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The Hague, July 24 2002

Dear Emil and Francisco,

Please find enclosed the ISNAR Board of Trustees and Management response to the 4th External Program and Management Review of ISNAR, as submitted to us by the EPMR Panel on 19 July, 2002. At the time of writing we are not yet in possession of the completed document from the EPMR Panel, but we have been ensured that only minor revisions remain that will not substantially alter the text or the conclusions. If they do, we must reserve the right to return to the issues thus raised.

We appreciate the willingness of the interim Science Council to consider a smaller EPMR Panel for ISNAR that worked for a shorter time, and which had fewer people conduct the global field visits. ISNAR is of course subject to the same review procedures as other centers, but our relatively small size was found not to warrant the traditional larger Panel. In this process we also explored the Australian research system success of inviting an external Visitor to supplement internal center reviews. We note that both ISNAR and the Panel found merit in this. All of this may have increased the burden on Panel members, giving them little time to consult with senior management and Board members during the process.

You will find that although we consider the report to still contain a number of factual errors, we have little difficulty in endorsing the majority of their recommendations. We are very pleased that our new strategy is so warmly welcomed when it has been operational for only 6 months. Similarly the high marks given to two-thirds of ISNAR's activities over the last five and a half years will not escape the careful reader.

The most far-reaching recommendation, however, to close ISNAR down after a five year period, may not serve national research systems in developing countries, and will seriously hamper CGIAR efforts to prepare developing countries for the new innovation systems required to tackle food insecurity, poverty and environmental degradation. We have therefore suggested a modification to this recommendation that we believe will best serve national, sub-regional, and regional agricultural research players.

We are looking forward to discussing this report with you during the next iSC meeting.

Yours sincerely,

Moïse C. Mensah
Chair of the ISNAR Board of Trustees

Stein W. Bie
Director General

ISNAR's Board of Trustees and Management Joint Response to the Report of the Fourth External Program and Management Review July 2002

The 4th ISNAR External Program and Management Review (January 1997-June 2002) endorses ISNAR's mission and vision, and approves and encourages the implementation of its new strategy, effective 1 January 2002. The *Innovation System* approach using *Action Research* now embedded in ISNAR's MTP 2002-2004 meets much of the Panel's concern for earlier lack of focus. It has been developed jointly by ISNAR's Board of Trustees, ISNAR staff and ISNAR shareholders and stakeholders. The new strategy and associated MTP call for increased decentralization of ISNAR's work.

The Review gives high marks to three main components of ISNAR's work: shareholder linkages, learning and training, and use of new technologies. These activities embody two-thirds of ISNAR's annual human and financial resource investment. ISNAR is also heralded for its early warnings in the CGIAR system, and active engagement with other CGIAR centers and UN organizations, on the effects of HIV/AIDS on agriculture and rural livelihoods.

ISNAR occupies a unique niche in the CGIAR system, with prime responsibility for institutional organization and management of emerging new innovation systems for rural development in general, and agriculture in particular. ISNAR's challenge is to stimulate the interactive dimension of this development by pointing to and facilitating human and institutional cross-linkages between the technical dimension and the economic dimension of research for development. This means, to a much greater extent than before, direct involvement of the ultimate stakeholders in the development process. Against the backdrop of almost no improvement in the global food situation over the last five years, and little or no reduction in the number and conditions of the poorest of the poor, ISNAR – a small organization - has made its modest contribution to the ongoing reorientation of agricultural research in many poor countries.

The 4th EPMP Panel believes ISNAR could have done even more, and could have been more efficient in the way it conducted some of its business. The Board and Management of ISNAR are grateful for the constructive criticism on these points, and will urgently address the areas for improvement highlighted by the Panel. We agree with the Panel that it is not business as usual. In our responses to their recommendations we have indicated overall endorsement of most points, and explained why we believe that a smaller number of suggestions are sub-optimal at the present time.

Following ISNAR's response, and interim Science Council and CGIAR member consideration of this 4th ISNAR EPMP Report, ISNAR may later wish to revisit its MTP 2003-2005 (to be submitted in August 2002) to take account of comments received. ISNAR may ask for the assistance of the interim Science Council and the Executive Committee of the CGIAR to expedite this in early 2003, for changes to become effective in 2003.

Chapter 2 – ISNAR’s Strategy

Recommendation 1:

The panel recommends that ISNAR implement its new strategy, through an emphasis on selecting a few sharply-focused priorities, consistent with its resource base and future structure, application of a judicious blend of research, training and services, and significantly adjusting staff breadth and depth, to fit its future agenda.

Endorsed. ISNAR appreciates the support from the Review Panel for its mission and vision embodied in its new strategy, which the BoT and Management started building in late 2000, to be fully implemented from 2002. ISNAR now implements its new strategy to respond to increasing demands and within probable funding scenarios. ISNAR will ensure that this new strategy now becomes widely explained.

ISNAR agrees that a judicious blend of research, training and services is required to meet future demands and will make special efforts to ensure that the required mix of human resources will become available to undertake the execution of this agenda. We will adjust staff composition and forge stronger strategic alliances to achieve this. Although ISNAR already annually devotes about 40% of its resources to work connected with sub-Saharan Africa (in line with the CGIAR average), we agree that national agricultural research institutions there may require further attention.

Chapter 3 – Programme Management

Recommendation 2:

The Panel recommends that ISNAR institutionalize comprehensive planning and priority setting as well as internal and external quality control processes to ensure the relevance and quality of its research and service activities.

Endorsed. As an institution largely dealing with social science concepts and challenges in organization and management, ISNAR has been employing tools for planning and priority setting that are somewhat different to those often used for commodity centers. The methods which are now used represent well-established tools for planning and priority setting in ISNAR-relevant areas. Broad-based stakeholder consultations and extensive interactive and participatory methods form the basis for ISNAR’s methodology for work in the research-service continuum. We will revisit and strengthen these approaches. We will further ensure that more of both internal and external quality control mechanisms are employed to correspond to present-day needs and present-day budgets.

Chapter 4 – Research and Service Programmes

MTP1 – Policies for Institutional Innovation in Agricultural Research

Recommendation 3.

The Panel recommends that ISNAR either comprehensively retool to effectively execute an appropriate agenda for policy issues in institutional innovations, in partnership with IFPRI and others (under a rejuvenated research and service

oriented ISNAR – see Chapter 6), or MTP1 (policy research) should be discontinued with IFPRI assuming full responsibility for ASTI and research policy work (under a decentralized service -oriented ISNAR).

Endorsed with a caveat: ISNAR recognizes that it cannot pursue research and services in innovation systems without a solid knowledge of the policy environment, which keeps on changing. ISNAR will strengthen current alliances with IFPRI and others in policy to have access to advanced research there and will retain capacity to utilize such knowledge. ISNAR will discuss with IFPRI possibilities for supporting and ultimately devolving major responsibility for agricultural science and technology indicators (ASTI) activities to regional and/or sub-regional organizations. These organizations also require the data for effective monitoring and priority setting within their regions.

MTP3 – Learning for Institutional Innovation

Recommendation 4.

The Panel recommends that ISNAR reinforce its capacity to revise and update its training materials and modules while developing an advocacy programme for influencing key policy makers for institutional change, that complements its current programme. Furthermore, ISNAR should not pursue its planned research agenda in learning for institutional innovations without first seeking qualified external experts to review its plans.

Endorsed. ISNAR notes the high marks given to its training activities and agrees that frequent updating of its many and varied modules is required. ISNAR will explore alliances for the proposed advocacy work among key policy makers, often in positions outside agriculture, in support of innovation. Within ISNAR this will require cross-linkages between sectors, such as those now supported within MTP5 (Building capacity to respond to cross-sector demands). ISNAR will seek qualified external experts to review its planned research agenda in learning for institutional innovation.

MTP5 – Building Capacity to respond to Cross-Sector Demands

Recommendation 5.

The Panel recommends that ISNAR discontinue MTP5 – Building Capacity to Respond to Cross-Sector Demands. The current project on HIV/AIDS should be screened against MTP2 (Linking Research and Stakeholders) strategic priorities and if appropriate, incorporated.

Not endorsed. ISNAR appreciates the recognition by the EPMR Panel of its pioneering work within the CGIAR to deal with a wider range of stakeholders in the context of HIV/AIDS. Working closely with other CGIAR centers (IFPRI, WARDA, IWMI) in HIV/AIDS and malaria, and with international agencies such as FAO, UNAIDS and WHO, ISNAR is breaking new ground - not in solving medical research issues but in creating institutional linkages that allow broad intervention for prevention and alleviation. There is a need to influence key policy makers to assist in institutional change that can enable increasingly complex problems in linking agriculture to environment and human health to be successfully tackled. ISNAR is increasingly receiving major donor funding for such initiatives. ISNAR optimizes the

use of these resources by facilitating extensive network-building in affected countries. MTP5, which represents new activities, started in the beginning of 2002. ISNAR finds it much too early to close down this MTP after such a scientifically and financially promising beginning.

Chapter 5 – Governance and Management

Recommendation 6.

The Panel recommends that the Nominating Committee of the Board develop a list of competencies required for the next 6 years (using external assistance as necessary) and then develop a Board Trustee profile and an associated nominating strategy. The strategy should firstly determine the size of the board—depending on the nature of the future ISNAR—and earmark a number of the upcoming vacancies for highly talented individuals representing the private and philanthropic sectors.

Endorsed but with a caveat. The Board of Trustees is fully aware of the need to adjust the Board composition to the requirements of new challenges for ISNAR and the CGIAR. It has been BoT practice to ensure that the mix of trustees corresponds to the need for relevant expertise and with due cognizance of geographical and gender balance. Consequently the BoT has over the last couple of years kept several positions open to give flexibility to adjust to new circumstances. More Board vacancies are due in the near future. Private and philanthropic sector experience may be useful to stimulate further the development of best practices. The BoT also wishes to ensure that the ultimate customers of ISNAR’s research and service work can have their voices better heard in the BoT. We have for some time been exploring candidates who have developing country farmers’ association and non-governmental organization background.

ISNAR finds the explicit severe criticism of its Board unsubstantiated and asks for it to be withdrawn by the Panel. The Panel’s use of completed CGIAR-wide “Board Self-Assessment Forms” as a proxy for their assessment of Board performance is wrong and inappropriate. The center maintains that the Board has played a pivotal role in the transformation of ISNAR’s strategy – so strongly supported by the Panel – during the review period and has exerted due diligence in all financial and administrative fields. The Panel has offered no evidence to the contrary.

Recommendation 7.

The Panel recommends that Management provide:

- **a quarterly management report to all Trustees with project management, personnel, and financial data and comments on results achieved and expected, including a rolling cash flow forecast for the ensuing twelve months; and**
- **a monthly financial statement, and a rolling twelve month cash flow forecast to each member of the Audit Committee and to the Board Chairperson.**

Endorsed. ISNAR will provide the reports recommended to all trustees of the Board. Within the limitations of a Finance unit of 2.8 FTE (by far the smallest in the CGIAR family) we will also implement monthly financial statements to be available to the

Audit Committee, including a rolling 12 months cash flow forecast. The ISNAR Board notes that is not a standard CGIAR requirement and is not routinely practiced in other centers, where there is concern that this may involve BoT committees in center micromanagement. The ISNAR Board Audit Committee has, in consultation with the External Auditors, introduced formal 6 months risks assessment on revenues and expenditures.

Recommendation 8.

The Panel recommends that ISNAR:

- **Review (with external consultants) the adequacy and competency of the current Administration and Finance staff and make such changes as necessary to ensure an adequate level of service. Service levels should be defined by the external consultants and incorporated in revised Job Descriptions for the A&F staff;**
- **Engage the services of an expert in cost accounting systems to design and help implement the necessary systems and processes that will enable ISNAR to understand, and monitor changes in its own product cost structure;**
- **Expand the accounting system to include commitments and project implementation scheduling data so that the Administration and Finance department can supply complete, timely, and accurate management information; and**
- **Develop an internal audit capability –possibly using part-time expertise.**

[First bullet] Endorsed. Service levels for administration and finance will be specifically defined by providers and users in the center and reviewed by an external consultant. They will be monitored to ensure that adequate levels are maintained. As part of an external consultancy, an international auditing firm reviewed the adequacy and competency of ISNAR's Finance unit staff in 1999. ISNAR has taken great care to follow the recommendations to ensure the adequacy and competence of its Accounting staff, and reviews it annually with the external accountant. ISNAR will now undertake a review of its administrative staff.

[Second bullet] Not endorsed. As of 1 January 2002, ISNAR's cost accounting structure is fully in line with the CGIAR Financial Guidelines; it is operational, monitored, and fully understood by ISNAR. As one of very few CGIAR centers, ISNAR has reported externally audited indirect cost figures from 2001. It provides the required data for analysis of product cost structures and is currently used as such. A further review is not required at this moment.

[Third bullet] ISNAR endorses this proposal. ISNAR has – in common with several other CGIAR centers – been slow in adopting commitment accounting and linked scheduling procedures. ISNAR notes that the number and amounts of commitments are quite small for this small institute and are easily monitored. Timely and accurate project scheduling data and associated management information rely on close cooperation between the projects and the Finance unit, and we will take steps to strengthen these links.

[Fourth bullet] Endorsed. The Panel has not reported in their Review that ISNAR had an internal audit function for the first half of the EPMR period: a fully qualified, internationally recruited, internal auditor devoting half time to this. Upon his transfer to The World Bank, and with the explicit advice of ISNAR's external auditors, we considered that the relatively small size of ISNAR did not warrant such a part-time function. For the last half of the review period ISNAR has therefore relied on external auditors to do specific internal audits. The Board Audit Committee decided early 2002 to reinstate an internal audit function. Throughout the review period ISNAR has received 100% clean audits from its external auditors, and from all specific audits undertaken by individual donors. During the review period ISNAR has routinely changed its external auditors as per CGIAR guidelines.

ISNAR has at no time during the review period received reports or indications of financial mismanagement, neither through external nor internal auditing, nor auditing performed by individual donors.

Chapter 6 – Options for ISNAR's Future

Recommendation 9:

The Panel recommends that the CGIAR carefully consider the option of:

- **transferring the ISNAR mandate for analytical policy research on innovations systems to IFPRI; and,**
- **transforming ISNAR into a decentralized service-oriented institution with devolution of its remaining functions to the regional and subregional organizations over a five-year period.**

ISNAR notes that the final recommendation on p. xi and p. 68 of the Panel Report is inconsistent with the description of Option 2 on p. 65. Recommendation 9 is substantially different from Option 2 (p. 65). Recommendation 9 (p. xi and p. 68) is therefore not endorsed.

ISNAR endorses the EPMR Panel's Option 2 (as described on p. 65) but with a major modification. ISNAR wishes to reinforce the Panel's recommendation elsewhere in the Report (see its Recommendation 1) for ISNAR to apply a judicious blend of research, training and services in support of innovation systems. To transform ISNAR into a purely service-oriented institution is therefore not congruent with the Panel's other recommendations. To divorce analytical policy research from the rest of the service-research spectrum will not assist ISNAR in the implementation of its new strategy.

This new strategy, now in place and supported by the Panel, involves further decentralization of ISNAR's research, training and service work. ISNAR has already taken steps to decentralize its work and will now consult with a wide stakeholder group as to the optimal placing of its headquarters services in the future. Under its current 2002-2006 strategy ISNAR already plans to have 40% of its capacity located outside headquarters by 2006 – in developing countries and with relevant partners.

Regional and sub-regional organizations are current partners in ISNAR's overall work and ISNAR will significantly strengthen its support to these and to the Global Forum on Agricultural Research in international public goods. ISNAR will aim to strengthen

their capacities. In ISNAR's view the constitutions of most regional and sub-regional organizations, the subsidiarity principles underlying their operations, together with their current limited organizational and funding structures, are not conducive to their absorption of ISNAR functions through simple devolution over the coming five-year period. To do this transfer hastily will deprive the CGIAR system of its key role and ability to support national agricultural research systems in their transformation to innovation systems.

ISNAR will welcome a revisit of Recommendation 9 in a 5th ISNAR External Program and Management Review about five years from now, when the effectiveness of the planned decentralization of ISNAR's activities, central to its current 2002-2006 strategy specifically supported by the Panel, can be assessed against the need to devolve the activities.

Other recommendations

Whilst not included in the Panel's key recommendations, ISNAR also welcomes the Panel's view of its current MTP2 (Linking Research and Stakeholders) as "the heartland of ISNAR, the core of its core" and that "it has the potential to become the model project of ISNAR's concepts for the integration of service and quality research" (4th EPMR Report section 4.2.2.). Equally welcome is the Panel's assessment of ISNAR's current MTP4 (Management of New Technologies) as "a flagship programme of ISNAR that demonstrates a judicious blend of action research, advisory services and training. It has a well regarded reputation that is reflected in the support it receives from donors. The recent impact study identified ISNAR's Biotechnology Service as one of the outstanding examples of contribution by ISNAR to knowledge and awareness building and the policy debate" (4th EPMR Report section 4.4.2.).

Together with the positive assessment of MTP3 (Learning for Institutional Innovation) (4th EPMR Report Section 4.3), ISNAR notes that the 4th EPMR Panel has given high marks to ISNAR activities that constitute two-thirds of its annual human and financial resource investments. Finally, ISNAR agrees with the Panel to review the future of MTP6 (Entrepreneurial partnerships to support agricultural research) which started in January 2002, in early 2003.