

9365927

97

PN-RAW-006

12M-47429

FINANCIAL ASSESSMENT OF THE
INTERNATIONAL CENTER FOR
DIARRHOEAL DISEASE RESEARCH, BANGLADESH

A Report Prepared By PRITECH Consultant:
PETER J. ROUSSELLE

During The Period:
MARCH 1986

TECHNOLOGIES FOR PRIMARY HEALTH CARE (PRITECH) PROJECT
Supported By The:
U.S. Agency For International Development
AID/DPE-5927-C-00-3083-00

AUTHORIZATION:
AID/S&T/HEA: 7/17/86
ASSGN. NO: SS 122

TABLE OF CONTENTS

	<u>PAGE</u>
I. BACKGROUND	1
A. THE ICDDR,B	1
1. Brief History	1
2. Staffing and Organization	2
3. Summary of Current Directions	2
B. PRITECH FINANCIAL ASSESSMENT, MARCH 1986	3
1. Rationale	3
2. Activities	3
3. Acknowledgments	4
II. ASSESSMENT OF FINANCIAL STATUS AND PLANS	5
A. FINANCIAL STATUS	5
1. Assets and Liabilities	5
2. Income and Expenditures	6
B. FINANCIAL PLANS	11
1. The 1986 Budget	11
2. 1986 Cash Flows	12
3. Longer Term Plans	12
III. SUMMARY OF MAJOR OBSERVATIONS	19
A. FINANCIAL	19
1. Past	19
2. Present	19
3. Future	21
B. OTHER	21
1. Organizational	21
2. Political	21
ANNEX I: PERSONS CONTACTED	23
ANNEX II: DOCUMENTS REVIEWED	24

EXHIBITS

	<u>PAGE</u>
<u>EXHIBIT I</u> : COMPARATIVE BALANCE SHEET DATA, 1985 & 1984	7
<u>EXHIBIT II</u> : COMPARATIVE INCOME STATEMENT DATA, 1985 & 1984	8
<u>EXHIBIT III</u> : CHRONOLOGY OF 1985 BUDGET ESTIMATES	9
<u>EXHIBIT IV</u> : USAID AND OTHER FUNDING, 1984 & 1985	10
<u>EXHIBIT V</u> : PROJECTED 1986 BUDGET	13
<u>EXHIBIT VI</u> : ICDDR,B 1986 DONOR PROJECTIONS	14
<u>EXHIBIT VII</u> : COMPARATIVE ANALYSIS OF 1985 & 1986 BUDGET	15
<u>EXHIBIT VII-A</u> : 1986 BUDGET WITH/WITHOUT USAID SUPPLEMENT	16
<u>EXHIBIT VIII</u> : 1986 PROJECTED CASH FLOW	17
<u>EXHIBIT IX</u> : LONGER-TERM PROJECTIONS	18

FINANCIAL ASSESSMENT
OF THE
INTERNATIONAL CENTER FOR DIARRHOEAL DISEASE RESEARCH
DHAKA, BANGLADESH

I. BACKGROUND

A. THE ICDDR,B

1. Brief History

The Center began in the early 1960's as the Pakistan-SEATO Cholera Research Laboratory, and was "internationalized" in 1979 as the International Center for Diarrhoeal Disease Research, Bangladesh. One of its first major undertakings was a field trial of the then-standard injected cholera vaccines, which were in fact of unknown effectiveness. The trials showed that the vaccines were of little or no therapeutic value, and today almost all countries have abandoned the cholera vaccine requirement. Today, one of the Center's most exciting pieces of research is the trial of a promising new oral cholera vaccine. The modest Demographic Surveillance System (DSS) set up for the vaccine trial in 1963 was expanded in 1968 to cover about 250,000 people, and for cost considerations was reduced in 1982 to 160,000 people, equally divided into "treatment" and "comparison" sectors. In the original "treatment" area, the CRL had built a rudimentary treatment facility in a tin shed, and provided "ambulance" speedboats to facilitate patient travel. Today, in addition to a much more modern treatment center and ambulance boats, a network of field centers and subcenters provide health care for a much larger number of people. The Cholera Lab's pioneering work in developing ORT continues today in Dhaka while the technology is being promoted worldwide as one of the most important weapons in attacking infant and child mortality.

The ICDDR,B, although in Bangladesh, is very much an international research center - currently the only such health research initiative in the developing world. It is supported financially by over 25 countries and agencies, with the additional participation of many other nations. Its primary mandate is to undertake and promote study, research and dissemination of knowledge in diarrhoeal diseases and directly related subjects of nutrition and fertility, with special relevance to developing countries.

2. Staffing and Organization

On July 1, 1985 the Center replaced three of its senior officers. A new Director, Dr. R. Eeckles replaced Dr. W. B. Greenough. Mr. H. A. N. Janssen replaced the Chief Finance Officer, Mr. M. Goon; and, the Chief Personnel Officer, Ms. S. Conway, was replaced by shifting the responsibilities of the Chief Administrative Officer, Mr. R. Dery, to the Personnel Branch. Important continuity was provided particularly by the Resource Development Office, where Mr. M. R. Bashir remained in charge. Current problems include an excessively large number of staff reporting directly to an already overburdened Director, and the continued fragmentation of financial management responsibilities between the Finance and Resource Development Offices. Since these problems have been clearly defined elsewhere (see Annex II, documents #13, 14, 19) we will not dwell on them here.

3. Summary of Current Directions

The Center is in the process of reviewing and revising its scientific/technical priorities. According to a recent report (10), the general thrust of the proposed changes in ICDDR,B scientific operations may be summarized as follows:

- i. Reduction in the number and size of the scientific programs reporting to the Director;
- ii. Clearer focus on Center-defined priority issues of diarrhoeal disease research;
- iii. Closer integration of Dhaka Treatment Center service and research activities with those of the appropriate national Institutes and with the Matlab Field Station;
- iv. Integration of the Dhaka hospital facilities with the community outreach system in the Dhaka slums;
- v. Rural health services delivery and surveillance systems will be implemented by the MCH-FP Programme in a more balanced way, addressing issues specifically related to diarrhoeal disease;
- vi. Similar refocusing will take place in the MCH-FP Extension areas;
- vii. Cost effectiveness studies in place will be extended in similar ways;
- viii. Peripheral areas of activity will be reviewed and reduced or stopped;
- ix. Strength at international level will draw more heavily on seconded personnel and institutional links with centers in the region and in developed countries.

B. PRITECH FINANCIAL ASSESSMENT. MARCH 1986

1. Rationale

After twenty five years of expanding operation, the ICDDR,B has recently found itself in enormous difficulty. In addition to the "normal" range of demanding technical, organizational and political problems which any major international research center faces, the ICDDR,B discovered that it was on the verge of bankruptcy. In late 1985, senior officers and Board members of the International Center for Diarrhoeal Disease Research, Bangladesh, met in Washington with representatives of AID, to discuss the Center's deepening financial crisis. To understand more clearly how USAID could best help the Center, AID requested that the Center draft a technical and financial plan for 1986 and beyond. This plan, to be submitted by the end of January, 1986, would provide support in determining the magnitude and nature of basic AID/Washington assistance to the Center through the end of the decade.

A short time later, AID received a request from the Center for a consultant to assist in the preparation of this Plan. The Center completed and submitted the Plan before the consultant visit could be arranged, but it was felt nevertheless to be useful for a senior financial manager with directly related management experience to visit the Center, to review the Plan and the Center's situation. It was hoped that this might provide some useful guidance to the Center, and also assist AID/Washington in understanding more clearly the problems being faced, and the most effective AID response. AID asked The PRITECH Project to provide a suitable consultant, and arrangements were made for the chief financial officer of MSH to travel to Dhaka for two weeks.

2. Activities

I visited the Dhaka from March 13 to 27, 1986, following orientation meetings in Washington, and conversations with several U.S.-based scientists and Public Health experts familiar with the Center. Due to the specialized nature of my assignment, and the usual public holidays and hartals, visits to ICDDR,B's field research sites were not practical. I did however have the opportunity to see most facets of the Center's scientific and administrative operations, and talk with a wide cross-section of the Center's staff. Annex I is a list of the persons contacted in connection with the assignment.

Annex II lists the principal documents reviewed. While several are not public documents, they are available through the Center, and I have tried to avoid duplicating their observations and conclusions here. Among the most useful of these is the excellent recent report on Financial Management of ICDDR,B by Arthur D. Little, Inc. (13), commissioned by the Board of Directors and completed in June 1985. This should be regarded as a companion document to the present report, which would otherwise have covered much of the same ground.

3. Acknowledgments

In most organizations, finances are among the most sensitive of areas, particularly when the problems have become so critical. I was deeply impressed, however, by the absolute candor and openness of the staff, from the Director to the clerical staff, in identifying and discussing the basic issues confronting the Center. The message being communicated unmistakably was one of welcome and of sincere interest in taking advantage even of that most elusive of resources, the Short-Term Consultant. I must thank especially the Chief Finance Officer, Mr. H.A.N. Janssen, who startled me on arrival by providing a desk in his own office, keys to the file cabinets, and consistent good humour under undeniably desperate circumstances, as well as his deputy, Len Chang, who continued my in-depth education, and renewed my acquaintance with the more authentic delicacies of Bengali cuisine.

II ASSESSMENT OF FINANCIAL STATUS AND PLANS

A. FINANCIAL STATUS

Although final financial statements for the year ending 12/31/85 have not yet been published, Exhibit I provides a comparative analysis of Assets and Liabilities as of 12/31/85 and 12/31/84, and Exhibit II shows 1985 Income and Expenditures, using figures which are not expected to change materially as a result of the annual external audit (which was in process at the time of my visit).

1. Assets and Liabilities

Exhibit I shows the changes in the Center's Balance Sheet Items over the past calendar year:

a) Operating Fund: shows an "accumulated operating deficit" of \$3,875,420 as of 12/31/85, which represents an increase of \$1,645,236 during the year. Note that this includes a depreciation charge for the year of \$416,932 (see below), and cumulative depreciation of \$1,023,338. Also included in the "accumulated deficit" are prior year transfers of \$841,629 from the Operation Fund to the Reserve Fund, as partial provision for repayment of the \$1,186,080 loan from the Government of Bangladesh (see below). There are reasonable prospects of this loan being forgiven, in which case this charge to the Operation Fund would presumably be reversed. Should this happen, the accumulated deficit would be approximately three million dollars including depreciation, or two million dollars on a cash basis.

b) Capital Development Fund: Although accounting methods have varied somewhat over past years, in principle donor income which is earmarked for capital assets is not treated as Operating Income, but as an addition to the Capital Development Fund.

c) Reserve Fund: This fund consists of two components: approximately \$900,000 previously "set aside" to repay the Government of Bangladesh \$1,200,000 loan; and a grant of \$500,000 from the Ford Foundation in 1985, to provide general capital support. (The importance of exactly this type of capital support can hardly be overemphasized. Ultimately, it represents the Center's only real hope of coping with its accumulated deficit.)

d) Bank Overdraft: The increase in the overdraft from \$1.6M to \$2.8M during 1985 corresponds closely to the cash operating deficit of \$1.2M (see below). During 1985 the Center was able to negotiate an increase in their Line of Credit with American Express from \$2.0M to \$3.0M. The security arrangements on this Line of Credit suggest that, at the \$3.0M level, this financing is prudent, and in fact attractive, from the Bank's point of view, even in light of ICDDR,B's precarious overall financial picture. The Line of Credit consists of: a ceiling amount of \$1,300,000 in the AMEX New

York account, secured by the entire Reserve Fund amount which is required to be greater than \$1.3M; and a ceiling amount of \$1,700,000 in the AMEX Dhaka account, secured by the assignment of various donor receivables.

e) Interest-Free Loan: refers to the contribution of \$1-2M in 1984 by the Government of Bangladesh to assist the Center with its financial problems. Although apparently intended in practice as a grant, it legally has the form of a one-year-notice, interest-free loan. The Center is currently negotiating with the Government to formally convert the loan to a grant.

f) Depreciation: has only been recognized in the Center's accounts since 1984. Given the rapid deterioration of assets commonly experienced in the country, an accelerated depreciation schedule is under discussion.

g) Inventory, Advances, etc.: Both these amounts show significant reductions during 1985, and appear to represent significant improvement in the Center's management practices in reducing excessive working capital investments.

h) Cash and Bank Balances: represent primarily the deposit of Reserve Fund capital in New York, plus the normal working cash balances.

2. Income and Expenditures

Exhibit II shows comparative figures for 1985 and 1984, and helps to explain the major increase in the Center's operating deficit in 1985, compared to 1984:

a) Operating Deficit: When the Finance Committee of the Board reviewed 1985 financial projections prior to the May, 1985 Board meeting, the deficit for the year was projected to be \$948,000 (\$598,000 without depreciation). By the November Board meeting, the estimated deficit was \$1,439,000. (Projected income had dropped by \$300,000, but there had been major cost savings of \$700,000. Unfortunately, the Committee in May had made a \$900,000 error in combining income and revenues, by failing to realize that project income in excess of costs was "unearned", and should not be included. This was in part a symptom of the very limited and difficult communications between the Finance and Resource Development Offices at that time). By the end of the year, the deficit reached \$1,645,000, with a further income shortfall of \$500,000 offset in part by a \$307,000 "exchange gain", due to the devaluation of the Taka. (see Exhibit III.)

b) Contributions: While total contributions in 1985 were virtually the same as 1984 (\$7,487 vs. \$7,399), the tremendous shift from unrestricted to restricted contributions was a major factor in the Center's problems. Exhibit IV shows the relative share of USAID funding in 1984 and 1985.

EXHIBIT I

COMPARATIVE BALANCE SHEET DATA, 1985 AND 1984

<u>Assets</u>	<u>12/31/85</u>	<u>12/31/84</u>
Fixed Assets		
Gross Fixed Assets	5,330,445	4,483,005
Less: Acc. Depreciation	<u>1,023,338</u>	<u>607,254</u>
Net Fixed Assets	4,307,107	3,875,751
Current Assets		
Inventory	591,822	765,735
Employee Retirement Fund Deposit	1,412,675	964,904
Other Advances & Deposits	538,402	978,485
Cash and Bank Balances	<u>1,613,172</u>	<u>942,062</u>
Total Current Assets	<u>4,156,071</u>	<u>3,651,186</u>
TOTAL ASSETS	<u>8,463,178</u>	<u>7,526,937</u>
	-----	-----
 <u>LIABILITIES</u>		
Current Liabilities		
Bank Overdraft	2,820,314	1,612,021
Interest free loan (unsecured)	1,186,080	1,186,080
Other Current Liabilities	<u>301,766</u>	<u>483,084</u>
Total Current Liabilities	4,308,160	3,281,185
Fund Balances		
Operating Fund	(3,875,420)	(2,230,184)
Capital Development Fund	5,216,813	4,669,403
Reserve Fund	1,400,950	841,629
Employees Retirement Fund	<u>1,412,675</u>	<u>964,904</u>
Total Fund Balance	<u>4,155,018</u>	<u>4,245,752</u>
TOTAL LIABILITIES	<u>8,463,178</u>	<u>7,526,937</u>
	-----	-----

EXHIBIT II

COMPARATIVE INCOME STATEMENT DATA, 1985 AND 1984

<u>REVENUE</u>	<u>1985</u>	<u>1984</u>
Unrestricted Contributions	976,058	2,891,905
Restricted Operating Contributions	5,963,929	3,725,729
Capital Contributions	547,410	781,003
Other Receipts	201,005	234,104
Exchange Gain (Loss)	<u>306,810</u>	<u>12,523</u>
Total Revenue	<u>7,995,262</u>	<u>7,645,264</u>
<u>EXPENSES</u>		
Personnel Services & Benefits	5,685,069	4,930,702
Supplies	1,271,762	980,347
Travel	473,369	571,827
Transportation	163,028	146,703
Rent, Utilities & Communication	212,994	97,353
Printing and Reproduction	163,621	42,287
Other Contractual Services	706,313	366,997
Depreciation	<u>416,932</u>	<u>333,658</u>
Total Expenses	<u>9,093,088</u>	<u>7,469,874</u>
Additional to Capital Development Fund	<u>547,410</u>	<u>781,003</u>
Operating Surplus (Deficit)	<u>(1,645,236)</u>	<u>(605,613)</u>

EXHIBIT III

CHRONOLOGY OF 1985 BUDGET ESTIMATES

(In Thousands)

	Est. <u>5/85</u>	Est. <u>11/85</u>	Actual <u>3/86</u>
Revenue	8,310	7,824	7,141
Exchange Gain	<u>-</u>	<u>-</u>	<u>307</u>
Total Income	8,310	7,824	7,448
Cash Expenditures	<u>(8,908)</u>	<u>(8,913)</u>	<u>(8,676)</u>
Cash Deficit	<u>(598)</u> -----	<u>(1,089)</u> -----	<u>(1,228)</u> -----
Depreciation Expense	<u>(350)</u>	<u>(350)</u>	<u>(417)</u>
"Budgetary" Deficit	<u>(948)</u> -----	<u>(1,439)</u> -----	<u>(1,645)</u> -----

EXHIBIT IV

USAID AND OTHER FUNDING, 1984 AND 1985

	<u>1984</u>	<u>1985</u>
USAID	2.66 (36%)	2.98 (40%)
OTHER	<u>4.74</u>	<u>4.51</u>
TOTAL	<u>7.40</u>	<u>7.49</u>
	----	----

B. FINANCIAL PLANS

1. The 1986 Budget

At the November, 1985 meeting of the board of Trustees in Dhaka, Professor Bell, the Chairman, noted that "the preliminary budget presented to the Board for 1986 shows a serious deficit. Consequently, the Center needs to change its past staffing patterns, reducing sharply the research, research support and administrative staff supported by core funds".

The Finance Committee recommended, "that the Center achieve at least a balanced budget in 1986; and that it reduce the numbers of core-funded staff, both national and international; that it eliminate virtually all core-funded research; and that it take other severe cost-cutting steps".

In response to these clear statements of the crisis situation, the Board devoted much energy to the development of an adequate strategy, and adopted a document entitled, "Financial Position and Action Plan for Expenditure Reduction". Based on this document, and reflecting the many difficult decisions incorporated in it, the Finance Office prepared a budget for 1986 which is approximately balanced on a cash basis, but involves a shortfall of about \$500,000 when depreciation expense is considered. This budget, and an extensive discussion of its components, was incorporated in the January 1986 Report prepared by the Center for AID. Since then, minor revisions have been made, and the operative version as of mid-March 1986, rearranged for comparison with Exhibit II, is included as Exhibit V. Exhibit VI presents the current Revenue projection in detail, by donor.

To understand the 1986 Budget more clearly, it is useful to refer to Exhibit VII, which analyzes 1985 and 1986 expenses and funding by component:

a) Expenses: Clearly, what has grown significantly is Funded Research. "Core-funded" (unfunded) research has been reduced, as the Board-mandated cuts begin to take effect in 1986. Research Support appears larger, due to donor shifts away from direct funding of certain support activities. Administrative support cost are sharply lower, reflecting cost-cutting as well as strong moves to identify items which can be charged directly to users. The key issue is that costs classed as Funded Research can be eliminated if project funding terminates, or fails to materialize. The other components are largely "fixed" in the short-term, and any significant loss of overhead or unrestricted funding will lead to deficits, unless drastic and damaging actions are taken in response.

b) Revenue: The large projected increase in revenue for 1986 indicates that donors are responding to the crisis in a positive way. Funding up to the 1985 level is already committed, and an additional two million dollars is anticipated. The good news is that most of the yet-to-be-committed funds are for Funded Research, and the research expense budget can be reduced if they are not forthcoming. The exception to this is the additional funding the center hopes to receive in the current year from AID Washington, which they understand may possibly be available, subject to a number of conditions. This funding is critical to the Center, because they are assuming that if it can be made available, it will include approximately \$650,000 of project funds (which would include an overhead component of \$150,000) and \$350,000 of core support. If the Center cannot arrange for this support, \$500,000 of fixed costs will not be covered, and only drastic action will be able to avert a further large deficit.

On the brighter side, it is generally felt that the Center has been somewhat more conservative this year in its revenue projection, and there are a number of other projections, and there are a number of other possibilities for modest amounts of core support. If AID funding is secured, and one or more of the other donor possibilities come to pass, it is even possible that the Center might be able to make a very small amount of headway in regaining its financial feet.

2. 1986 Cash Flow: Balancing the 1986 budget is only one necessary condition for short-term survival. To avoid bankruptcy in the next six months, the Center must meet its cash needs. These are currently estimated as shown in Exhibit VIII. A broad discussion of the Center's needs will be presented in the next section, but it is clear that ICDDR,B will exceed its Line of Credit, currently \$3,000,000, by the fall of 1986 at the latest. Prior to that time, additional capital must be arranged.

3. Longer-Term Plans: At this point, planning beyond 1986 is little more than conjecture, but the financial projections for 1987, 1988 and 1989 produced for the Center's January report remain as reasonable as they were then. If the level of donor support needed to get through 1986 can be maintained, the Center should have its worst times behind it.

EXHIBIT - V

PROJECTED 1986 BUDGET (as of 3/20/86)

	<u>1985</u> <u>Actual</u>	<u>1986</u> <u>Total</u>	<u>1986</u> <u>Committed</u>	<u>Estimated</u>
<u>REVENUE</u>				
Unrestricted	976	1,819	1,819	-
Restricted	6,511	8,015	5,940	2,075
Exchange Gain	307	-	-	-
Other Income	201	-	-	-
Carry Over	-	-	-	-
(From Prior Year)	-----	-----	-----	-----
TOTAL REVENUE	7,995	10,192	7,759	2,075

EXPENSES

Operating	8,676	9,883		
Capital	<u>547</u>	<u>362</u>		
TOTAL "CASH" EXPENSES	9,223	10,245		
Depreciation	<u>417</u>	<u>500</u>		
TOTAL EXPENSE	<u>9,640</u>	<u>10,745</u>		
	-----	-----		

DEFICIT

Operating Deficit	(1,645)	(53)
"Cash" Deficit	(1,228)	(553)

NOTES:

1. Expenses are as shown in January 1986 Report, Table III, except for "Travel" item reduced from \$599,064 to \$353,000.

2. Revenue as per following Exhibit VI.

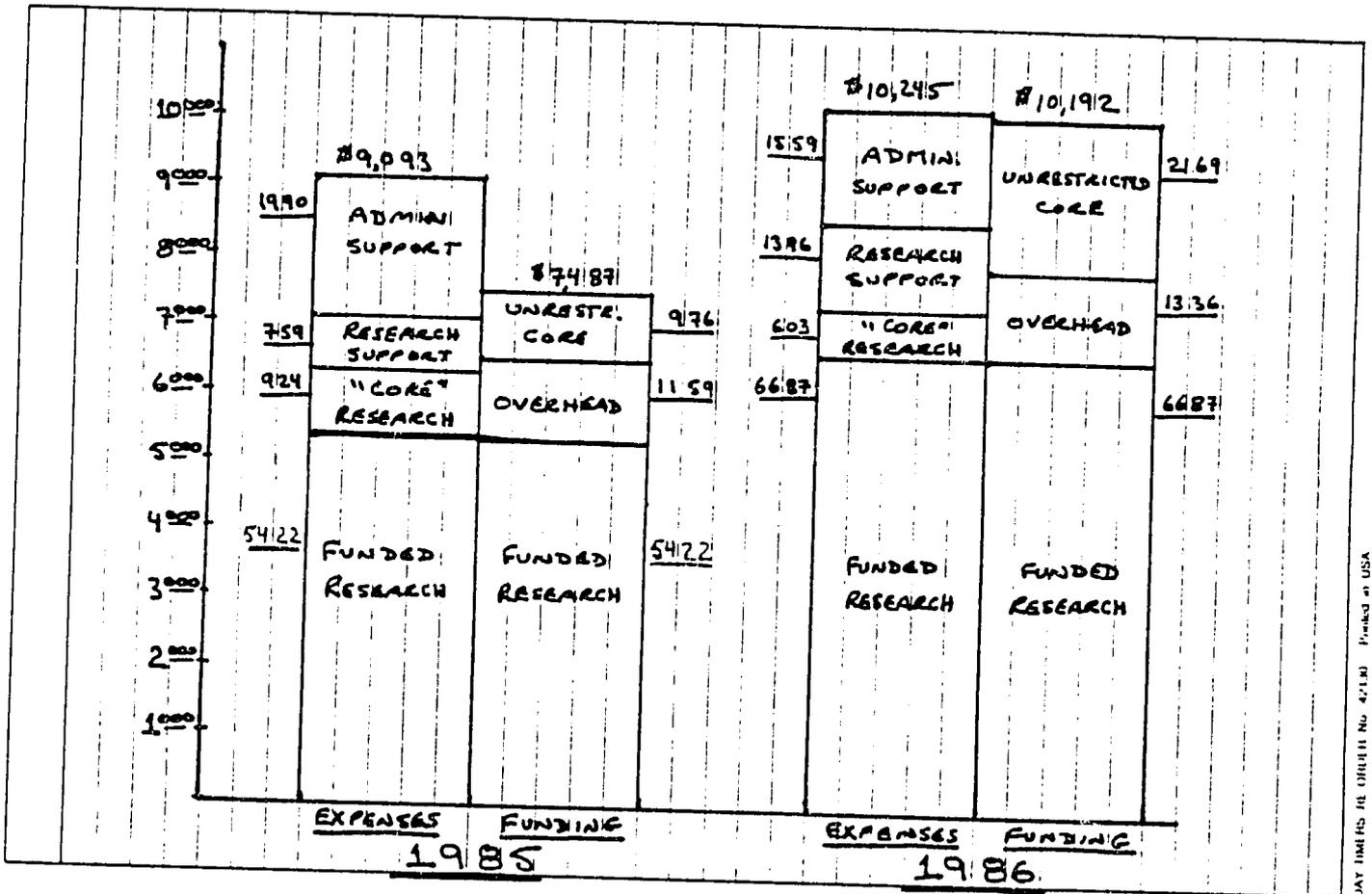
EXHIBIT - VI

ICCDR, B 1986 DONOR PROJECTIONS (000's)

<u>Unrestricted, Core</u>	<u>Committed</u>	<u>Estimated</u>	<u>Total</u>
Australia/ADAB	200	-	200
Bangladesh	34	-	34
Saudi Arabia	70	-	70
Switzerland	350	-	350
UK/IDA	165	-	165
UNICEF	500	-	500
USAID	<u>500</u>	<u>-</u>	<u>500</u>
Sub-Total	<u>1,819</u>	<u>-</u>	<u>1,819</u>
<u>Restricted, Core</u>			
CIDA/DSS	860	-	860
Japan	340	-	340
USAID (Wash)	1,680	1,000	2,680
Sweden/SAREC/SIDA	<u>-</u>	<u>100</u>	<u>100</u>
Sub-Total	<u>2,880</u>	<u>1,100</u>	<u>3,980</u>
<u>Restricted, Projects</u>			
Belgium	100	-	100
CIDA/Training	-	100	100
Ford Fndn./EP. Cont.	60	60	100
Ford Fndn./Morb. St.	80	0	80
IDRC/DISC	55	0	55
NORAD/MCH	-	400	400
NAS/BOSTID	28	-	28
Saudi Arabia/DCC's	560	-	560
UNDP/WHO Clin.Res.	300	-	300
UNDP/UCVP	50	-	50
UNICEF/ORT & Training	300	-	300
USAID/MCH-FP	1,300	-	1,300
USAID/Outside Trng.	100	-	100
USAID/UCVP	-	300	300
WHO/Vaccine Trial	-	50	50
WB/Sanitation	127	-	127
AKF/Cereal ORT Kenya			
China	-	50	50
France	<u>-</u>	<u>15</u>	<u>15</u>
	<u>3,060</u>	<u>975</u>	<u>4,035</u>
TOTAL	<u>7,759</u>	<u>2,075</u>	<u>9,834</u>

EXHIBIT VII

COMPARATIVE ANALYSIS OF 1985 & 1986 BUDGET



DAY TIMERS RE ORBIT No 47181 Printed in USA

EXHIBIT VII -A

1986 BUDGET WITH/WITHOUT USAID SUPPLEMENT

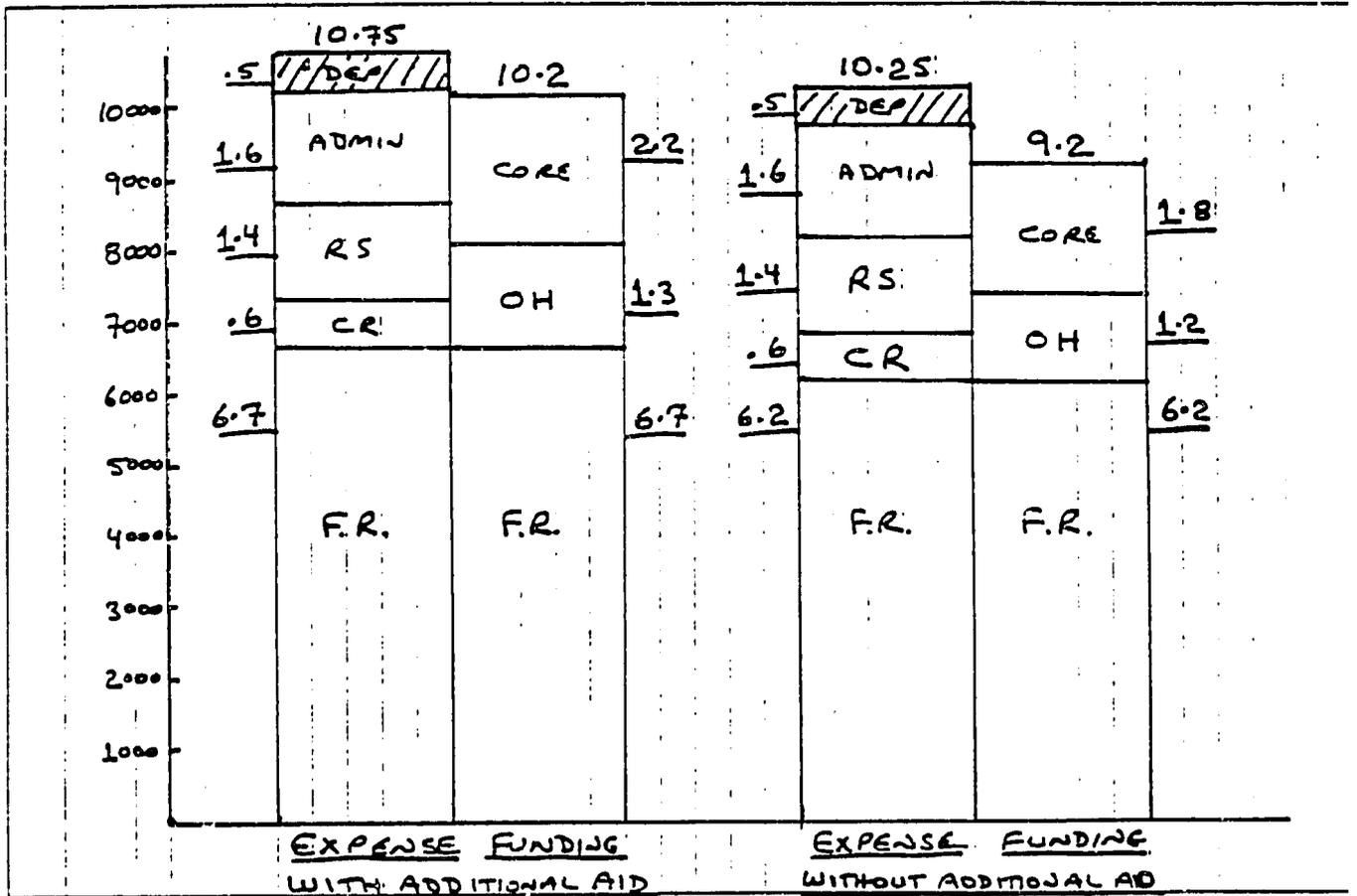


EXHIBIT VIII: 1986 PROJECTED CASH FLOW

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
BALANCE B/FY	-2020	-2040	-2160	-2377	-2712	-2565	-2041	-2956	-3051	-2730	-3265	-3425	-2820
RECEIPTS	365	774	1116	470	960	984	830	610	1314	290	665	715	9563
EXPENDITURE:													
FIXED													
Local salary	200	200	200	200	200	200	160	160	100	100	100	100	2290
Int'l salary	100	100	200	150	150	200	170	90	125	70	70	125	1610
Festival				20		100		100				20	240
Provident Fund			125			125			125			125	500
Income tax		30	30	30	30	30	30	30	30	30	30	30	330
Consultants	25	25	25	25	25	25	25	25	25	25	25	25	300
Separation						80							80
Mandatory committee					9				9				16
VARIABLE	325	355	580	425	413	760	425	425	493	325	325	505	5356
TOTAL	60	67	475	400	400	500	500	500	500	500	500	487	4689
TOTAL	365	422	1055	825	813	1260	925	925	993	825	825	992	10245
BALANCE C/FY	-2040	-2160	-2377	-2712	-2565	-2041	-2956	-3051	-2730	-3265	-3425	-3502	-3502

NOTE RE US AID CONTRIBUTIONS

Receipts for the U.S. AID \$ 1,680,000 grant has been estimated to be received in quarterly instalments. Special efforts will be made to advance the timing of receipts due. The \$ 1.0 million that U.S. AID may additionally provide in 1986 has been shown to be receivable in September and December.

EXHIBIT IX

LONGER TERM PROJECTIONS

	<u>ACTUAL</u>	<u>P R O J E C T I O N</u>			
	1985	1986	1987	1988	1989
		(U.S. \$ 000)			
<u>CASH (deficit)/Surplus</u>					
Annual	(1,229)	(53)	423	423	423
Cumulative	(3,134)	(3,187)	(2,764)	(2,341)	(1,918)
<u>BUDGETARY (deficit)/Surplus</u>					
Annual	(1,646)	(553)	(77)	(77)	(77)
Cumulative	(3,876)	(4,429)	(4,506)	(4,583)	(4,660)
<u>Financing Requirement</u>					
Cash deficit + Working Capital		4,400	4,000	3,500	3,000

B. CASH AND BUDGETARY DEFICIT ASSUMING A \$ 500,000 ANNUAL INCREASE IN CORE FUNDS/OR ANNUAL REDUCTION IN UNFUNDED EXPENDITURES

	<u>ACTUAL</u>	<u>P R O J E C T I O N</u>			
	1985	1986	1987	1988	1989
		(U.S. \$ 000)			
<u>CASH (deficit)/Surplus</u>					
Annual	(1,229)	447	923	923	923
Cumulative	(3,134)	(2,687)	(1,764)	(841)	82
<u>BUDGETARY (deficit)/Surplus</u>					
Annual	(1,646)	(53)	423	423	423
Cumulative	(3,876)	(3,929)	(3,506)	(3,083)	(2,660)

III. SUMMARY OF MAJOR OBSERVATIONS

A. FINANCIAL

1. Past

The combination of major lines of available credit, highly ambitious technical goals, and weak financial planning and control systems are an all but inevitable prescription for financial disaster. Resources the organization doesn't own can be committed rapidly, in enormous amounts, without any feedback to those responsible clearly confronting them with the consequences of their decisions until it is much too late. The ICDDR,B has spent millions more than it has earned, and the Center's donors and creditors were largely unaware of this at the time the management decisions were being made.

An external Board of Directors is generally not capable of meeting an organization's need for basic financial planning and control. This responsibility must be placed with a capable full-time officer of the organization, who must in turn be supported by his superiors, and ultimately by the Board. For several years, the Finance Committee of the Board was required to make its own synthesis of revenue and expenditure data, historical and projected, because no officer had been given the responsibility and authority by senior management to do so. As a result, no one fully understood the situation, and the manager who was most aware was largely ignored by those who preferred not to hear the message.

The transition from "Core Support" to Cost Reimbursement funding is extremely difficult, and can only be managed successfully with highly skillful direction, and extensive planning. The necessary skills are often not available in an organization used to the Core Support environment, and the need for obtaining the needed skills, by training or by recruitment, is seldom recognized until a crisis has developed. Even given the skills, the necessary changes take a good deal of time to implement, and much advance notice is required. The problem hit the ICDDR,B suddenly several years ago, without the benefit of a graceful transition period. There was no explicit planning for the new environment, and this hurt the Center badly.

2. Present

Tremendous progress has been made in installing new and effective financial systems in the Center. In particular, the financial staff have developed an impressive capacity for accounting for and reporting expenditure data, with a format, accuracy and timeliness which supports the Center's budgetary control needs.

The Center has a very valuable resource in the trained and experienced staff in the financial area. They were able to answer all reasonable questions about the objectives and the operation of the systems, and to perform requested analyses rapidly and accurately. They appeared interested and committed within reason, but there was

obvious potential for discouragement and attrition with the impending staff reductions and limited rewards possible in the current environment of austerity

Although the current Chief Financial Officer has the confidence and support of the Director and the Board, overall responsibility for financial management is still somewhat fragmented, with much of the authority for contract development and financial commitment out of the control of the CFO. This is not in any way intended to minimize the key role of the Resource Development Office, which has a critical role to play, but simply to emphasize that the CFO should be intimately involved in developing and negotiating the terms of contractual agreements, and should have the authority to insist on this involvement, and to disapprove agreements which are not in the organization's best interests when financial considerations are recognized.

There still appears to be some reluctance to fully come to grips with the more painful alternative scenarios, and to formulate clear contingency plans for the clear possibilities that flexible resources will not be found, and even more radical action than that already contemplated will have to be taken. (For example, there is no practical contingency plan which provides for the phasing out of the Center's support for the Dhaka Treatment Center, which may be the only means of survival if adequate donor support is not forthcoming for it.)

Overall, however, the Center has at last clearly understood the problem facing it, and has reacted firmly and decisively. There should be no underestimating the drastic measures which have already been announced and begun, and which may themselves force the collapse of the institution, but which were absolutely necessary. The Director and cooperating staff of the Center deserve great credit for their willingness to meet the crisis head on, and to adopt an action plan which may succeed if the donor community will meet them halfway.

USAID support, often unappreciated in the past, is currently playing a major and essential role in the stabilizing of the Center, which would clearly have been forced to close its doors without this enlightened response. Although this support will be difficult to sustain in the current domestic budgetary environment, it would be a great tragedy if the support could not be continued while the Center is making such an effort to get its own house in order. Other donor support is less uniformly positive, with much of the Center's difficulty resulting from unreasonable donor policies related to reimbursement of indirect costs in particular. It would be very useful if AID could help to enlighten some of its fellow donors in the areas that AID itself obviously understands and deals with appropriately.

3. Future

In the very short run, the problem is cash flow. The Center's survival over the next six to nine months will depend primarily on the ability to accelerate revenues while it contains unfunded costs. Since it is unlikely that the current major creditor, American Express, will increase the existing line of credit by more than a very modest amount, the donor community is the only recourse.

At the same time, the Center must do everything it can to maximize cost recovery, with particular emphasis on indirect costs. This includes negotiating skillfully and communicating clearly with donors regarding reimbursement at appropriate levels for legitimate indirect cost expenditures.

In the longer run, the Center will survive only if it not only lives within its means, but operates with sufficient current surplus to repay its debt and accumulate the working capital it desperately needs. This is not impossible: MSH does it, and has done it for the last fifteen years. It is not easy: MSH has had to fight hard in every contract negotiation to secure an agreement that contributed to the development of its needed capital pool. Donors typically think of non-profit organizations in terms of those with either endowments or charitable contributions to meet their capital needs, and uniformly begin from a position that a surplus on a contract should not be permitted for a non-profit. Nevertheless, the problem can be communicated in such a way that donors come to understand the need, albeit at a substantial cost in time, and sometimes in good will. The planned Donor Consortium meeting should be a suitable forum for exploring this problem in a constructive manner with the donors as a group. Their response will probably decide the fate of the Center.

B. OTHER

1. Organizational

Working relationships between the Finance Office and other units of the Center, notably with Resource Development and with the Technical Programmes, has vastly improved over the last year or so. This is an essential but fragile arrangement, and sensitive direction within and above the Finance Office will be needed to maintain it.

As stressed several times above, responsibility and authority over financial matters must be centralized further, and the initiative for this must come from above.

2. Political

With the obvious financial fire to fight, it is all too easy, especially for outside observers, to forget the tremendous importance of the political environment of the Center. The austerity measures required and now in motion inevitably will impact

disproportionately on particular groups, and political action will follow, in one form or another. This will constrain management in dealing with the crisis, and require a delicate balancing act between financial and political disaster. It will also require real understanding on the part of the donors and others concerned with the financial aspects, which can be measured and studied so much more easily than the human consequences of fiscal reform.

ANNEX I: PERSONS CONTACTED

ICDDR,B

Prof. David Bell, Chairman, Board of Trustees
Dr. Roger Eeckles, Director
Mr. H.A.N. Janssen, Chief Financial Officer
Mr. Len Chang, Budget and Finance Officer
Mr. M. Khalili, Financial Accounting Chief
Mrs. M. Moin, Budget Accounting Chief
Mr. Bozour Rahman, Donor Cost Reporting
Mr. M.R. Bashir, Assoc. Dir., Resource Development
Mr. Ron Dery, Chief Personnel Officer
Mr. A. Huque, Manager, International Personnel
Mr. Shahabuddin, Administrative Services Officer
Mr. G. Morshed, General Services Officer
Dr. D. Sack, Assoc. Dir., Disease Transmission Program
Dr. J. Clemens, Vaccine Trial
Dr. M. Rowland, Assoc. Dir., Community Services Research Program
Dr. Bonita Stanton, P.I., Urban Volunteers Project
Dr. M. Rahman, Statistician
Mr. R. Banerjee, Computer Systems Advisor

USAID/DHAKA

Mr. John Westley, Director
Ms. Suzanne Olds, Health & Population Officer
Ms. Sharon Epstein, Health & Population Advisor
Mr. Jesse Brant, Logistics Advisor

USAID/WASHINGTON

Ms. Ann Tinker, S&T/Health
Dr. Carl Kendall, S&T/HEALTH

ANNEX II: DOCUMENTS REVIEWED

1. "An assessment of the scientific achievements of the ICDDR,B and their relevance to AID Health Sector priorities"
By: Buck, Elliott, Guerrant, Levine
Date: 12.82
2. "Trip Report to Bangladesh, 11/29 - 12/9/84"
By: Carl Kendall
Date: 12/20/84
3. "Report of the External Review Committee: Evaluation of the Pathogenesis & Therapy Working Group"
By: Habte & Keusch
Date: 8/84
4. "Background Paper on the Cholera Vaccine Trial"
Date: c. 1984
5. ICDDR,B Annual Reports, 1977-1984
6. ICDDR,B Draft Annual Report, 1985
Date: 3/86
7. Cooperative Agreement Between ICDDR,B & USAID
Date: 2/21/86
8. "Continued Viability of ICDDR,B" (Draft Memo)
By: H.A.N. Janssen
Date: 2/6/86
9. USAID Handbook #13 (Grants and Coop Agreements)
Date: As of 1/85
10. "ICDDR,B Present Situation, Scientific Priorities; Financial Report", Report to USAID/Washington
Date: 1/86
11. ICDDR,B Files "American Express"
Date: through 3/86
12. ICDDR,B Files: "Board & Finance Committee Minutes"
Date: 1980-1985
13. "Financial Management of ICDDR,B Review and Recommendations", Report to ICDDR,B
By: Arthur D. Little, Inc. (Frank Feeley, Author)
Date: May 1985
14. "Report on ICDDR,B Visit", Population Council Memo
By: James Bausch
Date: April 19, 1985

15. "Performance Audit Report, 1984"
By: Deloitte, Haskins & Sells, Chartered Accountants
Date: Not indicated

16. Management Letter Re: 1984 Audit & ICDDR,B Reply
By: Deloitte, Haskins & Sells
Date: May 7, 1985

17. ICDDR,B Personnel Procedures Manual

18. ICDDR,B Financial Control Procedures Manual (Draft)

19. ICDDR,B Organization Chart

20. "ICDDR,B Donors 1986 Projections"
By: ICDDR,B Offices of Resource Development, Finance
Date: 3/86