

## Improving System Financing Modalities

### Purpose

- a. Building on the System Council May 2017 discussions on improving financing modalities, this document presents two potential decision areas: Modalities for managing revisions to CRPs, flagships and platforms
- b. Allowing Flagship-level earmarking of W2 contributions for Funders that request this

### Action Requested

The System Council is requested to consider, and if appropriate, endorse the respective processes outlined in the document. The following draft decision points are presented to facilitate discussions:

1. *The System Council approves the introduction of the process set out in Part B below to manage within-cycle adjustments to CRPs to enable CGIAR's research agenda to respond when relevant to an evolving environment.*
2. *The System Council decides to introduce the possibility of earmarking of Window 2 funding contributions for individual flagship projects in the event that this modality is the means by which a Funder wishes to make contributions to Window 2.*

### **Document category: Working document of the System Council**

There is no restriction on the circulation of this document

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## Part A - Background

1. The following action was agreed at the November 2016 3<sup>rd</sup> System Council meeting:

*SC/M3/AP1 – Genebanks and broader funding discussion*

*Recognizing the importance of the former Fund Council’s decision at FC14 on funding the Genebanks, **the System Management Office will put in motion a wider funding discussion amongst the System Council members** (which includes the Genebanks decision, builds on the work done on the transition, and does not seek to reinvent the wheel). This work is to be overseen in due course by the System Council’s Strategic Impact, Monitoring and Evaluation Committee(SIMEC).*

2. An initial ‘Scoping Paper’ was developed for the System Council’s 4th meeting in May 2017 (paper reference SC4-03)<sup>1</sup>. Other follow-up elements of that Scoping Paper are carried forward in agenda items in this 5<sup>th</sup> System Council meeting under Agenda Item 6 on an allocation strategy. This paper addresses two other follow-up items to the scoping paper: a) managing CRP revisions, and b) flagship-level earmarking.

## Part B - Managing CRP Revisions

3. An important foundation of a dynamic and impactful research Portfolio is an appropriate balance between predictability and change. A successful multi-year allocation strategy is also contingent upon the ability to modify the portfolio when necessary to reflect major changes in funding preferences, the research context, or performance. This must be balanced against efforts to provide the maximum predictability to enable adequate forward planning.
4. The SC4 Financing Modalities Scoping Paper (p.10, Part D, Paragraph 3)<sup>2</sup> made the following points:

“portfolio-level flexibility and breadth: a concern is expressed by some funders on i) ‘locking up’ the whole potential funding envelope for half a decade without an ongoing role for the System Council to actively manage the portfolio on an ongoing basis; and ii) the breadth of the CRP/platform portfolio relative to the funding available. However, it should be noted that through W3 and bilateral funding individual Funders steer approximately 80% of the portfolio directly.”
5. The proposed Allocation Strategy (see paper SC5-06) identifies a process to make periodic reassessments of the Portfolio based on a 4-year planning cycle. But within each 4-year cycle period, a process for within-cycle adjustments should be clarified to enable the portfolio to respond to urgent needs, take up unforeseen opportunities

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<sup>1</sup> [http://www.cgiar.org/wp-content/uploads/2017/05/SC4-03\\_Funding-Modalities-ScopingPaper\\_Revision-1\\_4May2017.pdf](http://www.cgiar.org/wp-content/uploads/2017/05/SC4-03_Funding-Modalities-ScopingPaper_Revision-1_4May2017.pdf)

<sup>2</sup> From meeting document SMB6-03 (14 April draft version)

(e.g. a new pipeline of funding) or make adjustments to ensure quality results reporting.

6. Informed by the Board’s discussions at their 7<sup>th</sup> meeting, a proposed process is set out as follows, noting the need for clearly-defined criteria for adjustments:
  - a) **Adding a new flagship/or major expansion in scope to a flagship** – i) SMB agrees to receive a new flagship proposal with particular consideration being given to it bringing additional financing into the system, ii) this is given a ‘light review’ by ISPC, iii) SMB circulates to SC for approval alongside a recommended funding decision.
  - b) **Major changes to a CRP/platform without adding a new flagship** - SMB manages this process with the Lead Center, resubmitting to ISPC and then (if given a green light) to System Council for approval.
  - c) **Adding a new CRP/platform** – maintain existing practice / adopt any new practice agreed by the System Council for independent scientific review.
  - d) **Major reduction in scope/dropping a flagship** - SMB takes decision based on recommendation of the Lead Center, releasing funding back to common pool or other flagships in that CRP.

### Part C - Flagship-level earmarking – pros and cons, and how to manage the risks

7. The Financing Modalities Scoping Paper p.37, Appendix 2, Paragraph 2<sup>3</sup> made the following points:

“Funder earmarking capability at system-level: the choice for CGIAR funders could be characterized as a wide divergence between two domains – bilateral, with significant funder and recipient transaction costs, and pooled, for which Funders have options to allocate funding to large “buckets” e.g. CRPs and Platforms. An observation from conversations with various funders is that there is no option in between these two domains, noting that i) the breadth of CRPs does not accommodate the granularity of interests by funders, ii) despite strong efforts to manage perceived quality differences between flagships, there is a still a perception by some funders that some differences remain such that they would like to choose between flagships in targeting funding, and iii) in the face of funding pressures broader W1 or CRP-level pooling of funds may in some cases make it harder to make an attribution link to activities and to create a sense of ‘ownership’.”

8. The Scoping Paper thus floated the idea of allowing flagship level earmarking in W2. Contributors would be able to earmark some or all of their resources, if desired, to specific flagships. This could be in the form of a negative ‘exclusion list’ to accompany

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<sup>3</sup> [http://www.cgiar.org/wp-content/uploads/2017/05/SC4-03\\_Funding-Modalities-ScopingPaper\\_Revision-1\\_4May2017.pdf](http://www.cgiar.org/wp-content/uploads/2017/05/SC4-03_Funding-Modalities-ScopingPaper_Revision-1_4May2017.pdf)

any W2 CRP funder allocations, or positive quantified allocations to specified flagships. This would be implemented not by creating sub-accounts in the Trust Fund, but rather by the System Management Office's accounting measures in releasing funds.

**9. Potential pros:**

- a) Enabling major new funding initiatives to enter the System-funding portfolio as new flagships (see proposed modality above) with potentially earmarked funding at the flagship level.
- b) Maintaining System-level funding: some W2 funders have expressed a strong desire for flagship-level earmarking, and to be able to target funding more precisely within a pooled funding arrangement.
- c) Potentially increasing system-level funding: as set out in the Scoping Paper, ability to target financing in CRPs might attract new and additional funding into the System.
- d) Providing greater information on, and expression of, funder preferences.

**10. Potential cons:**

- a) A risk of disequilibrium: a System Management Office estimate is that about one-half of all flagships (FPs) are highly integrated with the rest of Portfolio, while about 40% are moderately integrated and 10% less integrated. Uncoordinated flagship earmarking might lead to some negative externalities on other related flagships in the same or other CRPs.
- b) Potential additional transaction costs for Funders, with W1 and non-earmarked W2 funding providing less internal programmatic and management time for Funders.
- c) Some flagships are led by partners, not by CGIAR entities – there may be incentive to fund home-country institutes.
- d) Flagship-level earmarking would present additional management challenges for CRP management teams, Centers and the System Management Office in terms of restricting the fungibility of financing and additional financial management requirements.
- e) Earmarking would not necessarily lead to a rebalancing of funding between flagships at the CRP level - earmarked funding (unless the levels are very significant) to a flagship would displace existing unearmarked funding which would be used to finance other CRP activities.

11. **Risk management:** The risks of flagship-level earmarking are considered to be manageable. Key risk management elements might include:
- a) Encouraging funders to only earmark to FPs if there is a strong need, and as an exclusion list to maintain the spread of funding;
  - b) Agreeing this measure as a potentially temporary arrangement;
  - c) Fundraising for additional finance for W1/2;
  - d) Devising a light-touch accounting arrangement led by the System Management Office, using existing flagship-level budgeting procedures; and
  - e) Encouraging greater dialogue (e.g. Funders invited to participate in special session of CRP Advisory Steering Group meetings) between CRP funders and CRP management units to facilitate alignment between CRP funder preferences and distribution of efforts across CRP flagships.
12. In their deliberations at the recent 7<sup>th</sup> meeting, the System Management Board thought it important to highlight an additional risk mitigation strategy of maximizing, to the extent possible, multi-year pledges to address the inherent risk of funding volumes markedly changing each year. The need for transparent communications and better sharing of information among Funders and the System was also emphasized, to avoid an unbalanced portfolio as a result (overfunded in some areas and underfunded in others). Whilst earmarking of W2 funding is therefore not a preference of the Board, the Board acknowledged that it may be a valuable tool for a subset of CGIAR funders.
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