

ISC Meeting #7 (Virtual)

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**Financial Update for FTA 2017, recommended repartition of final 2017 W1+2 allocations
and funding prospects for 2018**

Executive Summary and decision box

In 2017, a contingency planning mechanism to address recurrent uncertainties in CGIAR W1+2 funding was introduced by the FTA/D, at the request of the ISC, following the approval of the 2017 internal allocations of W1+2 by the ISC and the BoT of CIFOR. This mechanism has served as guide for the W1+2 installments to FTA partners in 2017, so far.

Latest estimates to date suggest that an overall shortfall of W1+2 funds in the CGIAR is likely to result in a final allocation to FTA inferior to the original indicative allocation of USD 8.8m. The purpose of the present note is to draw the implications of these funding prospects, and, based on the contingency planning rolled out so far, to propose a repartition of the final allocations of W1+2 in 2017. It also proposes that contingency planning be applied in the future, starting with the 2018 Program of Work and Budget (POWB).

Proposed decisions:

1. The now expected shortfall of W1+2 in 2017 concerns, in the FTA contingency plan, all Tier 3 activities. Therefore, all activities categorized as Tier 3 need to be taken out of the 2017 POWB. These will not be automatically carried over into the POWB 2018, which will be elaborated as per the new priority setting process.
2. Should there be any Tier 3 funds received in 2017 by the lead center, the ISC requests that these funds be carried over by FTA into 2018.
3. Tier 1 or 2 activities that started late in 2017, for a valid reason (e.g. late disbursement of funds, unexpected operational delay) may be finalized in 2018. They remain part of the 2017 POWB but unspent 2017 funds should be carried over in to 2018 by partners having received the funds, to allow completion of such activities.
4. For 2018 and beyond, the ISC request the D/FTA to prepare, in consultation with the MT, a priority-based POWB that fully integrates contingency planning, with priority tiers pre-defined.

1) Contingency planning in the POWB 2017.

At its November 2016 meeting, the ISC decided that the impact on FTA of CGIAR funding shortages –recurrent since 2014-, and of the erratic calendar of disbursements, should be addressed by the CRP as far as possible in a more strategic and anticipatory manner, and requested the D/FTA to develop a contingency plan for managing the W1+2 instalments and the risk that actual allocations of W1+2 to FTA may be lower than the allocations indicated in the FINPLAN.

Following the approval of the internal FTA allocations by the BoT, the D/FTA thus elaborated a range of W1+2 funding scenarios for the program in 2017, taking into account the so-called “relinking rule” that will govern how W1 money is to be distributed across CRPs at the end of the year, and given the best available knowledge of funding perspectives at the time¹.

The examination of this range of W1+2 funding scenarios led to define three priority ‘tiers’ of decreased probability of funding for FTA in 2017 (see Annex 1, Table 1). Activities of the FTA 2017 POWB were allocated into these tiers depending upon their relative importance for FTA. The activities of the MSU and the Support platform, following ISC guidance, were allocated to tier 1² (see Annex 1, Table 2). This approach implied differentiated allocations to partners within each tier (see Table 3 in Annex 1).

The contingency planning approach was widely shared within FTA after it received ISC’s endorsement in April 2017. It enabled to clarify which activities should be rolled-out in priority, when W1+2 instalments arrive.

No formal decision was made however to adjust the 2017 POWB at that time, as uncertainty about actual 2017 allocations to the CRPs continued. This is now what the ISC is requested to consider and recommend to the BoT, in the light of the most recent funding information.

2) Current funding situation and implications for 2017 POWB

As of Oct 31st, of the original USD 8.8m which FTA was expecting to receive, as per the 2017 FINPLAN, the lead center has so far received payment of USD 7.79m. This is made up by: (i) a USD 5.16m advance³ of W1 paid from 2016 funds, and (ii) USD 2.63m W2 (0.96m from Australia, and 1.67m from The Netherlands).

The lead center, to date, disbursed 4.9m corresponding to all Tier 1 activities to all partners, including CIFOR.

According to the latest data on W1+2 commitments⁴ from the CGIAR SMO (which include no USAID W2 allocations for any CRP in 2017), one can estimate **that FTA may be allocated around**

¹ This rule (see Annex 2 for details) was decided at SMB5 end March 2017, which also estimated that the portfolio would be approximately 10% underfunded.

² Except for some planned activities in the MSU allocated to Tiers 2 and 3.

³ This W1 advance was sent to CIFOR but was not equal to an authorization to disburse the same in 2017. At the time of writing this note, we do not know the 2017 W1 allocations yet. Therefore, the advance is to be considered for the whole period 2017-2022, not only 2017.

⁴ <https://public.tableau.com/profile/tania.jordan#!/vizhome/Funding-Update-2017/Story1>

7.25m W1+2 in 2017 (see Annex 2 for the calculation). Therefore, Tier 2 is likely to be covered, and because of this, is currently in the process of being disbursed by CIFOR.

However, Tier 3 is highly unlikely to be funded in 2017. Furthermore, in case a small amount (estimated here at USD 50k) of W1 funds in received by the lead center in excess of Tiers 1 and 2, it would find a better use within the prioritization process put in place for the 2018 POWB.

- As a result, **Decisions 1 and Decision 2** are proposed, regarding the final status of Tier 3.

In addition, due to the fact that instalments were received late in the year, on a case-by-case basis some unspent Tier 1 and 2 activities in the 2017 POWB could be carried over into 2018, provided a valid justification is given for this (operational delay, late reception of funds, for instance).

- Endorsement by the ISC of this specific point is requested in the **proposed Decision 3**.

3) Funding prospects for 2018 and implication for planning

As of 3rd November 2017, much uncertainty still prevails on CGIAR funding prospects for 2018. The uncertainties are at two levels. First, an uncertainty on the actual funding, due to uncertainty in the donor environment. Second, an uncertainty on the definition of the 2018 FINPLAN for FTA, because of CGIAR politics.

- Regarding the possible actual funding, the SMO forecast for 2018 for all W1/2 is USD 170m, including USD 15m from USA. A pessimistic scenario assumes that the USA W2 will not come in, with a forecast of total W1+2 funding at USD 155m.
- Regarding the FINPLAN, the total ask 2018 from all CRPs is at the level of USD 230m, counting the new CRP on Grain Legumes and Dryland Cereals and the Flagships left out for funding in 2017 but reincorporated. This would represent a 33% funding gap in 2018, or USD 75m

To address part of this gap, as per a document released on 27 October⁵, the CGIAR SC is likely to decide not to reinstate the eligibility for funding in full of the reinstated FPs (the proposed scenario span from 0% to a maximum of 35% funding eligibility).

According to the scenario proposed for decision to the SC, the 2018 FINPLAN of FTA would lie between USD 8.0m and 8.8m (instead of 11.5m as in the proposal), therefore at a level inferior of 2017, despite FP2 back in with a “strong” assessment by ISPC.

On top of this, shortfall of funding (difficult to assess at the present time) might operate. A 20% of shortfall would put FTA between USD 6m and 7m in 2019⁶.

Given such continued or even increased funding uncertainties; given the fact that the contingency planning approach put in place in 2017 has satisfactorily enabled the program and its partners to better anticipate funding shortfalls by clarifying the activities that deserved priority

⁵ https://www.cgiar.org/wp-content/uploads/2017/10/SC5-09A_2018-Budgeting.pdf

⁶ This includes USD 1.7m W2 from NL, guaranteed as it comes under a pluri-annual agreement, softly earmarked to value-chain related works in FTA.

consideration within the agreed POWB; given the fact that the approach has also helped partners to better manage cash flows; and given that it has been positively accepted by all:

- It is proposed that for 2018 and beyond, the FTA POWBs integrate the contingency planning approach (**Decision 4**).

Annex 1. Priority tiers within the FTA Contingency planning in 2017

Table 1 : FTA 2017 Priority tiers

TIER	BUDGET
1	4.9m
2	2.3m
3	1.6m
TOTAL	8.8m

Table 2: Allocation to FTA work areas across tiers in 2017

	TIER 1	TIER 2	TIER 3	TOTAL W1/W2
MSU	1,630,000	160,000	210,000	2,000,000
COMMS	250,000			250,000
GENDER	407,363	292,637	-	700,000
MELIA	314,500	85,500	-	400,000
CAPDEV	150,000	150,000	-	300,000
DATA	150,000			150,000
FP1	452,000	455,000	373,000	1,280,000
FP3	567,001	313,000	260,000	1,140,000
FP4	479,000	450,000	401,000	1,330,000
FP5	454,964	430,846	364,190	1,250,000
TOTAL	4,854,827	2,336,983	1,608,190	8,800,000

Table 3: Weight of FTA partners (USD) within each tier.

TIER	CIFOR	ICRAF	BIOVERSITY	CATIE	CIRAD	INBAR	TBI	CIAT	TOTAL
1	2,671,054	1,163,377	376,217	166,250	144,530	113,750	172,250	47,399	4,854,826
2	916,324	1,061,108	251,200	18,000	20,000	7,500	20,000	42,851	2,336,983
3	859,690	578,500	85,000	25,000	50,000	10,000	0	0	1,608,190
TOTAL	4,447,068	2,802,985	712,417	209,250	214,530	131,250	192,250	90,250	8,800,000

Annex 2. Best-guess estimation of the W1 allocated to FTA in 2017 (at the time of this note).

First there is a need to describe the “relinking rule” which defines the amount of W1 that a CRP will receive, depending on the amount of W2 it has received, and the total W1 available.

To understand how this rule works, the SMO has introduced the definition of a “funding gap” for a CRP as the difference between the original FINPLAN and the received W2. For example, FTA received 2.86m W2, within a FINPLAN of 8.8m, hence its funding gap is 5.95m.

The relinking rule has two stages:

- The first stage is that the three CGIAR Platforms are ring-fenced. They are served first and W1 is disbursed to fill their funding gaps entirely (if enough W1 is available to do so).
- The second stage is that the “remaining” W1 (= W1 after platforms are served) is allocated across CRPs so that funding gaps are reduced by the same percentage amount. In other words, one defines a “global gap” (= the sum of the funding gaps for all CRPs) and the W1 allocated to a CRP is equal to the remaining W1 multiplied by the CRP share in the global gap. These shares, by construction, sum to 1 over the CRPs.

Here is how the calculation plays out for FTA:

- 91.91m W1 is available as known to date
- 76.65m W2 is committed to date: 72.9m for CRPs, 3.7m for platforms
- Platforms are safeguarded, but received only 3.7m W2 on a 33.6m FINPLAN: if nothing changes, they will receive 29.9m W1
- This leaves 63m “remaining” W1 for the CRPs.
- The CRPs “global gap” (= the sum of the CRPs FINPLAN minus the W2 committed to date) is of $157.4 - 72.9 \text{ m} = 84.5\text{m}$. FTA represents 6.1m in this amount, or 7.25%.
- Therefore, FTA would receive 7.25% of the remaining W1 available, or 4.57m W1.

This would leave FTA at a total of $4.57 \text{ (W1)} + 2.68 \text{ (W2)} = 7.25\text{m W1+2}$. This means that FTA would be underfunded by 1.55m, or by 17%.