

# **A conversation with Kanika Bahl, John de Wet, and Leann Bankoski, March 4, 2019**

## **Participants**

- Kanika Bahl – Chief Executive Officer, Evidence Action
- John de Wet – Chief Financial and Administrative Officer, Evidence Action
- Leann Bankoski – Senior Manager, Global Project Operations, Evidence Action
- Natalie Crispin – Senior Research Analyst, GiveWell

**Note:** These notes were compiled by GiveWell and give an overview of the major points made by Ms. Bahl, Mr. de Wet, and Ms. Bankoski.

## **Summary**

GiveWell spoke with Ms. Bahl, Mr. de Wet, and Ms. Bankoski of Evidence Action to get an update on an April 2017 GiveWell Incubation Grant that Evidence Action received (<https://www.givewell.org/charities/evidence-action/april-2017-grant>). Evidence Action runs several programs, including the Deworm the World Initiative (a GiveWell top charity) and Dispensers for Safe Water (a GiveWell standout charity). It also runs Evidence Action Beta, an incubator of promising, evidence-based programs. This grant was made to support Evidence Action in strengthening its financial systems, human resources (HR), and information technology (IT). Conversation topics included Evidence Action's indirect costs, activities to date and future activities supported by the grant, and benefits of the grant.

## **Indirect costs**

Indirect costs (IDC) are general operational costs, in contrast with the direct costs of operating a specific program or project. An organization's or program's IDC rate is the ratio of its indirect costs to direct costs, expressed as a percentage. In order to support their full costs, non-governmental organizations (NGOs) must recover indirect costs, in addition to direct costs, from their funders. However, many funders cap IDC rates.

Evidence Action set a target organization-wide IDC rate for planning purposes of 18% for 2018. Its actual IDC rate in 2016 and 2017 had been higher than this (in the low 20%'s) while the actual 2018 rate, which is still subject to audit, is likely to be slightly below this rate. Evidence Action staff think this is typical; several of the NGOs they have been engaged with have IDC rates of about 20%.

Evidence Action's different funders have different IDC rate policies, with several funders capping the rate at around 15%. These funders also vary in how flexible they are in agreeing to exceptions to their policies. Some flexible funders accept Evidence Action's target IDC rate of 18%. Other funders have policies that set a lower rate, and they will not accept Evidence Action's rate. For example, two of Evidence Action's existing funders have strict policies that cap the IDC rate on subcontracts at 6.5% in one case and 5% in the other, with both of them allowing a

rate of 15% on other direct costs. Some funders have policies that set a lower rate, but they are willing to negotiate. For example, one of Evidence Action's existing funders has a policy that caps the IDC rate at 15%, but this funder accepted Evidence Action's target IDC rate of 18%. Evidence Action negotiated this increase by providing more information about the direct and indirect costs of the program being funded.

Managing the indirect costs is complex and absorbs significant management time and reduces the efficiency of NGOs. To avoid this issue, Evidence Action's leadership prefers to seek flexible funding from varied sources.

## **Activities to date**

In general, Evidence Action charges two types of costs to this grant:

1. Costs of establishing, updating, or improving operations, in contrast with maintaining ongoing operations
2. Costs specific to this grant, such as the salaries of individuals who manage the grant or work on its objectives

Evidence Action has expanded the scope of the grant to undertake additional activities to the original planned activities but which still contribute to operational strengthening. These activities included honing its vision, mission, and values, conducting employee training, and developing safety protocols for fire, first aid, chlorine handling, and defensive driving.

## **Spending rate**

For the following three reasons, Evidence Action has spent funding from this grant at a slower rate than it expected to when the grant was made:

1. Evidence Action decided not to undertake some of its planned activities in the near future or at all. For example, it does not plan to implement an enterprise resource planning system in the foreseeable future.
2. Evidence Action has delayed some of its planned activities, which it may undertake in the future. Examples include:
  - a. **Systems integration** — Evidence Action has considered integrating the systems it uses, such as Salesforce and Sage Intacct, but after progressing on this work, has paused it to consider the design of the data in Salesforce. The integration will continue after the design is complete but no timetable has been set.
  - b. **HR systems** — Evidence Action has considered implementing new HR systems, including an information system, an applicant tracking system, and an integrated payroll system. This work will likely begin under the leadership of Evidence Action's new Chief People Officer.
  - c. **Learning exchanges** — Evidence Action has considered organizing learning exchanges among its staff but has not had the opportunity to conduct this work.

3. Evidence Action has completed some grant objectives through different activities than originally planned, thereby reducing costs. Examples include:
  - a. **Legal management** — Evidence Action planned to conduct but did not complete a legal audit. Instead, it hired a part-time general counsel.
  - b. **Time management** — Evidence Action planned to implement a new time management system but instead decided to use Sage Intacct's time management module.
  - c. **Safety and security** — Evidence Action planned to outsource the development of a safety and security plan but instead conducted most of this work in-house.

### **Future activities**

Because Evidence Action has spent funding at a slower rate than expected, it is possible that excess funding will remain from this grant. Evidence Action expects to use all remaining funding from this grant to support operational strengthening, but it has not planned exactly how it will spend excess funding. It expects to spend all grant funding over the next 3-4 years, which is longer than originally planned. This estimate depends on several factors, including the growth rates of its operations and programs and its IDC rates.

Evidence Action notes that any excess funding from this grant will give it flexibility to respond to unanticipated needs. One example is managing risk by improving relationships with overseas entities, such as governance of the Indian entity, the need for which was identified by Evidence Action's new general counsel. This flexibility will be particularly useful if it expands its work into new regions or countries, where it will need to initiate activities and make investments that it cannot currently anticipate. One example may be starting work on maternal syphilis in countries where Evidence Action has not operated before.

### **Finance**

Evidence Action has made the most progress in strengthening its financial systems. However, it still needs to improve certain components of these systems, particularly its budgeting process. While it successfully achieved its initial objective of standardizing its budgeting process, areas for improvement remain. These include:

- **Budget quality** — Despite standardization of the budgeting process, resulting budgets have tended to overestimate costs, which limit their usefulness. Evidence Action's actual spending in 2018 was lower than its approved budget. Without accurate budgets, it is difficult to calculate IDC rates accurately. Potential solutions include:
  - **Software programs** — Currently, Evidence Action uses Excel to create budgets. There may be software programs that would help employees create higher-quality budgets.

- **Training** — Employees who work on either organization-wide or program-specific budgets may be able to complete training that would help them create higher-quality budgets.
- **Grant budget management** — Currently, Evidence Action manages its grant budgets offline, so they are only represented in Sage Intacct to the extent that they are incorporated in the organization-wide budget. Managing these budgets individually in Sage Intacct would enable real-time monitoring and more frequent reporting at the grant level.

## IT

Evidence Action has also made progress in strengthening its information technology. It has established an IT team and policies and has taken inventory of its devices. Areas for improvement remain, which include:

- **Capacity management** — Evidence Action wants to optimize the performance and efficiency of its information systems.
- **Security** — Evidence Action keeps its data in cloud storage. It wants to ensure that this storage is secure, that its agreements with cloud providers are appropriate, and that it has a disaster recovery plan in place in case of lost data.

This year, Evidence Action plans to organize an external assessment of its current IT systems to obtain recommendations for the above areas.

## Benefits of the grant

### Funder relationships

Evidence Action believes that strengthening its operations has caused its relationships with funders to improve.

#### *Existing funders*

Evidence Action believes that strengthening its financial systems has caused its relationship with a funder of Deworm the World Initiative to remain strong. This is because it has been able to satisfy this funder's significant financial reporting requirements without any issues.

Dispensers for Safe Water is partially funded by revenue the program earns by generating and selling carbon credits. In part as a result of improved financials, Evidence Action has been able to move forward a deal which could substantially reduce the carbon revenue risks that the program faces, though this deal is still being negotiated.

#### *Prospective funders*

Strengthened operations have enabled Evidence Action to build new relationships with funders for Dispensers for Safe Water. Prior to this grant, the opacity and inconsistency of this program's financials caused a potential new funder to reduce the amount of funding it offered to provide from approximately \$300,000 to

approximately \$100,000-\$150,000 and to impose significant reporting requirements. The extent of these requirements caused Evidence Action to turn down the funding. Since then, Evidence Action has worked to improve the accuracy of Dispensers for Safe Water's financials. As a result, the program's actual spending in 2018 was the most faithful to its budget of all Evidence Action programs. Since improving its financial systems, Evidence Action has built a new relationship with a funder that provided a €0.5 million grant to Dispensers for Safe Water in 2018 and recently agreed to provide a €3 million grant to support the program over three years. Evidence Action believes that it could not have built this new relationship and satisfied the requisite financial reporting without improving its financial systems.

In addition, a foundation is considering making a small grant of about \$350,000 to an Evidence Action Beta program. The foundation has rigorously examined Evidence Action's financials because it considers this grant an initial investment that could lead to a broader funding relationship.

Finally, Evidence Action's strengthened operations have made it possible to consider seeking funding from bilateral and multilateral organizations. Currently, it is identifying the processes and systems it would need to have in place to accept and successfully manage this funding and has submitted a \$3 million grant proposal to a bilateral organization. While Evidence Action does not know whether this grant will be approved, it notes that it would have been unable to submit the proposal and would be unable to meet this funder's requirements without its strengthened operations.

### **Other improvements**

Evidence Action believes that strengthening its operations has caused other improvements, including:

- **Loan forgiveness** — Funders forgave \$3.2 million in loans that had been made to Dispensers for Safe Water, which cleared a major liability from Evidence Action's balance sheet. While Evidence Action expected these loans to be forgiven, it believes that its improved financial systems enabled it to advocate this outcome to funders more effectively.
- **Audit reconciliation** — Evidence Action had been subcontracted under a bilateral grant that ended in 2016, from which it received funding for the Dispensers for Safe Water program in Uganda. In 2017, results from an audit led the prime contractor to the bilateral organization to dispute some of the costs that had been charged to the grant. At the time, it was possible that the prime contractor would neither reimburse Evidence Action for costs that had already been approved nor release the final tranche of grant funding. However, after 18 months of work, Evidence Action was able to resolve all of the issues raised by the audit, and it received the full \$105,000 that it was owed under the grant.
- **Efficiency** — The Deworm the World Initiative program team has reported that its processes have become much more efficient as a result of operational strengthening.

*All GiveWell conversations are available at*  
<http://www.givewell.org/research/conversations>