

**TAC 67**

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**CGIAR RESOURCE ALLOCATION -  
PROPOSED BUDGET PROCESSES**

Briefing Note on 1997 and Beyond Allocation and Financing Process

Issues and Options

(Agenda Item 8)

***For discussion***

*The attached note was prepared by the CGIAR Secretariat for a meeting of the CGIAR's Finance Committee, and contains a proposal for a three-year budget and resource allocation timeframe starting 1998 to replace the current five-year cycle.*

*TAC members are invited to provide comments on the attached proposal.*

**TAC SECRETARIAT**

June 1995



## SEVENTH MEETING OF THE CGIAR FINANCE COMMITTEE

*MTM95 (Sunday May 21 and Thursday May 25, 1995)*

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PRELIMINARY DRAFT - FOR DISCUSSION ONLY

### CGIAR RESOURCE ALLOCATION - PROPOSED BUDGET PROCESSES

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#### Introduction

The mid-point of the present CGIAR Medium Term Plan (MTP) is 1996. A "new" and revitalized CGIAR takes effect in 1996. These factors, combined with other changes in the CGIAR in 1994 and 1995, make it timely to consider an alternative process for the next round of program planning and financial resource allocations.

CGIAR changes derive from a need for efficiency and continuation of excellence in an environment where financial resources become more constrained. This led to a new spirit of openness and collaboration which culminated in the Ministerial-level meeting in Lucerne. There is a need for improved partnership with National Agriculture Research Systems (NARS) and other institutions. It is evident too that the CGIAR should increase its flexibility and ability to focus on environmental and resource management perspectives.

Specific changes which have occurred in the CGIAR since the Group considered the 1994-98 MTPs include the incentive program to increase the focus on a system research agenda (the "core program"), the emergence of systemwide and ecoregional programs to complement Center-specific initiatives, and the development of a research agenda described programmatically and financially as a matrix. Also, since the preparation of the last round of MTPs, there have been seven leadership changes at CGIAR Centers, a new co-sponsor, several new members of the CGIAR, and new TAC and CGIAR leadership.

This note briefly reviews the resource allocation experience of the CGIAR over the past decade and, specifically, draws on the lessons learned during two MTP periods. The process required considerable annual effort by Centers, TAC, and the Group, to develop and analyze budget documentation and to ensure consistency in program assessment, while fostering flexibility and responsiveness. This note proposes a *three-year budget timetable as an alternative to the present 5-year horizon*. If adopted, the new resource allocation process could take effect from 1997 or 1998 at the latest. Revised budget guidelines would be required, leading to multi-year Center proposals.

It is assumed that *Centers will continue to implement the CGIAR research agenda*, and that collaboration with partners is an operating consideration, not itself dictating a

need for fundamental change in CGIAR resource allocation practices. Also, should some donors desire to allocate resources for specific programs (i.e. a single or several cells in the matrix), this would be possible, either on an annual or a multi-annual basis. As noted above, Centers would continue to implement these programs, individually or in partnership.

## **CGIAR Resource Allocation Experience**

This section summarizes two attempts at allocating resources in the CGIAR, each planned over 5-year periods, and each based on system program priorities.

### ***1987-1994 Medium Term Plan***

An allocation process was developed whereby Centers prepared five-year budgets and funding requirements. Center planning, TAC analysis, and Group approval took place between 1987 and 1989, and all 13 Centers presented their budgets during this period, approximately in equal numbers for each of the three years. The last 5-year period would have been 1990-1994 (for 5 Centers), had the MTP run its full course. Thus, there were relatively few years when all Centers' programs would proceed according to their MTP.

After MTPs were approved, the system attempted to satisfy plans which were essentially approved in the absence of resource constraints (also, in each year during the MTP Centers could request additional resources). By 1990, the CGIAR was faced with a mismatch between approved plans and funding. Funding was constrained, but the main problem may have been inflated expectations for almost automatic growth, perhaps reflecting the experience of earlier times. The MTPs themselves were rather inflexible, and they became almost irrelevant as reference points, once funding became insufficient to satisfy aggregate demand.

#### Other Problems Encountered During this Period

- the lack of explicit quantitative linkage between CG priorities and Center allocations;
- the lengthy process of preparation and assessment of plans;
- the lack of a procedure whereby assumptions about the research environment could be tested, validated, and if necessary changed;
- the CGIAR treatment of all Centers' demands as equally worthy, since the balancing mechanism was still fully operative - or at least tried to be;
- the resulting across-the-board funding cuts from Centers' prior funding levels, not from the approved MTP requirement.

#### Positive Features of the First MTP

The plans developed during the first period represented the best estimates of what could be achieved scientifically, should funding be available. TAC's analysis of the plans considered whether or not the proposals were realistic, given the problems to be solved

and the manpower and physical resources requested. Therefore, Centers' potential contribution to agricultural research was well described.

### ***1994-1998 Medium Term Plan***

In light of the weaknesses in the first MTP, the CGIAR determined about half way through the MTP that a new set of plans was needed. This time it would be desirable:

1. to link quantitatively Medium Term Plans to *CGIAR priorities and strategies*;
2. to build a *resource supply constraint* - a boundary - into the preparation of plans; and,
3. to consolidate the planning horizon - all Centers would be on the same schedule.

This planning would take into account emerging consensus that international agricultural research should add focus to natural resource management, additional to traditional CGIAR productivity focus. It would incorporate CGIAR expansion, and the resulting inclusion of forestry, aquatic resources, and water management programs.

### The Process

A Review Panel chaired by Dr. J. McWilliam proposed a new resource allocation process (*Review of the Resource Allocation Process*, ICW/90/33, Sept. 17, 1990). A quantitative allocation model was developed employing data from the *Review of CGIAR Priorities and Strategies* (TAC, 1992). Relative funding shares were applied to indicative resources for Centers (estimated core funding in 1992). Based on this, Centers developed proposals at 90%, 100%, and 110% of assigned base funding. Intensive preparation culminated in the presentation of the TAC report in October 1993, with Center funding recommendations developed for the period 1994-1998 (*Review and Approval of Center Medium-Term Plans 1994-98*, AGR/TAC: IAR/93/11, Sept. 6, 1993).

### Developments, 1993 - 1995

The funding constraints which had become evident earlier in the decade continued and even appeared to accelerate through 1994, though not necessarily evenly throughout the system. But in fact, and somewhat paradoxically, a specific complaint of Center Directors even once the MTP was underway - in the face of apparent continued financing problems - was that their "envelopes" were too constrained.

Perhaps illustrating the above apparent contradiction, as core funding appeared to decrease, complementary funding increased, indicating that it was quite possible that *Centers could be successful in fundraising*, even in what was considered to be a retrenching financial environment. The application of "ceilings" on growth in fact increasingly forced some Centers to not appear to satisfy their budget requirements with such restricted funds. When incentives changed, a significant proportion of previously designated complementary funding turned out, in fact, to be core support.

Another development was a decrease in ODA generally (10% in nominal values for 1993), and *changes in development assistance community priorities*. In spite of an agreed

relative allocation of resources in 1993, the actual allocation of support has started to shift in some instances, with certain Centers' shares increasing or decreasing from the planned levels. This implies either that the "marketplace" (development assistance community) values things differently than first agreed, or that the research environment and consequent priorities change faster than originally foreseen, and the market reacts efficiently to this change. If the latter applies, it means that CGIAR resource allocation needs to be more flexible, and should not be based on quite rigid five-year envelopes.

Over the last decade, the actual *mechanics of budget preparation* have remained fairly constant. There are standard tabular formats, common definitions, and agreed budgetary practices. The preparation of enhanced budget and accounting manuals - with the inputs of Center staff - have assisted the budget process. But, in spite of a fairly stable procedure for annual budgeting there is always some fine tuning required. This may involve definitional changes (the activity structure, the move to a system matrix, etc.), or it may involve adjustment to reduced funding ("downsizing" has been a response to changing costs and constrained funding, at most Centers.

### **CGIAR Resource Allocation - Desirable Characteristics**

The desirable characteristics of a resource allocation process in the CGIAR can be articulated taking the experiences to date into consideration, and accepting that the problems described above are not all due to inherent weaknesses in the planning concept. Mindful of the new challenges emerging from the reforms underway in the CGIAR, the following are some characteristics of a revised resource allocation mechanism:

- annual workload (budget preparation) would be reduced for Centers, and analysis and review would be more focused for TAC and the Group;
- there would be congruence between system priorities, which need to be examined and articulated routinely, and center/system programs;
- funding allocations would respond to priority shifts on a timely basis, but there would be appropriate predictability in financing plans, and a realistic CGIAR budget horizon;
- operational plans would need to be broad enough to respond to changes in the research environment, yet would be internally consistent at various levels of financial support;
- there would be limited strategic justification, and no tactical reasons, to maintain a significant program outside of the research agenda (i.e. complementary program);
- Decentralized donor funding decisions and actions - a traditional CGIAR strength - would remain a cornerstone of the system.

As the system evolves, a "middle budget road" is needed, whereby the benefits of longer-term planning are combined with the positive realism of shorter-term allocations. And, a revised process must pass the tests described above. It appears the models employed in the recent past do not. Accordingly, an alternative is required.

## Multi-Year Budgeting - A Compromise

To satisfy the above criteria, resource allocation could be envisaged as follows:

### Time Frame

As experience of the past ten years suggests that five years is too long a "budget period" for resource allocation, and that one year is too short, a 3-year horizon for planning and resource allocation is proposed. There would be a staggered timetable whereby a smaller number of detailed Center proposals (5-6 per year) are examined each year by TAC and the Group. This would mean that, as in the 1987-94 planning period, the benefits of a consolidated program would need to be realized on an annual basis.

### System Priorities

CGIAR Priorities and Strategies must continue to provide the guidelines needed to assess the overall mix, magnitude, and direction of CGIAR programs, be they Center-specific or systemwide/ecoregional. Notwithstanding the increasingly outward-looking orientation of the system, CGIAR Centers would implement the research agenda, and resources should flow to Centers for this purpose.

### More Flexible Allocations

As it appears to be counterproductive to place strict boundaries on the scope of proposals which Centers prepare, the "envelope" approach would not be the basic tool used by the system to allocate resources. What may be more helpful would be to encourage Centers to propose programs achievable at different levels of resources. Analysis of different proposals could involve assessing whether they:

- are *achievable*, given the annual operating resources requested;
- can be achieved with existing *infrastructure/physical plant* at a Center;
- can be achieved with the *human resources* available to the Center;
- represent a *reasonable share* of the investment of the CGIAR in terms of priority;
- involve partnerships such that the *CGIAR investments are "multiplied"*;

However, because individual Centers' program approval would be less frequent, a mechanism to encompass flexibility in annual Center funding has to be envisaged, in order to make the adjustments implied by changes in the external environment or in Center circumstances.

### More Focused Research Agenda

To operate a mechanism of less-constrained programming, over shorter periods of time, requires both a sense of likely resource availability, and an approved program which is expansive enough to utilize funding in excess of predicted volume, should it be available. Two conditions should be applied, however:

1. Centers would not normally undertake activity outside the research agenda - i.e. complementary projects or sub-contracts on behalf of a donor (for example), or work which is essentially technical assistance.
2. TAC would approve the Centers' proposals - at whatever level - to ensure adherence to the criteria noted above. In other words, a Center would not normally undertake new or unforeseen activity, until and unless its validity has been endorsed for the Group as a whole. The research agenda would include all ecoregional and systemwide activities, which should be approved as part of Center budgets.

### Interaction with NARS

Interaction with NARS is needed at several levels, to ensure partnership in research planning and priority-setting. The first intervention should be at the *system level*, implying the need to establish global and regional fora as has been suggested recently. The second intervention is at the Center level - involving NARS leaders specifically in research planning. For this reason, the establishment of a *NARS Consultation*, involving leaders of National Programs, TAC, and the Centers, may need to be institutionalized on an annual basis. This would be in addition to on-going collaboration between scientists in CGIAR Centers and in the NARS - the third level of intervention. Neither the first or second types of intervention would replace or interfere with day to day collaboration at the scientist level.

It would be necessary to design the planning process to take into account the lead time necessary for formal interaction. The logical timing for NARS consultation may be either late in the preceding year, or early in the "presentation year". The schedule should allow the results of the interaction to be integrated in proposals, before the Center Boards of Trustees approve the plans, and thus before they are presented to TAC and ultimately to the Group.

### Board of Trustees' Approval

The Board of Trustees must continue to approve Centers' programs, on an annual basis and over the longer term, before they are presented to TAC and the CGIAR. The resource allocation process timetable has in fact changed: for 1996, Center proposals were submitted in February 1995, in time for consideration by TAC in March, and approval by the Group at the mid-term meeting. This basic schedule would be maintained in the future, allowing the Group to develop their financing strategies in advance of the CGIAR meeting in October, after which a **financing plan** is confirmed.

This timetable implies that the Board of Trustees meetings will probably have to be advanced to February, from the current general practice April BOT meetings. An alternative could be to hold the Board meeting in the previous October/November, however, this would not allow the NARS inputs to be given due consideration.

### ***Specific Proposal***

The proposal is that the CGIAR consider adopting a 3-year **budget and resource allocation** time frame. A chart is attached outlining a possible basic timetable.

One-third of the Centers would present three-year programs in any given year, and TAC and the Group would review these proposals in depth, meaning that only 5-6 "full-blown" proposals are reviewed annually, with "mid-term corrections" possible in the case of the remaining Centers. The first group would present in year x (for years x+1 to x+3), the second in year x+1, and the third in year x+2. The first group eventually would prepare its next budget for approval in year x+3 (for years x+4 to x+6).

The mechanism of multi-year budgets should be designed to take whatever real advantage there is to a longer time frame for resource planning (demand focus), while also adjusting for and taking advantage of actual resource availability (supply focus). This may seem contradictory or at least ambitious, but it actually implies a compromise.

Annual workload for Centers would be significantly decreased, and the depth and thoroughness of program analysis by TAC and the Group, per proposal, would be greatly expanded (by about 2.5 times, approximately). One trade-off is, however, that there will be a loss of "system consolidation", as was the case in the first MTP period.

Completeness of program proposals generated by the Centers will be improved: more inputs and technical information should be available to include in the actual proposal, including more meaningful research "state-of-the-art" updates in their scientific and program areas.

For *program financing*, the 3-year period may coincide nicely with a fundraising cycle and project development horizon.

### Procedural Considerations

There are several procedural issues which need to be considered. First, how can the CGIAR accommodate the Centers which would not be the first to develop and have approved new budgets in the first periods? Second, what degree of flexibility and annual change should be accommodated once programs are developed, and how would this be done? Third, what should be the role and significance of balancing funding? That is, should the system attempt to force compliance with plans, or should plans be indicative?

The existing basic machinery of annual funding estimates, advisories, and overall planning would have to be maintained. The MTP would be replaced by a *three year plan*, but annual estimates and allocations remain. Thus, though there may be some discontinuity in the first round of plans, the existing programs of Centers would remain as basic reference points until all Centers have prepared new multi-year budgets.

If donors are able to approve multi-year financing, the certainty of annual flows will be enhanced. However, ultimately Centers will continue to base their operations on 12-month periods, with the usual reporting and internal procedures in place as at present. What will change is that formal program approvals would be less frequent. Changes in Centers' relative shares of CGIAR resources during "non-presentation" years can be considered by TAC and the Group on an ad hoc or exceptional basis, to correspond to the criteria described earlier (changes in priority, in Center circumstances, etc.). However, annual submissions would not be required, nor expected except as circumstances clearly dictate.

Balancing funding and a mechanism to force compliance with plans is clearly an issue which requires careful consideration, for it in some ways contradicts the flexibility criterion of the new system. Yet, programming may not be best left entirely at the "mercy" of resource supply, since as is well known circumstances beyond the control of individual Centers and donors can sometimes result in abrupt funding gaps, which may not reflect intentions or program plans. Thus, some method of ensuring minimal compliance with the approved CGIAR research agenda may be required, assuming this can be achieved without unintended negative consequences elsewhere.

**Possible Schema for Resource Allocation Process Based on 3-year Rolling Budgets**

|                    | 1995  | 1996   | 1997  | 1998   | 1999   | 2000   | 2001   |
|--------------------|---|--|---|--|--|--|--|
| January (TAC)      |   | NARS Consultation<br>CGIAR Secretariat issues<br>1996 funding advisory.  | NARS Consultation<br>CGIAR Secretariat issues<br>1997 funding advisory.   | NARS Consultation<br>CGIAR Secretariat issues<br>1998 funding advisory.                  | NARS Consultation<br>CGIAR Secretariat issues<br>1999 funding advisory.                  | NARS Consultation<br>CGIAR Secretariat issues<br>2000 funding advisory.                  | NARS Consultation<br>CGIAR Secretariat issues<br>2001 funding advisory.                  |
| February           |   | Group 1 Centers prepare 3 yr<br>Program & Budget Proposal  | Group 2 Centers prepare 3 yr<br>Program & Budget Proposal   | Group 3 Centers prepare 3 yr<br>Program & Budget Proposal                                | Group 1 Centers prepare 3 yr<br>Program & Budget Proposal                                | Group 2 Centers prepare 3 yr<br>Program & Budget Proposal                                | Group 3 Centers prepare 3 yr<br>Program & Budget Proposal                                |
| March              | NARS Consultation<br><br>TAC reviews 1996 budgets                           | <u>Group 1</u><br><br>Boards approve Centers'<br>1997-1999 Program<br>& Budget Proposal.   | <u>Group 2</u><br><br>Boards approve Centers'<br>1998-2000 Program<br>& Budget Proposal.                                    | <u>Group 3</u><br><br>Boards approve Centers'<br>1999-2001 Program<br>& Budget Proposal. | <u>Group 1</u><br><br>Boards approve Centers'<br>2000-2002 Program<br>& Budget Proposal. | <u>Group 2</u><br><br>Boards approve Centers'<br>2001-2003 Program<br>& Budget Proposal. | <u>Group 3</u><br><br>Boards approve Centers'<br>2002-2004 Program<br>& Budget Proposal. |
| April (TAC)        |   | TAC reviews Gp 1 budgets<br>(for 1997-1999 inclusive)  | TAC reviews Gp 2 budgets<br>(for 1998-2000 inclusive)   | TAC reviews Gp 3 budgets<br>(for 1999-2001 inclusive)                                    | TAC reviews Gp 1 budgets<br>(for 2000-2002 inclusive)                                    | TAC reviews Gp 2 budgets<br>(for 2001-2003 inclusive)                                    | TAC reviews Gp 3 budgets<br>(for 2002-2004 inclusive)                                    |
| May (MTM)          | 1996 Budgets approved.<br>Group agrees to new<br>budget cycle (starts 1997) | Group 1 presentations to<br>CGIAR (multi-yr approval)  | Group 2 presentations to<br>CGIAR (multi-yr approval)   | Group 3 presentations to<br>CGIAR (multi-yr approval)                                    | Group 1 presentations to<br>CGIAR (multi-yr approval)                                    | Group 2 presentations to<br>CGIAR (multi-yr approval)                                    | Group 3 presentations to<br>CGIAR (multi-yr approval)                                    |
| June               |   |  |   |  |  |  |  |
| July               |   |  |   |  |  |  |  |
| August             |   |  |   |  |  |  |  |
| September          |   |  |   |  |  |  |  |
| October (TAC; ICW) | 1996 Financing Plan<br>approved by Group.                                   | 1997-99 Financing Plan<br>approved by CGIAR;<br>includes interim funding<br>guideline (i.e. 1997-98)<br>for Group 2 & 3 Centers. | 1998-2000 Financing Plan<br>approved by CGIAR;<br>includes interim funding<br>guideline for Group 3<br>Centers (i.e. 1998). | 1999-2001 Financing Plan<br>approved by CGIAR.   | 2000-2002 Financing Plan<br>approved by CGIAR.   | 2001-2002 Financing Plan<br>approved by CGIAR.   | 2002-2004 Financing Plan<br>approved by CGIAR.   |
| November           | CGIAR Secretariat issues<br>1996 funding estimate.                          | CGIAR Secretariat issues<br>1997 funding estimate.   | CGIAR Secretariat issues<br>1998 funding estimate.  | CGIAR Secretariat issues<br>1999 funding estimate.                                       | CGIAR Secretariat issues<br>2000 funding estimate.                                       | CGIAR Secretariat issues<br>2001 funding estimate.                                       | CGIAR Secretariat issues<br>2002 funding estimate.                                       |
| December           |   |  |   |  |  |  |  |