

Cross-Cutting observations based on the review of three CGIAR Challenge Programs

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Dear Namita, dear Manny,

You have asked me to provide you with suggestions for potential CP governance principles, as well as with more detailed cross-cutting insights based on my observations as governance and finance panel member during the reviews of these three CGIAR Challenge Programs:

- The Challenge Program on Water and Food (CPWF);
- The HarvestPlus Challenge Program (HCP);
- The Generation Challenge Program (GCP).

The present document contains my personal, professional assessment of the key governance, management and finance-related aspects, as well as on selected programmatic and partner issues.

The observations made during three Challenge Program Reviews do certainly not warrant a reliable generalization to Challenge Programs in general. However, due to the very different setup along several governance dimensions of the CPs, some lessons can be drawn that, in my opinion, deserve close attention when reviewing or designing future CPs.

I hope that these observations can assist you in further improving future CP performance.

Best regards,

Markus



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1. Suggestions for Governance Principles

Since CPs are time-bound, and to avoid heavy set-up and close-down costs, CPs should not be incorporated as separate legal entities and should be hosted in organizations that can provide the necessary financial, logistical, legal and other services.

The CP charter should not contain clauses that can block evolution of the program. For example, unanimity should not be required for amendments or changes to the charter.

A clear separation of responsibility and accountability between a CP and its host center(s) should be established.

- Governance level: In absence of a CP legal entity, the host center board(s) and/or the participating institutions' boards are ultimately responsible and accountable.
 - o The delegation of authority from the host center boards to the CP should be clearly defined and supported by documented board decisions. Liability and accountability mechanism related to this delegation of authority should be established and clarified.
 - o The role of host center representatives in the CP governing bodies should be free of conflict of interest while ensuring legitimate institutional interests of the host center(s) such as the minimization of financial, reputational or legal risks for the host center.
- Operational level: a host service agreement should be developed between the CP and the host center(s). This agreement should define the quality and quantity of services the host center(s) will provide for the CP, reciprocal rights and responsibilities, and the remuneration mechanism for these services.

CP governance decision making should be free of illegitimate institutional interests, i.e. of such interests that do not reflect the best interest of the CP but rather the economical or strategic interest of one of the CP partner or host institutions. One effective way of excluding illegitimate institutional interests is an independent CP board that is composed of experts without any affiliation to the program's partner or host institutions. On the other hand, respecting *legitimate* institutional interests (e.g the CP's host center(s) financial or legal policies) are crucial for CP success. This can be achieved by including host representatives into these otherwise independent CP governance bodies. In order to clearly separate legitimate from illegitimate institutional interests, the voting power of these representatives should be limited to e.g. hosting-related issues.

In order to guarantee efficient translation of strategic objectives into tangible results, the CP management structure should have a strong and well-defined vertical chain of command. The CP board should oversee the program director and the program director should oversee the program managers. Ambiguous chains of command, e.g. a program director receiving its marching orders both from the CP board and from the institutions with which the CP director has his/her employment contract, should be avoided.

2. Cross-Cutting Observations from three CP reviews

2.1. Governance and Management Aspects

The CGIAR defines Challenge Programs as follows¹:

“A CGIAR Challenge Program (CP) is a time-bound, independently-governed program of high-impact research, that targets the CGIAR goals in relation to complex issues of overwhelming global and/or regional significance, and requires partnerships among a wide range of institutions in order to deliver its products.”

The simultaneous requirements of *time-boundness* and *independence of governance* have consequences that could be observed in all three CPs that were reviewed:

Since Challenge Programs have a *finite lifetime*, it seems reasonable to avoid heavy setup and close-down investments, e.g. related to the establishment of an independent legal entity, and the buildup of administrative back office capacity within Challenge Programs themselves. Instead, the reviewed CPs have opted for unincorporated joint ventures, i.e. *virtual organizations* without separate legal entity, that outsource key operative functions such as human resources management (employment of program staff), accounting, handling of funds, legal services (contracting) and the provision of office and meeting facilities to founding partners of the CPs that act as *host institutions*.

The Challenge Programs themselves have set up governance bodies that oversee the CPs (subsequently referred to as “Steering Committees (SCs)” for simplicity, although their role ranges from advisory to decision-making).

However, in absence of a legal CP entity, the boards of the host institutions – and not the CP SCs – are ultimately responsible and accountable for CP governance. In order to allow for *independent governance* of the CPs, the boards of the host institutions have delegated (some of) their authority to the CP SCs.

This setup has quite naturally led to a certain ambiguity both on CP governance and management level. While being a natural consequence of the chosen CP setups, this ambiguity should be minimized.

First, the exact degree of delegation of authority from the host center boards to the CP SCs sometimes remained largely undefined both from the CP and the host center perspective. In these cases, a clarification of roles, responsibilities and accountability, as well of related risks and risk mitigation mechanisms, was recommended.

The fact that CP staff, including the CP Program Director, were employed by the host institutions on behalf of the CP have led, in some cases, to “*Two Masters Problems*”, i.e. to situations of unclear or overlapping responsibilities in the vertical chain of command. This can lead to management inefficiencies since directions are backed by insufficient authority or because

¹ CGIAR website, visited on 28.07.2007.

contradictory marching orders can be given. It can also lead to potential conflict of interest since host centers, as CP partners, also have an economic interest in the CP and could, theoretically, bypass the CP SC by exerting direct influence on CP management.

Second, the establishment of an unambiguous vertical chain of command that reaches from the CP SC to the Program Director and further to other CP managers was recommended.

A fundamental difference between the governance arrangements of the CPs reviewed is the fact that two CP SC were entirely composed of *institutional representatives of CP partners* whereas one CP SC was almost entirely composed of *independent experts without institutional connection to the CP*. One CP was in the process of transforming its governance structure from the former towards the latter setup.

Since only three cases were reviewed and compared, it is certainly not legitimate to draw any general lessons regarding the causal connection between representation in personal or institutional capacity on the CP SC and the overall CP governance performance. However, for the three CPs reviewed, a clearly superior governance performance for the independent setup was observed that could be traced back to the following four underlying reasons.

Drivers for decision-making. Decision-making by institutionally independent CP SC members is quite naturally driven by the best interest for the CP only. Both the accountability and the non-monetary incentives (e.g., personal reputation or the wish to invest scarce time well) of the CP SC members encourage this behavior. For a CP SC that consists of institutional representatives, incentives are less clear-cut. These representatives essentially wear two hats: apart from their CP SC membership, they normally also hold senior management or board positions in their respective CP partner and home institutions. Since these institutions, as CP partners, are strategically and economically linked to the CP, institutional interests may oppose CP interests in some cases. Thus, governance members in the institutional setup are expected to “to put aside their institutional interests to make crucial and sensitive decisions that have the interest of the program at heart, even though they may not be the best for their home institutions“, as a former CP SC chair put it. The existence of such institutional interests and their influence on SC decisions has been reported by several interview partners in two of the three CPs reviews.

Conflict of interest. CP partner representatives on a CP SC may be perceived to have a conflict of interest regarding direct budget allocation decisions for individual projects, since these might economically benefit their home institutions. A similar perception might occur in the case of decisions on CP strategy that shift the strategic focus towards some partner’s competence fields. One CP with such a setup that was reviewed had experienced considerable difficulties resulting from perceived conflict of interest. In another case, the SC had decided to drastically reform its governance in order to avoid such conflicts of interest in the future.

Stakeholder representation. In two of the CPs reviewed, a partner institution’s membership in the CP Consortium automatically leads to a seat on the CP SC. This connection has, quite opposite to original intentions, effectively led to limited partner and stakeholder representation in the CP Consortium, because consortium access to new members had been limited in order to avoid a too large CP SC.

CP SC member expertise. While in the independent CP SC, new members were carefully chosen according to their expertise, members of the CP SCs in the institutional setups were chosen by their respective home institution, leading, amongst other, to strong gender imbalance. While no assessment of individual CP SC members' performance was done in either of the reviews, the institutional CP SCs clearly lacked auditing and evaluation expertise and had not been able to make the needed adjustments to the strategic direction for the CP.

Therefore, the option of institutional representation (of CP partners) on a CP SC should be considered with care. While no legitimate generalization can be made from the three CPs that were reviewed, it seems reasonable to critically examine any existing or proposed CP SC along the four arguments presented above.

In interviews held for the three CP reviews with representatives of CP governance and management, a wide spectrum of opinions emerged on how management and governance authority should be distributed between the host centers and the CPs themselves. These opinions seemed somewhat polarized. While some interviewees insisted that host centers should have no say at all in CP governance, others made a strong point that host centers should have a certain degree of programmatic control over the CPs.

All three reviews found that the optimal approach should be neither of the above extremes.

On the one hand, programmatic decisions should be taken by the CP SC alone, ideally without any voting by host center representatives. This ensures the independence of CP SC decisions from individual economical institutional interests and effectively shields host centers – and subsequently the CP – from real or perceived conflicts of interest.

On the other hand, the legitimate institutional interest of host centers should be fully acknowledged. Legal, financial or reputational risks for the host centers should be avoided and CP SC decisions should be checked beforehand for concordance with host centers policies. Programmatic interests by the host centers, however, do not fall under these legitimate institutional interests.

In order to efficiently ensure these two aspects simultaneously, representatives of host centers should be member of and actively participate in the CP SC.

They should, however, not participate in voting on programmatic issues. Host center representatives on the CP SC actually do not need any CP SC voting power since they are backed by their respective center boards that have a *de facto* veto power over any financial or legal transaction of the CP.

From one CP review, an additional important observation can be made that provides for an important lesson learnt in the eyes of the author. In that case, the overwhelming majority of the CP SC was of the opinion that a drastic reform of the governance setup was needed to increase governance effectiveness and to avoid conflicting interests in the future. In a decision-making session of that SC, the proposal for reform was nevertheless rejected. This was possible only because the CP consortium agreement (the “charter of the CP) required unanimity for any decision that involved changes to that agreement. A single CP member could, theoretically, block any reform process that involved changes or amendments to the CP charter.

In order to allow for necessary evolution of CP governance, the CP charter should not include a unanimity clause for changes to the charter. Changes to the CP charter should rather be based on (strong) majority decisions, e.g. on a 2/3 majority as for one of the CPs reviewed.

On the management level, one CP that was reviewed was organized functionally along different classes of research through several sub-program leaders only without end-product related management functions. While the review agreed with the need for the fundamental management structure, the absence of “product managers” lead to a lack of coherence and prioritization of activities across the different sub-programs. Another CP reviewed had a matrix structure in place with “functional leaders” carrying the functions responsibility and “crop leaders” with responsibility for specific end products”. This setup was found to lead to high management efficiency and end product orientation.

A reasonable degree of “end product orientation” should be introduced into the CP management, e.g. through a typical matrix management structure (functional managers vs. product managers). In order to keep management overhead under control, the product management functions can e.g. be performed by project PIs.

In one CP that was reviewed, program managers did not have the necessary authority to ensure quality and timely delivery of projects in their portfolio.

Program managers should have full responsibility and accountability for “their” project portfolio and should be provided with the necessary management authority to take action when poor project performance is observed.

2.2. Finance Aspects

All CPs reviewed have successfully raised funds for their first program phase. They now encounter a series of challenges that are quite typical for donor-financed programs.

While securing phase II funding especially one CP, and to a lesser extent the two other CPs, need to safeguard its strategic and financial independence from the dominant donor.

The fact that CPs are time-bound and that the reviewed CPs are hosted has some additional consequences for cash management and financial reporting.

Firstly, as time bound programs, donor funding is restricted in the sense that it has to be used within the specified time frame for program purposes. This leads to the situation that at the end of a program phase, the unallocated cash reserve (i.e. cash that has not been allocated to projects and remains freely available within program purposes) can fall under the minimum level needed to cover unexpected events, for example an orderly closing down of the CP, either at the end of its lifetime or prematurely due to lack of funding.

The establishment of an unallocated cash reserve that can cover unexpected program expenses is recommended. It is understood that such a cash reserve would re-enter the CP’s last year budget.

One of the CPs reviewed has successfully built up such a cash reserve and another CP had planned to do so during the review process.

All CPs that were reviewed fully depend on the quality of financial services of the host centers. In one case, the quality of these services was not satisfactory. Since there is no compelling reason² why CP financial services need to be delivered by the current host centers, alternative models could be considered if financial service level are or remain low, e.g. by sourcing out to a professional service provider or another international organization.

Another consequence of the dependence on host institutions is the necessity for clear financial policies that define, e.g., the handling and use of accrued CP interest, the levels and calculatory basis for administration fees and hosting charges. In addition, CPs also need to ensure adequate financial expertise to be able to independently confirm financial reports received by the host centers.

A host center service agreement can provide a good basis for that. Such an agreement should be revisited and renegotiated on a regular basis (e.g. every 2-3 years) in order to guarantee adequate levels of service remuneration and of service quality.

2.3. Monitoring and Evaluation Aspects

Program monitoring, which is primary a management responsibility, is done by means of template-based project progress reporting in all CPs reviewed.

A challenge is the degree of detail and the quality of project progress information the responsible CP managers actually receive. In some cases it was obvious that the main achievements of projects were not reflected in project progress reports. Partly due to a lack of information, but also due to sometimes insufficient program management authority, remedial action of poor performance can be difficult.

Program-level monitoring in the CPs reviewed is mainly restricted to financial reporting and to project activity summary reports. Outcomes or impacts on the program level are not tracked in a comprehensive way.

In fact, program goals have remained somewhat unclear and no clearly defined indicators for program outcome and impact exist, making evaluation and monitoring on the program level difficult. In one CP reviewed, program goals were rather visionary and not suited for measuring program success.

It seems desirable to separate CP objectives into two classes.

On the one hand, there are objectives that can be reached primarily by the CP alone. Towards this set of objectives, the CP acts in the role of an implementer, fully responsible for success, and a

² One counterargument that was repeatedly brought up in interviews was that of potential donor irritation when transferring funds to an institution not directly related with the CP. This argument, however, could easily be addressed by funneling funds through a CP partner institution first.

standard performance, outcome and impact evaluation system can be implemented. For one CP reviewed, this set of objectives had, however, remained largely undefined.

On the other hand, overall visionary program objectives can only be reached through considerable support of players external to the CP, on which the CP has little say or control. Here the CP has an indirect role as facilitator and enabler, while the main contributions towards the visionary program objectives will be made by others.

Clearly defined and realistic program objectives that can be primarily reached by the CP alone need to be established and are crucial for any program success measurement. While the CP cannot be held accountable for reaching overall visionary objectives, it can be held accountable for reaching such a set of program objectives. These can, therefore be used for program performance and success measurement, using appropriate techniques.

Overall program performance towards visionary objectives should be measured by the performance in reaching the first set of objectives and, complementarily, by the performance of the CP while acting as facilitator and enabler.

On the project level, no evaluation component was included as a standard in any of the CPs reviewed. While the CPs have invested resources into ex-ante project evaluation, no ex-post review of outcome and impact is regularly included in projects (although one CP is setting up two ex-post project impact studies now).

Ex-ante and ex-post evaluation components on a project level should be included as a standard in terms of technical and budget planning in order to stronger motivate project design with high potential to contribute to planned program impacts and in order to strengthen program learning from its own experience.

2.4. Partnership Aspects

The necessary institutional type and expertise of CP partners is largely determined by the program goals, and the concrete approach the CP has chosen to reach these. As detailed above, in two of the CPs reviewed, program objectives were not defined with the necessary clarity. In one case, no concrete program goals had been determined, while in the other case a series of concrete program milestones existed. Consequently, the characteristics of needed program partners were clearly defined by program management and governance in one case – and gaps in the current partner portfolio could be identified through the review process – whereas the set of needed partner groups was less clear in the other case.

As a basis for a successful partnership strategy, concrete program goals need to be clearly defined for each field of program activities.

While the institutional type and expertise of CP partners are largely determined by the concrete goals that the CP plans to reach, the reviewed CPs have chosen differing approaches for individual partner selection.

Competitive selection mechanisms have proven to be administratively demanding, mainly because of the necessary compliance with the CGIAR financial guideline for procurement (CGIAR FG 6), but also because of general tender preparation and administration.

It seems that the need for full compliance with FG 6 for CP tendering processes has come as somewhat of a surprise to the CPs, but also to CGIAR internal auditing. Since this need for full compliance has added a considerable administrative burden to CP competitive processes (most if which is still to come since only one CP has reached a status of full compliance yet), a critical and pragmatic re-examination of the degree of compliance needed could add value. To the author of this document who, however, is not an auditor, the applicability of FG 6 to CP competitive processes has not been obvious.

While competitive mechanisms have clear advantages, such as a transparent and open selection processes, the early experiences of one of the CPs reviewed have also surfaced some challenges in terms of partner selection. Some highly relevant target groups were not reached by the invitation for tender, and a broad frame of possible themes and regions led to the phenomenon that applicants, rather than the CP, defined the goals of that specific aspect of the program.

Commissioned activities, on the other hand, have the advantage of potentially targeting the exact program needs better, at least if compared with rather broad calls for tender. On the basis of the review of one CP that commissions about 95% of its activities it could be observed that this approach led to building multi-year partnerships that have both advantages and disadvantages. On the one hand, such long-term partnerships build trust on both sides and allow for easier interfacing between CP management and the partner. On the other hand, the fact that the present partner delivers the best value for money and has remained in line with program specifications is not critically re-examined by project monitoring.

From a partner perspective, surprisingly, the competitive selection mechanism has received a considerably worse feedback that, however, was mainly connected with implementation and budgetary problems. The partners for commissioned activities that were interviewed generally indicated satisfaction with information, selection and monitoring processes.

Since one original goal of the CPs has been the opening-up of the CGIAR system, it seems reasonable to award a sizable but not dominant budget share through competitive mechanisms. Care needs to be taken to fully comply with CGIAR policies without generating excessive administrative effort. In order to effectively open-up the program to more partners and to capture the full potential of competitive mechanisms in terms of selecting the best “value for money” it needs to be assured that all potential partners are actually addressed by a call for tender. This excludes, e.g., restricting such call to CP website publication.

Commissioned activities should be closely monitored by CP management and overseen and critically re-examined by CP governance. It may be advisable to regularly externally review large-scale partnerships.

2.5. Observations Concerning Legal Status and IPG

All three CPs reviewed have chosen unincorporated joint venture organizations without a separate legal entity as their organizational form. As pointed out in the first section of this document, this choice is driven by the wish to not create a costly organizational body and, potentially, incentives for prolonged program duration.

The choice of not incorporating the CPs reviewed as separate legal entities seems reasonable in view of their limited life-span.

The sharing of hosting responsibilities between two institutions as in the case of one CP reviewed, where none of the institutions can make unilateral decisions on the CP, provides additional checks and balances.

All CPs reviewed have developed IP policies. In the evolution of these policies, care needed to be taken in ensuring conformity of these policies with both CGIAR and CGIAR Center IP policies.

The decentralized CP setup also has consequences for IP. Since no separate legal CP entity exists, the CP IP is owned by the program partners – or the host centers – and not directly by the CP. This necessitates a strong IP policy that established free access to IP generated by the program for all program stakeholders, during and after the program lifetime.

In order to motivate external partners, e.g. the private sector, commercialization agreements can be included that, however, need to ensure that all CP target regions maintain free access to relevant program IP and that income from such commercialization also benefits the program or, after the program's lifetime, the program purposes.