

Note on Efficiency Gains, Predictability of Funding Streams and Cash Flow in the CGIAR

Introduction

Many donor countries currently face fiscal constraints, resulting in public sector cuts, higher unemployment and slow growth in their domestic economies. This has implications for international development spending of governments. In this context many traditional CGIAR donors, despite compelling reasons to increase agriculture spending, are challenged to increase funding to the CGIAR due to increasing domestic pressure on ODA expenditure. Consequently donors are focusing more acutely than ever on aid effectiveness, value for money and development results. In order to compete with other uses of ODA the CGIAR must demonstrate its capacity for efficiency in line with donors' internal drivers where year on year efficiency gains are now the expected norm.

Premise of reform

One of the six principles of the CGIAR Reform agreed at the Annual General Meeting in December 2008 is *Greater Efficiency, Effectiveness and Relevance*. This is consistent with donors' expectation of 'value for money' in the CGIAR. The CGIAR Fund donors, the Consortium and Centers are expected to strive toward common, streamlined arrangements and simplified, cost-effective operations without unnecessary complexity.

At its April 2011 Meeting, one of the conclusions of the Fund Council was 'the driving force of the reform is simplification and efficiency of the System, and that it is incumbent upon all to work towards a decrease in overall costs. It is essential for the Centers to recognize and pursue this objective as well'. Several Fund Council Members while highlighting the importance of efficiency gains in the reformed CGIAR have expressed a strong desire to discuss the topic at the Fund Council Meeting in July.

This note has been prepared as a background to kick-off Fund Council discussion on efficiency gains across the whole CGIAR including CRPs and Centers. Evidence of plans in place to achieve and demonstrate greater cost efficiency by all CGIAR cost centers will play an essential part in mobilizing new resources and maintaining and increasing contributions of existing donors to reach the desired goal of \$1 billion per annum by 2013.

Steps taken so far

Fundamental to achieving efficiency gains in the system is through improved working practices and by "doing more with less" (to quote one major donor's favored motto). CRPs, Centers, Consortium Board/Consortium Office, Fund Council/Fund Office, ISPC, Trustee, GCARD, and Independent Evaluation Arrangement (currently being designed) need to focus both on process and output innovation for achieving efficiency gains in the CGIAR. To increase transparency, accountability, and efficiency gains some steps have already been taken as follows:

- The Fund Council at its Meeting in November 2010 requested greater scrutiny and alignment of System Costs, starting with annual budgets of Fund Office, Consortium Office and ISPC
 - ▶ It was proposed that a collective peer-review process be used. It was also decided that the next annual budget proposals of the Consortium Office, Fund Office and ISPC would be presented together at the November 2011 Meeting of Fund Council
 - ▶ The Consortium CEO, Fund Council Executive Secretary, and ISPC Executive Director have agreed on form of a collective peer review process for the budgets of their offices which will be put to the Fund Council in July.

- In order to provide the Consortium Board and the Fund Council Members better insights, a one-page Financial Summary will be included in each of the CRP Proposals. The CRP expenditure budgets have now been categorized into two major components: (a) Program Cost and (b) Admin Cost¹ with clear definitions. The Program Cost has several line items including Personnel costs, Supplies and Services, Operational Travel, Collaborators/Partnership Costs, and Capital. Such categorization of CRP expenditure budgets will increase transparency in the budget presentation and help to focus on achieving efficiency gains in the CRPs and the Centers. (Such categorization is commonly used by major donors control and reduce administrative budgets year on year).

- One Corporate System (OCS) is a multi-center, project management, financial accounting and HR system, supported by the Consortium Office. It is currently under development and is expected to improve reporting capabilities across centers and at system level. Efficiency gains are expected as a result of the OCS implementation based on clear baselines and metrics for measurement and reporting.

Examples used by some donors

- Transparency and comparability of cost items across cost centers enable norms, standards and targets to be set whereby efficiency may be tracked and outliers identified (best and worst).
- Simple measurable indicators for each cost centre with “traffic light” reporting can be set up to encourage movement into the “green zone” and quickly identify inefficiencies (red lights).
- Incentives for cost saving can be strengthened by awarding prizes for the best new practices that save money, or allowing cost-centers to retain a proportion of cost savings achieved for program investment.
- Given the disproportionately very high cost of processing large numbers of small projects (compared to small numbers of large projects), some donors set minimum limits on project size to optimize administrative efficiencies.

- Standardized salary structure and compensation package in organizations help some donors to achieve efficiency gains.

Funding predictability and cash flow

In the past CGIAR Centers have managed unpredictable funding streams, particularly of core funding, through internal mechanisms and using the buffering capability of their reserves. This enabled them to embark on work programs without knowing exactly when money would arrive. The CGIAR Fund has no reserve capacity at start-up and therefore cannot disburse beyond what exists in the Fund at a given time. This could lead to delayed disbursements to CRPs, which in turn would create operational inefficiencies in the system. Some Global Funds overcome this problem by encouraging all contributions over a limited 2-3 month period each year. This both helps workflow programming and gives certainty of the total annual budget available – would this be feasible for donors to the CGIAR Fund?

Another cause of inefficiency is the difficulty to predict funding streams over the medium term (3-5 years) and plan investments, develop new programs, and set priorities accordingly. The notion of multi-year funding as a primary requisite of high quality agricultural research featured highly during the change management process, however donors now seem reluctant or unable to make multi-year pledges. What would it take for donors to provide long term (non binding) assurances of future funding streams?

Discussion Points

The Fund Council may wish to discuss the following points for increasing efficiency gains in the CGIAR:

- How to identify potential areas of efficiency gains in the whole-of-CGIAR?
- How to demonstrate that the CGIAR is competitive compared to other research providers?
- What steps are needed to have incentive based efficiency gains for CRPs and Centers?
- How to develop clear and measurable indicators and appropriate benchmarking for efficiency gains in the Centers?
- How to ensure long-term sustainability of continued efficiency gains?

ⁱ Admin budget includes CRP management costs and implementing Centers' indirect costs. Indirect costs are operating costs incurred for the purpose of managing, overseeing and supporting a Center's overall research activities, and cannot be directly identified with a specific project or research activity, e.g. cost of Center (not research) management, and the cost of Boards of Trustees.