

**CGIAR FINANCIAL INTERMEDIARY FUND**

**INFORMATION NOTE**

**APRIL 12, 2017**

**Development Finance Vice-Presidency  
and GGS Vice-Presidency**

## ESTABLISHMENT OF A NEW FINANCIAL INTERMEDIARY FUND FOR CGIAR INFORMATION NOTE

### I. Introduction

1. **This note provides information to Executive Directors on the establishment of a Financial Intermediary Fund (FIF) trust fund at the Bank, to support the CGIAR<sup>1</sup>,** replacing the existing CGIAR FIF trust fund. The new trust fund is required in light of the launch of the CGIAR System Organization (SO) in July 2016 and the revision of the underlying CGIAR legal framework. Section II of this note provides background on CGIAR, Section III presents a description of the new CGIAR FIF structure and rationale for establishment of a new FIF trust fund at the Bank; Section IV outlines the cost recovery arrangements; Section V describes the Bank's role as contributor to the CGIAR FIF; and risks and mitigation actions are discussed in Section VI.

### II. Background

2. **CGIAR is the world's leading global research partnership for a food-secure future,** with a network of 15 international Research Centers working on global research programs related to agriculture, forestry, fisheries, livestock and climate change. In close collaboration with hundreds of partners, including national and regional research institutes, civil society organizations, academia, development organizations and the private sector, CGIAR's 15 Research Centers implement collaborative large-scale CGIAR Research Programs (CRPs) conducted in more than 60 countries with the support of over 10,000 world-class scientists and other staff. CGIAR innovation has had unparalleled impact on poverty and food security. Every dollar invested has returned at least \$17 in benefits. Globally, improved crop varieties have been adopted on 65 percent of total area planted with the world's ten most important food crops—and 60 percent of that area is planted with varieties with CGIAR ancestry.

3. **The Bank was one of the founders of CGIAR in 1971 and its continuing engagement in partnership with the other donors remains important** to enable CGIAR to improve the sustainability of the global food system, achieve improved nutritional outcomes, and address climate change. At the operational level, CGIAR research already influences \$4 billion of agriculture-related WBG commitments. CGIAR innovations are continuing to influence agriculture-related lending of the WBG.

4. **In April 2015, the CGIAR Fund Council agreed to update the CGIAR's governance structure to better reflect the needs of the partnership as it has evolved.** The donors (Funders) and Centers agreed to move toward a new System Council and System Management Board in June 2016, both supported by a single management office constituted as a part of the new CGIAR System Organization in Montpellier, France (i.e., System Management Office). The new CGIAR System Organization—an international organization with the System Management Board and System Management Office as its organs and the 15 Centers as its initial members—is operating under new governance arrangements, including a new set of legal agreements. As a consequence of these changes, a new CGIAR FIF has been established to replace the existing CGIAR FIF that has been in operation since 2010.

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<sup>1</sup> Formerly known as the Consultative Group for International Agricultural Research

### III. Rationale for the new FIF and Description of the new CGIAR FIF structure

5. **Rationale for creating a new FIF:** The existing CGIAR FIF was set up in 2010 and operates under the former CGIAR System governance structure. All legal agreements, including the CGIAR Fund Governance Framework reflect this structure. Management of the funds in the existing CGIAR FIF, flow of funds, allocation authority, reporting, accounting and auditing are all governed by this set of legal agreements (Annex flowchart 1). Based on analysis of the current arrangements and the new set of agreements (Annex flowchart 2), the Bank concluded that the most efficient, effective and transparent solution to reflect the new set of agreements is to create a new FIF rather than restructure the existing fund. The new FIF will manage funds and support the CGIAR Partnership on the basis of the new CGIAR System governance structure and a new set of legal agreements. A new FIF will give the Bank the contractual ability to continue to provide high quality trustee services to the CGIAR System, as well as an opportunity to streamline and simplify some of the Bank's operational processes related to CGIAR FIF management. The details of the legal structure of the new FIF are provided in the Annex.

6. **Donors/potential donors to the FIF:** As in the past, Funders will provide contributions to the CGIAR System through two channels: (1) contributions to the CGIAR FIF (administered by the Bank); and (2) through direct, bilateral contributions (without any Bank involvement) to one or more of the 15 CGIAR Centers. The System Management Office is responsible for resource mobilization efforts including reaching out to potential new funders. The Bank is also a funder and contributed US\$30 million in FY17. Currently, CGIAR receives around 50 percent of total funding through the CGIAR FIF, and 39 donors provide over 80 percent of CGIAR's total funding.

7. **Recipients eligible for FIF support:** Eligibility to receive funding directly from the CGIAR FIF is restricted to the independent research organizations that are recognized as CGIAR Research Centers (Centers) or other entities assigned by the System Organization, with approval of the System Council, to coordinate the implementation of activities for CGIAR Research programs or platforms ("Lead Centers"). The CGIAR FIF may transfer funds to these Centers or entities to support CGIAR research carried out by the Centers and CGIAR System partners. The CGIAR Centers contribute knowledge, technical expertise, and resources in support of the CGIAR Strategy and Results Framework. As of today, 15 research organizations are recognized as CGIAR Research Centers. The CGIAR FIF will also transfer funds to the System Management Office, entities hosting advisory bodies or other functions for the CGIAR, including the Food and Agriculture Organization as the host of the Independent Evaluation Arrangement and the Independent Science and Partnership Council, and the World Bank as Chair of the System Council and as Trustee, to pay for costs related to services provided to the CGIAR.

8. **Timeline for the establishment of the new FIF and closing down the FIF currently in place:** The new FIF has been put in place and is ready to receive donor contributions. In order to avoid undue disruptions to the CGIAR Research Programs (CRPs) portfolio and the payment of CGIAR system-wide costs already approved by the Fund Council for 2016, the existing CGIAR FIF will be maintained through FY2017. The System Council and the System Management Office, respectively, have assumed the functions of the Fund Council and the Fund Office for the purposes of FIF governance. The existing CGIAR FIF is expected to close in June 2017, when the transfer to CGIAR of all FIF funds approved by the Fund Council for the current CRPs and system-wide costs has been completed.

#### IV. Cost recovery arrangements

9. **As Trustee for the CGIAR FIF, the Bank will continue to operate on a full cost recovery basis** in accordance with FIF cost recovery arrangements. The System Council will review and approve the Trustee’s annual budget based on the work program submitted by the Trustee, and subject to an end of year adjustment. Trustee services entail legal services, investment management services, managing donor receipts, transferring funds upon instruction from the System Management Office, maintenance of accounts and records associated with the new CGIAR Trust Fund, and provision of financial information and reports as needed.

#### V. The Bank’s Role as Contributor to the CGIAR FIF

10. **The Bank is committed to maintain strong support for CGIAR.** Following discussion at the World Bank Board of Executive Directors’ Budget Committee meeting in June 2015, Bank management continues to seek ways to sustain funding for CGIAR through budget support and alternative financing mechanisms. In this context, progress has been made towards identifying alternative sources of financing and setting up innovative financing arrangements. Management will inform the Board on the details and results in the coming months.

11. **In its role as contributor to the CGIAR FIF, the Bank will follow an internal process to ensure that funds are used for the intended purposes.** As is the case with other FIFs, the Bank as trustee does not have fiduciary oversight over the use of its contribution to the CGIAR FIF. The CGIAR will use CGIAR FIF funds in accordance with its policies and procedure. However, the Bank as contributor has put in place a due diligence and documentation process to address operational risk considerations regarding the disbursement procedures for IBRD’s contribution to CGIAR, discussed further in Section VI.

#### VI. Potential Risks to the Bank and to the CGIAR partnership, and Mitigation Measures

12. **The overall risk to the Bank of the establishment of the new CGIAR FIF has been rated low.** Given that the new CGIAR FIF has been established only to replace the existing CGIAR FIF, and there are no significant changes in the way the new FIF will be operated, the creation of the new FIF does not expose the Bank to new risks.

13. However, there are some inherent risks to the CGIAR partnership as a whole, in which the Bank plays important roles. They are presented below, along with mitigating measures:

- ***Risk #1: Perception of conflict of interest from multiple roles—System Council voting member as Funder, Chair of the System Council and ex-officio non-voting member, and Trustee—which may create a perception of conflict of interest.*** The Bank as Chair of the System Council and the Bank as System Council voting member, when discharging their roles and responsibilities, are not required to take decisions or actions that conflict with the governing instruments and official rules of the World Bank. The Trustee will take instructions from the System Management Office and not the Chair or the System Council directly. In addition, different roles are handled internally by different departments with separate management chains.

- ***Risk #2: Reduced funding support for CGIAR from the Bank.*** With budget allocations for grant-making facilities being phased out over the coming years – as agreed with the Board<sup>2</sup>, a decrease in the Bank financial support to the CGIAR poses a risk to the partnership. The Bank is seeking to establish alternative financing mechanisms to help ensure that any reduction in the Bank’s direct contribution is compensated by funding through innovative finance<sup>3</sup>.
- ***Risk #3: Final confirmation of the detailed fiduciary and operational responsibilities assigned to different parties to ensure the proper use of CGIAR FIF funds, including the Bank’s own contribution, is still pending.*** The draft agreements among the relevant parties have been negotiated and submitted to the System Council for approval. They received “no objection” from the System Council and are therefore approved and ready to be executed. The Bank was closely involved in the development and negotiation of those agreements. The Bank has also put in place a due diligence and documentation process to address operational risk considerations regarding the disbursement procedures for IBRD’s contribution to CGIAR. As part of that process, the Bank will obtain a Letter of Representation on adequate internal control systems annually from CGIAR Centers and the SO, will review CGIAR’s aggregated annual financial report, and several VPUs will be involved in the approval of the release of payment of the Bank’s contribution to the CGIAR FIF.

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<sup>2</sup> As described in the [FY15 World Bank Budget](#), page 33

<sup>3</sup> As described in the [FY17 World Bank Budget](#), page 14

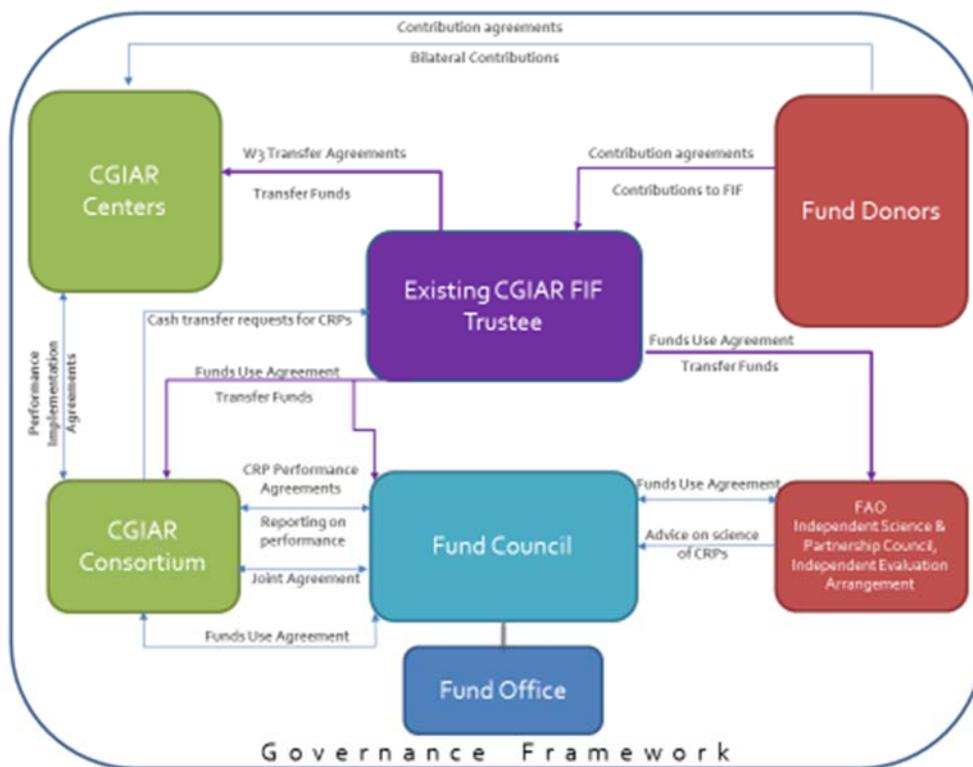
## Annex: Details of the Legal Structure of the CGIAR FIF

**Streamlined legal framework for the new CGIAR FIF.** Under the new CGIAR structure, the number of the agreements relevant for the governance of the CGIAR FIF has decreased, and the relationships between parties has become clearer and more streamlined (see flowchart 1 and 2). Specifically, the following agreements are proposed to govern the operation of the new CGIAR FIF:

- Contribution Agreements between the Funders and the Trustee,
- Trustee Agreement between the Trustee and the System Organization (SO),
- Funding Agreement between the System Organization and the Funders,
- Financial Framework Agreement between the System Organization and the Centers,
- Agreement between the System Organization and the World Bank to provide budget for the Bank support to the System Council Chair.

It is also expected that the risk exposure to the Bank in relation to the new FIF arrangements will remain low.

**Flowchart 1 – Existing CGIAR FIF, under former governance structure**



**Flowchart 2 – New CGIAR FIF, under new governance structure**

