

## **REPORT OF**

### **Strategic Costing Capacity Development Support for Think Tank Sustainability in Africa**

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#### **Introduction**

Observed trends in the funding landscape indicates that donors and funders are now more interested in funding restricted or earmarked projects rather than supporting organisations with core funding. These rapid changes in the funding landscape is a threat to the sustainability of Think Tanks in Africa region especially those that are solely dependent on international funding agencies and donors for their research works.

On the other hand, strong resistance by project funders to support expenditures such as organisational management, ICT and other indirect cost has made it extremely difficult for think tanks to achieve full cost recovery on project-by-project basis. It has also been observed that realistic strategic costing of projects is an important element in resource mobilisation for think tanks sustainability. To achieve these, researchers, finance managers, communications officers and administration officials must be involved in the development of Project proposals to strategically identify all project activities, clearly label the activities, and thus incorporate all cost elements that are associated with the whole project cycle. Well-costed projects generate reserve funds that can significantly contribute to financial sustainability and long-term stability of an organisation.

It is in view of these that the Think Tank Initiative (TTI) of International Development Research Centre (IDRC) decided to provide support for selected African Think Tanks to strengthen their institutional processes and enable them to understand the importance of effective business models in addressing sustainability challenges through interactive peer learning workshop.

The event which was hosted by the *Economic Policy Research Centre (EPRC)*, Makerere University, Kampala, Uganda, saw in attendance representatives of think tanks supported by TTI in Africa. The training was facilitated by Anthony Boatheng (Consultant) and supported by Diakalia Sanogo and John Okidi of TTI-IDRC. The key points from the discussion and interaction within the 3-day workshop are documented and summarized below.

#### **Opening Session**

1. John Okidi of IDRC gave the keynote address. He enjoined all 11 participating think tanks to take the provided opportunity to strengthen their organisational capacity and enhance their business model. Dr. John noted that core funding is dwindling all over the world and therefore encourage think tanks who have been supported by the TTI over the last 10 years to adjust to the current trend and strengthen their capacity in responding to restricted funding calls.
2. Dr. Diakalia who has been the program officer for the TTI grantees in Africa also stated that IDRC will not totally abandon those it has supported over the years through its core

funding. He said IDRC will continue to support think tanks in various ways even when the TTI core grants comes to an end.

3. The facilitator gave overview of the peer learning agenda, objectives and expectations to include:
  - How organisation can define, create, deliver and capture value for, with and to its stakeholders in a consistent and coherent manner
  - Main challenges faced by donors in funding institutional projects, capacity building, etc.
  - Costing concepts emerging within the donor community, such as true cost, full cost
  - Evolution of costing projects from traditional to strategic approaches and the associated principles as well as how to budget effectively.
  - Participants to deliberate on the revenue, expenditure and surplus cycle with the goal of achieving effective assessment of core and restricted funding, and resource mobilisation strategy

## **SESSION I: INTRODUCTION TO EFFECTIVE BUSINESS MODELS – THE VALUE WHEEL**

Think tanks all over the world identify funding as one of their biggest concerns. Think Tank Initiative, which comes to an end this year, will leave close to 50 think tanks across Latin America, Africa and South Asia without the core funding it has provided them for 10 years. In light of this, most think tanks are still pursuing efforts to replace long-term funding with new, very similar, grants. Other think tanks have attempted to make small changes to their business models to keep afloat and fill holes in their budgets.

*During this session it was noted that there is need for think tanks to:*

4. Develop a good business model that is resilience and able to give value. Key among this is re-evaluating the governance structure of the organisation, especially, the board. A good board must be able to respond to –AIR--
  - Agility
  - Innovation
  - Resilience
5. Board composition is important to ensure good practices. There is need to review board composition and align its activities with the organisation strategic objectives. The board need to be aware of the changes the organisation is going through and if need be, board members should be changed or replaced.
6. Developing a good business model also entails defining the values of the organisation
  - Identify the relevant stakeholders and partners
  - Rank and prioritize stakeholders/partners
  - Find out the needs of the stakeholders/partners
  - Formulate value proposition for stakeholders/partners
7. Understanding the funding terrain. You must recognize that there are many think tanks in the region doing the same thing, government agencies competing with national think tanks,

development partners/donor agencies performing on-ground activities. All of these add to the constraints in receiving funds.

8. There is need to have a good proposal. Both the technical and financial proposal must align. Everybody in the organisation to be involved in the development of the project proposal. Researchers, finance managers, communications officers and administrative officials must be involved in the development of Project proposals to strategically identify all project activities, clearly label the activities, and thus incorporate all cost elements that are associated with the whole project cycle.

## **SESSION 2: FUNDING CHALLENGES- DONOR'S PERSPECTIVE**

During this session the following were identified as the main challenges faced by donors in funding institutional projects:

9. Most Proposals not aligning ideas to objectives
10. Not identifying experts in areas of interests for funding. Donors are Interested in having certain institutions in the Landscape that have focus – and provide them with funding for institutional strengthening
11. Most institutions do not assess the capacity of the fund to execute the project. They end up either diverting funds from other projects to complete the project or poorly executing the project– poses risk to the project and the institution.
12. Institutions do not push back enough when funding amounts are determined by donors for a particular project. Funders are prepared to fund the true cost of projects.
13. Most funders want to start an idea, bring about solutions and attract additional funding in that area i.e. create a snowballing effect. However, most institutions usually focus on the short term goals.
14. Funders are always looking for more with less.

However, during the discussion **Dr. Paul** (Grant making department of IDRC) stated that even when a donor gives you a sealing, you can also increase the budget a little and justify the reason for the increase.

## **SESSION 3: EMERGING COSTING CONCEPTS**

**During this session the following were noted**

15. Analysis of indirect cost rates reveals that even 20% is too low to cover the true indirect costs of leading nonprofits.
16. Flat-rate policies that are too low cause grantees to lose money by accepting and implementing a project grant.
17. It is better to engage with the donors even before submitting proposals. Identify occasions and event were donors will be making presentations.
18. Avoid doing things the old ways. Partners wants innovative strategies that will bring about change.
19. Project grants that don't cover all direct & indirect costs create financial holes that organisations must fill

20. Funders and grantees should make sequential investments to better build successful and resilient organisations.
- **First**, grantees must secure adequate funds from funders to cover the true cost to do work including the indirect costs
  - **Second**, grantees should partner with funders to accumulate unrestricted funds and build operating reserves
  - **Third**, only when the first two steps are completed, can grantees use funds to scale and achieve sustainable impact.

#### **SESSION 4: STRATEGIC COSTING AND BUDGETING PRINCIPLES**

During this session the discussion focused on the evolution of costing projects from traditional to strategic approaches and the associated principles as well as how to budget effectively.

21. **Identify the key drivers of change.** Globalization, geopolitics Consumer empowerment i.e aligning strategic objectives to donor needs, technology and demography.
22. This is especially important too because of proliferation of Think Tanks. If an institution must survive under this circumstances, we must therefore respond to the rapid changes taking place in the Ecosystem.
23. **Reverse mentoring** is key to building an institution for sustainability. Older generation must be ready to learn new skills and understand the thinking of the new generation. Learn to tailor the project designs, communication and dissemination of their product or output to meet the needs of the present generation.
- \*This is especially true when designing proposals and preparing project budgets. You consider the mind of the reviewer, most of whom belong to the present generation**
24. **Creating Value** is key to sustainability. There is need to do a trend analysis of our processes, activities, resources, partners and our output.
- The **processes** relates to how we do our work, how we execute our projects.
25. **Delivery Values:** We must be seen to be delivery values. Values are tied to output. To be able to capture our value, we must be able to capture each aspect of the value wheel. In the case of partners, we identify and prioritize who our partners are, and identify their needs.
- We must consider how we deliver our values—the channels**
26. Understanding the funding terrain is key if organisation must continue to exist.
27. **It was emphasized** that what donors (Partners) want to see is result and not processes. We must therefore work to capture the interest of the donor as we deliver services.
28. Doing good categorization of expenses is key
29. Check the type of contact being signed by organisation

30. Put integrated management tools in place to be able to manage project well so that there are savings. Engage the services of a qualified financial managers
31. Communicate cost pattern to create influence instead of showcasing figures
32. Ensure that indirect cost are well analyzed so that they become direct.
33. Accountant and finance personnel should be part of the project development and execution
- 34.

## SESSION 4: FINANCIAL MANAGEMENT

During this session attempt was made to deliberate on the revenue, expenditure and surplus circle.

The facilitator stressed the need for organisation to define their funding gap.

35. Defining. the funding gap helps to determine whether you need fund at a particular time or not based on your \*capability or capacity. Doing otherwise could risk organisation profile
36. In identifying funding gap, Long term for think tanks is two years
37. Some organizations put the core and restricted money in the same pool. This makes it difficult for the organisation to know their funding gap
  - It is a huge danger- It becomes difficult to account for the unrestricted core effectively
  - It is good to separate both funding – it helps you to identify phase value of each project
38. Not separating the funding can crash the organisation
39. Make sure you have the right agreement
40. It is very necessary to use the integrated thinking approach- the finance person need to know the projects we are doing to be able to contribute

### Capturing and Sharing Residual Values

41. Integrated thinking makes costing very simple---it's like using the torchlight approach (**Cost Model**)
42. Many organisation do a good job in the field but cannot articulate a report to get the money. Sometimes the funders gives you template of what they want. (**Revenue Model**)
43. Partnership can mean sharing experiences and not just doing project. Share information
44. Learn from the lessons of other partners. Make use of the competitive advantage.
45. Ensure that your grant agreement is well read. Do not take anything short of your target in the grant agreement.
46. Asked for fees charged by other institutions- how is principal investigator paid? What is their charge- out –rate?
47. Turn ideas to income

## SESSION 5: NEXT STEP AND GOING FORWARD

During this session participating organisations were asked to identify and agree on the main areas of support based on the discussions in the two and half days, state areas of technical

support as well as allocate responsibilities. CPED team came up with the chart below depicting the gaps identified and how they will be addressed.

<b>Key Gaps Identified</b>	<b>How to Address the Gaps Identified</b>	<b>Support Required</b>
1. Lack of integrated thinking and communication	1. Step down discussion with management 2. Organized an in-house training for staff, associates/fellows on the gaps identified	No specific support is required from outside
2a Inadequate board engagement 2b ( Inadequate Board to Funders/partners and other key stakeholders)	Build the capacity of management and board members on strategic engagement	Human Resource
3. Lack of skills in traditional costing processes	Build the capacity of staff and management on strategic costing	Human resource
4. Inadequate organizational reserve	1. Set up an Endowment fund 2. Develop endowment policy	Financial support from stakeholders

## **Conclusion**

The two and half day discussion centered on:

- A. Governance issues
- B. Processes &
- C. Costing

If organisation gets this right in their approach, they will be relevant and sustainable

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