



# PUBLIC AFFAIRS CENTRE

*A decade of commitment to better governance*

31 March 2006

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Dear Messrs. Godfrey and Reifschneider,

On behalf of the Review Panel, I am pleased to present to you the report of the Stripe Review of Corporate Governance of CGIAR Centers. As specified in its terms of reference, the review was aimed at: assessing and evaluating the current corporate governance structure, processes, procedures/ practices, and overall performance of CGIAR centers' boards of trustees (BOTs); recommending to the CBC measures for improving the BOTs' performance (i.e., effectiveness and efficiency); and developing a code of best practice and proposing changes in the existing reference guide on the role, responsibilities, and accountability of centers' BOTs.

In its work, the Review Panel has relied on an examination of relevant documents, use of survey questionnaire with key stakeholders (board chairs and members, center management and key staff, former EPMR panel members, and CGIAR members) as respondents, and interviews of selected members of CGIAR stakeholder groups.

The Panel found that several center boards have taken steps to improve their governance practices in recent years. The information and data gathered indicate increased commitment, leadership and willingness to change on the part of these boards. Boards, however, vary widely in the extent of these reforms and how well they have been internalized. Significant gaps exist, among others, in the boards' oversight functions with respect to strategy and finances, performance assessment, and follow-up actions on EPMRs and other performance reviews.

Many of the problems can be traced to more basic constraints in the way the boards are structured and managed. Infrequent meetings, gaps in terms of the mix of skills needed to transact board business, crowded agendas, and large size that reduces cohesion and focus among members are at the root of the problem.

The Panel also noted that there is a subtle imbalance between center autonomy and accountability that characterizes the System and the centers. The accountability mechanisms put in place by CGIAR will be limited in their effectiveness under these conditions. The Panel did not, however, probe this matter as it falls beyond the purview of its TORs.



A number of recommendations are presented in the report covering areas where, in the Panel's view, improvement is necessary. They are: board structure, size, and composition; role of boards in strategy setting and performance oversight; board renewal; and board accountability. It also offers a number of suggestions for updating the reference guide on the role, responsibilities and accountability of center BOTs.

The Panel members join me in expressing thanks and appreciation to the CBC and the CGIAR Secretariat for the opportunity to participate in the stripe review. Special thanks go to all stakeholders who responded to the survey questionnaires, to those who made themselves available for interviews, and to all center and system office units who provided relevant documents to the Panel. The Panel was ably supported by Iman Hassan and other Secretariat staff for which it is grateful. Last, but not least, we express our thanks to the members of the Advisory Group for their valuable perspectives on the review's recommendations. We hope that the recommendations being offered would significantly contribute to the system wide effort to improve governance of CGIAR centers.

Sincerely yours,

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**CONSULTATIVE GROUP ON INTERNATIONAL AGRICULTURAL RESEARCH  
COMMITTEE OF BOARD CHAIRS AND CGIAR SECRETARIAT**

**Report of the  
Stripe Review of Corporate Governance of CGIAR Centers**

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## EXECUTIVE SUMMARY

The Review Panel was established jointly by the Committee of Board Chairs (CBC) and CGIAR Secretariat to assess the governance structure, processes and practices of center boards against the backdrop of the best practices prevalent in the corporate and non-profit sectors, and to recommend steps to improve the effectiveness of board governance. A survey of board members, CGIAR members and other relevant stakeholders, followed by interviews with a sub-set of the stakeholders, and a review of relevant documents were the methods used by the Panel to gather information for this review. The major findings of the review are the following:

- ❖ Several center boards have taken steps to improve their governance practices in recent years. Nevertheless, significant gaps exist in some of the boards, especially with respect to their oversight of strategy and finances. Their practices lag behind global best practices in these functions. Factors such as infrequent board meetings, lack of timely information, inappropriate mix of skills, and mismatch between financing patterns and the requirements of strategy have contributed to this outcome.
- ❖ While the board composition in terms of the representation of stakeholders and diversity is on the whole balanced, there is scope for the reduction of the number of host representatives and CG nominees on the boards. Board size in some cases is larger than warranted when judged by the need for cohesion and focus. Some center boards meet only once a year, making it difficult for members to discharge their responsibilities effectively.
- ❖ CGIAR's orientation and leadership development courses are appreciated by the boards. But there is increasing concern on the part of board members that CG's oversight mechanisms such as the Science Council, ExCo and the Secretariat may be placing undue administrative burdens on the centers.
- ❖ Board practices in respect of self assessment and the evaluation of the Director General are not participatory and thorough in all cases. Follow up actions on EPMRs by some of the boards are not timely, and warning signals of impending troubles are not heeded by the boards in all cases.
- ❖ Board accountability to its stakeholders is not easy to enforce due to the inherent limitations in the larger CGIAR System that supports and finances the centers. When board governance falters or fails, speedy remedial action to enforce accountability is difficult under these conditions.
- ❖ In summary, while the governance practices of boards compare favorably with global best practices in some respects, the challenge for the CGIAR is to remedy the areas of weakness and unevenness of practices among the centers that are highlighted in this report.

The Panel came up with 31 recommendations. These recommendations are presented in detail in Chapters 4 and 5 and a full list is included in Chapter 6. The most important ones are summarized below:

A. Board Structure, Size, Composition

- ◆ The center board needs to reflect the range of diversity in the CGIAR stakeholders and at the same time it should have the needed mix of skills to ensure that their functioning will be effective and efficient. At a minimum, two persons with adequate financial, business and accounting knowledge and experience should be members on every board. At least three members with science or science management background should be available to a board.
- ◆ The frequency of board meetings should be determined by the nature and scope of the business to be transacted. Given the mix of functions of center boards, the Panel recommends that full board meetings should be held at least twice a year. In addition, two more meetings may be required to review quarterly reviews of finances and programmatic matters. In order to minimize costs, these additional meetings may be conducted through telephonic or video conferences or through delegation to an executive committee that reports back to the full board.
- ◆ The proposals above may increase the time and attention that members may be required to give their boards. It will most certainly demand more time from the chairpersons of boards. This may necessitate a review of the compensation of Board members due to the increase in accountability, responsibility, expertise, and time required of them. This would apply, in particular, to board chairs and committee chairs.
- ◆ The duration of a member's term on a board should not exceed six years. The current practice of most boards to renew a member's term after three years is a sound one. It is important, however, that boards review more rigorously members' contributions before confirming them for a second term.
- ◆ Keeping in view the need for a board that is compact, accountable and well focused on governance, it is recommended that the size of the board should be between nine and eleven members, excluding the DG (ex-officio). A smaller board enhances the chances of synergy, participation, and focus. The Panel offers this as a guideline to be adapted to the needs of the centers.

- ◆ Consistent with their international status and mandate, centers serve many countries and, in many cases, more than one region. Center boards, therefore, need to have members from different regions and backgrounds. Hence, host country representation on a board should be limited to one nominee.
- ◆ A similar rationalization of CGIAR nominees on boards is also in order. Presently, the number of nominees varies widely, the maximum being eight. It is recommended that the number of CGIAR nominees should not exceed two unless there are legal problems that may cause a center to lose its international status or privileges.

#### B. Role of Boards in Strategy Setting and Performance Oversight

- ◆ Limitations of time and the overload and urgency of the operational programs of centers often lead to a relative neglect of strategic functions in some of the boards. It is imperative that this imbalance is rectified by providing adequate time and resources to the boards to perform their strategic functions of planning, review and oversight.
- ◆ Boards need to strengthen their role in ensuring that centers' strategy fits well with the overall CGIAR priorities and strategies. This will require boards to ensure that there is a process in place that encourages management to embark only on programs or projects that are aligned with the agreed upon priorities.
- ◆ Board's oversight of performance should use the MTP as the starting point. An important function of the board is to see to it that the annual program and resources allocated to it are consistent with the specific objectives stated in the MTP relevant to the review. .
- ◆ An important function of the board is to assess the risks associated with the Center's programs, finances, human resources, management systems, and general operating environment. Risk assessment statements should accompany all documents on programs presented to the board. When the annual accounts and report are presented to the board, the DG and chief financial officer or Director of Finance should present a due diligence certification.
- ◆ The financial approval/spending limits delegated to the DG and other senior officials should be authorized by and made known to the full board. DG should submit an annual or periodic report on such expenditure to the board. A similar practice should be adopted for the chair.



### C. Board Renewal

- ◆ CGIAR and center board orientation programs, executive leadership courses, and other development programs for new board members are critical for their effectiveness and better understanding of the CGIAR system and center's business. It is recommended that the CGIAR orientation program be given to new members preferably after they have attended one board meeting that will give them some familiarity with the centers and their work
- ◆ The annual evaluation of the center DG is the responsibility of the full board. A wide range of inputs, including feedback from center staff should be sought by the board as part of the evaluation process.
- ◆ Boards should conduct their annual self assessment and an evaluation of the chair in a formal manner with clear guidelines. Committees and their chairs should also be evaluated in a similar manner. The board chair should discuss with each member his/her performance annually and offer guidance for improvement as appropriate.
- ◆ Succession planning for board chair and members should commence at least a year ahead of the vacancy. For the DG, the succession planning process should be set in motion with an even longer lead time.
- ◆ CGIAR should strengthen its consultation and nomination process in order to ensure that its nominees meet the competencies needed by the boards. The nomination process has to build on a better understanding of the profiles or the selection criteria between the CGIAR and the centers
- ◆ For members-at-large, a Board should carry out a systematic analysis of its needs for expertise/skills/representation. In order to improve transparency in the recruitment process, CGIAR stakeholders and shareholders should be invited to submit nominees for the available membership slots.
- ◆ Special attention needs to be given to increasing the efficiency of functioning of the boards. Appropriate agenda setting, timely circulation of papers/documents well ahead of meetings, and summarizing the issues for strategic discussion and decision making will enable members to be more effective.

- ◆ The board secretary should report to the board chair in regard to all board matters. Annual evaluation of the board secretary should be dealt with by the board chair in consultation with the rest of the board and other relevant officials.
- ◆ In terms of grievance redressing and conflict resolution mechanisms for the staff, there should be a provision for an appeal of the last resort to the Board when all other remedies have failed. Such appeals should be directed to the board chair. The mechanisms need to be strengthened, made transparent, and fully communicated to staff.

#### D. Accountability of Boards

- ◆ The CGIAR centers are ultimately accountable to the poor in the developing countries. To ensure accountability towards these beneficiaries, center boards need to ensure that research priorities, products and processes are designed in such a way that they serve the needs of the poor. Sharing this information in a transparent manner is one way to demonstrate accountability.
- ◆ The board is accountable to its stakeholders for the performance of the center. Asymmetry of information can be a serious barrier to the exercise of accountability. To effectively perform its roles and responsibilities, the board should seek and obtain all the necessary information from the management.
- ◆ The CGIAR has put in place an overall system that provides a framework for ensuring that centers are held accountable for their performance. This includes a number of central bodies such as the SC which assists in the overall setting of priorities and strategies and evaluates the relevance and quality of programs, ExCo which performs delegated functions on behalf of the general membership, and the CGIAR Secretariat which assists in the implementation of CGIAR decisions. While these mechanisms provide guidance and checks and balances for accountability, the boards' ability to perform their functions will be enhanced when there is greater coherence in the functioning of these parts. CGIAR members should assist center boards not only by providing overall strategic goals and directions, and other checks and balances but also by aligning their financial contributions and project support closely with these directions.
- ◆ Central bodies established by the CGIAR, such as the SC, ExCo, and the CGIAR Secretariat, are essential for the formulation and implementation of the mission and strategies of the CGIAR System as a whole. In performing these functions, they should seek to minimize the administrative burdens placed on the centers and the boards through their interventions.
- ◆ In the ultimate analysis, the board is responsible for the fit between the center's programs and projects, and the overall CGIAR strategy. Irrespective of the vagaries of donor funding, accountability for the decisions and outcomes rests with the board. Special attention needs to be given by the board to the projects financed by restricted funding because departure from center strategy is most likely in this area.

- ◆ Boards should promote greater openness and transparency with respect to the governance of the centers. Annual reports of the centers should publish performance indicators, both outcome and process related, so as to enable all stakeholders to understand and assess the impact of their programs.

## **1. INTRODUCTION**

### **Background**

Until recently, center governance has not appeared as frequently as system-level governance as an item in the CGIAR meeting agenda. Issues related to center governance were often discussed only in connection with an external program and management review (EPMR) report for a specific center. The system-wide implications of findings or recommendations were also hardly considered in such discussion.

The last system review, the CGIAR reform program launched in 2001, and recent developments that called for restructuring at the center level have prompted increased attention to center governance. An aftermath of the closure of ISNAR in 2003, center governance and management became a focus of inquiry at the system level. Questions were raised on center board's effectiveness and efficiency; whether or not they are adequately providing oversight on key areas of center management.

There was a heightened interest in the center EPMR findings and recommendations and the extent to which the centers were implementing the agreed recommendations. A desk review of the governance-related EPMR recommendations for the 15 Centers and the extent to which they have been implemented was considered. However, given the fact that EPMRs are quinquennial reviews, it was argued that such a desk review would not capture the changes/adjustments that have taken place in most of the centers since their last EPMRs. Discussions at the Committee of Board Chairs (CBC) level led to a decision to commission instead a formal stripe review of Center governance. This decision was announced by the Chair of the CBC at the CGIAR Annual General Meeting held in Mexico in 2004.

### **Terms of Reference**

This review of the effectiveness and efficiency of corporate governance at the Board of Trustees (BOT) level has been undertaken in the context of CGIAR's reform program initiated in 2001. It was commissioned by the CBC, jointly with the CGIAR Secretariat, in recognition of their responsibility to help improve governance at center and system levels.

The objectives of the Stripe Review of Corporate Governance (SRCG) of CGIAR centers were to:

- i) Assess and evaluate the current corporate governance structure, processes, procedures/practices, and overall performance of CGIAR centers' BOTs;
- ii) Recommend to the CBC measures for improving the performance (i.e., effectiveness and efficiency) of center boards; and
- iii) Develop a code of best practice for center boards, and propose changes to the existing guidelines for center boards.

Specifically, the review Panel was asked to canvass the boards to:

- i) Examine the effectiveness of center boards in providing oversight and policy directions to the centers operations, including financial, program and administrative matters;
- ii) Capture some of the best practices of boards and survey the extent to which boards have responded to the particular operations, needs and circumstances of centers; and
- iii) Examine the composition and structure of the BOTs and how they conduct their business, and how they assist centers in the fulfillment of their mandates compared to the best practice in corporate and non-profit governance.

The Terms of Reference (TOR) for the stripe review is given in Annex 1. In accordance with the TOR, the following overall approach and process were agreed upon:

- i) A team of three individuals--respectively with expertise in governance, finance, and good familiarity with the CGIAR-- was appointed in August 2005 to constitute the Review Panel; and a CGIAR Secretariat staff member served as Panel Secretary, assisted by a resource person and other staff as needed. The panel members with their short biographies are listed in Annex 2.
- ii) Boards conducting independent reviews were asked to make the results available to the panel;
- iii) A representative of the CBC, a senior member of the Systems Office, and two persons providing the perspectives of the CGIAR members and partners were invited to serve as “advisory group” for the Review Panel. The composition of the advisory group is also shown in Annex 2.
- iv) The Panel was asked to rely on examination of relevant documents, use of survey questionnaire, interviews of Board Chairs and Center Directors General and other data collection instruments, and to report its findings initially to the CBC and the CGIAR Secretariat; and
- v) The Panel’s report (with CBC’s response) is expected to be shared with ExCo for discussion at its May 2006 meeting; and the report, with CBC’s written response and ExCo’s recommendations, is expected to be forwarded to the CGIAR for discussion at the AGM06 Business Meeting.

## **Methodology**

As per its TOR, the Panel examined documents provided by the center boards/management and the CGIAR Secretariat; conducted a specially-designed questionnaire survey of board members (including the chair and DGs), CGIAR members, and selected EPMR Chairs/members and senior staff of centers; interviewed board chairs and members, DGs, and CGIAR members; interviewed selected stakeholders (from the Science Council and CGIAR Secretariat); and a Panel member less familiar with the CGIAR undertook a visit to one center to observe its board meeting. At AGM05, the Panel also met with the CBC and the Committee of Center Directors (CDC) in separate meetings; and with members of the Advisory Group on several occasions. Annex 7 provides the list of persons interviewed.

The *interviews* covered some or all of the Panel's TOR, depending on the affiliation of the person interviewed and his/her familiarity with the functioning of center boards. In general, the following topics were covered to a varying degree: roles and responsibilities; structure and composition; strategy and direction; succession planning and development, and self assessment; financial oversight; performance oversight and accountability; risk and opportunities; legal and regulatory considerations; stakeholder relations and communications; and culture and protocol. Most interviews lasted about one hour; but some were shorter, depending on availability of time and the familiarity of the respondent with the work of center boards.

The *questionnaire survey* was conducted for three weeks in Oct/Nov 2005, and for another three weeks in Dec 2005/Jan 2006. A total of 99 responses were received. There were 80 responses for Questionnaire I (from board chairs, board members, DGs, and EPMR members), 11 for Questionnaire II (from CGIAR members) and 8 for Questionnaire III (from senior staff of centers including board secretaries). The number of responses received for the two parts of Questionnaire I was not the same; nor was it the same for all the questions. (Part 1 was on BOT's engagement with center's strategic business, and Part 2 was on organization and management of BOT's business.) Response rate for Questionnaire II (17%) was lower than for Questionnaire I (40%).

The survey results provided a reasonable database for the Panel's further work. They included a large number of thoughtful and relevant observations regarding the current issues faced by the boards, the strengths and weaknesses of center governance, the new practices introduced recently by boards, and the possible further improvements needed—and provided an extremely rich source of ideas for the Panel.

However, the *limitations* of the Panel's work need to be noted as well. In accordance with the approach and process adopted for the Stripe Review as outlined in the Panel's terms of reference, the Panel did not make independent assessments of center governance by their boards. The Panel did not visit the centers to observe boards in action, except in one instance where a member of the Panel (who was less familiar with the CGIAR and the functioning of a CGIAR center board) was able to participate in a board meeting. The interviews conducted at AGM05 provided a good although limited opportunity to validate survey results, as did the prior experience of two Panel members with center boards and the CGIAR. In the absence of direct assessment of board performance, the Panel was unable to make its own assessments that would apply to all center boards. Given the diversity of the centers and their boards, conclusions and recommendations tend to be broad and would apply to different centers in different degrees.

## **2. HISTORICAL BACKGROUND OF GOVERNANCE IN THE CGIAR**

### **Growing Attention to Center Governance**

Governance has been a topic of discussion in the CGIAR since it was founded in 1971, but more frequently so in the past few years. Any initiative to institute structural changes or reforms invokes a discussion of governance. However, the focus has been mainly on system level governance. As noted in Chapter 1, aspects of center governance or board operation are usually covered in the CGIAR meeting agenda primarily in connection with EPMRs of centers.

The environment in which the CGIAR System and its centers operate has undergone important changes over the past 35 years. These changes have significant implications not only for the mission and programs of the centers, but also for their model and style of governance.

The boards of the first international agricultural research centers, i.e. those created in the 60s or before the establishment of the CGIAR, reflected the governance mechanism adopted by the Rockefeller and Ford Foundations, two organizations which were instrumental in establishing them. The initial members of the boards were appointed by these foundations.

After the establishment of the CGIAR, changes in board composition took place with the foundation-appointed members replaced by CGIAR-nominated but board-selected members. The centers that existed in the 70s were created against the backdrop of widespread food shortages and fears of a growing imbalance between population and food supply in developing countries. Many of the board members were scientists or research managers dedicated to the goal of developing new crop varieties that would contribute effectively to the diffusion of the impending crisis. Donors played a proactive role in financing the new centers, supporting outstanding scientists and motivating them to produce tangible results through their research. They assured the scientists adequate funds and infrastructure for research, and played a supportive role as advisors and catalysts. Governance essentially consisted of timely provision of resources and autonomy for the scientists to get on with their work. Most board members saw themselves as “advocates” or “sponsors” for their centers.

Center board members served on their personal capacities and not as representatives of their institutions/organizations. Boards essentially became “self-perpetuating” governance bodies and this transformation resulted in greater center board autonomy. Center autonomy has since then been one of the defining characteristics of the CGIAR (along with shared vision, donor sovereignty, independent scientific advice, and consensus decision-making).

However, accountability became a key issue (see Box 1). As autonomous and self-perpetuating entities, center boards were generally regarded as self-accountable bodies. Accountability for their performance was not specified in the center charters/constitutions nor in any other legal documents. There was no direct accountability to the donors, and even for system-related issues, board decisions did not necessarily agree with the consensus decisions of the CGIAR. The center

board model that emerged served as a blueprint for governance of centers that were established or became part of the CGIAR network of research centers during the expansion phase in the early 90s.

The extension of CGIAR's research focus into other areas/commodities (agroforestry, forestry, fisheries, water management, and banana/plantain) increased the number of Centers in the network and made it a much larger and more complex system. In 1993, not long after the expansion period, the Group decided to create an Oversight Committee (OC) whose primary task was "to ensure that due care and diligence is exercised in the CGIAR's and centers' operations." Its first meeting discussed the uneven performance of center boards, noting among others the problems in two centers at that time. Although dealing largely with system-level governance issues, the OC maintained center governance as a regular item in its meeting agenda.

A milestone in the overall effort to enhance center board operation and performance was the publication in 1997 of a series of 7 reference guides for Centers and their board of trustees. Under the auspices of the OC and in consultation with the Committee of Board Chairs, the CGIAR Secretariat developed the reference guides in collaboration with the National Center for Nonprofit Boards (NCNB). The first of a series, "The Role, Responsibilities, and Accountability of Center Board of Trustees - Board Reference Guide No. 1", was formally endorsed by the CGIAR. Many center boards used the guides in preparing their board handbooks. The guides also provided a set of key criteria for in-depth assessment of board performance under the EPMR process.

The Third System Review conducted in 1998 provided added impetus to the growing attention given to center governance. Devoting a chapter to center-level governance, the review report focused on the importance of linking CGIAR and center governance, the role and performance of center boards, and governance of inter-center collaborative programs.

In 2000, the CGIAR launched a change design and management initiative and undertook a far-reaching program of reform beginning in 2001, affecting its governance, programs, science, management, and potential impact. Although primarily addressing system level issues, the reform program provided a backdrop for examining aspects of center governance that have a bearing on system effectiveness and efficiency. The CGIAR nomination process for Center Board membership and board orientation are specific areas being strengthened during the second wave of reforms.

An aftermath of the closure of one center in 2003 after an unfavorable EPMR report heightened the interest and focus of inquiry on center governance and management. There was increased interest in the center EPMR findings and recommendations that relate to governance and management. Questions were raised whether the center boards are adequately providing oversight on key areas of center management. Donors became more aware of governance issues and the impact that they have on the ability of the centers to pursue their objectives and carry out their mission as research organizations. ExCo has played a critical role in bringing up center governance as a key item in the CGIAR agenda.



### ***Box 1. Role of CGIAR Center Boards<sup>1</sup>***

The following comments were made by Shahid Hussain, then CGIAR Chairman, in his summation of the discussion of the external review of a Center in the mid-80s:

*“In another context, I have said that the Boards are where the buck stops in our System, which means that the Boards as far as the individual Centers are concerned, are the final authority.”*

*“But the System is in a real dilemma when a Board fails. What do we do, except to wring our hands and withhold our money, and that’s not good enough, because we are wedded to the substance of these institutions.”*

*“Therefore I would like to say to the Chairman of the Board and the members of the Board that since you are the ultimate authority, the responsibility on you is considerable.”*

*“The responsibility on you is considerable because much of the Board is not nominated by anybody else, but by the Board members themselves. So for all practical purposes, you have self-perpetuating Boards. And if these self-perpetuating Boards don’t rise up to the challenge of the management of our Centers, then clearly, either the concepts will have to change, or our Centers will be weakened substantially.”*

### **The Changing Environment of CGIAR Centers**

The environment that the centers are currently finding themselves in is a result of confluence of factors that emerged during the past two decades. The first of these was a shift in stakeholders’ role from being centers’ champions to one that are increasingly concerned about the centers’ governance, operation, and performance.

*i. The major stakeholders are increasingly playing an “activist” role with respect to governance in contrast to the role they played during the formative era of the System.*

This is not to say that CGIAR members ceased to be supportive of the centers and their mission. However, they began to take a more critical view of the centers and their boards. Approval of funds began to receive greater scrutiny. Questions began to be raised about the need to plan and evaluate their programs more systematically. Stakeholders began to examine the mission and priorities of centers more critically. The model of the CGIAR System and boards as a “cheerleading” mechanism began to recede and yielded a place to a more “activist” incarnation as an oversight mechanism.

Three factors in the external environment of the centers may have created the initial impetus for this shift. One was the expansion of the number of centers and their diversified agenda. The

<sup>1</sup> References: *Some Thoughts toward Ensuring the Successful Performance of Boards in the CGIAR System* by J. Dillon (1987); and *Governance and Management of the CGIAR Centers* by S. Ozgediz (1991).

expansion from four to 16 centers occurred over a period of 15 years or so, spanning virtually all regions of the world. There was a proportionate increase in the number of boards, followed by an expansion in the number of CGIAR members, including some from the developing world. The homogeneity of the earlier donor members and the collegiality of the boards they had created could no longer be sustained in this new era. More formal processes had to be adopted by the System, as new members and boards would not have been able to imbibe the earlier practices and styles of conduct wholesale. The size of the Consultative Group called for more delegation of work and responsibilities in the CGIAR

A second environmental shift was the growing sense, especially among the donor countries, that the food crisis of the earlier decades was no longer a major threat, given the rising trend of food production and food stocks in the developing world. The success of the research by the centers and their new crop varieties may have contributed to this assessment. New challenges were considered under the international development agenda resulting in greater competition for donors' investments. A major consequence was a visible reluctance on the part of the donor countries and agencies to sustain and expand their contributions to the larger network of centers that had come into being by the 80s.

A third shift was the greater emphasis given by the donor community on performance and impacts of centers' work. A new trend that emerged was a reduction in the unrestricted funds given to the centers by donor members, thus forcing them to seek project funds of a restricted nature. The additional funding often was targeted for applied research or regional programs, not directly supporting strategic research. The CGIAR system had to make special efforts during this period to ensure that adequate core funds were available to the centers in real terms.

It is the interaction between these environmental shifts that has resulted in a growing tendency on the part of CGIAR members to be more critical and activist in their oversight of the centers in recent years. Other factors have reinforced this trend. Thus, the expanded membership of the CGIAR system has increased the number of representatives that are less familiar with the system. There are only few representatives among the donors that are well informed about center boards' operations. The large majority of them have limited, occasional, or secondary information; there is hardly any direct insight into board activities. Lack of information is linked to staff rotation and limited time which they can or want to assign to CGIAR matters. Accordingly it is not surprising that board members reported to the review team substantial changes and improvements of their operations over the past years while many donor representatives continue to have substantial criticism and complaints with boards' operations. The scarce knowledge of donors of the range and number of new practices recently introduced in the boards is an indication of insufficient communication between board members and donors. On the other side many board members do not understand well who the donors are and what they want. When members face greater resource scarcity (due to the tighter budgets of governments/donors), they would be inclined to take a critical view of the way boards perform their governance functions. It is natural that in this changed scenario, there was a growing tendency to question the boards on their performance and demand greater accountability for the use of funds by the CGIAR members.

*ii. The higher standards and tighter regulation of corporate governance have increased the CGIAR system's concern about center governance.*

Governance has been a dominant issue for the corporate sector and its stakeholders for the past decade or more. A variety of factors have contributed to this phenomenon. Investors, shareholders, capital markets, and governments have recognized the importance of good governance practices in the corporate sector, partly in response to the abuses and scandals caused by mis-governance, and partly because of the growing public awareness of the need for greater transparency and integrity in corporate transactions and decisions. Regulatory agencies have mandated new rules and practices, consistent with these developments. Adoption of new governance practices has spread also to the non-profit sector and the public sector. Thus a wave of governance reforms that call for increased transparency and openness, disclosure through annual reports, budgets, etc., and accountability through new norms of conduct by boards and management has occurred in many parts of the world. Though the CGIAR centers do not come within the purview of any of the regulatory agencies of other sectors, it was inevitable that the stakeholders of the centers would be influenced by these recent developments and their relevance to the centers and their boards. The interactions between the CGIAR system and the private sector and non-governmental organizations in recent years have also contributed to the demands of stakeholders for governance reform. The recent restructuring of the CGIAR system and the new institutional mechanisms created through this process were partly in response to such demands.

*iii. The evolving patterns of center finances and inter-center alliances have created new pressures on board autonomy and governance.*

Unrestricted funds in the formative years made it possible for the center boards to maintain their autonomy and oversight of center operations in tact. As the share of unrestricted funds began to decline, the pressure on the boards for getting sponsors to fund new projects began to increase. Lack of control over funds not only makes it difficult to plan and implement long term strategies, but also causes the erosion of autonomy due to the pulls in different directions by diverse donors. Financial oversight, for example, becomes much more complex when a center has to carry out projects sponsored by multiple donors with their own priorities, accounting systems and reporting practices. Joint projects between centers and major initiatives such as "challenge programs" also tend to erode board autonomy and accountability, since some of them have governance mechanisms that are not center-based. Many decisions and oversight functions that a center board performs by itself have now to be shared with other centers and outside partners. All these are developments that necessitate a fresh look at the existing model of governance of the centers.

*iv. The expansion of the CGIAR system and other environmental factors mentioned above have created much unevenness in the governance arena across the centers.*

A small number of centers and boards in the early years made it easier for the constituents to exchange information on governance and learn from each other. The expansion and diversification of the CGIAR system has made it increasingly difficult for the boards to know what is happening elsewhere and to update their governance practices. The history, leadership,

and traditions of the centers vary widely, and given the competitive pressures and financial constraints, it has not been easy for all centers to address the key issues of governance on their own. Nor have all center boards paid adequate attention to attract the relevant professional staff to assist in important governance functions such as financial management. The overriding focus on “good science” and the relative unfamiliarity of most scientists with governance issues seem to have made it difficult for some boards to anticipate and deal with such problems. This may not have mattered much when a center was small and financial contributions were on the rise, but growth, complexity of operations and increased competition for funding have amplified and exposed this gap. It explains why some centers are ahead in terms of good practices while others are lagging behind. An emerging challenge for the System is to bring all boards up to an acceptable level by enhancing the quality of board governance across all centers. The Alliance Board is a new institutional mechanism that has been designed to contribute to this process.

### **3. BEST PRACTICES IN GOVERNANCE**

#### **The Evolution of Corporate Governance**

Governance is generally defined as the structures and processes used to manage the business and the affairs of an organization. These governance structures and processes also define the division of power, and establish mechanisms for achieving accountability. The aim is to promote strong, viable and competitive organizations. It is important to note that only the board as a collective body, rather than individual trustees has the power to manage the affairs of the organization. The main benefits of good governance include the clarification of legal and fiduciary responsibilities, clarification of roles and responsibilities between the board and management, improved transparency, improved corporate performance, and reduced liabilities.

Historically, a board seat was often seen as a reward, patronage or a way of enhancing one's resume. In other instances, board seats were accorded to funders or like-minded individuals within a given community. Science organizations had scientists on the board, sports organizations had athletes on the board, and arts organizations had artists as board members. The concept was that people from the community of interest were best qualified to set or approve the direction of the organization. As well, it was not unusual for the chief executive officer (CEO) to take effective control and run the organization with the board having ultimate approval, but in essence doing no more than rubber stamping management's decisions and recommendations.

This was not necessarily ineffective during good times but in the 80s and more particularly in the 1990s, major financial failures repeatedly underlined the fact that directors had been negligent in carrying out their oversight duties. As a result, research on and evaluations of governance were undertaken in a number of countries, including the United States, Canada and the United Kingdom. These include the Dey report in Canada (1994/95), the Cadbury and Higgs reports in the United Kingdom (1990s), Germany's first corporate governance code (2002), France's first governance review (2002-04), and the Sarbanes-Oxley legislation (2002/03) in the United States. This last piece of legislation has brought on major changes in American laws and regulations, as well as in other countries wishing to harmonize with the direction taken in the United States.

The Sarbanes-Oxley Act (SOX) was the United States' legislative response to the Enron and Worldcom failures. It contains highly prescriptive remedies that apply to any organization with public US debt or equity and it created larger penalties for white-collar crime (e.g., fines of \$1 US million to \$5 US million, imprisonment to 25 years). Altering structure was the only way that regulators could influence board behavior. By imposing new duties and constraints on directors, policy makers hoped to avert future scandals.

SOX has had a major impact on: the role and composition of the audit committee; the independence of directors; CEO and chief financial officer (CFO) certification / disclosure; and governance practices and behaviour in general. Canada, the United Kingdom, Australia and others have opted to harmonize their rules and/or legislation with SOX requirements.

## The Evolution of Governance in Not-for-Profits

There has also been a convergence in governance of the for-profit and not-for-profit worlds and now, good governance applies to all types of organizations and all sectors.<sup>2</sup> The perception once held was that there was an enormous difference between the governance and requirements of directors/trustees on not-for-profits boards vs. those of for-profit boards. In reality, that gap has dwindled substantially as accountabilities, competencies and workloads converge and become aligned. The primary difference that remains is how financial reporting is treated on a publicly traded board. Notwithstanding the different legislation and regulations under which they operate, the principles of good governance apply equally in both sectors.

Although SOX did not specifically cover not-for-profit organizations, one of the unintended consequences of its passage is that its provisions have provided benchmarks which, if not adhered to, could give the impression of sub-standard governance to interested observers and stakeholders. The courts, the media, watchdog groups, donors/ funders and others are beginning to apply SOX standards to *all* organizations. Notwithstanding the fact that SOX did not address not-for-profit organizations, some US states are altering not-for-profit laws to include its provisions. Moreover, even if not-for-profits in the US are not complying with the law now, they should be aware that they probably will need to in the future.

The term “governance” is no longer an adjective used to describe simple ideas on how things should run. It has become a catch-all phrase that has pervaded not only government structures, but also business and corporate frameworks as well. In simple terms, governance holds someone or a group accountable for the way organizations are run, to explain where the money has gone, and to show what that money has achieved. As previously mentioned, SOX has had an obtrusive impact on accountability measures in the corporate sphere; although not currently held up to the same standards *legally* as the for-profits, the American not-for-profits are being pressured to fall in line with the same standards as corporate organizations, as recent articles in the media have given rise to the impression that there is a widespread lack of transparency in the not-for-profit sector. SOX has not only affected American for-profits but is increasingly becoming the *international* standard which corporate organizations in other countries are being pressured to follow.

Hence, corporate organizations are not the only ones to receive scrutiny for financial scandals. Governance is a hot buzzword used increasingly by international organizations; and is increasingly being used as a yardstick against which countries from both the developed and the developing world are being measured. As American not-for-profits feel the pressure to be accountable to their donors, it is not unreasonable to expect that international not-for-profits will as well.

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<sup>2</sup> References: “Changing Governance Landscape for Nonprofits Requires Best Practices” by Steve Mariotti, NACD Jan 2005 Vol 29 Number 1; “Nonprofit Governance and Accountability”, by Lester M. Salaman and Stephanie L. Geller, *The Johns Hopkins Nonprofit Listening Post Project*, Communiqué No. 4, October 2005; “Not-for-Profit Governance: Trends in 2005” by Roger W. Raber, Charles W. Gould, and George C. Ruotolo Jr. NACD, October 2005; and “Non-Profit Corporate Accountability”, a Guidebook, by the Healthcare Association of New York State and Healthcare Trustees of New York State.

Recognizing that SOX has impacted, and is impacting, the not-for-profit world, the following synthesizes a number of studies' findings on current trends that nonprofits are adhering to and recommended best practices.

### **What are Nonprofits Actually Doing?**

In an interesting study produced by the *Center for Civil Society Studies Institute for Policy Studies* at the Johns Hopkins University, the focus of attention was placed on what nonprofits are *actually* doing, rather than on *prescriptive* measures that nonprofits *should* be doing. Surveying responses from 207 affiliated nonprofit organizations and 40 randomly selected unaffiliated organizations both big and small, the study finds that contrary to the U.S. Senate Finance Committee's discussion draft of June 2004, which focused attention on the shortcomings of governance and accountability in the not-for-profit sector, many not-for-profits *do* have functioning Boards, reasonable management and accountability practices, widespread use and adherence to best practice accreditation procedures, and ethical standards.

The study shows that while nonprofits are far from perfect, they are neither huge non-transparent conglomerates with no accountability. The study also documents the difficulties and the constraints not-for-profits face in conforming to the stricter rules that could be imposed on them. For example, one of the US Senate Finance Committee's staff proposals requires boards to establish, review, and approve program objectives and performance measures, and to report the results on Form 990 filings. Sixty-nine percent of the respondents opposed this, citing reasons such as inappropriate use of Form 990, the infeasibility of being able to carry out such a proposal when many organizations run a plethora of programs, the inability of boards to evaluate such information, and that the measures were just too costly to implement on a not-for-profit's budget.

In another survey, this one conducted by the National Association of Corporate Directors (NACD) of 52 leading not-for-profit organizations (such as the American Red Cross, Volunteers of America), determined where for-profit and not-for-profit organizations' practices are converging and diverging. Overall, governance is a key area that has been addressed strongly by the not-for-profits although the survey also indicates that progress is still needed.

Best practices/ areas of strength among leading not-for-profits are:

- director and officer liability insurance (100%)
- written conflict of interest policy
- accurate disclosure of information
- engagement in fundraising
- the formulation of a code of ethics
- education for new directors
- governance guidelines for their boards
- written charters for some or all key committees
- the establishment of a governance committee

Also, 90% of respondents cited governance as "extremely important" or "very important".

Among *areas in need of improvement* are:

- the establishment of an entirely independent compensation committee (executive compensation has been a key focus for regulatory reformers)
- meetings without the CEO (in-cameras)
- CEO succession plans
- a written list of a set of expectations and responsibilities of board duties
- disclosure of what governance structures the nonprofits have put in place.

Focusing on boards, nonprofits identified the following three areas as *priorities*:

- corporate and executive performance
- corporate governance
- board-CEO relations

Most trustees on average gave high marks to their boards in addressing key issues, although provisions for CEO succession was considered weak. Director's compensation ranked low in the not-for-profit field, with *only one out of every ten organizations paying compensation to their trustees*. This is an interesting comparison to a recent European study which finds that compensation for directors at the for-profit level has risen substantially from 55 000 euros to 63 500 euros in an attempt to attract higher caliber professionals.<sup>3</sup>

In sum, the converging point of these surveys seems clear: not-for-profits are increasingly being held to account for the actions taken on behalf of the organization, if not legally, at least by the hand that feeds them--the donors/members. Although the studies used are narrowly focused on the developed world, the impact of American corporate financial failures and their repercussions (such as the SOX legislation) are being felt all over the world. As globalization makes the world smaller, scandals in one part of the world are easily felt in other regions, or at least to the effect that donors can easily reflect on whether or not the same problem could happen in their own backyard.

### **Governance Best Practices**

Governance best practices include the principles, structures and processes that optimize the efficiency and effectiveness of the board. These practices will vary, depending on specific circumstances, including the legal and regulatory construct of an organization, the structure and interests of shareholders and stakeholders, and the stage of evolution and current challenges of the organization. There is no doubt that one size does not fit all; and some leading practices may not be applicable to CGIAR center boards, or may not be feasible immediately within the CGIAR System.

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<sup>3</sup> Catherine Albert-Roulhac and Peter Breen, "Corporate Governance in Europe: Current Status and Future Trends", *Journal of Business Strategy*, Vol 26, No. 6, 2005, pp 19-25.



The key elements of governance or major accountabilities of a Board include: strategic planning and direction setting; performance oversight and assessment; financial oversight; risks and opportunities oversight; stakeholder relations and communications; and succession planning for the board and the DG. For each of these, one needs to examine the following three dimensions:

- roles and responsibilities of the board versus those of management
- structure and composition of the board (its committees and the management team)
- culture and protocol (ethics, values, code of conduct, behaviours, how meetings are conducted, relationships)

### ***Limitations of best practices***

Best practices will vary by circumstances, including the :

- legal and regulatory construct
- stakeholder/shareholder structure and interests
- stage of evolution or maturity of the organization
- current situation and challenges of the organization

Thus, one size does not fit all.

It is therefore important to recognize that some leading practices may not be realistic or applicable to some CGIAR center boards. It is also important to recognize that the role played by a board can vary greatly depending on the stage of evolution of the organization.

Some conditions that can affect a board's ability to apply certain leading practices include the following:

- competencies of the board members
- competencies of the management team
- board's understanding of its role and responsibilities
- board and management's commitment to sound governance practices
- whether the organization is based in the developed or developing world
- number of board meetings a year

### ***A Model of Best Practices and its Components:***

The following section is based on “*A Model of Best Practices*”<sup>4</sup> which can be located in Annex 3 of this document. The model encompasses in a simple diagram a synthesis of the key accountabilities of any governing body or board, as well as the three dimensions within which these accountabilities apply. Although the areas of accountability could be broken down further into smaller elements, for the sake of simplicity, this model breaks them down into six core sections.

<sup>4</sup> Renaud Foster Governance Framework, Copyright 2006, Canada.

Referring to the *model*, the following provides a brief summary of some of the leading practices for each of the six areas of accountability as well as for the three common dimensions that apply to them:

***Box 2. Leading Practices within the Components of Board Governance***

The leading practices for each of the six areas of Board accountability, as well as for the three dimensions that apply to them, are outlined below:

**Areas of Accountability:**

1. Under *Strategy and Direction Setting*, the board:
  - contributes to the definition of the core purpose and vision of the organization
  - contributes to and approves the strategic plan
  - sets strategy and contributes to the development of objectives and plans
  - ensures that the operational plans are linked to the strategic plan
  - ensures that appropriate ethics and values are established and maintained
2. Under *Financial Oversight*, the board (see Annex 5):
  - ensures legal responsibilities are met
  - establishes the delegation of authority to management
  - contributes to, and approves financial plans
  - assesses and controls regularly financial results
  - ensures integrity of financial reporting
  - ensures there is a process for the approval of the chair's, CEO's, and directors' expenses
3. Under *Performance Oversight/ Management*, the Board sets objectives for and assesses the performance of:
  - the organization
  - the CEO / Director General
  - the board itself
  - the board chair, and committee chairs, committees and individual directors
4. Under *Risks and Opportunities*, the board:
  - ensures that key risks and opportunities are identified and assessed
  - ensures strategies are developed to minimize exposure to risks, mitigate existing risk and take advantage of opportunities
  - ensures internal controls are established and monitored
  - reviews results and ensures updates
5. Under *Succession Planning*, the board:
  - selects, compensates and manages the DG/CEO
  - assesses senior management's capabilities and appointments
  - plans for board succession
  - establishes profiles for directors/trustees and the chair
  - ensures orientation and professional development of directors/trustees
  - ensures that an emergency contingency plan is in place for the DG/CEO and senior management
6. Under *Stakeholder Relations and Communications*, the board:

- ensures key stakeholders are well identified and associated to key events in planning and monitoring
- ensures strategies and plans to deal with stakeholders as well as communicate with them
- monitors the performance, financials and governance of those strategies
- sets, or contributes to, strategies to resolve stakeholder issues

### **Common Dimensions:**

Within the scope of each of the above components of the governance framework are three dimensions that affect how the model is applied. They are:

#### **A. Roles and Responsibilities:**

- Best practices call for clear delineation of the roles and responsibilities of the board, its chair and its committees from those of management

#### **B. Structure and Composition:**

- *Structure and Composition* relates to the organization and size of the board and its committees, including the number and independence of Directors, terms of office, representation strategies, diversity and competency requirements, and the mandates of the committees.
- A basic rule of thumb is the three Cs: Competence, Commitment, and Compatibility.
- Because of the increased importance of independence, Audit and other committees should consider the option of hiring independent outside counsel as a best practice to ensure they have done everything possible to provide financial oversight. If ever challenged on its independence, having independent counsel can strengthen the committee's or the Board's defense of its oversight responsibility.

#### **C. Culture and Protocol**

- Rules and regulations alone do not ensure good governance
- *Culture and Protocol* is an often overlooked dimension of how the board really operates; this includes the relationships among directors and those with management, meeting processes, decision making and information flow and values and ethics.

At the core of the model are the legal and regulatory considerations which include:

- Duties and responsibilities of the organization, and,
- Other relevant legal and regulatory considerations including country agreements

These clarify the legal, regulatory and fiduciary responsibilities and establish specific requirements or limitations for the operations of the board. At the core, the duties of care, diligence and skill apply to all trustees.

In the not-for-profit world, there are multiple constituencies to which the organization must answer making accountability difficult to implement. Perception is key to not-for-profits since they do not want to be seen using donor funds inappropriately, such as for personal luxuries (for example first class airfares, private cars, and expensive dinners). The responsibilities held by both for-profit and not-for-profit boards are largely equivalent; however in the case of not-for-profits as the name implies, there are no profits, only the end results that the donor money

produces. Therefore, establishing a governance framework that allows not-for-profit boards to inform and communicate clearly and efficiently with their constituents, will help to build confidence from their various stakeholders.

Examples of the application of SOX provisions and best practices in not-for-profits, including on the audit committee of the board, are given in Boxes 3-6 below<sup>5</sup>.

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<sup>5</sup> The best practices that follow and that comprise Annex 4 are based on research, experience and association with:

- National Association of Corporate Directors (NACD) in the US
- Schulich / Kellogg School of Business (Canada/US)
- Institute of Corporate Directors (ICD) in Canada
- Governance legislation and reports (Cadbury, Higgs, SOX, Dey, etc.)
- Securities exchange guidelines (US, Canada, UK, OECD)
- Special studies on governance
- Nashwa George, Montclair State University, Montclair, N.J.
- Relevant publications and articles on Best Practices in not for profits

### ***Box 3. Example of Best Practice Standards for Non-Profits***

#### ***Insider Transaction and Conflicts of Interest***

- Understand and fully comply with all laws regarding compensation and benefits provided to directors and executives.
- Establish a conflict-of-interest policy and a regular and rigorous means of enforcing it.
- Do not provide personal loans to directors and executives.

#### ***Independent and Competent Audit Committee***

- Conduct an annual external financial audit.
- Establish a separate Audit Committee of the Board.
- Board members on the Audit Committee should be free from conflicts of interest.
- Include at least one financial expert on the Audit Committee.

#### ***Responsibility of Auditors***

- Rotate auditors or lead partners at least every five years.
- Require disclosure to Audit Committee of critical accounting policies and practices.
- Use Audit Committee to oversee and enforce conflict-of-interest policy.

#### ***Certified Financial Statements***

- CEO and CFO should sign off on all financial statements.
- The Board should review and approve financial statements and tax returns for completeness and accuracy.

#### ***Disclosure***

- Disclose audited financial statements.

#### ***Whistle-Blower Protection***

- Develop, adopt, and disclose a formal process to deal with complaints and prevent retaliation.
- Investigate employee complaints and correct any problems or explain why corrections are not necessary.

#### ***Document Destruction***

- Have a written, mandatory document retention and periodic destruction policy, which includes guidelines for electronic files and voice mail.

### ***Box 4. The Role of Audit Committees for Not-for-Profits***

An effective Audit Committee can increase the integrity and efficiency of the audit process, as well as the system of internal controls and financial reporting.

The Audit Committee is an integral element of not-for-profit accountability and governance. It plays a key role with respect to the integrity of the organization's financial information, its system of internal controls, and the legal and ethical conduct of management and employees. An Audit Committee's responsibility will vary depending upon an organization's complexity, size, and requirements. Typical Audit Committee responsibilities include:

- Approving the overall audit scope
- Recommending the appointment of the external auditor
- Overseeing the entity's financial statement and internal controls
- Helping to ensure that the audit is conducted in a cost-effective manner, and
- Risk management oversight.

Audit committees are an increasingly important component of effective accountability and governance. An audit committee's activities should include the following:

- Understanding how the internal control objectives are achieved within the entity.
- Considering whether the control environment and procedures can accomplish their objectives.
- Reviewing the auditor's reports on internal controls and compliance with laws and regulations.
- Determining whether material weaknesses, reportable conditions, or other findings were reported.
- Reviewing suggested improvements to internal controls and following up to correct the weaknesses in internal controls.

An effective audit committee should have open lines of communication with management, internal auditors, and outside auditors.

An audit committee must review the financial statements, and, if appropriate, the comprehensive annual financial report and the underlying audit results, with the governing body and external auditors. The review should consider reasons for nonstandard audit opinions; changes in accounting policies; areas of judgment in the financial statements; accounting and auditing problems that are a source of disagreement; material noncompliance with laws, regulations, and grant provisions; and changes in the report format or the nature of footnote disclosure from the prior year's financial statements.

#### ***Box 5. Audit Committee Composition and Responsibilities--Best Practices (Public Sector)***

An audit committee should have a charter that states its mission, objectives, authority, organization, and methodology. In addition, the charter could establish voting requirements, the liability of members, and their method of appointment.

Specifically, the SOX Act stipulates that the Audit Committee shall:

- Be composed solely of independent directors/trustees
- Have one 'financial expert' director/trustee
- Be directly responsible for appointment, compensation and oversight of auditors
- Be responsible for the pre-approval and disclosure of audit & non-audit services
- Be able to engage independent counsel or advisors
- Establish a system to handle accounting complaints

Audit committees should have three to six members, with some or all of the following qualities:

- Good communication skills and the ability to work with others;
- Knowledge of the needs, interests, and concerns of the constituency;
- Accounting and auditing expertise and experience; and
- A willingness to ask hard questions and deal with controversial matters.

An audit committee may often be empowered by the board to select or recommend the external auditors, which would be formally approved by the governing body. In doing so, the audit committee should

consider the following factors:

- Auditor independence;
- firm's reputation and fees;
- firm's scope of services and experience with the public sector; and
- firm's quality-control standards.

***Box 6: Audit Committee -- Best Practices***

- A board-level committee, whether the "audit," "audit and compliance," "finance" or some other denominated committee, should assume all duties and responsibilities for auditing oversight.
- The purpose, membership and function of the committee should be [written] in a charter or other document adopted by the board.
- Committee members should meet articulated and strict independence criteria.
- Committee members should possess [at least] a minimal level of financial expertise.
- The duties and responsibilities of the committee should encompass specific matters relating to external auditors, internal financial controls and internal audits, corporate conflict-of-interest policies and the corporate compliance program.
- When a single committee takes on multiple roles, such as "audit and compliance" or "audit and finance," the various roles of the committee should be clearly articulated, with reporting relationships well-defined.
- The committee must be provided with adequate resources to allow it to effectively carry out its functions.
- The committee may appropriately rely on information and advice from management and independently retained advisers and counselors and make decisions on the basis of such information and advice.

***Code of Ethics/Code of Conduct***

In addition, governance best practices are to be seen in the context of the values and ethics of the societal and center circumstances within which the board operates. These values cannot be easily articulated in a report, but they—as well as the values, norms, and behaviours that board members bring with them—are extremely important, even though they cannot be legislated. It is difficult to over-emphasize the importance of ethical values in the conduct of governance. We endorse the view that guidelines on ethics could fruitfully supplement the CGIAR's board guides currently in use. A best practice example of one such corporate guideline on ethics is the creation of a Code of Ethics/ Code of Conduct.

A Code of Ethics outlines the set of fundamental principles upon which an organization's operations are based. They outline what an organization should and should not be doing. Those for whom the code was intended are expected to understand and internalize the code while those who break it can expect disciplinary action. The following provides some general, basic elements for constructing a Code of Ethics.

## **Elements to a Code of Ethics<sup>6</sup>:**

### **1. Honest, ethical conduct, including when handling situations that arise out of conflict of interest.**

-This has received a lot of attention and is particularly important for DG and members of Boards. It is therefore important to have a code of ethics that prohibits conflicts of interest, and may require Board members to divulge any relationships that could possibly result in a conflict of interest (e.g. family relationships, financial relationships).

### **2. Full, accurate, timely and understandable disclosure .**

-At its essence, this provision means honest disclosure of information, even when it may be difficult to do so. Disclosure is also a tricky subject as results can be manipulated and can mislead, as well as inform. Disclosure of an organization's accounting performance can be open to multiple interpretations, from being over-cautious to overestimating. Using clear, plain text that is easily understandable is also important to transparent documentation.

### **3. Compliance with governmental laws, rules, and regulations.**

-Those within the organization are responsible to know the rules and laws as they apply to individual positions as well as adhere to those regulations. Often, "legality" is seen as a minimal standard and many codes of conduct strive for a higher level of ethical conduct.

### **4. Internal reporting of code violations.**

-The interests of the organization must always be at the fore and individuals within the organization must be encouraged to protect them; however policies such as "whistleblower" reporting are not always easy to implement. The process must be seen as safe in the fact that there will be no retribution for coming forward and that complaints will be taken seriously. Appropriate person(s) should be identified for reporting purposes, preferably someone with considerable status. In terms of auditing and accounting matters, procedures should be established that allows for the historical documentation of complaints.

### **5. Adherence to the code.**

-In terms of best practices, organizations need to publicize actions taken for violations of the code through formal communication, such as newsletters, reports etc.

Although the Panel is not recommending any guideline in particular, Annex 6 located at the end of this document provides an example of a general Code of Ethics that can be used as a reference by any not-for-profit and adapted to fit an specific organization's structure. The example provides general provisions that should be incorporated into a Code of Ethics/ Conduct such as:

- A general statement of commitment emphasizing the responsibility of the Board and its members
- A list of ethical guidelines that include general statements on responsibilities and conflicts of interest, statements on the use of confidential information, and statements on the use of resources (such as expenses).

<sup>6</sup> Edward L. Pittman, "Corporate Ethics and Sarbanes-Oxley", *Wall Street Lawyer*, July 2003.



- The acceptance of gifts and hospitality
- The duties of a Board member as the representative of the organization
- Interpretation and enforcement of the code
- Penalties for violations of the code

#### **4. BOARD STRUCTURE, STRATEGY SETTING, AND PERFORMANCE OVERSIGHT**

##### **Roles and Responsibilities of Boards**

Before we discuss the roles and responsibilities of center boards, it is necessary to say a word on the nature of these boards. There are four basic features that distinguish them from many other boards. First, they have a representative character that is reflected in their composition. Thus, some board members represent host countries and the CGIAR System, while others are drawn from certain regions or other constituencies relevant to the CGIAR mission. Criteria and modalities exist to ensure that stakeholders and diverse constituencies are represented on center boards. Second, center boards require a mix of skills relevant to the tasks of governance and programs of the centers. Core competencies and experience in science and science management, finance and governance are essential for the smooth functioning of the boards. Third, they are autonomous bodies with their own charters and missions. But with autonomy comes responsibility and accountability. Guidelines and external oversight become inevitable in order to maintain the delicate balance between autonomy and accountability. Fourth, with the increasing demand and complexity, and as governance tends to become more important, the representative character can not be fully covered any more. Boards are less boards of trustees; they have become more boards of governors. Fifth, boards operate as part of a larger system within the CGIAR that provides the oversight and the broad framework necessary to ensure that their directions, responsibilities and accountability for performance are mutually consistent. As the centers have multiple stakeholders, CGIAR plays the lead role in responding to the complexities and ambiguities involved while also providing the resources and related assistance they need. It is against this backdrop that the roles and responsibilities of center boards need to be assessed.

The Panel's terms of reference call for a systematic review of the roles and responsibilities, the structure, composition, and size of center boards, and a host of related issues. A number of questions have been explored in the process of making this assessment. Board members, CGIAR members, and other stakeholders have provided useful responses to these questions. The Panel has also compared the design features and practices of center boards with those prevailing in the corporate world and other relevant sectors. Our assessment and conclusions pertaining to these issues are presented below.

1. Are the roles and responsibilities of center boards appropriate and adequate to enable them to discharge their functions in the present environment?

The CGIAR System's policy statements on the roles, responsibilities and functions of boards serve as the departure point in making this assessment. It is necessary to follow this up with a review of how well the given policy guidelines have been implemented or adopted by the various boards. The evidence for this can be found in the prevailing board practices. It is important to do this cross check because good policies may exist on paper, but may or may not be followed in practice.

On the adequacy of policy statements, it is necessary to ascertain whether the CGIAR System has given proper guidance to the centers on the role, responsibilities and functions of their boards. For this purpose, we have examined the relevant documents that guide the functioning of boards. The charters of the centers are the basic legal documents that specify the roles, responsibilities and functions of boards. Of necessity, the statements on board functions in charters are generic and brief. They need to be interpreted and elaborated depending on the context. This has in fact been attempted in the second set of documents called “Board Guides” that present more detailed guidelines on the roles, responsibilities and functions of center boards. Our assessment of these “Guides” is that they provide a rather comprehensive and systematic account of the subject. As we argue in a later section, they need some updating in terms of best practices due to the changes taking place in the standards of governance in both the corporate world and the public sector. Nevertheless, we have concluded that the policy guidelines provided by the CGIAR System through these “Guides” do not leave any major gap.

Despite this finding, if there is evidence of some measure of unevenness in board governance across the centers, the problem lies at the level of internalizing these guidelines and translating them into practices and norms that reflect the intent of the stated policies. This task of operationalizing the policy guidelines has been left to the individual boards. Several factors are at work that can cause a disconnect between policy and practice. It is not implied here that this problem has arisen because of a deliberate intent to mislead others or for personal gain. When boards consist primarily of scientists, for example, there will be a natural tendency to give greater attention to programmatic issues and much less to financial and administrative matters. It may well lead to a failure to observe and probe certain performance problems and practices that may need immediate attention. An unintended consequence of this neglect is weak fiscal oversight that results in the emergence of avoidable crises for the centers. The problem here is not due to a gap in policy, but due to certain practices that are inconsistent with the stated policy.

Similar problems of a policy-practice mismatch have occurred in other areas. Some boards have delegated most of the work on DG evaluation to executive committees. Though policy calls for the board to be responsible for this function, the delegation may end up with an evaluation process and results that keep the rest of the board in the dark. The committee may have reported back to the board for the record, but other members of the board may not be briefed on the outcome, and consequently may not have been able to play their mandated role in the evaluation process. A pattern may then emerge of a small subgroup of the board making key decisions and exercising power at the expense of the board as a whole. Such practices are also influenced by other limitations such as infrequent board meetings and crowded agendas that result in further delegation by the board of responsibilities to committees, management, etc. Since nearly half of all center boards meet only once a year, this issue cannot by any means be regarded as trivial.

## 2. Should center boards be redesigned to be like corporate boards?

One proposal that seeks to remedy such problems and more generally to improve board governance and accountability is a plea for center boards to adopt the corporate model of governance. In the corporate model, it is argued that problems of the kind noted above are minimized because the board will tend to be smaller in size than a typical center board, meet more frequently, and will consist of persons with expertise in business and finance rather than with

narrow technical skills. Such a board will not discuss and decide on programmatic issues, but depend on advisory committees on programs. The board's primary concern will be with the broader issues of governance, especially finance and the management of resources and external linkages. According to this view, the corporate model will make the center board more businesslike, with a stronger focus on outcomes, efficiency and the like.

There is no doubt that a smaller board with skills in business and finance and clear performance focus will eliminate some of the problems of center boards that we have discussed above. But we need to examine both the pros and cons. In the CGIAR System, outputs and outcomes of the centers are not always easy to measure and oversee. The credibility of the boards comes partly from the stakeholders' knowledge that persons with the relevant domain knowledge are present on these bodies. An erosion of credibility will needlessly hurt the centers and their impact. Outsourcing science oversight may be neither easy nor desirable as a board without domain knowledge will find it difficult to judge the links between programs, funds, outcomes, and incentives. This is in contrast to the board of a manufacturing business that deals with mass produced standard products. Sales, costs and profits can be easily overseen and assessed by the board, and technical matters can be left to the units below and the market. But even in such corporate boards, persons with domain knowledge will be present, in addition to those with finance and governance expertise. Thus those with knowledge of the products and their markets and competition are essential players on corporate boards.

Similarly, center boards may need to retain some measure of representative membership, unlike corporate boards with stakeholders who share a common objective of making profits. In the center boards, a part of their acceptability and impact will come partly from representatives from developing countries, for example, being on these bodies. We conclude that compact boards consisting only of persons with business expertise, though they may be more performance oriented, are not appropriate for the CGIAR centers. What is required is a search for the positive features and practices of this model that can be incorporated into the center boards.

### **Board Structure, Composition, Size, and Related Issues**

As the CGIAR centers are international research institutions serving the needs of developing countries, their initial sponsors created center boards primarily to provide the needed guidance and oversight of research activities. This required that scientists relevant to the research were adequately represented on the boards. In order to create links and credibility with developing country governments, their representatives, chiefly science administrators and experts, were invited to join the boards. In more recent years, as the scope of research widened, representatives of the private sector and NGOs have also been added to the boards. There is also some evidence of an improvement in terms of gender balance, although this is an area which needs continuous attention. (Male-to-female ratio in total board membership across centers decreased from 2.6 in 2000 to 2.1 in 2005.)

1. Is the boards' structure and composition congruent with the centers' mission and changing external environment?

Our survey responses show that boards have maintained a reasonable balance between the need for representation and the need for expertise and experience. Regions of the North and South are about equally represented on the boards. Representation is important both for forging links with client countries and groups and mobilizing funds and other support. When a center serves different regions, those familiar with these areas bring distinct and diverse perspectives on problems to the boards. It is, of course, true that not all stakeholders are adequately represented on boards. Thus, the ultimate beneficiaries of research, namely, the poor are not directly represented on these boards. They are indirectly represented by developing country governments and to some extent by a few representatives of NGOs who work with the poor and by other board members who are committed to work for the benefit of the poor. But there is an inherent limitation here in that not all stakeholders can be brought into the boards. It does raise the question whether the centers and their boards have devised other mechanisms to listen to the voice of the stakeholders who are not organized and do not have the means to be represented on the boards.

Science expertise is important for doing good science and to ensure credibility among peer researchers. For historical reasons, this is one area to which the boards have paid much attention. Some might argue that science expertise has dominated the boards at the expense of other skills and experience. Financial and management expertise and experience, for example, are also essential for good governance and fiscal oversight. The nature of a center's mandate thus calls for a measure of diversity in its board's membership.

Survey responses confirm that, in some respects, boards have failed to maintain the balance implied in their board guidelines. Respondents have pointed to a lack of members with adequate financial and governance expertise as an important gap that needs to be remedied. Survey responses also show that several boards have already taken steps to recruit more members to strengthen their financial oversight function. There is a similar need to find members with broader science backgrounds, including research management. Highly specialized scientists may be more useful as advisers or overseers of specific projects than as board members concerned with overall governance of the centers.

All center boards have a built-in provision to bring in at-large members. This facility can be used to bring in persons with the required expertise or experience, depending on emerging needs. An important issue is how to open up this process so that a wider range of qualified candidates are available to the boards prior to the appointments. The current practice of most boards is to consult the CGIAR roster (candidates database) in order to identify and attract suitable persons. There is a clear need to update and streamline this roster so that it can act as a proper data base with relevant and complete information.

There is a similar problem with the CGIAR that has the right to nominate a specified number of members on boards. One issue here is whether there should be wide variations in the number of CGIAR nominees on the different boards. For historical reasons, ad hoc decisions may have been made in the past that caused such wide variations. Our assessment is that there is no case for continuing this practice. More uniform guidelines and limits on the number of CGIAR nominees are necessary to make the board composition more balanced.

***Recommendation 1): The CGIAR as a system represents a wide range of stakeholders. The center board therefore needs to reflect this diversity and at the same time have the needed mix of skills to ensure that their functioning will be effective and efficient. The boards have done reasonably well in being representative of the stakeholders and shareholders. There is, however, unevenness in the mix of competencies and skills present in some of the boards. In order to perform the role expected of them, the boards need to have a proper mix of skills to judge the quality and relevance of science, and to oversee the finances and overall accountability of centers. At a minimum, two persons with adequate financial, business and accounting knowledge and experience should be members on every board. At least three members with science or science management background should be available to a board.***

All center boards have established committees to facilitate more detailed deliberations of some of the specific functions entrusted to them. They also permit members to more actively contribute to aspects in which they have a special interest or expertise. Survey responses do not indicate any serious problem with the functioning of these committees. Since several of the boards meet only once a year, the executive committee, for example, also performs certain delegated functions between board meetings. Committees become suspect when members feel that they are dominated by “cliques” or are secretive. Deliberations and recommendations of committees need to be reported back to the full board. The committee system can be even more intensively used, as proposed below, to improve the overall effectiveness of boards.

Given the nature of the business of CGIAR centers, our conclusion is that one meeting per year is totally inadequate. Governance functions such as review of financial reports and performance call for more frequent meetings. A notable casualty of the annual board meeting is that the agenda gets overloaded, and leaves little time and attention to strategic planning and related issues. It also limits the opportunities for members to learn about the center’s work and maintain continuity. Ideally, a board should meet four times in a year to monitor and review the center’s performance, and to be in touch with new developments. A quarterly meeting will definitely strengthen fiscal oversight, and afford more time for the board to formulate strategy jointly with the management. The downside is that four meetings can be too expensive for the centers, given their limited budgets. We propose, therefore, that the full board meet twice a year, with provision for a video conference with all members or executive committee meetings twice a year. This would still permit four board or executive committee meetings in a year so that quarterly reviews of financial performance and other relevant matters can be conducted without fail.

More frequent meetings and video conferences as proposed above will provide more time to the boards to attend to matters that may have been lower priority in earlier periods. One such business is strategy formulation and review on a periodic basis. Some centers have begun to devote a day or two for retreats on this subject. Such practices need to be shared widely and encouraged. Similarly, boards should devote more time to “listening to the ultimate stakeholders – the poor”. There are many ways to do this, including through the use of new technologies so that boards can have direct feedback from those they are meant to serve.

***Recommendation 2): The frequency of board meetings should be determined by the nature and scope of the business to be transacted. Given the mix of functions of center boards, the Panel recommends that full board meetings should be held at least twice a year. In addition,***

*two more meetings may be required to review quarterly reviews of finances and programmatic matters. In order to minimize costs, these additional meetings may be conducted through telephonic or video conferences or through delegation to an executive committee that reports back to the full board. The duration of each meeting may be reduced, depending on the requirements of different centers. Increased frequency will also enable boards to meet in other regions where research projects or partners are located.*

**Recommendation 3):** *The proposals above may increase the time and attention that members may be required to give their boards. It will most certainly demand more time from the chairpersons of boards. This may necessitate a review of the compensation of Board members due to the increase in accountability, responsibility, expertise, and time required of them. This would apply, in particular, to board chairs and committee chairs.*

## 2. How long should a member serve on a center board?

Most boards have a policy of members serving for up to two terms of three years each. There is nothing automatic about a person being given two terms. Many boards probably review member contributions and decide to renew them only after the evidence is positive. It is not clear, however, that this practice is followed uniformly by all. In exceptional cases, boards have extended the term of a member by a year or two beyond the two terms. The major reason for this exception is that occasionally continuity requires that a person stays on the board during an overlap period. This type of emergency can arise when several members retire over a short period, with very few left on the board with institutional memory of what happened in the past. A staggered term is another option to consider in dealing with such requirements.

Some members have argued that the term should be extended by three more years so that center boards can have persons with longer experience and commitment to their work. It is true that members acquire greater knowledge about a center and will be able to contribute more, the longer they serve on its board. Many corporate boards follow this practice. In the CGIAR System, however, there are multiple stakeholders and regions of the world whose perspectives and inputs need to influence board deliberations and decisions. Given the changing nature of programs, boards also need to bring in persons with relevant expertise. If members stay on for nine years, for example, a board may not get the benefit of these perspectives.

On balance, we see much merit in staying with the current practice of a ceiling of two terms of three years each that many boards have adopted. It is a sufficiently long period for members to contribute effectively to the board's deliberations, and yet leaves some room for the board to induct new talents and expertise as needed. A cautionary note is that board members' contribution and attendance should be reviewed every year. Board chair should give them timely feedback on this, and prompt action taken to terminate membership at the end of the first term if a member's performance is deemed to be unsatisfactory.

**Recommendation 4):** *The duration of a member's term on a board should not exceed six years. The current practice of most boards to renew a member's term after three years is a sound one. It is important, however, that boards review more rigorously members' contributions before confirming them for a second term. Members who fail to attend consecutive meetings*

*or do not contribute adequately in the judgment of the boards should not be offered a second term. Boards may choose to renew members for less than three years in order to have staggered membership to ensure continuity.*

3. What should be the size of a center board?

The size of center boards presently varies from 12 to 18 members. The larger size of some boards can be traced to the need at the time of their origin to get several nominees from host countries or the region. It is also possible that cost did not figure as a major issue as only one meeting per year may have been envisaged. The board was also seen primarily as a forum for getting support from diverse stakeholders for the center.

These underlying factors have all changed significantly since then. As discussed above, it is essential now that boards meet more frequently. Even though this might add to the center's costs, we feel that the benefits of having a more engaged board far outweigh the added costs. Furthermore, larger boards find it difficult to recruit adequate numbers with commitment and the time to attend to board matters. The quality of deliberations is not necessarily improved by merely having more members on the board. In fact, other things remaining the same, it may be easier for the centers to find a smaller number of persons with commitment, relevant expertise and time than a larger number with the same attributes. In the emerging environment, it is not the size, but the quality of engagement of the board that will determine the effectiveness of governance.

As noted above, representation of different stakeholders on the boards is one reason why some of the boards are large in size. Host countries and the CGIAR need to have their nominees on boards. We feel, however, that the number of nominees can be brought down without violating the principle of representation. Host country nominees range from two to four in several boards. Some of them are busy government policy makers who cannot be expected to give much time to center boards. This could be brought down to one nominee uniformly across all boards. It may call for an amendment to the center charters. Similarly, the CGIAR nominees range from two to eight in the boards. Though CGIAR is the primary stakeholder, its nominees on the boards could be brought down to between two and three, depending on the size of the board.

In light of the foregoing discussion, our proposal on the size of the boards is that the range should be between nine and twelve members excluding the DG (ex-officio). This range will permit the larger centers with diverse programs and serving many regions to have a slightly larger membership than the rest. This range will leave enough space for the boards to co-opt additional members to fill in gaps in the changing requirements of the centers. The proposed size is still large enough to permit the creation of the committees required to manage the affairs of the board.

One factor that might limit the ability of the boards to attract persons who are willing to commit their time and engage productively in board deliberations as required is the matter of compensation. In the corporate world, substantial fees are paid to board members in view of their frequent meetings and other responsibilities. Center boards pay an honorarium of \$300-400 per day to their members. It is true that most board members join center boards not for the income



they earn, but to participate and support a worthy public cause. Nevertheless, we feel that an active engagement through more frequent meetings that we have proposed will increase the demands on their time, and hence may call for a review of the policy on board honoraria. This will apply in particular to the board chair and committee chairs. Compensation could be a problem especially if members with financial and business expertise are to be attracted to these boards. There is no implication here that CGIAR honoraria should be on par with corporate fees for directors.

***Recommendation 5): Keeping in view the need for a board that is compact, accountable and well focused on governance, it is recommended that the size of the board should be between nine and eleven members, excluding the DG (ex-officio). A smaller board enhances the chances of synergy, participation, and focus. A board with less than nine members may cause problems in terms of quorum and the mix of skills needed in a board. A much larger board may add unduly to costs, given the increased frequency of meetings. The Panel offers this as a guideline to be adapted to the needs of the centers.***

***Recommendation 6): Consistent with their international status and mandate, centers serve many countries and, in many cases, more than one region. Center boards, therefore, need to have members from different regions and backgrounds. Hence, host country representation on a board should be limited to one nominee. A board may still wish to invite other host representatives to attend its meetings as observers as and when necessary. Where feasible, center charters should be amended in line with this recommendation.***

***Recommendation 7): A similar rationalization of CGIAR nominees on boards is also in order. Presently, the number of nominees varies widely, the maximum being eight. It is recommended that the number of CGIAR nominees should not exceed two unless there are legal problems that may cause a center to lose its international status or privileges. CGIAR should strengthen its consultation and nomination process in order to ensure that its nominees meet the competencies needed by the Boards.***

## **Strategy and Direction Setting**

As the highest decision-making body of a CGIAR Center, the board is ultimately responsible for ensuring that the center's strategy and programs are consistent with its mandate, mission and goals, and are also aligned with the CGIAR's priorities and strategies. All center boards are therefore required to devote time and effort to strategic planning and direction-setting, and to do so in a manner that enables the board to appropriately take into account the diverse perspectives of a variety of stakeholders represented by the CGIAR, as well as the many beneficiaries the CGIAR system and its centers are ultimately expected to serve.

Strategic planning is thus not a new function for the Boards; but with a fast-changing environment and continually evolving CGIAR priorities, it is an activity to which they have rightly given much greater attention in recent years. Building on past experience, and recognizing the need for adopting a more-systematic and participatory approach to strategic planning, some centers have also utilized such means as special retreats and in-person consultations with stakeholders, virtual meetings and electronic consultation tools, and external facilitators to help improve the data and processes used for strategic planning. All these efforts

and new practices have helped; many CGIAR centers are presently undertaking strategic direction-setting in a more effective and participative manner than in previous decades.

Despite these improvements, however, center boards themselves recognize that further progress is needed. The survey data obtained by the Panel indicates that a large majority of board members (80%) say that strategy setting is an interactive process involving all parties; and the remaining respondents are about equally divided in saying that the planning process is either board- or DG/staff-led. Despite recent efforts, many weaknesses are identified, and there is considerable agreement on what these are. In particular, the inherent complexity of the task and the constraints under which the boards and centers operate, and some of the systemic factors underlying these constraints and weaknesses are also recognized—but respondents seem to have found it harder to identify workable solutions for some of these shortcomings.

On some boards, the capacity to undertake strategic planning is one such constraint. Many respondents believe that center programs have become more diverse, but in-depth board expertise and scientific knowledge is lacking in some areas of work. In other cases, the board has not worked through the relevant questions with sufficient rigor; or there has apparently been lack of clarity on goals for the center. In some centers, respondents believe that the board has demonstrated a limited ability to think strategically, has tended to focus on tactical issues, or needs to engage better in the process.

The pattern, unpredictability, and restrictiveness of donor funding is also considered a challenge. Respondents say that when donors do not fund approved plans, it is not clear what an “appropriate” strategy really means; and that the lack of adequate core funding, and the emphasis on project funding, greatly limits goal setting and achievement. In some cases there is a gap between donor interests and the strategic issues identified by the board/center; fund-raising efforts take precedence over strategic planning, and a high proportion of opportunistic project funding contradicts the strategic approach; and the quest for additional funding has led to too many diverse projects that may not be well aligned with the center’s strategic requirements.

Most boards are also constrained by insufficient unstructured time to explore strategic options. Many survey respondents comment on the shortage of time and resources for regular review and adjustment of strategy, and on the limited commitment of board members to participate in extensive, time-consuming processes of strategic planning. Board members also find it difficult to anticipate and track the impact of complex long-term projects, and note that effective strategic planning requires quality inputs from management, and more interaction with scientists than time permits. Background documents presented to the board sometimes do not provide a synthesis of the mass of data available, or are too long, wordy or late; or alternative strategies are not presented. All of these constraints hamper the effectiveness of strategic decision-making by the board.

There are system-level and external constraints as well. In some cases, turf battles between centers have impeded progress; and boards have found it difficult to incorporate opinions of diverse stakeholders and beneficiaries, and have had a limited opportunity to interact with NARS. In some cases, survey respondents have also noted the apparent mismatch between the CGIAR/Science Council’s recommendations and the board’s more grounded and knowledgeable

perspective; confusion between Science Council and board roles; and poor linkages between program planning and resource mobilization, leading to wasted effort in strategic planning.

Thus, based on the survey data alone, there is obviously considerable room for improvement in strategic planning by center boards. Some constraints—such as time and information availability—are more easily rectified than others; and there is evidence from CGIAR Centers that the boards that seem to have a good handle on strategy are those that have set aside at least one additional half day per year and dedicated it exclusively to strategy and direction setting. Having only one board meeting a year, as is the case for some boards, usually precludes the board from having either the time or the perspective to focus on the strategic orientation of the center or its strategic objectives. The competencies of the individual trustees are also critical to this exercise. At least some of the trustees need to have management, governance or strategic planning experience in order to contribute in a meaningful way to the strategy and direction setting.

The Panel believes that for a board to perform its strategic oversight function it needs to ensure that board competencies include the ability to think strategically and to look at the big picture. The board also has to ensure the DG has the capability to lead the development of strategy, and that there is sharing of good practices between centers (e.g., on how strategic objectives were formulated or processes for joint board /management sessions to establish or amend strategy) to facilitate effective strategic planning and to avoid reinventing the process. As well, management needs to understand how to make better use of the board in order to get advice and guidance on strategy, and has to present information to the board accordingly. Donors too need to recognize that an annual funding cycle and unpredictability of funding seriously constrain a board's ability to do effective strategic planning.

***Recommendation 8): Limitations of time and the overload and urgency of the operational programs of centers often lead to a relative neglect of strategic functions in some of the boards. It is imperative that this imbalance is rectified by providing adequate time and resources to the boards to perform their strategic functions of planning, review and oversight.***

In addition, the boards need to ensure that they themselves have adequate capacity to effectively guide and oversee strategic planning by center management. Recognizing this, some boards have undertaken a comprehensive self-assessment to identify current and future needs, and have adopted a "board development plan" to upgrade the board's competencies, composition, and processes for performing its strategic functions. This plan for improving the board's effectiveness in addressing strategic issues—and for making the board itself more strategic in its approach—has led to the adoption of more systematic succession planning and such other board-renewal activities as discussed elsewhere in this report. Other issues, for example those related to the CGIAR system or the Science Council, are also important, but clearly beyond the scope of this stripe review.

## **Performance Oversight and Assessment**

As noted earlier, the board is ultimately accountable for a center's performance. It must therefore ensure that it effectively oversees and assesses the center's performance in all program

and management areas, and that it provides relevant, unambiguous, and timely guidance to management on all aspects of the center.

Recognizing this, center boards (and the CGIAR) utilize a variety of oversight and assessment mechanisms to assure coherence between the CGIAR's priorities and the Centers' strategy, medium term plans, and annual workplans and budgets. They also have in place a long-standing system of periodic EPMRs and Center Commissioned External Reviews (CCERs), both of which seek to ensure that program and management performance are aligned with the Center's strategic objectives. In addition, a system of monitoring and assessing performance through the annual Performance Measurement System (PMS) has recently been introduced.

Obviously, boards provide oversight of center activities both as a full-board and through its various committees. About 90% of survey respondents say that there are appropriate committees "to a great extent"; and about 80% of the respondents say the boards' committees do "not at all" overlap (and the remaining 15% say "to some extent"). Thus, survey respondents believe that the committee structure is generally appropriate, though some areas of improvement remain.

These areas include, for some boards, the need for better risk management; the need for a new or *ad hoc* committee for personnel issues and handling staff grievances; making sure that the program committee does not unduly get into management issues; and clarifying the role of the executive committee. In some instances, there is need to clearly demarcate the responsibilities of the board and its program committee (in which sometimes the full board participates); and of the executive committee and audit/ finance committees. However, the survey does not permit broad generalizations that cover all centers; and it was clear from the Panel's interviews that whether a committee needs strengthening depends very much on the particular board.

In general, survey respondents also recognize many strengths of boards in providing program oversight. These include the perception that most center boards have members with competency in providing scientific as well as governance oversight. Most boards have eminent scientists with an intimate knowledge of relevant programs, who interact with the center's scientists; there is openness and transparency of board processes; and the boards engage external experts in some areas, as needed. Survey respondents believe these strengths are the result of new practices introduced by some boards. These practices include fewer but more critical board-commissioned CCERs, yearly review of research management to ensure delivery of results, and the introduction of a science advisory panel to enhance operations oversight.

Some of these strengths are also recognized by the CGIAR members who responded to survey Questionnaire II. Many of these respondents believe that the boards' major strengths include board composition; diverse geographic representation; good balance between scientific and other disciplines reflective of global agenda; and the knowledge, experience, dedication, and commitment of members. Other strengths are the boards' influence on center programs; the functions performed by boards; and the centers' linkages with the Science Council and other global committees of the CGIAR system. Some other CGIAR members consider board balance (disciplinary, geographical, and gender), appropriate size, personal integrity, technical expertise, and committee structure to be the key strengths of center boards. All these strengths contribute to effective oversight of program performance.

Despite these many strengths, however, survey respondents believe further improvements are needed in monitoring and program oversight, at least for some boards. Their suggestions include more programmatic monitoring; more analytical reports; a systematic presentation of project monitoring on a regular basis; better quantitative indicators of program success; and linkage between financial and programmatic reports. Respondents also suggest greater use of quarterly reports on progress, finances, and funding prospects; and more regular information to specific committees. Furthermore, they suggest better electronic communication and information sharing; more rigorous monitoring of reports between board meetings; and more timely and more user-friendly documentation for board discussions.

The Panel fully endorses these and other suggestions by survey respondents (see Annex 4); and recognizes that not all boards would need to make all of the improvements suggested. Instead of making detailed recommendations, it wishes to emphasize some general responsibilities of boards in relation to program oversight, and how they could be better performed.

***Recommendation 9): Recognizing that all centers are part of a larger system that needs to maintain strong support from a variety of stakeholders and shareholders, the Panel recommends that boards need to strengthen their role in ensuring that centers' strategy fits well with the overall CGIAR priorities and strategies. This will require boards to ensure that there is a process in place that encourages management to embark only on programs or projects that are aligned with the agreed upon priorities.***

***Recommendation 10): Board's oversight of performance should use the MTP as the starting point. An important function of the board is to see to it that the annual program and resources allocated to it are consistent with the specific objectives stated in the MTP relevant to the review. The oversight function will also require that the board and management develop and use suitable performance indicators that reflect both process and outcomes.***

***Recommendation 11): If system priorities and funding of regional partnerships and global programs increase in importance, center and systems' governance structures will need to adjust to this new reality. To enhance the oversight of inter center collaboration among centers the Panel endorses the practice of joint board memberships. Boards of such centers may also occasionally meet jointly, to review their programs and performance.***

## **Financial Oversight**

Financial oversight is an important function for any board, and in view of the complexity of the CGIAR, this function is even more critical for center boards. As in other organizations, *the fiduciary duty of board members is to act honestly, in good faith, and with the best interests of the organization in mind, while disclosing any conflicts of interest.* These duties necessitate the use and application of the members' skills and capabilities; and equally, that they recognize situations that exceed those skills and capabilities, and request the necessary help.

In recent years, center boards have become increasingly aware of the importance of financial oversight, and the board competencies required to carry it out effectively. According to survey

respondents (see Annex 4), some boards have introduced better financial oversight by reviewing financial strategy and tracking financial indicators regularly; have strengthened board skills for oversight of finance and management; have revised the charter of finance and audit committees to make them similar to corporate boards; have introduced stricter and clearer audit policies; and now have more interaction with the center's financial staff. They have also increased the frequency of reporting financial information to the board; and have recognized the fiduciary oversight responsibility of the whole board, rather than just of its committees.

Survey respondents were also asked to indicate the further improvements needed in financial oversight by boards. Respondents acknowledge that a number of improvements are needed--some of which require action by CGIAR stakeholders other than center boards. Their suggestions for improving financial oversight include the following: further improving board capacity by strengthening the competency of all board members to ask the right questions in management and finance; increasing the number of board members with expertise in financial oversight and management (finance, audit, accounting skills); and ensuring that all board members appreciate their responsibility for the center's financial position. Also, they suggest that the boards' finance and audit committees should have 3-4 members; and that there should be a specific CGIAR-wide financial orientation program for members of these committees.

Other suggestions are that there should be more interaction between the boards' finance and audit committees and the centers' finance manager and internal auditors; more interaction among board members on financial matters; increased focus on risk assessments; and strengthening of the center's internal audit function. Survey respondents also suggest increased regular financial reporting by management (e.g., a complete set of financial reports every quarter); improved circulation of financial information to all board members; and increased time commitment to financial matters, e.g., through two executive committee and finance committee meetings per year.

In addition, board members suggest more effective oversight/ interaction between the CGIAR Secretariat's finance team and the center's finance department; a clearer CGIAR policy on funds management; better use of benchmark and comparative indicators to understand critical spending patterns (over time, and across Centers); and closer continuing relationship between a center's audit committee with CGIAR system's internal auditors.

From these suggestions it is apparent to the Panel that center boards clearly recognize their responsibilities for financial oversight, are aware of weaknesses, and are attempting to find solutions for improving oversight by the board. The Panel endorses many of the suggestions made by board members themselves. In so doing, it wishes to emphasize the importance of accurate financial reporting to the board, *noting that the external benchmark calls for financial reporting that entails a fair and complete reporting of the facts with transparency and adequacy of disclosure, while complying with all applicable laws and regulations.*

In this context, the Panel is aware that some observers believe that there is a tendency in some centers to be too optimistic in financial forecasting and reporting. Such unwarranted optimism can greatly increase the risks of misleading financial reporting. It wishes to reinforce the view that DGs need to have very clear direction from their board in this area; and CGIAR-wide

incentives must be established to reward and/or recognize DGs for accurate financial reporting--even when this may reduce, in the short term, donor support for the Centers' initiatives.

The Panel also notes that in recruiting appropriate skills for the board, increased attention needs to be given to the specific financial expertise required for the audit committee, while still retaining the other skills required on the board. Some boards are apparently unsure of how to adequately strengthen financial capacity while maintaining the ability to undertake effective program oversight. The Panel believes that sound governance requires that boards keep a healthy balance among all of its areas of accountability, not just the financial side of the organization. Accordingly, its various recommendations seek to maintain the needed balance between heightened financial scrutiny and effective oversight of the scientific research that is the "core business" of the center.

***Recommendation 12): For improved financial oversight, besides supporting the other suggestions already contemplated by various boards, the Panel recommends that as part of the effort to strengthen the financial oversight function of the board, the chair of the audit committee should keep close contact with the CGIAR unit on internal audit so that the adoption of best practices and system improvements is facilitated. In addition, the annual meeting of external auditors with both the audit committee and the full board should be a standard practice. Paid consulting services by the current external auditor should be prohibited.***

The Panel also emphasizes the need for greater efforts in managing risks by identifying and managing threats that could severely impact or bring down the organization. Traditionally, risk management was thought of as mostly a matter of getting the right insurance. However, this impression of risk management has changed dramatically. With the recent increase in rules and regulations, employee-related lawsuits and reliance on key resources, risk management is becoming a management practice that is every bit as important as financial or facilities management.

***Recommendation 13): An important function of the board is to assess the risks associated with the centers' programs, finances, human resources, management systems, and general operating environment. Risk assessment statements should accompany all documents on programs presented to the board. Similarly, the risks associated with proposed financing arrangements and donor commitments for specific projects should be made known to and discussed by the board. The board should review such risks periodically.***

In addition, the Panel wishes to draw attention to external "best practice" that, in conformity with the SOX Act, requires CEO/CFO certification of financial statements. The organization's CEO/CFO are expected to certify that they have: (a) reviewed the reports / financial statements submitted to the Board; (b) that these reports contain no untrue statements or omissions of material fact, and that they fairly present the financial condition, in keeping with Generally Accepted Accounting Principles (GAAP); (c) that the appropriate internal controls exist, and that the auditors and audit committee have received disclosure of any deficiencies or fraud; and (d) that the CEO/CFO recognize that the statements are subject to independent audit.

**Recommendation 14):** *In light of this best practice based on current US law, as well as relevant recent experience within the CGIAR, the Panel recommends that when the annual accounts and report are presented to the board, the DG and chief financial officer or director of finance should present a due diligence certification.*

**Recommendation 15):** *In addition, to ensure openness and accountability, and to control costs, the Panel recommends that the financial approval/spending limits delegated to the DG and other senior officials should be authorized by and made known to the full board; the DG should submit an annual or periodic report on such expenditure to the Board; and a similar practice should be adopted for the Chair.*



## **5. BOARD RENEWAL AND ACCOUNTABILITY**

Boards need to continually examine and renew their own capacity to effectively and efficiently perform their primary governance functions. In recent years, center boards have paid considerable attention to such matters as: a) ensuring that board members better understand the CGIAR system and the center's business; b) assessing and strengthening the capacity of boards, DGs, committees and members to carry out their respective responsibilities; c) undertaking succession planning for various positions; d) improving the efficiency of board processes for decision making; e) exercising firmer control over expenditures related to the conduct of board business; f) better utilizing the services of board secretaries; and g) in general, providing better oversight of staff relations and conflict-resolution mechanisms.

In many of these areas, the Panel obtained survey data on current strengths, new practices introduced in recent years, continuing weaknesses, and suggestions for further improvement (Annex 4). In addition, the Panel has explored many of these topics through interviews and document review; as well as through an examination of best practices of boards of NGOs and the private sector, particularly in North America and Europe. Its overall assessment is that while considerable efforts have been made by many boards, progress across the CGIAR system remains somewhat uneven and ad hoc; and more systematic efforts on an ongoing basis for "self-renewal" of center boards could generate substantial gains at relatively low cost. Some of the key areas in which further improvements seem to be needed are discussed below.

### **Better Understanding of CGIAR and Center Business**

The CGIAR is a complex entity consisting of several components, each interacting with other internal and external partners in diverse ways. It also has a rich history, hallowed traditions, accepted policies, principles and practices, and a cultural ethos (the 'CGIAR-way' of doing things) that are not immediately apparent to a new-comer to the system. The centers too have their own distinguishing history, culture, and business practices etc that need to be well-understood before a board member could contribute fully to the work of that center and the CGIAR system as a whole.

Recognizing this, the CGIAR as well as each center, conduct formal orientation and leadership development programs for new members of boards and senior managements; and undertake a variety of less-formal activities to help familiarize board members with the context within which CGIAR boards operate. (The Executive Leadership Program conducted for the CGIAR since 2004 is open to CGIAR donor-members as well.)

As noted in Annex 4, many survey respondents believe that orientation by the centers is now taken more seriously than before; however respondents have also suggested that participation should be compulsory, that there is need for continuous learning, and that the center-level orientation process requires more documentation. Also, improved knowledge of the CGIAR and its issues should be emphasized, the center should arrange visits to outreach locations, more interaction with scientists is needed, and there should be increased participation in the center's annual program and planning meetings. All these are worthwhile suggestions.

With regard to the CBC's (CGIAR's) annual board orientation program, respondents believe it is good, and should be continued. Roughly 45% of the survey respondents say that the CGIAR orientation of board members is adequate "to a great extent," and the remaining 55% say "to some extent." One or more respondents suggest that this program should be attended soon after appointment; that it should be tied to the AGM, so participants can see how the CGIAR system works; and that the program continually up-date the management models and expertise used. The Panel's interview data validated these general observations by survey respondents; but also highlighted the need to go a bit further in the same direction.

***Recommendation 16): Recognizing that CGIAR and center board orientation programs, executive leadership courses, and other development programs for new board members are critical for their effectiveness and better understanding of the CGIAR system and center's business, the Panel recommends that the CGIAR orientation program be given to new members preferably after they have attended one board meeting that will give them some familiarity with the centers and their work. In addition, CGIAR members should have opportunity to become acquainted with center operations, participate in board orientation, and observe board meetings to create improved understanding between centers and CGIAR members.***

### **Board and DG Assessment**

Even the best performers can gain from periodic self- and external assessments conducted in a professional, systematic, and culturally-sensitive manner. As noted in the CGIAR Reference Guide No. 5, "Choosing a Director General: The Search and Selection Process", and No. 6, "Evaluating the Director General: The Assessment Process", one of the main responsibilities of a board is to select and assess the DG, and provide guidance for improving performance, as needed. The board also needs to periodically assess its own performance, and that of its chair, Committees, and members, as noted in Reference Guide No. 7, "Board Self-Assessment".

The survey data summarized in Annex 4 indicates that many boards have recently strengthened their DG- and self-assessment practices. About 75% of the respondents say that board members participate in evaluation of the DG "to a great extent," and the remaining 25% say "to some extent." Furthermore, about 45% of the respondents say they participate "to a great extent" in evaluation of board committees and the remaining 40% say "to some extent."

The new and better practices introduced in recent years by some boards include restructured or better self- and DG- assessment; annual self-evaluation of the board; review of board competencies; and development of board performance indicators (though this is at a preliminary stage). Informal mechanisms and processes—such as self-appraisal of the board and the DG followed by a frank discussion (which is considered by the respondent to be a very effective approach); and more frequent face-to-face communication between the board chair and the DG in the context of a strengthened relationship have also yielded promising results.

The Panel considers all these steps to be very encouraging; and commends the Boards that have made a special effort to strengthen board and DG assessment. It wishes to reinforce the main thrust of the “Reference Guides for CGIAR Centers and their BOTs” on assessment.

***Recommendation 17): The Panel reiterates that the annual evaluation of the center DG is the responsibility of the full board. It recommends that a wide range of inputs, including feedback from center staff should be sought by the board as part of the evaluation process. The findings of the evaluation and their implications should be discussed in the full board, and communicated by the board chair to the DG. As part of the annual assessment and review process, remuneration, incentives and other benefits given to the DG should be disclosed to the board.***

***Recommendation 18): The Panel further recommends that for assessing their own performance, Boards should conduct their annual self assessment and an evaluation of the chair in a formal manner with clear guidelines. Committees and their chairs should also be evaluated in a similar manner. The board chair should discuss with each member his/her performance annually and offer guidance for improvement as appropriate.***

This self-assessment needs to be supplemented by periodic external assessment of board performance. The CGIAR has instituted the EPMR process for this independent assessment of Centers and their Boards; and the survey data indicates that CGIAR members believe the EPMRs should provide more in-depth, objective, and frank assessments of center governance. They consider it important that the CGIAR Secretariat provide top financial and management expertise to EPMR teams; and that the CGIAR itself should hold centers much more accountable to actually implementing EPMR recommendations, and should withhold support when performance is not satisfactory.

For improving the CGIAR’s system of monitoring governance across centers, the CGIAR members’ suggestions include improving the EPMR process and its follow-up; ensuring the independence of the monitors; and better implementation of the CGIAR’s performance measurement system and associated follow-up measures. The Panel has not undertaken an independent review of the EPMR process. It is, however, aware that some changes have been incorporated in the context of the new monitoring and evaluation process initiated by the SC in collaboration with the CGIAR Secretariat and approved by the CGIAR. ***The Panel strongly reiterates the crucial role of EPMRs in providing an independent cross-check of center governance, and as an important means for strengthening the performance and accountability of center boards.***

### **Succession Planning and Appointments**

One of the primary means of board renewal is, obviously, the addition of new blood. When circumstances change and new center and board needs are identified, and as current members and the DG complete their terms or leave the center for other reasons, the board has an opportunity to systematically assess current strengths, identify competency and other gaps, and engage in a well-thought out process of succession planning and appointing new members of the board and committees, as well as the board chair and DG.

In general, the Reference Guides for Centers and their BOTs provide a sound basis for moving forward when filling vacancies. These guidelines are in line with global best practice, which emphasizes open and transparent search and selection process.

Besides ensuring adequate representation and balance on the board, the succession planning process is an important opportunity to overcome current or impending skill shortages. According to the survey results, about 60% of the respondents say there are skill shortages “to some extent,” and the remaining 40% say “not at all.” There is a perceived shortage in many areas, though of course not on the same board. The areas in which skill shortages have been noted by respondents include finance, accounts, management, governance, HR, legal, bio-diversity, breeding, strategic vision, private sector, leadership, and ability to negotiate in the host country. It is also recognized that with a smaller board size, and because of the need to maintain balance and diversity, it will not be possible to always get all the skills needed. As well, on some boards, there will be a need for more time devoted to board business, not more skills.

Survey results also indicate that roughly 40% of the respondents say board processes for finding new members/chairs are adequate and timely “to a great extent,” and the remaining 55% say “to some extent.” Respondents suggested the following: strengthening the board’s nominating committee, seeking nominations from national system managers and policy makers and not just from board members and center staff, reducing the involvement of DGs, and above all, starting with an assessment of existing board skills. They also note that reducing board size could enable an increase in honorarium to attract better quality board members. They note that it is often very difficult to find candidates when looking for specific characteristics; that good candidates are not always volunteers; and that the duties of board chair are too complex, and so better guidance is needed to ensure a good fit.

***Recommendation 19): Succession planning for board chair and members should commence at least a year ahead of the vacancy; and for the DG, the succession planning process should be set in motion with an even longer lead time. In addition to the DG’s appointment, the board should also approve the appointments of the deputy DG (if any) based on the recommendations of the DG.***

Respondents also want a better process for CGIAR nominees; a better pool of potential members and their curriculum vitae (CVs) at a central clearing house; a fuller pipeline of candidates of good quality, and a database with sufficient depth and diversity; and a continuously updated and readily accessible roster of experts and potential board members in various areas. With regard to the CGIAR nomination process, respondents say that the process is frustrating, and needs substantial strengthening. Annex 3 provides additional detailed comments by respondents.

Many of the comments were reinforced by respondents in the interviews with Panel members; and are supported by the Panel’s own review of existing documentation, and prior experience of succession planning by boards. While no generalizations can be made, the Panel is convinced that in the case of some boards at least, a more systematic approach to filling board vacancies would be very helpful.

The Panel has looked at the process for appointing CGIAR nominees to center boards, and believes that this process needs further streamlining. The CGIAR procedures for selecting CGIAR nominees to center boards were launched in early 2005 for a pilot period of two years. An ExCo *ad hoc* committee was named to act on behalf of the ExCo for the nominations. In the initial pilot year, the system encountered some issues in implementation. Center boards' nomination or selection committees and board chairs felt that the suggested candidates did not match their criteria and requirements, and that the attention given to qualifications and merits was not sufficient. It appeared to the boards that the financial management, governance competence and possibly CGIAR system perspective were the only selection criteria even for those boards who thought to have adequate representation of some of these capacities among their members. Centers feel strongly that beyond governance and finance competence, they need board members who understand their business, guide them in strategic thinking and oversee science.

It was also pointed out that the time schedule was not realistic and the communication between boards on one hand, and the CGIAR Secretariat and ExCo *ad hoc* committee, on the other, was inadequate.

Members of the *ad hoc* committee and ExCo were likewise frustrated with the process. Views among the stakeholders on the influence they should take on the selection differ widely. While some members are confident with the existing system and do not seek more influence on the selection process, others call for much more influence and direct appointment of board members by the ExCo to center boards.

The ExCo *ad hoc* committee identified three major weaknesses in the procedures:

- (1) Inconsistency in the criteria applied for the selection of the CGIAR nominees;
- (2) Lack of awareness and knowledge about the new process; and
- (3) Tight tentative time schedule for each step of the nomination

The ExCo decided to pilot another cycle using the same procedures and make amendments in the second cycle. The results so far have been more encouraging, with several nominations having been accepted by the centers concerned.

***Recommendation 20): CGIAR should strengthen its consultation and nomination process in order to ensure that its nominees meet the competencies needed by the boards. The nomination process has to build on a better understanding of the profiles or the selection criteria between the CGIAR and the centers. Financial management and governance are criteria that have indeed become more important. However, knowledge of relevant areas of science, research for development, business operations, communication skills and stakeholder relations are equally important criteria.***

***Recommendation 21): For members-at-large, a Board should carry out a systematic analysis of its needs for expertise/skills/representation. In order to improve transparency in the recruitment process, CGIAR stakeholders and shareholders should be invited to submit nominees for the available membership slots.***

## **Board Efficiency and Expenditures**

In the CGIAR centers, annual board costs for 2005 averaged about \$270,000; and ranged from about \$200,000 to \$400,000, depending on the center. These costs have increased slightly during the past few years. There are differing views on board costs. Some survey respondents consider them low and this is regarded as a current strength. Some CGIAR members think that the cost is on the high side. Overall, the cost of center boards compares favorably with the governance costs of comparable organizations in the non-profit sector. However, the efficiency of board operations obviously is-and must remain-a concern in the CGIAR, as it is in all organizations operating on a tight budget.

CGIAR Board operations are reported to have improved in recent years. According to survey respondents, some Boards have introduced new modes of operation to improve oversight; there is greater clarity on background papers expected; a manual for board practices has been developed; and the reserved powers of the board and delegated powers of the DG have been documented. Almost 80% of respondents say that information material received by the board is adequate in terms of quality, quantity, and timing; and the remaining 20% are about equally split between “don’t know” or “it is not adequate.”

Similarly, about 75% of the respondents say the project management system provides timely programmatic and financial information to the management and the board; and about 55 % of respondents say the system is serving the board’s needs “to a great extent.” Many respondents believe their Boards are being well served by a respected, active, and committed board Chair; and that Board committees function reasonably well. Interview data supports this view; and since the Panel has not made a direct assessment of Board operations, it hesitates to make broad generalizations about the Board efficiency.

Based on the limited interview and survey data available to it, and since almost 55% of the CGIAR members who responded to the survey believe Board costs are “much too high” or “high”, the Panel believes some further improvements in efficiency might still be needed.

***Recommendation 22): The Panel recommends continued attention to further increasing the efficiency of the boards. Appropriate agenda setting, timely circulation of papers/documents well ahead of meetings, and summarizing the issues for strategic discussion and decision making will enable members to be both more effective and more efficient. The chair needs to play a lead role in defining the agenda, running efficient meetings and facilitating decision making.***

## **Services to the Board and Staff Relations**

Survey respondents seem generally satisfied with the quality of services provided to the board by the centers’ administrative staff, particularly the board secretary. However, interview data suggests that in some instances, the reporting relationship between the board chair and secretary may need to be clarified or strengthened, and made more independent of center management, particularly the DG.

***Recommendation 23): Because the adequacy, independence, and efficiency of services provided by the board secretary are essential for the effective and efficient running of a board, the Panel recommends that the board secretary should report to the board chair in regard to all board matters. Annual evaluation of the board secretary should be dealt with by the board chair in consultation with the rest of the board and other relevant officials.***

Finally, the Panel notes that boards also need to provide open channels of communication to all staff of the center they oversee. Furthermore, because of the international status and autonomy of Centers, local labor laws do not apply for most staff of CGIAR centers. This places a special responsibility on boards to serve as the final arbitrator of staff grievances, if and when they arise.

***Recommendation 24): While maintaining a clear separation of the functions of the board and management in the areas of human resource management and staff relations, the Panel recommends that in terms of grievance redressing and conflict resolution mechanisms for the staff, there should be a provision for an appeal of the last resort to the board when all other remedies have failed. Such appeals should be directed to the board chair. The mechanisms need to be strengthened, made transparent, and fully communicated to staff.***

### **Accountability of Boards**

Every organization is accountable for its performance to a set of people or entities who exercise an oversight, control or regulatory function in relation to its activities. In the case of the center boards, the process of accountability is more complex than in the corporate world, partly because of its history and the absence of a legal status for the CGIAR.

The proximate stakeholder of centers is the CGIAR. An intermediate set of stakeholders is the national agricultural research systems (NARS) of developing countries. A more distant, but significant stakeholder is the developing world's poor farmers for whose benefit the research is being undertaken. Though the CGIAR System could claim that it serves the interests of the poor - since developing country governments and NGOs are its members--the fact remains that poor farmers (and consumers) are a separate set of stakeholders.

In terms of center accountability, there are thus three levels. First, center boards are accountable to the CGIAR, the proximate stakeholder that also wears the mantle of the shareholder in view of its investments. Second, boards are indirectly accountable to NARS, the recipients of many of their research products and services. And third, they are accountable in the final analysis to the developing world's poor farmers who are not represented in any forum through an organization of their own. This broader perspective on accountability is a useful framework within which to assess the current CGIAR practices and notions of accountability.

It is easier to design and enforce accountability mechanisms when the stakeholders are organized and possess powers of control. In the past few years the direct clients of the CGIAR centers' research, the national programs, have become better organized. Through national fora, public and private research organizations have harmonized their positions, established research priorities, and strengthened partnerships. Regional fora have become important partners with national and international organizations for research collaboration in the region. In the Global Forum for International Agricultural Research (GFAR) the interested agricultural research organizations

strive to contribute to a more efficient, effective, and coherent global agricultural research system. At the global and regional levels, therefore, research priorities and activities of CGIAR centers need to complement the agricultural research undertaken by other entities in the public and private sectors.

While the NARS are organized and can insist on indirect accountability to them, the final customers of CGIAR centers' research--the unorganized poor farmers and consumers--have no clear-cut mechanisms of accountability in relation to center boards. To the extent that CGIAR represents their interests or has members dedicated to farmer concerns, the CGIAR can be construed as serving the accountability needs of the farmers too. However, there are other ways in which the pressure of accountability can be exerted on the boards on behalf of the farmers. Participative research designs, impact assessment, farmer feedback on the programs or activities of centers in the field, etc., can provide useful information on the performance of centers.

In our survey, the Panel asked respondents: "To whom are the center boards accountable?" The survey has yielded a range of answers to this question. Most of the respondents have affirmed that Boards are accountable to the CGIAR system. Some have gone further and stated that they are also accountable to the developing countries and the poor that the Centers are meant to serve. These answers bring out the importance of recognizing the boards' accountability to different stakeholders. To some extent, however, the diversity of answers reflects the complexity of the concept of accountability. It is also symptomatic of the lack of a common understanding of this important subject among members of the boards and CGIAR members.

Of the different answers given by respondents, the most puzzling is the view of some board members that their board is accountable to the center itself. It probably stems from the view that the center is an autonomous entity and hence the board is responsible to it. What is forgotten here is that the board is the oversight authority for the center, and that it cannot be accountable to the body it oversees. By implication, the respondents seem to feel that they are not accountable to any other entity. It is possible that some respondents are not well versed in the interrelationships between different parts of the CGIAR System. The remedy in part lies in the proper orientation of new board members.

***Recommendation 25): The CGIAR centers are ultimately accountable to the poor in the developing countries. To ensure accountability towards these beneficiaries, center boards need to ensure that research priorities, products and processes are designed in such a way that they serve the needs of the poor. Sharing this information in a transparent manner is one way to demonstrate accountability.***

***Recommendation 26): The board is accountable to its stakeholders for the performance of the center. Asymmetry of information can be a serious barrier to the exercise of accountability. To effectively perform its roles and responsibilities, the board should seek and obtain all the necessary information from the management.***

CGIAR members are comparable to the shareholders' body to which a corporation is accountable. In both cases, with numerous members and a single annual meeting, it is difficult for the primary stakeholders to enforce accountability. To help overcome this problem, in spite



of the lack of legal status of the CGIAR, it has put in place several mechanisms to ensure that centers are held accountable for their performance. This includes a number of central bodies such as the Science Council (SC), Executive Council (ExCo) and the CGIAR Secretariat. Each of them in turn has put in place a set of institutional mechanisms to operationalize and enforce a certain measure of accountability.

Thus, the Science Council that assists the System in formulating CGIAR strategies and priorities provides a framework against which centers and boards can be judged. Through its use of EPMRs and performance indicators, the Council endeavours to hold the boards accountable for center performance. The CGIAR, assisted by the ExCo, takes decisions and corrective action (including closure of centers or denial of funds) that conveys strong signals in terms of accountability of the boards. The Secretariat assists in the implementation of CGIAR decisions. The CGIAR is thus able to hold the boards accountable for performance, even if the actions and signals are delayed, given the complexity of the processes involved.

While these mechanisms provide guidance and checks and balances for accountability, the Panel believes that the boards' ability to perform their functions will be greatly enhanced by greater coherence in the functioning of various parts of the CGIAR system. When implemented efficiently, the CGIAR's various accountability mechanisms can result in a sustainable balance between the autonomy of Centers and their accountability to internal and external stakeholders.

The Panel was not asked to evaluate the working of the ExCo and Science Council and the extent to which they have contributed to the enhancing of board accountability to the CGIAR System. However, some survey respondents have expressed their concerns about the "interference" of these two bodies in the boards' functioning. With the active and decisive role the Science Council is perceived to have assumed, some centers and board members seem to feel that the Science Council infringes on the centers' autonomy. In contrast, the Panel believes that in view of the accountability of Centers to stakeholders and final clients, the insistence on system priorities and their translation into the centers' research programs is vital for the CGIAR.

In the Panel's view, both ExCo and Science Council have a legitimate role to play in ensuring the accountability of the centers and their boards. The efforts of the Science Council to strengthen strategic and program planning and to complement it with a performance measurement scheme deserve full support. Coherence and effectiveness of the Systems' various planning, priority-setting, and accountability mechanisms will remain decisive for the continued credibility of the centers. Moreover, the SC-led priority-setting system is necessary to counterbalance the effects of continuously changing agendas of development administrators and investors.

To ensure accountability towards the poor (the ultimate beneficiaries of the CGIAR), the Science Council and center boards also have to ensure that research priorities, products and processes are designed in such a way that they can serve the needs of the poor, and that the research outcomes are relevant for them. In this manner, accountability checks can be built into the planning and monitoring system itself, so that they do not create an additional administrative burden on the centers.

**Recommendation 27):** *The CGIAR has put in place an overall system that provides a framework for ensuring that centers are held accountable for their performance. This includes a number of central bodies such as the SC which assist in the overall setting of priorities and strategies and evaluate the relevance and quality of programs, ExCo which performs delegated functions on behalf of the general membership, and the Secretariat which assists in the implementation of CGIAR decisions. While these mechanisms provide guidance and checks and balances for accountability, the Boards' ability to perform their functions will be enhanced when greater coherence in the functioning of these parts. CGIAR members should assist center boards not only by providing overall strategic goals and directions, and other checks and balances but also by aligning their financial contributions and project support closely with these directions.*

**Recommendation 28):** *Central bodies established by the CGIAR, such as the SC, ExCo, and the Secretariat, are essential for the formulation and implementation of the mission and strategies of the CGIAR System as a whole. In performing these functions, they should seek to minimize the administrative burdens placed on the centers and the boards through their interventions.*

**Recommendation 29):** *In the ultimate analysis, the board is responsible for the fit between the center's programs and projects, and the overall CGIAR strategy. Irrespective of the vagaries of donor funding, accountability for the decisions and outcomes rests with the board. Special attention needs to be given by the board to the projects financed by restricted funding because departure from center strategy is most likely in this area.*

Based on survey responses and prior knowledge of the CGIAR, the Panel is of the view that the CGIAR and center boards are already promoting greater openness and transparency with respect to governance of the centers. However, it would like to emphasize the importance of further steps in this direction.

**Recommendation 30):** *The Panel recommends that annual reports of the centers should publish performance indicators, both outcome and process related, so as to enable all stakeholders to understand and assess the impact of center programs. Major board decisions and quarterly updates of center's financial accounts should also be published on center websites.*

In addition, the Panel believes that the more funding is brought in line with priority setting, the more coherent, credible, and effective the whole CGIAR system would be. Recent changes in the pattern of financing center programs have important implications for the accountability of boards to the CGIAR. When center operations are fully funded by the CGIAR through unrestricted funding, it is easier for the System to demand accountability from the boards. However, Centers are now being forced to seek project funds of a restricted nature from different ministries or department of the same CGIAR members and from their field offices in developing countries. These offices may have priorities that are different from those of the CGIAR. This poses a dilemma for the centers as it often calls for a departure from their strategic plans. If compromises are not made, they stand to lose the project and the money that goes with it. When centers have to scramble for funds for their survival, boards will find it difficult to hold the

management accountable for the implementation of the agreed strategy. Similarly, when collaborative programs with other centers and external partners increase, boards will not have full control over the outcomes.

There are two ways to resolve this seeming dilution of accountability. One is for members to ensure that project funding from other parts of their departments or other ministries are also consistent with CGIAR's priorities. The other is for the boards to insist that management does not seek support for project proposals or accept any project funds from donors that are inconsistent with the center's approved program strategy. Despite the real possibility that some donors may cause a dilution of the center's agreed strategy through ad-hoc funding, the buck should stop with the board whose responsibility is to maintain congruence between CGIAR's strategy and the center's program.

The Panel is aware that the CGIAR is considered by some observers to be an "under-governed and over-evaluated system". Some of the CGIAR members who responded to the survey say that donors can enhance quality of governance of the centers by insisting on more in-depth, objective, and frank assessments of center governance during the EPMR; by requiring the CGIAR Secretariat to provide top financial and management expertise to EPMR teams; by holding Centers much more accountable for actually implementing EPMR recommendations; and by withholding support when performance is not satisfactory.

The changes suggested by CGIAR members in the system of monitoring governance focus on improving the EPMR process and follow-up, as well as improving monitoring of the governance of Challenge Programs by the ExCo. Other suggestions include: greater independence of the monitors; greater participation by center management and the boards; more objective and open self-reporting; fully implementing the performance measurement system and follow-up measures; and discussing in the ExCo whether further accountability mechanisms are needed. Some possible reasons for these suggestions could be that in some EPMRs, governance issues were not covered in sufficient depth; some CGIAR members insufficiently trust the existing review system (CCERs and EPMRs); and that administrative or institutional requirements of some donor agencies require them to conduct additional reviews to satisfy their own constituencies.

While the Panel does not have an independent judgment of the quality and rigor of assessment of governance issues in recent EPMRs, it would caution against the introduction of additional donor-driven reviews that would only contribute to a review overload. Instead, a better approach would be to further strengthen the CGIAR systems' own governance and accountability mechanisms. For this, the existing review system-with EPMRs (including the review of center governance), center's annual reviews, stripe reviews, CCERs, and performance measurement system-would need to be strengthened, where appropriate.

The purpose would be to enhance the coherence and complementarity of the various planning and accountability mechanisms at the system and center levels. This would hopefully reduce the need for separate donor-initiated reviews. To provide opportunities for donors and other stakeholders to shape and assess the center's research program, they could be invited to participate in planning and review events of the centers.

The Panel's survey also showed that board members believe substantial improvements of Board operations have been undertaken in recent years, but most CGIAR members were not aware of many of the new practices introduced. This could be an indication of insufficient communication between board members and donors. It could also indicate that some CGIAR members have limited and occasional contact with boards, in part due to their agencies' staff rotation policies or the limited time which the donor representatives can or wish to devote to CGIAR matters. As well, the available knowledge of those who have a better insight into the CGIAR may not be used efficiently. On the other hand, it is equally possible that many Board members do not understand the center's donors well, and hence are unable to tailor their communications effectively. This problem could be addressed, in part, by involving CGIAR members in the planning and review activities of the center, as suggested above.

Linked to accountability is the changing role and pattern of funding of the centers, as noted above, as well as donor policies for such funding. In order to facilitate strategic planning and effective governance, and to give the boards more "elbow room" for adopting a strategic approach, some donors have recently developed long term strategies for their agencies, increased their unrestricted core funding, and introduced multi-year budgeting for their own agencies (which has enabled them to provide multi-year funding for the CGIAR). These efforts are greatly appreciated by survey respondents who are members of center boards.

However, while some donors have moved towards the funding of the approved research agenda and agreed priorities of the CGIAR, others continue with project funding within and outside the agreed agenda, or provide funding late or irregularly. There is thus a gap between the donors' interests in strategic issues and the high proportion of opportunistic project funding provided. Funds for new, explorative, strategic research are reportedly getting scarcer.

As well, board decisions on strategic planning and agenda-setting are apparently being undermined through project "deals". It seems that few centers can completely and consistently resist project money even if it may distort the agreed agenda. To help overcome this problem, it would be essential that CGIAR members assist center boards not only by supporting overall strategic goals and directions--and insisting on other checks and balances through an effective accountability system--but also by closely aligning their financial contributions and project support with the approved priorities and strategic directions of the CGIAR.

Funding and donor policies are, however, only one element that the boards need to consider. There are many other program and management aspects that help ensure alignment between center goals, programs, and performance. Effective and diligent oversight of all of these aspects is the primary responsibility of the board, as noted throughout this report.

## **Reference Guides for Boards**

The series of "Reference Guides for CGIAR International Agricultural Research Centers and their Boards of Trustees" published in 1997 include the following:

1. The Role, Responsibilities, and Accountability of Center Boards of Trustees

2. The Role of the Board Chair
3. Creating a Well-Balanced Board
4. Building Effective Board Committees
5. Choosing a Director General: The Search and Selection Process
6. Evaluating the Director General: The Assessment Process
7. Board Self-Assessment.

In addition to the above guides, individual centers also have their respective board handbooks and guidelines. Governance breakdown is not due to lack of appropriate board operational guides; they occur because of failure to observe and implement what is in those guides.

In general, the Panel considers the Guides relevant, timely, and comprehensive, and endorses their continued use by the CGIAR and center boards. The Panel reviewed these guides and noted suggestions for their updating. Areas which have become more important and need to be clarified in the guidelines relate to the issues highlighted in chapters 4 and 5. The Panel offers the following suggestions for the updating of the “Reference Guide on the Role, Responsibilities, and Accountability of Center Boards of Trustees”:

- References to CGIAR and its structure and institutional mechanisms need to be updated in view of changes the System has gone through since this Guide was published in 1977.
- It may be useful to introduce the concepts of strategy and priorities on page 5 where Center policies and performance are discussed.
- On page 6 where financial resources are discussed, it is important to say that the boards are responsible to ensure that adequate audit mechanisms are in place, including internal audit. The Guide refers only to the external audit function.
- It may be useful to highlight on page 10 (under “board skills”) the fact that highly specialized scientists could be better used in advisory committees rather than on boards charged with broad governance functions.
- The use of new technologies such as internet and video conference should be mentioned in the context of board/committee meetings (page 11).
- Under “duties of the DG” on page 12, it should be stated that achieving a good fit between overall CGIAR strategy and center programs is a key function of the DG.
- On page 6, “the court of appeals” section needs to say that the process must be transparent and communicated to all staff.
- A section on board’s accountability to the stakeholders including the CGIAR would be desirable.

## **6. SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

### **Major Findings and Conclusions**

1. The evidence available to the Panel shows that several center boards have taken steps to improve their governance practices in recent years. It reflects increased commitment, leadership and willingness to change on the part of these boards. The steps taken include measures to strengthen financial oversight, strategic planning, board self assessment, and orientation of new members. Boards, however, vary widely in the extent of these reforms and how well they have been internalized. Significant gaps exist in the boards' oversight functions with respect to strategy and finances.
2. The delineation of roles between boards and management is reasonably clear in most of the boards. Boards, however, need to devote more time to their oversight role and be more proactive in seeking relevant information for this purpose from management. In a number of centers, the lack of adequate and timely information from management to the boards continues to be a problem.
3. Board's role in strategic planning and direction setting remains limited due to factors such as infrequent meetings, funding uncertainties, board capacity constraints and lack of adequate information. Mismatch between financing patterns and the requirements of strategic planning is another contributory factor.
4. Exercise of financial oversight is also hampered by similar factors. Skill gaps in audit committees and boards, lack of professional personnel in finance departments, absence of timely information, and low levels of financial literacy among board members have contributed to this state of affairs. The problem has been exacerbated in some cases also by inadequate attention to early warning signals and a reluctance to take timely action.
5. In some centers, full boards are not engaged in the evaluation of DGs, nor do they gather the relevant performance related information. Participation and transparency in the process leave much to be desired. There are similar gaps in the boards' self assessment processes.
6. Follow up actions to EPMRs and other performance reviews by centers remain weak or incomplete as boards have not played their oversight role adequately in this regard. The failure of oversight and accountability rather than inadequate planning is very much in evidence.
7. The orientation programs and leadership courses initiated by the CGIAR are appreciated by the boards. The important role played by the Science Council, ExCo, and CGIAR Secretariat in providing strategic guidance and increased coherence and direction to the centers is also well recognized. There is, however, growing concern among boards about the administrative burdens created in the process.

8. Some of the governance practices followed by center boards come close to the best practices in the corporate and non-profit sectors. But in areas such as strategic planning, financial oversight, and information disclosure, center board practices lag behind global best practices.
9. Many of the problems noted above can be traced to more basic constraints in the way the boards are structured and managed. Infrequent meetings, gaps in terms of the mix of skills needed to transact board business, crowded agendas, and large board size that reduces cohesion and focus among members are at the root of this problem.
10. In addition to these limitations, there is the longstanding problem of a subtle imbalance between autonomy and accountability that characterizes the System and the centers. Despite the several new mechanisms put in place by CGIAR to monitor center performance and exercise accountability, their effectiveness still leaves much to be desired. Speedy remedial action by the boards and the CGIAR is difficult when center performance and accountability fail as there are many weak links in the chain. These are matters that call for thoughtful attention by the System as a whole.
11. The findings reported above reflect the interlinked problems of both the centers and the CGIAR as a system. They highlight the importance of assessing center governance within the larger frame work of the CGIAR System.

## **Recommendations**

In accordance with its Terms of Reference, the Panel's recommendations cover the following main topics: (a) board structure, size, and composition ; (b) role of boards in strategy setting and performance oversight; (c) board renewal; (d) accountability of boards; and (e) comments on the Reference Guides for Center BOTs.

### **A. Board Structure, Size, Composition**

1. The CGIAR as a system represents a wide range of stakeholders. The center board therefore needs to reflect this diversity and at the same time have the needed mix of skills to ensure that their functioning will be effective and efficient. The boards have done reasonably well in being representative of the stakeholders and shareholders. There is, however, unevenness in the mix of competencies and skills present in some of the boards.

In order to perform this role, boards need to have a proper mix of skills to judge the quality and relevance of science, and to oversee the finances and overall accountability of centers. At a minimum, two persons with adequate financial, business and accounting knowledge and experience should be members on every board. At least three members with science or science management background should be available to a board.

2. The frequency of board meetings should be determined by the nature and scope of the business to be transacted. Given the mix of functions of center boards, the Panel recommends that full board meetings should be held at least twice a year. In addition, two more meetings may be required to review quarterly reviews of finances and programmatic matters. In order to minimize costs, these additional meetings may be conducted through telephonic or video conferences or through delegation to an executive committee that reports back to the full board. The duration of each meeting may be reduced, depending on the requirements of different centers. Increased frequency will also enable boards to meet in other regions where research projects or partners are located.
3. The proposals above may increase the time and attention that members may be required to give their boards. It will most certainly demand more time from the chairpersons of boards. This may necessitate a review of the compensation of Board members due to the increase in accountability, responsibility, expertise, and time required of them. This would apply, in particular, to board chairs and committee chairs.
4. The duration of a member's term on a board should not exceed six years. The current practice of most boards to renew a member's term after three years is a sound one. It is important, however, that boards review more rigorously members' contributions before confirming them for a second term. Members who fail to attend consecutive meetings or do not contribute adequately in the judgment of the boards should not be offered a second term. A board may choose to renew members for less than three years in order to have staggered membership to ensure continuity.
5. Keeping in view the need for a board that is compact, accountable and well focused on governance, it is recommended that the size of the board should be between nine and eleven members, excluding the DG (ex-officio). A smaller board enhances the chances of synergy, participation, and focus. A board with less than nine members may cause problems in terms of quorum and the mix of skills needed in a board. A much larger board may add unduly to costs, given the increased frequency of meetings. The Panel offers this as a guideline to be adapted to the needs of the centers.
6. Consistent with their international status and mandate, centers serve many countries and, in many cases, more than one region. Center boards, therefore, need to have members from different regions and backgrounds. Hence, host country representation on a board should be limited to one nominee. A board may still wish to invite other host representatives to attend its meetings as observers as and when necessary. Where feasible, center charters should be amended in line with this recommendation.



7. A similar rationalization of CGIAR nominees on boards is also in order. Presently, the number of nominees varies widely, the maximum being eight. It is recommended that the number of CGIAR nominees should not exceed two unless there are legal problems that may cause a center to lose its international status or privileges. CGIAR should strengthen its consultation and nomination process in order to ensure that its nominees meet the competencies needed by the boards.

**B. Role of Boards in Strategy Setting and Performance Oversight**

8. Limitations of time and the overload and urgency of the operational programs of centers often lead to a relative neglect of strategic functions in some of the boards. It is imperative that this imbalance is rectified by providing adequate time and resources to the boards to perform their strategic functions of planning, review and oversight.
9. Boards need to strengthen their role in ensuring that centers' strategy fits well with the overall CGIAR priorities and strategies. This will require boards to ensure that there is a process in place that encourages management to embark only on programs or projects that are aligned with the agreed upon priorities.
10. Board's oversight of performance should use the MTP as the starting point. An important function of the board is to see to it that the annual program and resources allocated to it are consistent with the specific objectives stated in the MTP relevant to the review. The oversight function will also require that the board and management develop and use suitable performance indicators that reflect both process and outcomes.
11. If system priorities and funding of regional partnerships and global programs increase in importance, center and systems' governance structures will need to adjust to this new reality. To enhance the oversight of inter center collaboration among centers the Panel endorses the practice of joint board memberships. Boards of such centers may also occasionally meet jointly, to review their programs and performance.
12. As part of the effort to strengthen the financial oversight function of the board, the chair of the audit committee should keep close contact with the CGIAR group on internal audit so that the adoption of best practices and system improvements is facilitated.

The annual meeting of external auditors with both the audit committee and the full board should be a standard practice. Paid consulting services by the current external auditor should be prohibited.

13. An important function of the board is to assess the risks associated with the Center's programs, finances, human resources, management systems, and general operating environment. Risk assessment statements should accompany all documents on programs presented to the board. Similarly, the risks associated with proposed financing arrangements and donor commitments for specific projects should be made known to and discussed by the board. The Board should review such risks periodically.
14. When the annual accounts and report are presented to the board, the DG and chief financial officer or Director of Finance should present a due diligence certification.
15. The financial approval/spending limits delegated to the DG and other senior officials should be authorized by and made known to the full board. DG should submit an annual or periodic report on such expenditure to the board. A similar practice should be adopted for the chair.

#### C. Board Renewal

16. CGIAR and center board orientation programs, executive leadership courses, and other development programs for new board members are critical for their effectiveness and better understanding of the CGIAR system and center's business. It is recommended that the CGIAR orientation program be given to new members preferably after they have attended one board meeting that will give them some familiarity with the centers and their work. In addition, CGIAR members should have opportunity to become acquainted with center operations, participate in board orientation, and observe board meetings to enhance understanding between centers and CGIAR members.
17. The annual evaluation of the center DG is the responsibility of the full board. A wide range of inputs, including feedback from center staff should be sought by the board as part of the evaluation process. The findings of the evaluation and their implications should be discussed in the full board, and communicated by the board chair to the DG. Remuneration, incentives and other benefits given to the DG should be disclosed to the board.
18. Boards should conduct their annual self assessment and an evaluation of the chair in a formal manner with clear guidelines. Committees and their chairs should also be evaluated in a similar manner. The board chair should discuss with each member his/her performance annually and offer guidance for improvement as appropriate.

The Panel strongly reiterates the crucial role of EPMRs in providing an independent cross-check of center governance, and as an important means for strengthening the performance and accountability of center boards.

19. Succession planning for board chair and members should commence at least a year ahead of the vacancy. For the DG, the succession planning process should be set in motion with an even longer lead time. In addition to the DG's appointment, the board should also approve the appointments of the deputy DGs (if any) and other members of the senior management team, based on the recommendations of the DG.
20. CGIAR should strengthen its consultation and nomination process in order to ensure that its nominees meet the competencies needed by the boards. The nomination process has to build on a better understanding of the profiles or the selection criteria between the CGIAR and the centers. Financial management and governance are criteria that have indeed become more important. However, knowledge of relevant areas of science, research for development, business operations, communication skills, and stakeholder relations are equally important criteria.
21. For members-at-large, a Board should carry out a systematic analysis of its needs for expertise/skills/representation. In order to improve transparency in the recruitment process, CGIAR stakeholders and shareholders should be invited to submit nominees for the available membership slots.
22. Special attention needs to be given to increasing the efficiency of functioning of the boards. Appropriate agenda setting, timely circulation of papers/documents well ahead of meetings, and summarizing the issues for strategic discussion and decision making will enable members to be more effective. The chair needs to play a lead role in running efficient meetings and facilitating decision making.
23. The board secretary should report to the board chair in regard to all board matters. Annual evaluation of the board secretary should be dealt with by the board chair in consultation with the rest of the board and other relevant officials.
24. In terms of grievance redressing and conflict resolution mechanisms for the staff, there should be a provision for an appeal of the last resort to the Board when all other remedies have failed. Such appeals should be directed to the board chair. The mechanisms need to be strengthened, made transparent, and fully communicated to staff.

#### D. Accountability of Boards

25. The CGIAR centers are ultimately accountable to the poor in the developing countries. To ensure accountability towards these beneficiaries, center boards need to ensure that research priorities, products and processes are designed in such a way that they serve the needs of the poor. Sharing this information in a transparent manner is one way to demonstrate accountability.
26. The board is accountable to its stakeholders for the performance of the center. Asymmetry of information can be a serious barrier to the exercise of accountability. To effectively perform its roles and responsibilities, the board should seek and obtain all the necessary information from the management.
27. The CGIAR has put in place an overall system that provides a framework for ensuring that centers are held accountable for their performance. This includes a number of central bodies such as the SC which assists in the overall setting of priorities and strategies and evaluates the relevance and quality of programs, ExCo which performs delegated functions on behalf of the general membership, and the CGIAR Secretariat which assists in the implementation of CGIAR decisions. While these mechanisms provide guidance and checks and balances for accountability, the boards' ability to perform their functions will be enhanced when there is greater coherence in the functioning of these parts. CGIAR members should assist center boards not only by providing overall strategic goals and directions, and other checks and balances but also by aligning their financial contributions and project support closely with these directions.
28. Central bodies established by the CGIAR, such as the SC, ExCo, and the CGIAR Secretariat, are essential for the formulation and implementation of the mission and strategies of the CGIAR System as a whole. In performing these functions, they should seek to minimize the administrative burdens placed on the centers and the boards through their interventions.
29. In the ultimate analysis, the board is responsible for the fit between the center's programs and projects, and the overall CGIAR strategy. Irrespective of the vagaries of donor funding, accountability for the decisions and outcomes rests with the board. Special attention needs to be given by the board to the projects financed by restricted funding because departure from center strategy is most likely in this area.
30. Center board should seek and ensure that it receives from management all the information the board needs for performing its guidance and oversight responsibilities—for it alone has ultimate accountability for all aspects of center performance.
31. Boards should promote greater openness and transparency with respect to the governance of the centers. Annual reports of the centers should publish performance indicators, both outcome and process related, so as to enable all stakeholders to understand and assess the impact of their programs. Major board decisions and quarterly updates of center's financial accounts should be published on center websites.

## E. Comments on Board Reference Guides

32. The Panel has noted several policies and practices described in the “Board Reference Guides” that need updating or modification in light of the evolving best practices in board governance. Particularly important are roles and responsibilities of the board, accountability, and transparency. It is recommended that the Guides are revised under the guidance of the Committee of Board Chairs and the CGIAR Secretariat to serve as useful reference documents for all concerned.

### **Some Ideas on Implementation**

Most of the recommendations of the report are directed to the boards of the individual CGIAR centers. The following specific steps are suggested to implement the above recommendations :

- Adjust board size and composition
- Revise host country agreement where feasible; adjust application when necessary
- Check the need for a board development strategy/plan
- Include in board assessments monitoring of the boards’ agendas, checking the attention given to strategic functions and the time attributed to most critical items.
- Check adequacy of finance competence or literacy on individual boards
- Assure regular risk and opportunity assessments
- Check adequacy of grievance redressing and conflict resolution mechanism and their communication to the center’s staff
- Publish major board decisions, key performance indicators and quarterly updates of financial accounts on centers’ web pages

The CBC/AB may wish to initiate the follow-up actions on the recommendations which are common to all or most of the centers. These include revision of host country agreements, development of financial literacy, standardizing web based information and the revision of the board guides.

The CBC/AB should also actively work with the ExCo and the CGIAR Secretariat to streamline the board nomination process, agree on the harmonization of profiles and on a better consultation process. In the organization of the board orientation programs, it should give particular attention to the enhancement of financial literacy.

The CGIAR members, with the help of the central governance bodies, should assist the center boards in ensuring alignment of center programs/projects with CGIAR system priorities through their financial contributions.

## **Concluding Comments**

The Panel recognizes the relevance of assessing the effectiveness of center governance in the context of governance at the system level. There is no doubt the changes in governance structure that have taken place at the system level (i.e. establishment of ExCo, Science Council, and System Office; and the launching of CPs) during the past five years have implications on center governance, particularly in the way center boards are functioning.

In various parts of the report, the Panel has made reference to system level governance and the role of the central bodies of the CGIAR. A few recommendations that relate to the role of these bodies as they affect center governance were made. However, it did not undertake an in-depth look at the system level governance structure, processes, linkages among components, and their impact on center governance. Such exercise was deemed beyond the review's TOR.

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## **Annex 1**

### **Stripe Review of Corporate Governance of CGIAR Centers--Terms of Reference**

#### **Background**

The effectiveness and efficiency of corporate governance at the Board of Trustees (BOT) level, particularly in the context of the reform program initiated in 2001, is important for the CGIAR System. This is because the final responsibility for the future of the centers rests on the BOT and the essential role of each center's board is "to create tomorrow's center out of today's" The CBC has recognized this role when it stated, as one of its primary goals, the willingness to be prepared to identify the need for and to lead change.

At its meeting in Mexico on October 21-23, 2004, the CBC decided to commission an external stripe review of corporate governance of CGIAR Centers. At the 2004 CGIAR Annual General Meeting (AGM04), the CBC Chair informed the Group of this decision, and that the terms of reference (TOR) for the review would be prepared together with the CGIAR Secretariat. The present TOR is a result of that collaboration.

#### **Objectives**

1. To assess and evaluate the current corporate governance structure, processes, procedures/practices, and overall performance of CGIAR Centers' Boards of Trustees (BOTs). Specifically the review will canvass the Boards to examine (i) the effectiveness of Center Boards in providing oversight and policy directions to the Centers operations, including financial, program and administrative matters, (ii) capture some of the best practices of Boards and survey the extent to which Boards have responded to the particular operations, needs and circumstances of Centers. It will also examine composition and structure of the BOTs and how they conduct their business, and how they assist Centers in the fulfillment of their mandates compared to the best practice in corporate and non-profit governance.
2. To recommend to the CBC measures for improving the performance (i.e., effectiveness and efficiency) of Center Boards.
3. To develop a Code of Best Practice for Center Boards and propose changes to the existing "Guidelines on the role, responsibilities, and accountability of center Boards of Trustees in the Consultative Group on International Agricultural Research".

#### **Scope of Work**

The stripe review will provide an analysis of the following aspects of BOTs' characteristics and operations:

## **1. Organization and Management of BOTs' Business**

### **Composition and Structure**

- BOT size and profile; fields of expertise, experience, diversity and tenure (terms of appointment) of members;
- Professional expertise in the Board in the areas of financial management science oversight, and institutional governance;
- Process of succession planning and selecting BOT members; and
- Adequacy of the number of BOT meetings per annum; management of Board and committee meetings.

### **Orientation, Assessment and Adequacy of Information**

- Performance measurements of BOT members and chairs; BOTs' annual self-assessments;
- Level of understanding (by members) of their role as BOT members and as members of board sub-committees (Executive, Program, Audit, Finance, HR, Nomination, etc);
- Board's familiarity with the CGIAR, its mission, goals, strategies and priorities, the issues of priority being addressed by the CGIAR System, and how the Center fits into the overall System;
- Understanding of the delineation between BOTs' and Center management teams' responsibilities;
- Board's familiarity with the CGIAR issued guidelines on Boards; and
- Adequacy and timeliness of information made available to members, prior to BOT meetings.

## **2. BOTs' Engagement with Centers' Strategic Business**

### **Participation in Strategic Planning and Program Review**

- Level of knowledge/understanding by BOT members of their respective Center's vision, mission, strategy and their implementation; the engagement of the BOT in the formulation of Center's mission and strategy and in monitoring the Center's performance; and
- Oversight of Center program/science policies including intellectual property (IP), outputs and impacts analyses.

### **Involvement in Fiscal Oversight**

- Financial oversight, budgeting and reporting; and
- Implementation of clear policies for appointment, review and rotation of external auditors.

### **Involvement in Policy Development**

- Formulation of science and program policies as well as finance, human resources,, and partnership policies; and
- The role played by the BOT in handling grievances.

### **Adequacy of the annual DG evaluation process**

- Process for annual evaluation of the Center Directors General (DG) and the methodologies used for the review of the DGs' remuneration.

### **Donor Relations, Partnership Facilitation, and Resource Mobilization**



- Relationship to donors, clients, and partner institutions; and
- Involvement in establishing marketing and fund raising strategies.

**3. Other areas pertinent to understanding how effectively the BOTs have performed their governance role.**

## Annex 2

### **Stripe Review Panel**

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### **Panel's Biographical Information**

**SAMUEL PAUL** is the founder Chairman of the Public Affairs Centre (PAC) in Bangalore. PAC is an independent think tank cum citizen action group that works on both local and national issues. An economist by training, he was educated at Syracuse University and the Harvard Business School in the US. For a major part of his career (1964-84), he was a Professor of Economics and later the Director of the Indian Institute of Management, Ahmedabad. Subsequently, he was the World Bank's advisor in public sector management in Washington (1985-91) and was involved in a variety of public sector reforms around the world. He has also served as a chief technical advisor for the International Labor Organization and Special Advisor to the United Nations Commission on Transnational Corporations in New York. He has taught at Harvard and Princeton Universities in the U.S.A. In India, Dr. Paul has served on several Government of India committees and was on the boards of the State Bank of India, Industrial Finance Corporation of India and several other companies. He is the recipient of several honours such as the Fred Riggs Award of the American Society of Public Administration and the National Fellowship Award of the Association of Indian Management Schools.

Dr. Paul is the author of several books and numerous professional articles on economics and management. Among his books are Managerial Economics (Tata McGraw Hill, Delhi), Managing Development: Lessons of Success (Westview Press, USA), Strategic Management of Development Programmes (ILO, Geneva), and Corruption in India: Agenda for Action (Vision Books, Delhi). His latest book is Holding the State to Account: Citizen Monitoring in Action (Books for Change, Bangalore, 2002). His articles have appeared in international journals such as the Economic Journal (London), Journal of Political Economy (Chicago), World Development (London), and the International Review of Administrative Sciences (Brussels).

**LI-LI ANN FOSTER** is the founding President of Renaud Foster Management Consultants and recognized both nationally and internationally for her leadership in the fields of Corporate Governance, Executive and Director Recruitment and Executive Development. She has led a number of governance on search assignments in the public and private sectors, International Development Research Centre (IDRC), the International Network for Bamboo and Rattan (INBAR), Acacia Initiative (IDRC Dakar), Forest Products Association of Canada, and the Canadian Air Transportation Security Authority.

A well-regarded public speaker and facilitator, Ms. Foster was a speaker on governance at a number of national and international conferences including: The World Council of Credit Unions, the Stabilization Funds of Canada, and the *Regards Croisés sur la Gouvernance* in Paris, France. She has also been a governance speaker for AceTech (Academy for Technology CEOs), the Ottawa President's Club and the 2003 ADM Forum. Ms. Foster is a lecturer for the Schulich School of Business' Corporate Governance Program at York University; using the governance modules she created, Ms. Foster works together with the Schulich School to provide workshops for Crown Corporations.

Among her awards are included: Entrepreneur of the Year in 1999 (Ottawa), and as Chair of the Board for the Deposit Insurance Corporation of Ontario (DICO) (1993 -1997), Ms. Foster

introduced a model of corporate governance for which the organization received the first Canadian award for Best Practices in the public sector (2001).

Currently a Director of the Rideau Club of Ottawa, Ms. Foster has also been a Director for the SCO Health Services' board, The International Alliance for Women (TIAW), and the Ottawa Board of Trade. Ms. Foster chairs the National Capital CEO Network and the Network for Executive Women, sponsored by Renaud Foster.

Prior to 1986, Ms. Foster headed Ernst & Young's human resources and executive search practice in eastern Ontario.

Ms. Foster is a Certified Management Consultant and holds a B.Sc. from Concordia University. She also holds certificates in Governance, Financial Literacy, Audit Committee responsibilities, and Chair-CEO relationships.

**PAUL A. EGGER** is currently Lecturer at ETHZ, The Swiss Federal Institute of Technology. Previous to his present position, he was head of East Asia Division of the Swiss Agency for Development and Cooperation (SDC), Federal Department of Foreign Affairs. As Head of the Agricultural Division, SDC from 1986-2000, he represented Switzerland in the CGIAR. In that capacity, he also served as the first Chair of the Oversight Committee, a CGIAR Committee established in 1993 to ensure that due care and diligence is exercised in CGIAR's and centers' operations.

Mr. Egger's professional experience includes, among others, the following: regional development planning, rural development and mountain development; institutional development and capacity building; policy and program development; building up of research partnerships and fostering European collaboration and participation in international agricultural research (served as Chairman of EIARD, European Initiative for Agricultural Research for Development).

Some of his contributions/achievements include: initiating the development of the Post Graduate Course on Development Studies (NADEL) at ETHZ; organizing and implementing an interdisciplinary study on migration in Nepal; conceptualizing, planning and implementing one of the first "Integrated Rural Development Programs"; building up the National Potato Program in Nepal; planning, negotiating and monitoring numerous development and research programs; facilitating the funding and planning of the first project of the Consortium for Agroecological Development of the Andean Ecoregion (CONDESAN); establishment of the Committee for International Agriculture of the Swiss Federation of Agronomists and Food Science Technologies; initiating and planning a number of regional research networks in Latin-America and Africa; and establishment of the Agricultural Service at SDC.

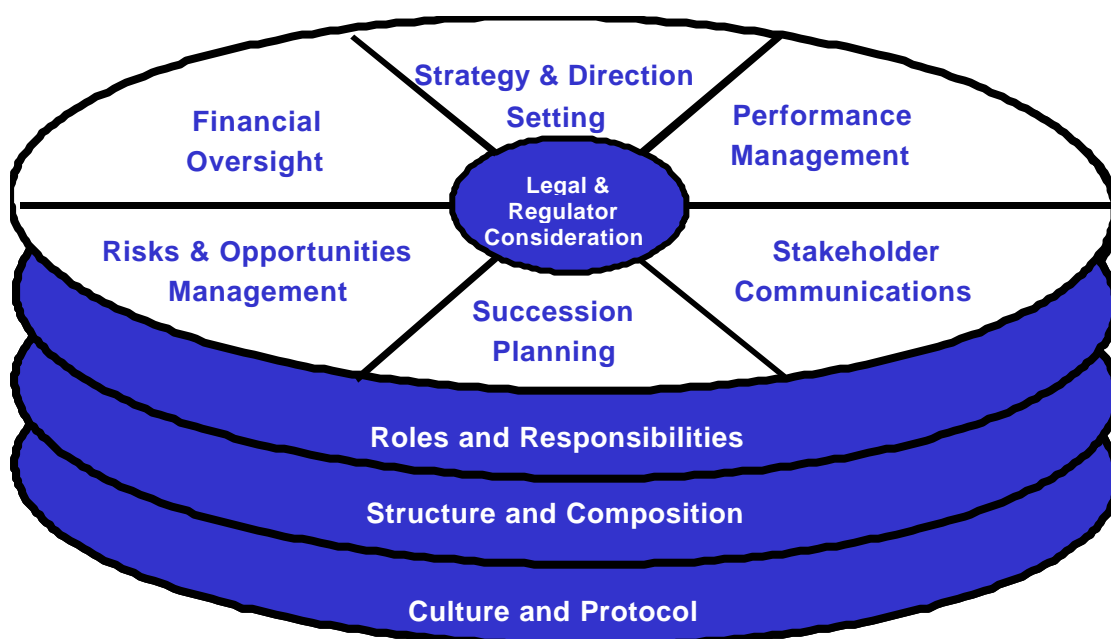
He is currently a member of the BOT of Toni Hagen Foundation. He previously served on the board of Centre for International Agriculture (ZIL), ETHZ; CONDESAN; and International Livestock Centre for Africa (ILCA, now ILRI), Addis Ababa.

Mr. Egger has a degree in agronomy (Agronomist, Dipl. Ing. Agr. ETHZ, Swiss Federal Institute of Technology), a Diploma in Teaching, ETHZ, and participated in an Interdisciplinary Post-Graduate Course on Developing Studies, ETHZ.

### Annex 3

#### An Example of Best Practices Model

The following is an example of a best practices model. Developed by Renaud Foster, this model is a best practice framework used by (amongst others) the Government of Canada for their current governance training in all of their Crown Corporations (i.e. government agencies). The model encompasses in a simple diagram a synthesis of the key accountabilities of any governing body/board, as well as the three dimensions within which these accountabilities must apply. Although the areas of accountability could be broken down further into smaller elements, for the sake of simplicity, this model breaks them down into six core sections.



Element	Description
<i>Legal and Regulatory Considerations</i>	Identification of specific legal and regulatory requirements or limitations of the organization or the Board.
<i>Direction Setting</i>	Establishing the mission, vision, values, ethics and strategy.
<i>Performance Management</i>	Mechanisms to ensure the successful performance of the organization, the CEO, the Board and its Directors.
<i>Financial Oversight</i>	Setting financial plans, assessing results and ensuring the integrity of financial reporting.
<i>Risks and Opportunities Management</i>	Ensuring that all relevant risks and opportunities are systematically identified and acted upon for the benefit of the organization.
<i>Stakeholder Communications</i>	Strategies to ensure effective relationships and transparent communications

	are maintained with all stakeholders.
<b><i>Succession Planning</i></b>	Strategies for recruitment, development and compensation of Directors, the CEO and Senior Management.
<b><i>Roles and Responsibilities</i></b>	Duties and requirements of the Board and the separation of power and roles between the Board and Management.
<b><i>Structure and Composition</i></b>	Organization of the Board and its Committees. This includes the numbers of Directors, representation strategies, diversity and competency requirements, and mandates of Committees.
<b><i>Culture and Protocol</i></b>	Often overlooked dimension of how the Board really operates including: relationships among Directors and with Management, meeting processes, decision making and information flow.

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## **Annex 4**

### **Summary of Survey Results**

#### **1. Expectations and Major Issues**

In general, the issues raised by respondents to Questionnaire I were consistent with the Stripe Review's terms of reference (TORs); and with the survey questionnaires. Also, there was remarkable consistency of expectations and issues across respondent categories, despite some differences. Most respondents wanted the panel to focus on the big picture, and to provide recommendations on board functions, organization, and management. Some respondents expected an assessment of current practice and performance of boards; comprehensive guidance on best practice and how to get there; and expected boards to be considerably strengthened as a result (though some other respondents had doubts).

Respondents were looking for a clear framework on governance of centers by their boards, focusing on the role and responsibilities of boards, and ways by which their effectiveness (including strategic adaptiveness) and efficiency (value for money) can be improved. Key issues include accountability of the chair, board, DGs; transparency of decision processes and decisions made; oversight of management, including finance, and programs; board capacity (skills, size, selection, composition, representation, time available, number of meetings, leadership by the chair, etc); board-management relations and synergy, including relations with center staff; and board-, Science Council-, and CGIAR Secretariat relations and overlaps.

There was concern that boards should remain independent (representative, empowered, listened to); the board should help maintain center autonomy in a changing CGIAR system; financial oversight should cover not only accounting practices but also efficient allocation and use of limited funds; proposed actions should not increase program risk by reducing the board's oversight of science; and the board should help the Center strengthen its links with other CGIAR Centers, as well as with national research institutions in developing countries (including through adequate representation on the board).

Respondents also wanted the Panel to keep in mind the individuality of centers and BOTs; the fact that some problems of boards and Centers are traceable to donors not providing sufficient funds or not honoring agreed Medium Term Plans and priorities; and the expectation/perception that boards of research institutions are/need to be different from other types of boards. They wanted the Panel to provide guidance on best practices suitable for CGIAR center boards. One or more respondents wanted the Panel to identify the ideal composition of boards; clarify what is meant in real life by due diligence, oversight, and fiduciary responsibility of boards; specify what role, if any, the CGIAR and Secretariat should have in determining board composition; and indicate how experimentation and risk-taking by boards could be encouraged.

Thus, respondents' expectations and issues covered the entire range of items included in the Panel's TORs. A large number of responses was received, covering many different aspects of a topic or issue. These responses covered, in particular, the following topics: board effectiveness and efficiency; board capacity; time and commitment; accountability and independence;

oversight; strategic planning; systemic links; assessment; best practices; the corporate model; and suggestions for improvement.

The CGIAR members' expectations/issues relate primarily to nomination and selection of board members; due diligence on financial matters and solvency; roles, responsibilities, and TORs of board members; boards' capacity to take a system-wide perspective; adjustment of boards' roles so as to empower NARS; and revisiting EPMR procedures. More specifically, CGIAR members expect the Panel to focus on the achievements of boards; their accountability; how to reorient them towards strategic issues; how to make boards more efficient; their cost; and the effectiveness of financial and institutional oversight. They also want the Panel to address such issues as the impact of centers; the monitoring of quality of research undertaken by centers and their national/regional partners; responsiveness to requirements of clients for new technologies for development; and their policy on access to plant genetic resources.

CGIAR members also list the following issues: size in relation to board responsibilities and functions; the disciplinary expertise on boards; the competence-balance needed; performance-based reporting; coverage of governance and board issues in the center's annual report; strengthening links between annual reports and MTPs; and the opinions of DGs and senior staff on the role of boards. They want the review to consider the boards' context, such as requirements of centers and donors; and their awareness of system-level issues and efforts at improved governance.

## **2. Current Strengths of Boards**

In general, respondents to Questionnaire I believe that board strengths include the following: board size, composition, skills, balance, expertise, dedication, commitment, deep understanding of Center business, geographical and gender diversity, cohesiveness, and stakeholder representation. Other strengths are the board's committees, strategic emphasis, accountability, knowledge of programs, interest in external partnerships, board leadership, and openness and transparency of board processes. Some respondents also believe that good members help with donor relations and fund-raising, and that conflict of interest policies are well defined (presumably for their board). Some respondents, however, believe that accountability and committee functioning are not strengths.

A large number and variety of specific comments were given (and are included in the full survey report). Respondents say that current strengths encompass the following: structure; balance; functions; program oversight; committees; accountability; DG relations; board chair; and cost. (It is of course not possible to know which center boards the respondents are primarily referring to). A sampling of the perceived strengths of center boards is given below:

*Structure:* board composition, balance, skills, expertise, diversity (geographical, discipline, gender, public and private sector experience); right composition and diversity of disciplines and experience; eminent scientists and administrators; balance between management and scientific acumen; and broad stakeholder representation.



*Balance:* good balance between continuity/stability and new views; broad representation of different regions and stakeholders, diversity of views, stakeholder involvement; bridge to ARIs, NARS etc.; support for new ideas and innovation; strong interest in inter-center collaboration and relationships.

*Functions:* financial and program oversight, strategic direction; technical expertise, and knowledge of developing world; knowledge of business, and commitment to center mission; proximity with the business of one center, commitment to CGIAR's cause.

*Program oversight:* general policy and governance oversight; setting policy and long-term direction; combination of scientific oversight and governance responsibility; scientific oversight by board; bridging interests of stakeholders and scientists; strong, intimate knowledge of science programs and interaction with Center scientists; ability to respond rapidly in a crisis.

*Committees:* board committees, board leadership, openness and transparency of board processes; enthusiasm to accept responsibilities and assignments; effective use of executive committee; engagement of independent experts in some areas; self-evaluation of board's functioning and ability.

*Accountability:* accountability and financial control is improving; oversight of financial and management issues; strong accountability to developing countries and development issues; accountability in selecting members and assessing DG; accountability to the Center.

*DG relations:* guidance and help given to DG in various areas; independence from Center management; making staffing changes when needed; performance of board members in collaboration with the DG; good board-management relationship; oversight and support of DG.

*Board Chair:* active and strong commitment by board chair; strong respected board chair; board members' diligence and responsiveness on issues that arise between meetings; valuable conduit for staff to address management; good rapport between board, management, and staff.

*Cost:* low cost (~ \$250K/yr); size (not less than 12) and balance of expertise; low-cost, nimble.

Some of these strengths are also recognized by the CGIAR members who responded to Questionnaire II. Respondents believe that the boards' major strengths include board composition, diverse geographic representation, good balance between scientific and other disciplines reflective of global agenda, and the good knowledge, experience, dedication, and commitment of members. Other strengths are the boards' influence on center programs, the functions performed by boards, their ownership and loyalty, informality, and linkages with the Science Council and other global committees of the CGIAR system. Some other CGIAR members also consider balance (disciplinary, geographical, and gender), appropriate size,

personal integrity, technical expertise, committee structure, and collective action through the CBC to be the key strengths of center boards.

In general, CGIAR members believe that boards add *most* value in review of center strategies and plans; program oversight; priority setting; political representation; participation in the CGIAR; partnerships and inter-center collaboration; exchanging information and good practice across boards; and linking the center to external bodies. Boards are also perceived to add value in DG recruitment; review and guidance to program activities; scientific oversight; planning and monitoring research; financial management; links with other CGIAR institutes; and geographical representation that allows for some networking. Respondents say the boards add *least* value in financial and program oversight, DG recruitment; and shareholder representation. Other areas include fund raising; enhancing program content; oversight of financial and organizational management; strategic planning; monitoring and evaluation; and helping national /regional research institutes reach CGIAR scientific standards.

### **3. Recent New Practices**

In general, board chairs and members list a fairly large number of new practices introduced in the past 2-3 years; and other categories of respondents recognize the efforts being made by boards to improve governance of centers. However, since CGIAR members list far fewer new practices introduced by the boards--see their response to Questionnaire II, below--there seems to be insufficient communication with external stakeholders regarding the range and number of new practices introduced.

The practices most-frequently mentioned by board members include the following: more and better involvement in strategic planning; better fiscal oversight and auditing; emphasis on accountability; succession planning; self- and DG assessment; board orientation; risk management; and a stronger nominations process. Other practices mentioned, though less frequently, include new board TORs; better use of review processes and monitoring; better communications between meetings; timely and better information provided to the board; stronger role of board secretary; more dialogue with staff; new investment strategy; advice to DG on HR matters; and greater focus on strategy and policies.

Clearly, respondents believe that boards have introduced many new practices in recent years; and the glass is now at least “half full”. Some of the broad areas in which improvements have been made, and the specific “new” practices listed by respondents, include the following (some of these are clearly center-specific, i.e., have been introduced by the particular board on which the respondent serves):

*Financial oversight:* boards have introduced better financial oversight; financial indicators tracked regularly; financial strategy reviewed regularly; updated fiscal practices; strengthened board skills for oversight of finance and management; finance and audit committee charter similar to corporate boards; stronger audit committee; more interaction with center’s financial staff; stricter and clearer audit policies; stronger financial expertise on board; reporting frequency of financial information; increased and scope expanded improvement in regular fiduciary oversight by the whole Board, rather than committees.

*Program oversight:* board review of center effectiveness; program committee (PC) review of operations; more involved in development of strategic plan; strong involvement in strategy development; strategy retreats; involvement of the PC (particularly its Chair) in planning; fewer but more critical board-commissioned reviews (CCERs); yearly review of research management to ensure delivery of results; and science advisory panel enhanced operations oversight.

*Accountability for governance:* better awareness and actions on governance and accountability issues; risk management; fund raising strategy; program and monitoring system; full participation in development of Medium Term Plans; and in approving program and budget quarterly updates from management to the board.

*Board operations:* new modes of operation to improve oversight; clarity on background papers expected; board practices manual developed; statutes changed; reserved powers of board and delegated powers of DG documented; management reforms (fiscal and personnel) undertaken; board chair elected one year in advance, with one year training period; careful succession planning of board members; and board-development strategy launched.

*Assessment:* restructured/better self- and DG- assessment; annual self-evaluation of board; review of board competencies; development of board performance indicators (preliminary); informal self-appraisal but frank discussion (very effective approach); board chair-DG relationship strengthened, and face-to-face communication more frequent.

*Capacity and commitment:* attendance at board orientation program by all members; board training by external professionals and internal team building and strategy seminars; board retreat, leading to annual self-assessment; more finance experts appointed to board; board Secretary role and functions being reviewed; increased frequency of meetings; shorter meetings; one full board and 2 ExCo meetings per year; more use of emails and conference calls between meetings.

*Inter-center collaboration:* more interactions with other Center Boards; better cooperation with others; collaboration with other CGIAR organizations; cross-Center membership.

As examples of recent new practices, CGIAR members list greater emphasis on strategy and its periodic assessment; the oversight function; self assessment; term limits on DG appointment; coordination across center boards; and participation in the ExCo. CGIAR members also list improvements in the scrutiny of financial management issues, strategy building, training of Board members, and risk management. In addition, they believe new practices have been introduced in self-assessment and review of board composition; introduction of a Human Resources advisory committee (on a particular board); and the strategy of cross-membership on center boards.

#### **4. Role in Strategy Setting**

A large majority of board members (80%) says strategy setting is an interactive process involving all parties. The remaining respondents are about equally divided between board- and DG/staff guiding the process. All categories of respondents agree that a major function of boards is strategy setting, and that they have been devoting increased attention to this function. The process used is largely considered to be interactive, with involvement of most stakeholders--though some respondents believe that the board or DG/staff largely guide the process.

Despite these efforts, many *weaknesses* are identified, and there is considerable agreement on what these are. However, the inherent complexity of the task, the constraints under which the boards and centers operate, and some of the systemic factors underlying these constraints and weaknesses are also recognized—but respondents seem to have found it harder to identify workable solutions for some of the weaknesses identified, which cover a wide range. A sampling of respondents' comments--most of which were one-off, but can be clustered into general categories relating to different aspects of the problems faced in strategic planning--include the following:

*Board capacity:* Center programs are more diverse, but in-depth board expertise and scientific knowledge lacking in some areas; the board has not worked through the relevant questions in regard to the future relevance of the center; lack of board clarity on goals for center; limited ability to think strategically; tendency to focus on tactical issues; the board needs to engage better in process.

*Donor funding:* if donors do not fund approved plans, it is not clear what an appropriate strategy really means; the lack of core funding, and the emphasis on project funding, greatly limits goal setting and achievement; there is a gap between donor interests and the strategic issues identified by the board/Center; high proportion of opportunistic project funding contradicts the strategic approach; the quest for funding leads to too many diverse projects.

*Managing complexity:* difficult to monitor decentralized project work; difficult to track impact of complex long-term projects; it requires quality inputs from management; there is need to avoid agenda setting by the researchers; need more interaction with scientists; background documents do not provide synthesis; documents are too long, wordy, late; alternative strategies are not presented.

*Time and commitment:* there are time constraints; there is insufficient unstructured time to explore options; shortage of time and other resources for regular review and adjustment of strategy; board members are not available for annual planning; not all members are involved.

*Managing external relationships:* the comparative advantage of the center needs to be taken into account; turf battles have impeded progress until recently; it is difficult to incorporate diverse options of diverse stakeholders; need beneficiary inputs; complexity of obtaining genuine participation of multiple stakeholder perspectives; limited opportunity to interact with NARS.

*Board leadership:* Center management has a tendency to lead the process; it depends on board chair's leadership; board may be too influenced by DG/staff; board is not offered/ does not develop alternative scenarios.

*System constraints:* mismatch between CGIAR and SC recommendations and the board's more knowledgeable perspective; confusion between SC and board roles; poor linkages between program planning and resource mobilization; difficulty in understanding role of ExCo/ CGIAR Secretariat which seem to impose arbitrary constraints.

## **5. Improvements Needed in Financial Oversight**

In general, boards seem to recognize their responsibilities for financial oversight, are aware of weaknesses, and are attempting to find solutions for improving financial oversight by the board. Respondents acknowledge that a number of improvements are needed, and have suggested a fairly large number of one-off ideas—which are clustered below. Some of the suggestions seem obvious, but necessary, solutions to some of the problems identified in particular centers--though these improvements could be more generally needed as well. Some suggestions require action by CGIAR stakeholders other than center boards. The respondents' suggestions for improving financial oversight include the following:

*Board capacity:* improve competency of board members in management and financials skills; increase number of board members with expertise in financial oversight; acquire expertise through training programs, e.g., CGIAR orientation program; board should include experts (one) in financial management (finance, audit, accounting skills); appoint a member with finance/audit expertise and time (retired) and ability to ask the right questions; all board members should appreciate their responsibility for center's financial position.

*Finance and Audit Committees:* extend financial responsibility from 1-2 to 3-4 members; have specific financial orientation program for members of audit and executive- and finance committees; provide training for audit committee chair.

*Financial oversight:* need more interaction between the board's finance committee and the center's finance manager and the internal auditors; more interaction between the board members on financial matters; increased focus on risk assessments; strengthen center's internal audit function; stronger working relationship with center's internal audit function.

*Information and meetings:* improved information circulation of center's financial outlay to board members; more regular financial reporting by management (e.g., complete set of reports every quarter); quarterly financial reports to board members so that they can monitor and respond if needed; increased time commitment; two executive committee and finance committee meetings per year.

*System support:* more oversight/ interaction between the CGIAR Secretariat's finance team and the center's finance department; clearer policy on fund management; and more easily understandable financial reporting; better use of benchmark and comparative indicator data to understand critical spending patterns and trends; board members should receive much

better and clearer comparative information from the CGIAR Secretariat; more comparative analyses, over time and across Centers; closer continuing relationship between audit committee with CGIAR system internal auditor.

## **6. Improvements Needed in Monitoring**

Respondents recognize the need to improve monitoring, and offer many suggestions for doing so. They also indicate that this will need to be a concerted long-term effort; and that there are several “structural” constraints of time, skills, mode of work, incentives and payment, resource and information availability, training etc. that need to be addressed at the board as well as the System level. Hence some of these suggestions require action by stakeholders other than the center boards, including the CGIAR Secretariat and donors.

According to the respondents, the improvements needed in monitoring include the following (though, obviously, the improvements needed in a particular board depend on the specific situation of that center):

- *Program oversight:* more programmatic monitoring; more analytical reports; improved financial, project and HR information and management systems, and simpler reports for board members without management expertise; limit information to support decision points and strategic and policy discussions.
- *Assessment:* a systematic presentation of project monitoring on regular basis; graphic presentation of financial trends, and in comparison with other centers; periodic review and update of human resource policies; better understanding by board of projects’ follow-up and exit strategies; better quantitative indicators of program success; and link between financial and programmatic reports.
- *Reports and information:* greater use of quarterly reports on progress, finances, and funding prospects; more regular information to specific committees; more transparency in financial matters from the center’s corporate and management team.
- *Capacity building:* more time involvement by the board; more financial expertise on the board; and more interaction with internal auditors; continuous training on basic accounting and finance; more time in board meetings to deal with issues generated outside the center, etc.
- *Time and incentives:* more frequent board meetings; more frequent visits of board members to the center; time availability of board members; more time to read and digest documents prior to board meetings; routine dialogue among board members and with Chair between meetings.
- *Information sharing:* better information sharing and board engagement between meetings; more frequent information; more rigorous monitoring of reports outside board meetings; more electronic communication between board meetings; receive documents in advance.

- *Donor and system support:* a clear message by the CGIAR on financial accountability of boards; sanctions to ensure future adherence to guidelines or give consideration in annual performance evaluation process; improve interest in reading financial reports; more professional and relevant advice from CGIAR Secretariat, less self-serving to their own agendas.

## **7. Donor Practices and Center Governance**

In general, the positive role played by donors is recognized by all categories of respondents. They say that criticisms of boards by donors have helped alert boards to the need and critical importance of financial management, so boards are stronger now; there is general pressure to improve governance; and there is more transparent accounting. The push by some donors on risk management has helped Centers improve their risk management processes (one particular donor has insisted on a risk management statement). Donors have also helped by working with the CGIAR Executive Council; undertaking consultations on a regular basis at CGIAR meetings; through improved collaboration within CGIAR Centers, and increased support for collaborative projects; and by giving importance to EPMRs—which has kept the researchers’ work focused and encourages them to move ahead faster.

Respondents also appreciate donors’ development of long term strategies for their agencies, and an increase in unrestricted funding (e.g., DFID, Canada); multi-year budgeting; increased commitment to core funding by some donors (e.g., UK, Norway, Canada); and support for the NEPAD Fish for All in Africa. In addition, donors are appreciated for helping identify or nominating board members with financial, fiduciary, and private sector experience; or for seconding their own staff or identifying other experts suitable for appointment as center staff. Respondents recognize that donors have held back their financial contribution pending improvement in board performance, particularly relating to weak center financial management; and have undertaken reviews and audits to ensure that center governance/ systems are adequate. The use of donor-country nationals on center boards has facilitated donor-center relationships; and donors have introduced a new procedure for appointing CGIAR nominees for center boards.

## **8. Other Aspects Panel Should Cover**

Respondents provided a number of very useful comments on center boards, and the CGIAR System, and also gave suggestions for the Panel to consider in moving forward with its own work. Some of these have been covered elsewhere as well; and are loosely clustered below, under broad topic headings:

- *Board capacity and operations:* the Panel should consider quality of research and of scientists; how to increase participation of local and regional stakeholders; adherence to core mandate and comparative advantage; examine whether the CGIAR is too focused on financial aspects of governance; suggest how to increase geographical and gender balance; views on optimal management of board’s time; length of board member terms.

- *Assessment:* examine the use of CCERs; the systematic follow-up of EPMRs, which are expensive and time consuming; the planning of the following EPMR and the use of personnel with current knowledge of the center; criteria to evaluate boards; suggest tools to guide board-management interface, examine ways of improving effectiveness of CGIAR System activities.
- *System interactions:* the Panel should be absolutely clear with the donors about why decisions are being made at the system level rather than the center level; how the CGIAR Chair can become more productively involved; reduce the tendency of the CGIAR Secretariat to impose unwarranted rules and ideologies on Centers; the Science Council seems to have aspirations of becoming a governance body; create a super-board that provides professional governance to all Centers.
- *Corporate model:* the Panel should consider that a “one size fits all” system will not work well for a complex organization like the CGIAR; the CGIAR Centers can’t be governed by corporate board models; non-profit Board models in which trusteeship and leadership come together seem to be the way forward; if CGIAR wants more corporate-like boards then the extra time and energy put in by board members cannot be “voluntary” as generally the case is now.
- *Future direction:* There is a need to help boards evolve to meet the changing needs of the CGIAR; the Alliance Board should monitor needs and interface with the System to explore models that boards may consider; the System is in constant churning because of System demands— which diverts management attention; avoid straining the good relations that many Centers have with local government and donors; remember that most Board members are more or less volunteers and have limited time; keep in mind the transactions costs that might result from its own recommendations.

## 9. Responses to Detailed Questions

- *Board Accountability:* There was a variety of responses. However, most respondents say the board is accountable (in rough order of frequency) to the center itself; investors/donors; the CGIAR system; stakeholders; beneficiaries; the poor; and developing country societies. Most respondents say that the Board is accountable to several of these stakeholders. Some respondents also say that the Board is accountable to the beneficiaries/poor, and the CGIAR Chair--though legally only to the center itself and to the host country, as per the legal Agreement that initially established the center.
- *Charter and Host Country Agreement:* About 55% of the respondents say the charter and host country “do not at all” impede proper governance of the center; the remaining 45% say it does “to some extent.” Some of the impediments, in one or more charter, are the following: too many prescribed CGIAR-nominees, so the Board size is too large--but (according to the same respondent) in practice it is not a problem or relevant, and is a “minor” issue; size of host-country representation can limit obtaining the right skills mix or downsizing; and sometimes they are not fully engaged as Board members; the host-country agreement can limit dealing with staff malfeasance, or currency movements, or



spousal employment, or shifting headquarters location; and the host country agreement hinders reorganization vis-à-vis other Centers.

- *Responsibilities of Board and Management:* About 80% of the respondents say there is clear separation between responsibilities of Board and Management “to a great extent”; and the remaining 20% say “to some extent.” (The pattern is fairly similar among board Chairs and members and DGs). Some respondents believe that sometimes the line is flexible depending on issues; and program oversight, personnel matters, and donor relations are areas where Boards can cross the line into management. Some respondents also point out that the DG is a member of the Board (so the line separating them is not clear).
- *Board Orientation:* Roughly 55% of the respondents say that the orientation of Board members is adequate “to some extent,” and the remaining 45% say “to a great extent.” The specific comments and suggestions regarding orientation by the center are that now orientation is taken more seriously than previously; participation should be compulsory, not voluntary; there is need for continuous training, using distance learning and CDs etc; and the center-level orientation process requires more documentation. Also, improved knowledge of CGIAR and its issues should be emphasized; the center should arrange visits to headquarters and outreach locations; at least one orientation visit to a field site is needed; more interaction with scientists is needed; and there should be increased participation in the center’s annual program and planning meetings. With regard to the CGIAR/CBC’s board orientation program, respondents believe it is good and should be continued. One or more respondents suggest that this program should be attended soon after appointment; and that it should be tied to the AGM, so participants can see how the CG system works. However, it was also noted that the program should use up-to-date management models and experts.
- *Board Size:* Board size varies from 10-17 members; with about 50% of the respondents saying the size is 12-13 members (sometimes excluding host country representatives). Furthermore, roughly 50% of respondents say the Board size is appropriate “to a great extent”; and 40% say it is appropriate “to some extent.” (The pattern was similar across different categories of respondents.) Some respondents say the board could be smaller-- most often with reduction in number of host country representatives; but this must be done carefully as it is a highly sensitive issue.
- *Board Composition:* Roughly 55% of the respondents say the board composition is appropriate and balanced “to a great extent” in terms of skills; and about 40 % say it is “to some extent”. The changes needed include the following: the board should not appoint host country members; gender balance; and avoid donor representation. There is need for more: strategy (and less science); development perspective; financial and management expertise; women; corporate business skills in finance and HR; private sector experience; non-economists; good minds to ask the right questions; and visionaries for center and CGIAR missions.

- *Board Balance:* About 55% of the respondents say the Board is balanced “to a great extent” in terms of representation of stakeholders; and the remaining 40% say it is “to some extent.” Sample comments from respondents: the board does not have representatives on it—members are all there in their personal capacity; so what balance is required? board does not need to be balanced in terms of stakeholders; with the diversity of stakeholders, it is impossible to have representation of all; the poor beneficiaries, farmers and their community organizations are not represented at all; senior scientist from host country and from center could be appointed as ex-officio; more geographical diversity, women, and social scientists are needed; NARS representatives are sometimes imposed on the board; and host countries should nominate more than one member to allow center to select.
- *Other Changes in Board Size, Composition, Balance and Structure:* The other changes suggested cover a wide range, including the following: there should be interlocked memberships with other center boards, with policies on conflict of interest; a task force is studying the options, including use of specialized Committees to guide certain programs, so as to reduce board size; and there is need to consider a System board. Other comments: resist pressure to have only financial experts, so that program direction and quality does not deteriorate; donor countries should agree to share board representatives; reduce CGIAR nominees; reduce host country representatives; to not have more than one representative from any one nationality; focus on skills, science, and keep size to 12 or less; stakeholders must be adequately represented; and there is a need for more women from the South; and a wider and more professional pool of potential Board members.

In addition, there is need for improved flow of information and working methods; new ways of functioning and standards of quality etc.; ensuring that the Chair is strong on governance and good meeting processes; the board Chair and members should devote more time to the board; there is a need for more than 2 meetings per year, some virtual. Some respondents also say that the CGIAR Secretariat’s role in appointing board members is confusing; the board nomination process needs to be improved; and the DG should not be involved in preparing shortlists or selecting board members. Some say that the System still has too many “professional” board members jumping from board to board; there is need for young, fresh board members; and no one should be allowed to serve on more than 2 boards simultaneously or sequentially.

- *Board Committees:* Responses pertaining to board committees are summarized below, separately for each question. *Appropriate Committees:* About 90% of the respondents say there are appropriate Committees “to a great extent”; and the remaining 10% say “to some extent.” Areas for improvement are: risk management; revised board manual; need for new or ad hoc Committee for personnel issues and handling staff grievances; avoid Program Committee getting into management issues; clarify role of Executive Committee; train Chairs of Committees; and they should meet to discuss outcomes of Committee meetings. *Committee Overlaps:* About 80% of the respondents say the Committees’ overlap is “not at all,” and the remaining 15% say “to some extent.” Comments: separate tasks of board and Program Committee (in which sometimes full board participates); and of Executive Committee and Audit/ Finance Committees. *Skill*

*Shortages:* About 60% of the respondents say there are skill shortages “to some extent,” and the remaining 40% say “not at all.” There is shortage of finance, accounts, management, governance, HR, legal, bio-diversity, breeding, strategic vision, private sector, leadership, and ability to negotiate in host country. It is also recognized that with smaller board size, and because of the need to maintain balance and diversity, it will not be possible to always get all the skills needed; and there is need for more time devoted to board business, not more skills.

- *Board Committees Needing Strengthening:* Many respondents did not mention any Committee that needs strengthening, or said “none.” Others mentioned the Program, Nomination, Audit, Finance, and HR Committees (in rough order of frequency). Whether a particular committee needs strengthening presumably depends on the board—since almost all Committees were mentioned by one or more respondent. Some Committees are considered strong, but need to meet 2 times/year (instead of once per year).
- *Board Selection:* Roughly 55% of the respondents say Board processes for finding new members/Chairs are adequate and timely “to some extent,” and the remaining 40% say “to a great extent.” Respondents want a better process for CGIAR nominees; a better pool of potential members and their CVs at a central clearing house; improvements in the Nominations Committee; and better selection of and succession planning for the board Chair (in rough order of frequency). Comments and suggestions: do more homework; need larger and better pool of suitable candidates; need to have a phase-in period for new members; simplify the process of selection; pipeline of candidates is too limited, and not diversified enough; prepare a roster of experts and potential Board members in various areas; need an ongoing up to date list so that NC could select names without delay when required.

Respondents also suggest strengthening the board’s Nominating Committee; besides asking board members and center staff, should perhaps involve NARRDs in identifying nominees; normally board members recommend each other and keep circulating in the System; DGs are too involved; should start with assessment of existing board skills. They also note that reducing board size will enable increase in honorarium to attract better quality board members; it is very difficult to find candidates when looking for specific characteristics; good candidates are not always volunteers; and duties of board Chair are too complex, and so better guidance is needed to ensure a good fit. With regard to the CGIAR-nomination process, respondents say that individual recommendations are best, but CGIAR lists are not very helpful; the CGIAR nominee database has no added value; need a larger database; CGIAR nominee process is frustrating; too many CGIAR-appointed members; Secretariat proposals of unqualified persons has slowed down the process; changing, unclear, and inconsistent process and rules for CGIAR nominees has hampered boards severely.

- *Adequacy of Information Material:* Almost 80% of respondents say information material received by the board is adequate in terms of quality, quantity, and timing; and the remaining 20% are about equally split between “don’t know” or “it is not adequate.”

- *Project Management System:* About 75% of the respondents say the project management system provides timely programmatic and financial information to the management and the board; the remaining 25% are about equally split between “no” and “don’t know.” About 55 % of respondents say the system is serving the board’s needs “to a great extent”, and the remaining 40% say “to some extent.” The frequency of programmatic and financial reports is about evenly divided between quarterly, semi-annually, and annual reporting. About 55% of respondents say the board draws upon these reports “to a great extent,” and the remaining 45% say “to some extent.”
- *Opportunities and Risks:* In general, the opportunities monitored by boards (in rough order of frequency) include funding prospects, major events at headquarters and regions, new projects and expansion of the mandate, research progress, and publications. The risks monitored include financial, investment, security, resource allocation, and human resource risks.
- *Assessment of Board and DG:* About 75% of the respondents say board members participate in evaluation of the DG “to a great extent,” and the remaining 25% say “to some extent.” And, about 45% of the respondents say they participate “to a great extent” in evaluation of Board Committees, and the remaining 40% say “to some extent.”
- *CGIAR Performance Management System:* Roughly 45% of the respondents say the board uses the CGIAR’s performance management system “to a great extent,” 45% say “to some extent,” and the remaining 10% say “not at all.” Specific comments: the tool and process is still at pilot stage; not all indicators are relevant; it is too complicated; unclear weighting of scores; probable omissions of important categories such as outputs, outcomes and impact; lack of clarity of some defined indicators.
- *Donor Relations:* Roughly 45% of the respondents say aspects of donor relations “do not at all” make governance difficult, 45% say it does “to some extent,” and the remaining 10% say it does “to a great extent.” Specific comments: donors are funding similar work in competing areas; donors want own representatives on boards or want to second own research staff; there is risk of influencing or even driving the research agenda; too much project funding, too small proportion is core—it distorts the agenda; low recovery rates for overheads by some donors; dearth of unrestricted funding for new initiatives; high transaction costs; multiple/different requirements for evaluation/accountability prevent a consistent approach across the program.

## 10. Other Responses from CGIAR Members

- *Limiting Factors:* A large number of factors are perceived by CGIAR members to limit board effectiveness. The factors include the failure to balance powers between the board and senior managers; the current politics of CGIAR that seeks to micro-manage Centers; emphasis on political correctness and not competence; confused messages from donors—where process is rated higher than productivity; and the boards’ limited knowledge of the CGIAR system. Other limiting factors include poor board processes and poor preparation for meetings, leading to a focus on program rather than management

oversight; honorary nominations that equate to lack of understanding or role and function and too little time dedicated to the board; too much concentration on demonstrating how well the Centers are working; and ambiguity about board and center accountability. One or more respondents also believe that boards are too science-centric; the DGs are too powerful; and that five DGs have no financial limits from their Boards—which, from the governance perspective, is unacceptable.

- The list of perceived limiting factors also includes the following: board members, except host country representatives, represent no shareholder, nor even know what the shareholder interests are; board members come from a narrow pool of candidates, which is a caricature of the old-boys-network; board members have a narrow range of expertise, largely technical; lack of in-depth knowledge of center's operations; dependency on management for critical information; and insufficient contact with center staff below the senior management level. Other limitations are the board's relationship with the center's DG; insufficient contact with center clients; allocation of too little time and effort to understanding of center business in depth; boards often uncritically support management actions despite damage being done to the health of a center; and boards nearly always promote center interests at the cost of system level efficiencies and effectiveness.
- *Improvements Suggested:* A number of improvements are suggested by CGIAR members (most are one-off comments). Some members say that the needed expertise should be available on boards; allocate time during board meetings for interaction with scientists, perhaps through workshops, retreats etc; greater exposure to center's work in the field, with clients; request members for more time involvement with boards, and provide incentives if necessary. Other suggestions are to attract higher quality members and place lower priority on politically correct representativeness; increase the number of joint board members; shrink and consolidate boards; and have smaller boards with critical types of expertise.
- Some CGIAR members also want ensure that key stakeholders are more involved in board selection and prescribe a set of board competencies. Other respondents want greater attention to board nominations, and say that there should be some CGIAR nominees on boards, and the CGIAR should ensure that at least 2 members on each board are selected by the system and are charged with promoting system effectiveness. Another suggestion is to seek involvement of a global search company in the CGIAR nominee process. However, some members suggest the opposite: a more hands-off approach by the donors--who should instead pay by results achieved; acceptance that some Centers may fail and should be closed or merged; and clear messages on the roles of the Centers in the total development agenda—i.e. the centers cannot do everything.
- *Appropriateness of Corporate Model:* When asked about the appropriateness of the “corporate” model for the center boards, responses spanned the full range, from “not at all” to “to some extent” to “to a great extent.” Individual respondents say that it depends on what is meant--this needs to be defined, particularly for members from the public sector; the board should be allowed to be more decisive and less concerned about political correctness; boards should be smaller; and there should be a ceiling on cost of

boards. It was also suggested that the ExCo, through the CBC, should provide guidelines to develop the corporate model of governance; and the CGIAR should provide and enforce guidelines that require adequate levels of expertise in financial, administrative, and legal matters.

- *Center Boards and the Alliance Board:* Responses of CGIAR members cover a wide range (all are one-off responses). They say that the Alliance Board could work with the ExCo to develop guidelines for the corporate model of governance; develop a code of ethics for board members to improve accountability, and avoid conflicts of interest; insist on the promotion of system-level efficiencies, but as proposed is very unlikely to do so; and the Alliance Board might eventually become the board of all centers. CGIAR members also say that the Alliance should be represented in the selection panel for a new board member for an individual center; the Alliance board could take on some functions – particularly the oversight of system-wide and challenge programs
- *Other Aspects Panel Should Cover:* Other comments by CGIAR members are that since the CGIAR has created its boards and their governance over several years, to change Board governance (and some changes in size and composition are desirable) will require CGIAR members to change as well. They say that greater diversity is needed in the recruitment pool of DGs; the key issue is not one of autonomy but of accountability; the total costs of governance – committees, travel to them etc -- should be reviewed and valued. Other suggestions are that Board members should also have more knowledge about problems of poor and diversified countries; the Panel should select ten important national research-related agencies and test their governance frameworks against the CGIAR Centers – there is a huge gap; and that the Stripe Review must take the big picture--since the CGIAR is over-governed and under-managed. Some CGIAR members also say that boards should give greater attention to impact assessment and performance indicators; and there is a need for better orientation to board members so that they promote System-level interests at least equally with center interests.

## 11. Responses from CGIAR Members to Detailed Questions

- *Board Autonomy:* Of the nine CGIAR members who responded to this question in Questionnaire II, about 30% say center governance should be *more* autonomous from the CGIAR Secretariat/System office, about 45% say from the donors, and 10% say from clients. And, of the eight CGIAR Members who responded to this question, 25% say center governance should be *less* autonomous from the CGIAR Secretariat/ System office, and the remaining are split equally (about 38% each) between donors and clients.
- The areas of conflict between the centers' claim of autonomy and the legitimate interests of other stakeholders include the following: shareholders have no representation on any board, this is inappropriate and would be considered illegal in many countries; center autonomy can impede stakeholder needs for integrated approaches; excessive inter-center competition and crowding out of NARS are a function of center sovereignty and donor fragmentation; and centers are increasingly competing with NARS.

- *CGIAR Members and Center Governance:* The CGIAR members who answered this question focused primarily on two aspects: the CGIAR nominations process, and EPMRs. They say that CGIAR members can enhance quality of governance of the Centers by taking the process for CGIAR nominees more seriously; working diligently to develop a pool of highly qualified potential board members; nominating and appointing these members by CGIAR consensus; and exposing boards to scientists of advanced research institutes. They should also insist on more in-depth, objective, and frank assessments of center governance during EPMRs; require the CGIAR Secretariat to provide top financial and management expertise to EPMR teams; hold Centers much more accountable to actually implementing EPMR recommendations; and withhold support when performance is not satisfactory. (All these are one-off suggestions, in no particular order.)
- The changes suggested by CGIAR members in the system of monitoring governance across the centers focus on improving the EPMR process and follow-up, as well as improving monitoring of the governance of Challenge Programs by the ExCo. Other changes suggested: independence of the monitors; greater participation by center management and the boards; more objective and open self-reporting; fully implement the performance measurement system and follow-up measures; discuss whether further accountability mechanism needed; more representation of scientists from developing countries in the Science Council; more attention to dissemination of science; greater clarity on respective responsibilities of CGIAR and the Centers; a more cost-effective AGM; and greater effort in the board nomination processes.
- Other suggestions on how CGIAR members can enhance governance: the method of nominating members should be independent of center's top management; provide/ensure nominations of qualified candidates; more active engagement with boards—demand transparency from boards; consider collective action to establish a more direct accountability mechanism; more communication; reduce CGIAR mechanisms that are not cost effective, like the AGM; insist on a fixed tenure period for DGs and board members; meddle less; give clearer and consistent messages; and be consistent in policies and funding criteria.
- *Board Skills:* CGIAR members consider technical/scientific skills to be over-represented on boards; and financial, administrative, and management skills to be under-represented. More specifically, the skills often *over*-represented on Boards are considered to be: biological scientists, science, technical/research interests, and discipline-specific science competencies; as well as economics or other social sciences, detailed knowledge of CGIAR center operations, development generalists, and networking skills. The skills often *under*-represented on boards are: basic sciences, and research managers; and the private sector, financial and organizational management, and strategic planning. Also, corporate and board experience, leadership and strategic vision, communication, and board succession expertise; as well as knowledge of current donor policies, donor practices and commitments; and people with knowledge of delivery systems and business, and fund-raising.

- *Board Costs:* Of the eleven CGIAR members who responded to this question, opinions covered a wide range. About 10% say cost is “much too high”; 45% say it is “high”; 35% say it is “moderate”; and 10% say it is “low”.
- *CGIAR Members Influence on Boards:* Of the eight responses, 50% want CGIAR to have influence in board appointments “to a great extent,” about 40% say “to some extent.” Suggestions: be involved in identifying board members; direct nomination of a certain number of board members by the CGIAR; do not allow lobbying for specific appointments; and process should be more consultative and transparent.



## Annex 5

### **Financial Oversight From a Trustee's Perspective**

This Annex discusses the following aspects: (a) What to do to fulfill one's responsibilities as a Director/Trustee; (b) What to watch for in financial reporting; and (c) Current best practices in financial oversight.

#### **Fiduciary Role**

All Directors/Trustees are expected to use all of their skills and capabilities and to recognize when they need help and obtain it. By contrast, Audit Committee Members require a higher level of financial competency and, from a practical point of view, are more liable to being sued if things "go wrong". There are two key remedies that Audit Committees can take into account when dealing with fiduciary issues. The first is *prevention*: competency, training, and the application of best governance practices. The second is *mitigation*: making sure that an organization has adequate indemnification and insurance coverage.

#### **Financial Reporting**

Financial reporting is all about the fair and complete reporting of facts, ensuring transparency and adequacy of disclosure while complying with appropriate rules and requirements. From a broad picture perspective, the Generally Accepted Accounting Principles (GAAP) look for completeness, consistency and disclosure.

For *completeness*, a Trustee must verify the integrity of the universe of economic activities for the organization, and that the internal controls and accounting policies are in place to ensure that integrity. To address *consistency*, an organization needs to adopt accounting policies that work for the organization and stick with them. This permits a Trustee to compare information year over year to ensure the desired consistency. *Disclosure* assists a Trustee in the evaluation of the information. Disclosure must be presented in the body of the financial statements or in the notes to those statements.

To further explore the disclosure aspect, a review of the evolution of the Management Disclosure and Assessment (MD&A) statement is appropriate (see Box 7).

#### ***Box 7: The Management Disclosure and Assessment (MD&A) Statement***

The MD&A originally was a document written by management for current and prospective investors. With the evolution of governance and the establishment of best practices, the MD&A is now considered a key part of the governance disclosure regimen. The responsibility remains with Directors/Trustees to ensure the integrity of the document which, for many organizations, has grown from a "1 pager" to a complete section in the Annual Report.

The General Deficiencies that have been identified in MD&A statements include:

- Omitted information that may be material to investors/donors/funders
- Disclosed excessive amounts of immaterial information
- Biased disclosure in favour of good news

- Insufficient forward-looking orientation
- Inadequate internal policies for preparing, reviewing and approving the MD&A

### **Financial Reporting - Red Flags**

There are a number of Red Flags that have been identified to assist Directors/Trustees in the identification of inaccurate or potentially fraudulent reporting. These include:

- Accounting changes strictly to enhance revenues
- Frequent, significant changes in estimates that impact revenues
- Changes in independent auditors over accounting disagreements
- Failure to enforce the code of conduct
- Complex business arrangements not well understood and appearing to serve little practical purpose
- Large year-end transactions that result in significant revenues
- Unusual accounting policies for revenue recognition and cost deferrals
- Accounting changes strictly to enhance revenues
- Widely dispersed business locations with decentralized management and a poor internal reporting system
- Unexpected reorganization, replacement of management, or high turnover in positions such as Comptroller or CFO
- Internal audit operating under scope restrictions
- Overly optimistic projected results
- Reluctance to make changes in systems or procedures recommended by the internal or external auditors

### **Financial Reporting - Guidelines for the Recognition of Revenues**

Typical issues that face a Trustee relate to their interpretation of the information presented in financial statements. In brief, revenues must be attributed only to the period when the product or service is rendered and the resources consumed, or that portion of the product or service and related resources. For example, the advance signing of a contract for future year (or fiscal period) delivery cannot be recognized as revenue even if an advance payment is received. In fact, such a situation would have to be recorded as a liability since the organization owes the product or service and has done nothing (yet) to earn it. By contrast, if for example, 10% of a multi-year contract were rendered in the first year, then 10% of the revenues should be recognized in that same period, regardless of how much had been paid (or not paid) on the contract.

#### ***Box 8: Financial Oversight--Best Practice Examples***

##### **A. Guidelines for the Board**

The guidelines for oversight required by the board include:

- Ensuring management provides a good overview
- Challenging management on the content
  - Principles and methods used for the construction of information
  - Compliance with regulatory requirements and certification
  - Inconsistencies with the current situation or outlook
  - Sufficient disclosure without “over exposing” the organization

- Important omissions
- Significant changes from previous reports
- All items, especially risks, formerly reviewed with the board
- Involvement and agreement of the external auditors
- Provides a complete and integrated view of the organization's situation

## **B. Sample Questions for Management <sup>1</sup>**

As Trustees, Best Practice Principles suggest a number of sample questions that can and should be asked of Management in each of the following categories:

### *Financial Statements*

- What were the most significant audit and financial reporting issues discussed by management and the auditors during the year?
- Are there significant balance sheet accruals / reserves that differ from exact needs?
- What are the organization's revenue recognition policies and were there any instances where the company may be considered to be "pushing the limits"?
- Is there anything in the financial statements that concerns management?
- Is there anything that could create a risk exposure?

### *Accounting System or processes*

- Are there any significant deficiencies in our accounting system?
- What process is used to assess and assure the integrity of new or revised operating of financial systems?
- Have the auditors identified "material" or major control deficiencies, and if so, what is your view about the seriousness of the issue?

### *Auditor Relations*

- Is the external / internal audit comprehensive enough to address the important financial and control risks?
- What is your overall evaluation of the internal and external auditors' performance and what are the strengths and weaknesses of key members of those teams?
- Have the external auditors met your expectations with respect to the quality and rigor of the audit?

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<sup>1</sup> Audit Committees, National Association of Corporate Directors (NACD), 2003

## Annex 6

### **A Sample Code of Ethics**<sup>2</sup>

#### **Code of Ethics for (*organization's name*)'s Board of Directors**

##### ***Statement of Commitment***

[A statement of commitment will emphasize the responsibility of the board and each member to the membership, and to the board as whole both as the statement is being developed and in perpetuity as it is discussed with each nominee and incumbent. An example of a Statement of Commitment is:]

“In establishing policy for and on behalf of (*organization's name*)'s members, I am a custodian in trust of the assets of their society/association. The members recognize the need for competent and committed elected board members to serve their organization and have put their trust in my sincerity and abilities. In return, the members deserve my utmost effort, dedication, and support.”

“Therefore, as a board member/director of *organization name*, I acknowledge and commit that I will observe a high standard of ethics and conduct as I devote my best efforts, skills and resources in the interest of *organization name* and its members. I will perform my duties as board member/director in such a manner that members' confidence and trust in the integrity, objectivity and impartiality of *organization name* are conserved and enhanced. To do otherwise would be a breach of the trust which the membership has bestowed upon me.”

##### **Ethical Guidelines**

[A listing of items which the not-for-profit organization considers to be in conflict should be developed by the board, and included in the overall code of ethics. An example of a comprehensive listing of items follows. Each organization should include items which may be unique to their own membership.]

##### ***General***

1. I will always hold the betterment of the membership of the organization as my priority, including during all participation in discussions and voting matters.
2. I recognize that I am obligated to act in a manner which will bear the closest public scrutiny.
3. It is my responsibility to contribute to the board of directors any suggestions of ways to improve the organization's policies, standards, practices or ethics.
4. I will not abuse my position as a board member by suggesting to any organization employee that I am entitled to or expect any special treatment beyond regular members of the organization.

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<sup>2</sup> This document was taken from “Ethical Guidelines for Board Members of Not-for-Profit Organizations” by Allan Lowe from *The Association Xperts Inc.*, [http://www.axi.ca/TCA/Mar2004/guestarticle\\_4.shtml](http://www.axi.ca/TCA/Mar2004/guestarticle_4.shtml)

5. I will declare any conflict of interest, be it real, potential, or apparent, which is not immediately obvious with regard to any matter being discussed in my presence during a meeting.
6. If the board decides at any time during a meeting that I have a conflict, I will accept their request that I refrain from participating in the discussion and I will leave the meeting at the board's request. I understand that the board's decision will be recorded in the minutes, either with or without the reasons for the decision being also recorded
7. I understand that the following activities are considered by the organization to be conflicts of interest, and that conflicts of interest are not limited to the following situations:
  - where a director makes a decision or does an act motivated by other or additional considerations than "the best interests of the organization
  - where a director personally contracts with the organization or where he/she is a director of other organizations which are contracting with this organization
  - where a director learns of an opportunity for profit which may be valuable to him/her personally or to another organization of which he/she is a member, or to other persons known to the director
  - where a director, in any circumstance as related to the organization, puts his/her personal interests ahead of the best interests of the organization

### ***Information***

8. I will not knowingly take advantage of or benefit from information that is obtained in the course of my official duties and responsibilities as a board member, and that is not generally available to membership
9. I will be alert to information which the organization can use to develop improved policies and strategies
10. I will protect the organizations information closely and will not release or share confidential information without the permission, preferably in writing, of the person who provided it
11. I will maintain confidentiality of all information which the board deems ought to be kept confidential

### ***Resources***

12. I will be mindful of resources which are in my trust on behalf of the organization, and will help establish policies which ensure the maximization of secure and protected resources
13. I expect to be reimbursed for legitimate expenses incurred by myself for the sake of the organization. I will keep all such expenses reasonable and justifiable and will discuss expenses which may be in question with the organization's president

### ***Gifts and Hospitality***

14. Should business associates or others offer me gifts, favors, or benefits on a personal basis because of the business the organization does with them, I will recognize that such offers may be an effort to secure advantage from me, and I will reject such offers on the basis that it is against the organization's policy to accept gifts from business contacts. The most I will accept will be normal promotional handouts of a nominal value.
15. I will not routinely accept the hospitality of others. For example, when meals are taken with business colleagues, I will pay for as many meals as do my colleagues.

### ***Representing the Organization***

16. As part of my duties as a board member, I represent the organization informally and formally to other associations, societies, government officials, and business representatives. I recognize that it is important that I represent the organization in such a way as to leave others with a positive impression of the organization. In my duties I will preserve and enhance the good reputation of the organization and will avoid behavior which might damage its image.

### ***Interpretation***

17. The president of the organization shall ensure that the practice of this policy will be fair, just, and equitable in all situations of interpretation and application.

### ***Enforcement***

18. The president is ultimately responsible for immediate interpretation, application and enforcement of the board members' code of ethics policy. All complaints concerning a possible code of ethics violation shall be made in writing to or by the president with a copy provided to the complainant.

The president shall make an initial determination of the issue and shall attempt initial resolution of the problem with the complainer and the complainant.

If this initial attempt at resolution is not successful, the president shall appoint a tribunal composed of three board members to investigate the complaint. The tribunal is required to investigate as required and submit a written report to the president within 30 days. The president will render his/her decision within ten days of receiving the tribunal's report.

The president's decision may be appealed in writing to the board of directors for consideration the board's next regular meeting at the organization's next regular scheduled meeting for a final decision. The final decision shall be delivered in writing to the complainer and complainant.

### ***Delegation and Penalties***

19. Should the president be the subject of a written complaint, the vice president shall perform the duties normally assigned to the president in this matter.

20. Penalties imposed for breach of the code of ethics may include, but are not limited to, the following:

- Excluding the director from portions of all future meetings and discussions which relate to the stated conflict of interest, and/or
- censure of the director, in private, in public, or both, and/or
- removal of the director from office by a resolution passed by a vote of two-thirds of the members voting at an annual or special general meeting of the not-for-profit organization's members, provided that notice of such a proposed resolution is given with the notice calling the meeting.

I have read and I accept (*organization's name*)'s Code of Ethics for Board Members

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Director or Nominee

## **Annex 7**

### **List of Persons Interviewed**

#### **CGIAR Members**

Peter Core, ACIAR, Australia  
Anne Germaine, Canada  
Lijian Zhang, China  
Marc Debois, EC  
Hosny El Lakany, FAO  
Denis Despréaux, France  
Jochen de Haas, former representative of Germany  
Marina Puccioni, Italy  
Mr Mizoguchi, Japan  
Ruth Haug, Norway  
Katharina Jenny, Switzerland  
Andrew Bennett, Syngenta Foundation  
Jonathan Wadsworth, UK  
Franklin Moore, USAID  
Robert Bertram, USAID  
Denis Kyetere, Uganda

#### **CBC (Chairs of Center Boards)**

Jim Jones, CIAT  
Yves Savadin, CIAT (designate)  
Lena Lange, CIMMYT  
James Godfrey, CIP  
Margaret Catley-Carlson, ICARDA  
Guido Gryseels, ICARDA (designate)  
Eugene Terry, World Agroforestry Center (ICRAF)  
Uzo Mokuwunye, ICRISAT  
Frances Stewart, IFPRI (acting)  
Mortimer Neufville, IITA  
Uwe Werblow, ILRI  
Anthony Gregson, IPGRI  
Keijiro Otsuka, IRRI  
Remo Gautschi, IWMI  
Gaston Grenier, Africa Rice Center (WARDA)  
Trond Bjørndal, World Fish Center

#### **CDC (DGs of Centers )**

Joachim Voss, CIAT  
Masa Iwanaga, CIMMYT



Pamela Anderson, CIP  
David Kaimowitz, CIFOR  
Adel El-Beltagy, ICARDA  
Mahmoud Solh, ICARDA (designate)  
Dennis Garrity, World Agroforestry Center (ICRAF)  
William Dar, ICRISAT  
Joachim von Braun, IFPRI  
Peter Hartmann, IITA  
Carlos Sere, ILRI  
Emile Frison, IPGRI  
Robert Zeigler, IRRI  
Kanayo Nwanze, Africa Rice Center (WARDA)  
Stephen Hall, WorldFish Center

### **Board Members**

Andrew Bennett, CIFOR  
Madura Swaminathan, CIP  
Ruth Egger, CIP  
Bryan Harvey, IITA

### **Center Staff**

Bruce Scott, ILRI  
Carlos Eduardo Alonso, CIP  
Roger Cortbaoui, CIP  
Michael Jackson, IRRI

### **Partner Organizations**

Mohammad Roozitalab, Chairman GFAR  
Calisto Bias, Ministry of Agriculture, Mozambique  
Sushama Nath, Secretary, ICAR and Additional Secretary to the Government of India

### **Advisory Group**

Uwe Werblow, CBC  
Usha Barwale, CGIAR Private Sector Committee  
Francisco Reifschneider, CGIAR System Office  
Kevin Cleaver, World Bank

### **Science Council**

Per Pinstrup-Andersen, Chair  
Ruben Echeverria, Executive Director

## **System Office**

Francisco Reifschneider

Selcuk Ozgediz

Shey Tata

John Fitzsimon

## Annex 8

### **Acronyms and Abbreviations**

AB	Alliance Board
AE	Alliance Executives
AGM	CGIAR Annual General Meeting
BOT	Board of Trustees
CBC	Committee of Board Chairs
CCER	Center-Commissioned External Review
CDC	Center Directors Committee
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGIAR	Consultative Group on International Agricultural Research
CP	Challenge Program
DG	Director General
EPMR	External Program and Management Review
ExCo	CGIAR Executive Council
MTP	Medium-Term Plan
NARS	National Agricultural Research Systems
OC	CGIAR Oversight Committee
SC	Science Council
SOX	Sarbanes-Oxley Act (a US Law)
SRCG	Stripe Review of Corporate Governance
TOR	Terms of Reference