

INTER-OFFICE CORRESPONDENCE

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O+P
IADS

FROM: JEJ

DATE: March 19, 1981

TO:

JAP		

COMMENTS:

SUBJECT: Analysis of IADS past budgeting performance and future plans from the RF viewpoint.

Past Performance

Since its inception in 1975, the RF has appropriated \$6,530,000 in support of IADS. Of this sum \$80,000 was used for start-up costs during 1975, \$448,000 was used to establish a reserve and \$649,000 was carried forward from 1980 to 1981 to add to \$600,000 appropriated for 1981 use. Thus, during the five-year operational period, 1976-1980, for which records are available, IADS has expended \$4,753,000 of Foundation funds in its operations, of which about 65 percent has been used to subsidize headquarters costs with the balance going to grant-funded special projects. During this period a \$500,000 grant from The Lilly Endowment was also available to subsidize headquarters costs. Grants from GTZ, USAID, CIMMYT and IRRI, totaling \$98,000 contributed to the development-oriented literature component of grant-funded special projects. Nevertheless, the Foundation provided 95 percent of the funds required for these special projects during the five-year period. Since overhead was charged on grant-funded special projects which also contributed to support of headquarters costs, the Foundation also contributed about \$253,000 in addition to its direct subsidy of headquarters operations.

Progress toward Self-Sufficiency

During 1976, the first operational year of IADS, the Foundation contributed about 91 percent of total operating costs while by 1980 this had been reduced to about 12 percent. In terms of subsidization of headquarters costs, the portion borne by direct Foundation support declined from 96 percent in 1976 to 19 percent in 1980. If the overhead from the Foundation-supported special projects is added to the 1980 support for headquarters, costs would rise to about 24 percent, however. These figures do not take into account the fact that a significant portion of interest earned (\$151,000 in 1980) derived from unexpended Foundation funds held by IADS. While great progress has been made toward self-sufficiency during its first five years of operations, it is clear that the Foundation was providing over 25 percent of the cost of headquarters operations during 1980 in addition to nearly all the grant-funded special project support (\$446,000). If the Foundation had not supported contract-related activities during 1980, IADS would have suffered

a deficit of over \$300,000.

Grant Funded

The IADS expenditures on operational projects have risen from \$88,000 in 1976 to \$499,000 in 1980. During that period \$1,793,000 was expended, of which about 94 percent came from the Foundation. Little progress has been made in reducing that percentage since it was still 89 percent in 1980.

It would be noted that IADS reduced its effort to seek outside grant support during the period of uncertainty over the CGIAR decision on developing its own capacity to deal with national programs. Nevertheless, it seems unlikely that it would have much success in obtaining core support to subsidize headquarters and contract-related operations if it tried. If the Foundation were to withdraw its support in this area while still supporting special projects, IADS would almost certainly incur an annual deficit exceeding \$200,000 even without staff expansion or moving.

In summary, IADS has made rapid progress in expanding its activities during its first five years of operations. Its operating costs have risen from \$1,192,000 in 1976 to \$5,361,000 in 1980. During that same period its income from contracts has risen from \$91,000 to \$4,516,000. It has also steadily reduced its dependence on core support from the Foundation in both percentage and real dollar terms. It is not yet at a point, however, where it could comfortably continue without a Foundation subsidy toward its contract operations. If Foundation subsidies were withdrawn, it would almost certainly have to reduce overhead costs, probably staff members and quality.

Future Projections

The operational projections prepared by IADS call for a move away from the Foundation quarters in mid-1982 and an expansion of senior program officers by two in 1982 and two more in 1983 plus the addition of a group of quarter-time senior associates. Both of these actions would have significant budgetary implications.

Estimates of moving costs assume a move to the Washington area. The cost of the move is estimated at \$320,000. This would cover transportation of equipment, files, etc., purchase of furniture and equipment now provided by the Foundation, and termination of existing and recruitment of new support staff. While moving is a one-time cost, operational costs would also increase on a continuing basis. Rent is estimated to rise three fold from the current \$110,000 per year to \$360,000 in 1982-83. Additional staff would be required on a full-time basis to replace Foundation staff now reimbursed on a part-time basis. While the attached tables do not break these costs out directly, the ongoing costs due to the move would appear to assume an increase of about \$300,000 per year due to the move alone.

The proposed increase in program staff, including support personnel, assumes cost increases of about \$160,000 in 1982, a further increase of about \$450,000 in 1983 and about \$100,000 more in 1984.

These are all costs which would have to be charged to the headquarters operating budget. It is assumed that the enlarged program staff will ultimately generate additional contract business with accompanying overhead to offset their costs.

These projections are quite optimistic in that they anticipate a nearly three-fold increase in contracts from \$5,500,000 in 1981 to \$15,000,000 in 1985. Even if achieved, the projected program has been estimated to require a subsidy toward costs of headquarters operations by the Foundation or other donors of \$2,875,000. Any shortfall in contract business anticipated would increase the subsidy required. If the RF were to agree to underwrite it, we would have to anticipate a possible cost of up to \$5,000,000 over the five-year period. It should be noted that the projections also anticipate a total of \$1,770,000 in grant-supported special projects during the five-year period. While IADS should have less problem in obtaining diverse funding in this area than in core support, the Foundation has provided most of the support to date. If such grants are added to the total, our costs could reach \$6,000,000.

Reality and Alternative Scenarios

Since it seems unlikely that the RF could assume a commitment of \$5-6 million over the next five years to underwrite IADS, we must consider alternative approaches on our part which would allow it to survive. Our commitment should also be made in such a way that the IADS officers and trustees have some options in planning the future of the organization.

Justification for Continuing Support

IADS was created by the RF and, until the departure of SW, was operated pretty much as a Foundation subsidiary agency. It has been very successful in accomplishing a majority of the goals set for it when it was established. The history is fairly well described in ACM's memo of 3/17/81. While the original commitment of the trustees was for support during its first five years of operation, we have not yet informed the officers and trustees of a change in our willingness to provide on-going support. Given its background, we should not abandon it abruptly but rather inform them of our future plans and provide a reasonable transition period to allow them to adjust to a changing situation.

Alternatives

As a funding agency, our alternatives range from an immediate cessation of all provision of new funds to meeting the needs as projected or as they actually develop. Neither of these seems appropriate so an intermediate approach is recommended. This could include the following:

1. Assist in the move to a location away from the Foundation. Since the principal funding agencies with which IADS deals are in Washington, their establishment in that area would seem to be appropriate. We could therefore provide the funds required to cover the real costs of the move not to exceed their current estimate of \$320,000.

2. Continue to provide core support for 1982 at approximately the present authorized level of staffing but considering the increase in costs resulting from relocation and on a declining basis thereafter. I estimate the increased cost of rent and additional staffing costs

at about \$150,000 and their shortfall in headquarters operations funds at about \$300,000 for 1982. This would result in a total authorization to spend \$450,000 plus moving costs (a total of \$770,000). The amount to be appropriated should be reduced by carry-over from 1981. After 1982, our core support should be reduced down - probably 350,000 in 1983 and a terminal grant of about \$200,000 in 1984.

3. We should be prepared to consider funding of grant-supported special projects on an individual basis as we would any other agency. Again, we should consider a transition block grant for 1982 for identified projects which cannot easily be phased out. This would again provide IADS an opportunity to make the necessary program adjustments. I'd suggest that we anticipate \$200,000 in 1982.

In tabular form these suggestions would be as illustrated in Table 1.

Table 1

IADS-Projected and Suggested RF Fund Support

	1981-85 (000\$)				
<u>IADS-Projected</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Headquarters Operating Costs	1,855	2,550	3,410	3,775	4,125
Moving Costs		320	-	-	-
Requested from RF Hq. Costs	320	970*	890	505	190
<u>Proposed RF</u>					
Moving Costs		320			
Toward Hq. Costs	320	770**	350	200	-
Grant for Special Projects	250	200	**	**	**

* Includes Moving Costs

** As Approved on Project Basis

Summary Information - IADS

1. Sources of Support 1975-1980

Contracts	\$10,327,000
Interest	408,000
Miscellaneous	17,000
RF	6,530,000*
Other Grants	598,000
Lilly Endowment \$500,000 (Core Support)	
GTZ, CIMMYT, AID, IRRI \$98,000 (Development-Oriented Literature)	

*Only \$5,205,000 of RF had been expended through 12/31/80

Balance: \$448,000 - Reserve; \$1,245,000 for ongoing operations

2. RF provided about 24 percent of New York headquarters operating costs in 1980 through direct subsidy and overhead on special projects (development-oriented literature, manpower training, etc.) During 1980 the total expenditures were \$4,954,000, of which the RF provided 12 percent.

3. During 1980, the RF provided \$298,000 as direct subsidy to New York headquarters costs and \$446,000 to grant-funded special project, of which about \$76,000 was considered "overhead" and used to support New York headquarters operations. The total RF support for headquarters operations was therefore about \$374,000 of the total \$1,570,000. This does not include interest on unexpended RF funds held for future operations - \$645,000 as of 12/31/80 (not including "reserve").

Non-Contract Operational Expenditures 1976-80 (Thousands \$)

Year	Headquarters Costs	Earned Portion	Direct RF Support	Lilly Support	Total Special Proj,	RF Portion	Other
1976	1,037	44	993	-	88	88	-
1977	1,118	211	896	11	370	369	1
1978	1,223	532	547	153	418	410	8
1979	1,353	752	333	268	418	377	41
1980	<u>1,570</u>	<u>1,212</u>	<u>298</u>	<u>60</u>	<u>499</u>	<u>446</u>	<u>50</u>
	6,301	2,742	3,067	492	1,793	1,690	100