reserves and a second, independent of pooling.

The question raised is: might there be some incentives to induce centres leadership to join forces to create the proposed MBF out of the reserves held by the centres? One idea that may be considered by CGIAR is that they provide a start-up grant – say about US\$5 million – to create this Fund with the understanding that the centres will put their own reserves in this Fund.

This would be a way to “sweeten the pot”. A related concept to be considered is that of matching by CGIAR, in some ratio, of what the centres place in the Fund – say upto five percent of the centres’ initial investment in the Fund.

If, for whatever reason(s), the centres decide in their wisdom against the idea of pooling their reserves, another possibility worth considering comes to mind: the creation of an Endowment Fund [EF] for the benefit of all 15 centres, but particularly, to help those centres most in need. Individual centres may be encouraged to place whatever portion of their uncommitted reserves they decide, to fund such an EF. Again, CGIAR may help with the start-up of the EF. As a legal EF only income from the Fund can be used to support activities that benefit the centres.

In any of the above options, the engagement of private foundations such as the Bill and Melinda Gates and Ford Foundations might be worth exploring. These foundations are known to make funds available to create endowments.

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 upon how each centre sees itself. Do they consider themselves 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. Do they see themselves as members of a family of international agricultural research centers – sister/brother organizations -- or unrelated bodies with not much in common. This consultant believes there is some evidence that the former is the case. But these questions must be answered by the 15 centers themselves, individually, and not by the consultant. 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. We are reminded here of the famous slogan invented by Alexandre Dumas in his *Les Trois Mousquetaires: tous pour un, un pour tous*. If this spirit permeates the centres/Alliance system, all is possible.

TERMS OF REFERENCE

Background:

The International Agricultural Research Centres (IARCs) are 15 legally independent entities that are mainly funded by an informal “club” of donors called the CGIAR [*Consultative Group for International Agricultural Research*]. Donors contribute to one or more centres based upon their own priorities and policies. Annual aggregate expenditures of the IARCs exceed US\$400 million. Each centre maintains financial reserves for a variety of purposes, e.g. working capital, the eventuality of a major, unexpected shortfall of funding, uninsured damage to buildings and capital equipment due to natural disasters or civil strife, or to compensate staff in the event that they have to be laid off.

The total amount of funds held in reserve by the Centres collectively amounts to a considerable sum. This was estimated to be US\$156 million in 2004 – equivalent to 140 days of operations (compared to what is currently considered the minimum desirable range for individual Centres of 75 – 90 days). The actual level of reserves today varies across centres and may be different from this figure due to the drawing down of reserves, exchange rate fluctuations, judgment by centres of the most relevant level of reserves for their specific needs, etc.

Some donors have questioned the amount of funds held by the centres as reserves, as it suggests that donor funds have not been used as intended. The question has been raised as to whether it would be possible to reduce the total size of the 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. In addition, some form of pooling or jointly managing reserves might enable the Centres to achieve higher investment returns and, depending on the nature of the reserves and the way they are managed, could provide a source for funding loans for certain agreed, high priority activities such as the development of common research facilities.

The report of 2005 Annual General Meeting of the CGIAR in Marrakech states: *"The CGIAR requested the Alliance to explore and develop options for System-wide pooling of reserves. This should be submitted to the CGIAR Secretariat by the end of April 2006, to be reviewed by ExCo at its May 2006 meeting. Expertise from the Private Sector, CGIAR Secretariat and others should be mobilized, as needed."*

The ‘Alliance’ is a formal coalition of the 15 international Centres mainly funded by the CGIAR, with the objective of optimising collective action by coordinating

programmes and resources on issues and in geographic areas where it is clear that concerted efforts can significantly increase impact in tackling critical problems for the centres.

Consultancy assignment:

The Alliance sees opportunities for the sharing or pooling of financial resources for specific purposes, for example:

- Credit Union or Mutual Fund e.g. with the level of contributions being determined by individual Centres;
- an insurance scheme, e.g. with contributions set on the basis of risk criteria; and
- a combination of the above and/or other options.

The consultant will be responsible for providing a financial analysis on this issue, with recommendations on how best to set up and manage a common fund for better managing risk and/or for investment in infrastructure at the level of the system of the 15 centres (Alliance level), that is, over and beyond the level of individual centres. The consultant will analyse and make recommendations on the aspects of such a common fund that he deems relevant, including for setting levels of contribution from centres, rules for withdrawing from and for replenishing the fund, and options for governance of the fund.

The consultant will regularly liaise with Dr. Izac, as his work progresses, to ensure that the questions he may have about the CGIAR system are answered by appropriate resource persons.

Deliverable: A final report presenting both an analysis of the issues and recommendations. A first draft of the report is due no later than September 18, 2006. The final draft is due no later than October 9, 2006. Both draft and final reports should be sent to Dr. Izac.

