

**Management Notes to Accompany Financial Projections  
May 2012**

We present below two budget scenarios and an operating model. The first budget outlines the costs associated with sending \$1,000 to all currently enrolled GiveDirectly (“GD”) households (533 in total). All costs to identify recipient households have been incurred, and the management team has strong visibility on the source of funds for these transfers. However, transfers are sent over the course of two years, so many households have started receiving money but have not yet received the full \$1,000. The remaining costs of sending to these households are the costs of transferring the funds. The second budget presents a linear scale-up of GD’s current costs to \$5M level. This does not include any economies of scale and therefore represents an upper-bound on our estimated costs. The comments below provide context for the line items in these budgets.

Finally, we present an operating model which presents in detail our input costs and projects the costs of sending \$5M, taking into account economies of scale.

Expenses fall into two broad categories: 1) operational expenses, which are paid for by donors and represent the total cost of sending cash transfers and 2) start-up and outreach costs, which are exclusively paid for by board members.

**\$570K and \$5M BUDGETS**

***Operational Expenses***

*Transfers*

(1) Direct Transfers: GD has enrolled 533 households through its standard enrollment protocol. As of April 2012 transfers have been initiated for 487 of these households, and the remaining 46 households are still in the process of registering for M-Pesa. This line item corresponds to the \$129,771 that GD has sent in direct transfers as of April 2012, with initiated households having received, on average, \$266. As per the pre-determined disbursement schedule, a portion of households receive their transfer as a lump-sum, while the remainder receives a series of monthly payments.

[Note: during the enrollment process, households were given the option of receiving part of their transfer as a cell phone. Of those enrolled, the majority utilized this option and were scheduled to receive the full transfer amount less the value of the cell phone. The cost of cell phones purchased and distributed by GD is included in the direct transfer line item]

Of the 533 currently enrolled households, some are currently scheduled to receive \$300 transfers and others to receive full \$1,000 transfers. GD plans to “top up” all enrolled households to receive the full \$1,000 transfer (translating to \$403,229 in future transfers). GD also aims to reach \$5M in scale by transferring additional funds to newly enrolled households; this implies transferring \$4.65M and also covering the associated costs of the transfers.

*Identification*

(2) Equipment/Supplies: This includes costs of cameras and GPS tracking devices which GiveDirectly uses to audit household's eligibility using Google Maps. These costs are assumed to continue at \$1/household pace.

(3) Supervisor Field/Travel: This line item corresponds to costs that were incurred on multiple trips to Kenya that were made by a board member. The purpose of these visits was to establish the requisite operational infrastructure, train local staff, oversee name enrollment/back-checking processes, and conduct supervisory audits. This line item corresponds to the cost of round-trip plane tickets, visa fee, as well as the board member's transportation and living expenses in Kenya, and (going forward) supervisor time. All such travel costs have been incurred for the \$570K distribution. To scale to \$5M we assume that travel expenditure continues at its current pace of \$14/household.

(4) RCT Travel: This includes one trip taken under the auspices of a research trip for a randomized control trial ("RCT") evaluation of GiveDirectly's work. Although the evaluation is being conducted by a separate organization, GD believed that it would have incurred this cost for identifying households even without the research work and so has included this cost to provide more reasonable cost estimates. Under our conservative linear \$5M projection we assume that this travel will also continue at a pace of \$8/household, bringing total cost to \$22/household. In our more detailed operational model we project no expenditure on this item.

(5) Field Staff Wages/Travel: This line item corresponds to wages and travel costs for local GD staff hired to identify households, conduct back-checks, and enter data (*i.e.*, to execute the enrollment protocol). To scale to \$5M we assume that field staff expenditure continues at its current pace of \$13/household.

(6) Insurance/test transfers/printing: This line item includes the cost of insurance for field staff; token transfers made to test the M-Pesa interface (only done during the initial stages of the project); and miscellaneous printing costs. We assume the costs continue at current pace.

*Note: For the \$570K case, all households have been identified, and all costs associated with enrolling the 533 households have been incurred. As a result, we have not projected any future identification costs for this cohort of recipients. For the \$5M case, all identification items represent a linear scale-up in costs of \$36 for each household.*

#### *Transfer Fees*

(7) International Bank Transfer Fee: Previously, GD paid an international wire fee for funds transferred from its US bank account to its corporate M-Pesa account. Approximately 6 months ago, GD successfully negotiated the removal of this fee; is has not incurred the cost since then and projects no future costs in this category going forward.

(8) International Transfer FX Spread Loss: Agencies who transfer money abroad generally do so at an exchange rate that is worse than published rates (such as those at xe.com or wsj.com). The difference between the published rates and the rates at which GiveDirectly is able to transfer funds is captured as a foreign exchange loss. These costs are agreed to upfront and currently represent 1.5% of transferred funds (which translates to \$16 / household or 1.4% of total costs)

(9) M-Pesa Transfer Fees: M-Pesa charges a fee on all transactions which is divided between the sending and receiving party. The total fee depends in part on how the recipient withdraws funds; if they

withdraw all funds when received, as most GD recipients have done to date, total tariffs amount to 1.6% of the amount transferred. This line item thus corresponds to the fees GD has had to pay for sending transfers (which translates to \$13 / household or 1.2% of total costs).

(10) PayPal/Google Check-out Fees: This line item includes expenses incurred through the use of Google Check-out and PayPal for on-line donation processing. GiveDirectly had qualified for special status with Google which waived all such fees in the past; however, Google has indicated that it will discontinue this promotional rate beginning in the summer of 2012.

#### *Follow-up*

(11) Field Staff Wages/Air-time: This line item contains costs associated with making follow-up phone calls to households after they have been sent transfers (includes air-time and staff wages). To date the average cost per completed follow-up interview is \$2.5, and each household is contacted twice for a total cost of \$5 per household.

#### ***Start-up and Outreach (paid for exclusively by GD board)***

[Note: all expenses in the below categories will be paid for exclusively by board members. GD's policy is to not allocate any donor funds to cover outreach costs]

(12) Registration/Audits: This line item corresponds to fees that GD paid to register as a 501(c)3 in the US, as well as fees paid to an accounting firm in Nairobi that audited GD's Kenyan financial statements

(13) IT: This line item corresponds to funds spent contracting a professional web developer, as well as purchasing accounting software.

(14) Outreach: This line item corresponds to the cost of US-based outreach activities. GD has good visibility on the \$570K required to send these transfers, so no outreach costs are included in this analysis. In the \$5M budget GD estimates that the expenses below will be incurred.

- Salary allocation (COO spends a portion of time in Kenya overseeing operations and a portion of time in the US working on outreach) amounting to approximately 50% of total costs of outreach.
- Travel costs associated with board members attending meetings and events (board members will be focusing their outreach activities primarily in New York City and San Francisco)
- Cost of outreach events
- 20% outreach contingency

## **OPERATING MODEL**

We present a detailed operational model with a break-down of all start-up, identification, transfer, follow-up, and outreach-related cost components. We present the costs associated with transferring \$5M, and under a series of what we consider reasonable assumptions. The model incorporates economies of scale when calculating identification costs.

### *Operational Expenses (Costs covered by donors):*

#### *Donation Processing*

Google Check-out has re-instated its policy of charging fees for the processing of on-line donations. We anticipate that the bulk of donations will be check donations from larger donors, rather than funding through the retail platform. However, we include the cost of processing fees for a small portion of total donations.

#### *Household Enrollment and Back-checking*

This model assumes two major components of enrollment: 1) name collection, which involves local staff traveling to target villages and identifying/registering eligible households and 2) back-checking, which involves a separate team confirming the household's eligibility. Costs associated with these processes are staff wages, travel expenses, sim cards for beneficiaries to register with M-Pesa, printing, and data entry. In addition, we budget for the time, travel, and in-country costs of the COO, who oversees the enrollment process.

#### *Transfer Fees*

The fees associated with making actual transfers are calculated assuming fixed rates that have been negotiated by GD (1.5% and 1.6% for FX spread loss and M-Pesa fees, respectively).

#### *Verification*

This model assumes that each household will receive two follow-up contacts from GD, with the majority of follow-up done through phone calls and a small portion through in-person visits. Costs associated with verification include staff wages, air-time for making phone calls, and travel expenses for in-person follow-ups.

### *Start-up and Outreach (Costs covered exclusively by GD board):*

#### *Start-up Costs*

The model presents start-up costs that were incurred by GD board members; namely the fee for registering GiveDirectly as a US non-profit, as well as an initial investment in developing the website.

#### *Outreach Costs*

Our strategy for raising \$5M will center upon bilateral meetings and small events, with a geographic focus on New York City and San Francisco. The model reflects this approach, with built-in travel costs for board members and a budget for holding events. Other outreach costs include an upgrade to the website, as well as the portion of the COO's time spent in the US (time spent in the field is budgeted under operations).

Costs to transfer \$1K to all currently enrolled households

Currently Enrolled	Incurred	Future	Total Cost	Per HH	% of Total
<b>Transfer costs</b>					
Direct Transfers/cell phones	129,771	403,229	533,000	1,000	91.4%
Subtotal	129,771	403,229	533,000	1,000	91.4%
<b>Identification costs</b>					
Equipment/supplies	646		646	1	0.1%
Supervisor travel	7,452		7,452	14	1.3%
RCT travel	4,000		4,000	8	0.7%
Field staff wages	6,688		6,688	13	1.1%
Insurance/test transfers/printing/supplies	239		239	0	0.0%
Subtotal	19,024	-	19,024	36	3.3%
<b>Transfer costs</b>					
Internatl. transfer FX spread loss	2,870	5,521	8,391	16	1.4%
Internatl. bank transfer fee	240	-	240	0	0.0%
M-Pesa beneficiary transfer fees	724	6,452	7,176	13	1.2%
M-Pesa other fees	86	-	86	0	0.0%
Paypal/Google Checkout fees	432	-	432	1	0.1%
Subtotal	4,351	11,973	16,323	31	2.8%
<b>Follow-up costs</b>					
Subtotal	1,053	1,613	2,665	5.00	0.5%
<b>Startup &amp; Outreach Costs (paid for by GD Board)</b>					
Registration, audits, insurance	4,334	-	4,334	8	1%
Website	7,499	-	7,499	14	1%
Outreach	-	-	-	-	0%
Subtotal	11,833	-	11,833	22	2%
<b>Total spend</b>	<b>166,031</b>	<b>416,814</b>	<b>582,845</b>	<b>1,094</b>	<b>100.0%</b>

Costs to transfer \$5M to currently and newly enrolled households

	Incurred	Future	Total Cost	Per HH	% of Total
<b>Transfer costs</b>					
Direct Transfers/cell phones	129,771	4,520,229	4,650,000	1,000	92.0%
Subtotal	129,771	4,520,229	4,650,000	1,000	92.0%
<b>Identification costs</b>					
Equipment/supplies	646	4,004	4,650	1	0.1%
Supervisor travel and time	7,452	57,559	65,010	14	1.3%
RCT travel	4,000	30,897	34,897	8	0.7%
Field staff wages	6,688	51,660	58,348	13	1.2%
Insurance/test transfers/printing/supplies	239	1,842	2,081	0	0.0%
Subtotal	19,024	146,948	165,972	36	3.3%
<b>Transfer costs</b>					
Internatl. transfer FX spread loss	2,870	66,640	69,510	15	1.4%
Internatl. bank transfer fee	240		240	0	0.0%
M-Pesa beneficiary transfer fees	724	73,159	73,883	16	1.5%
M-Pesa other fees	86		86	0	0.0%
Paypal/Google Checkout fees	432		432	0	0.0%
Subtotal	4,351	139,799	144,150	31	2.9%
<b>Follow-up costs</b>					
Subtotal	1,053	22,198	23,250	5	0.5%
<b>Startup &amp; Outreach Costs (paid for by GD Board)</b>					
Registration, audits, insurance	4,334	7,919	12,253	3	0.2%
Website	7,499	5,000	12,499	3	0.2%
Outreach	-	44,656	44,656	10	0.9%
Subtotal	11,833	57,574	69,407	15	1.4%
<b>Total spend</b>	<b>166,031</b>	<b>4,886,748</b>	<b>5,052,779</b>	<b>1,087</b>	<b>100.0%</b>

**Operating Model**

	KSH	Units	Total KSH	KSH/HH	Total USD	Total USD/HH	% Total
<b>Donation Costs</b>							
Check Donations	-	-	-	-	-	-	0.0%
Web Donations (Beginning June 2012)	602,438	1	602,438	130	7,088	1.5	0.1%
<b>Transfer Costs</b>							
US to Kenya FX Fee	5,928,750	1	5,928,750	1,275	69,750	15.0	1.4%
M-Pesa Fee	6,324,000	1	6,324,000	1,360	74,400	16.0	1.5%
<b>Total Transfer Cost</b>			<b>12,855,188</b>	<b>2,765</b>	<b>151,238</b>	<b>32.5</b>	<b>3.1%</b>
<b>Enrollment Costs</b>							
<b>Supervisor Travel</b>							
Salary	2,654,479	1	2,654,479	571	31,229	6.7	0.6%
Flight (per trip)	136,000	3	408,000	88	4,800	1.0	0.1%
Visa (one time)	12,750	1	12,750	3	150	0.0	0.0%
Nairobi food and lodging costs (/day)	8,500	18	153,000	33	1,800	0.4	0.0%
Field food and lodging costs (/day)	4,250	181	770,844	166	9,069	2.0	0.2%
<b>Enrollment Local Costs</b>							
Field Staff Salary Payment (per HH)	40	4,650	186,000	40	2,188	0.5	0.0%
Local Travel (per trip)	1,500	233	348,750	75	4,103	0.9	0.1%
Data Entry (per HH)	50	4,650	232,500	50	2,735	0.6	0.1%
SIM Cards (per HH)	100	4,650	465,000	100	5,471	1.2	0.1%
Printing (per survey)	6	4,650	27,900	6	328	0.1	0.0%
<b>Back checking Local Costs</b>							
Field Staff Salary Payment (per HH)	40	4,650	186,000	40	2,188	0.5	0.0%
Local Travel (per trip)	1,500	233	348,750	75	4,103	0.9	0.1%
Data Entry (per HH)	50	4,650	232,500	50	2,735	0.6	0.1%
Printing (per survey)	6	4,650	27,900	6	328	0.1	0.0%
<b>Subtotal: Enrollment Costs</b>			<b>6,054,373</b>	<b>1,302</b>	<b>71,228</b>	<b>15.3</b>	<b>1.5%</b>
<b>Verification</b>							
<i>Phone Verifications</i>							
Airtime (per survey)	60	8,649	518,940	112	6,105	1.3	0.1%
Staff Wages (per survey)	35	8,649	302,715	65	3,561	0.8	0.1%
Data Entry (per survey)	50	8,649	432,450	93	5,088	1.1	0.1%
Printing (per survey)	6	8,649	51,894	11	611	0.1	0.0%
<i>In-Person Verifications</i>							
Travel Costs (per trip)	1,500	43	65,100	14	766	0.2	0.0%
Staff Wages (per survey)	40	651	26,040	6	306	0.1	0.0%
Data Entry (per survey)	50	651	32,550	7	383	0.1	0.0%
Printing (per survey)	50	651	32,550	7	383	0.1	0.0%
<b>Subtotal: Verification Costs</b>			<b>1,462,239</b>	<b>314</b>	<b>17,203</b>	<b>3.7</b>	<b>0.4%</b>
<b>Contingency</b>	7,516,612	10%	751,661	162	8,843	1.9	0.2%
<b>Total Operational Cost</b>			<b>21,123,461</b>	<b>4,543</b>	<b>248,511</b>	<b>53.4</b>	<b>5.1%</b>
<b>Paid for out-of-pocket by GD Board</b>							
<b>Start-up Costs</b>							
Registration, audits, insurance	368,408	1	368,408	79	4,334	0.9	0.1%
Website	637,373	1	637,373	137	7,499	1.6	0.2%
<b>Fixed Costs</b>							
Kenya Audit	255,000	1	255,000	55	3,000	0.6	0.1%
Insurance	1,630,755	10%	163,076	35	1,919	0.4	0.0%
US Audit	255,000	1	255,000	55	3,000	0.6	0.1%
<b>Outreach</b>							
COO Salary Allocation	2,445,521	1	2,445,521	526	28,771	6.2	0.6%
Website Upgrade	425,000	1	425,000	91	5,000	1.1	0.1%
Travel	955,188	1	955,188	205	11,238	2.4	0.2%
Events	85,000	2	170,000	37	2,000	0.4	0.0%
Contingency	1,125,188	20%	225,038	48	2,648	0.6	0.1%
<b>Total GD Board Expenses</b>			<b>5,899,602</b>	<b>1,269</b>	<b>69,407</b>	<b>14.9</b>	<b>1.4%</b>
<b>Total Operational and GD Board Expenses</b>			<b>27,023,062</b>	<b>5,811</b>	<b>317,918</b>	<b>68.4</b>	<b>6.5%</b>

**Assumptions**

**Receipt and Transfer to Kenya**

**Donation Costs**

% Online Donations	5%
% Check Donations	95%
Online Donations	232,500
Google Checkout Fee	3.5%
Donation Costs	7,088

**Marketing Costs**

Fundraise Duration (mths)	23
Meal Costs (per mo, person)	100
SD-SFO Trip	
Cost	200
Frequency	every 1 months
NYC-SFO Trip Cost	
Cost	500
Frequency	every 6 months
SD-SFO Trip	6,975
NY-SFO Trips	4,263
Event Costs	1,000
Website Upgrade	5,000
Contingency	20%

**Transfer Costs**

FX Cost (American Express)	1.5%
M-Pesa	1.6%
FX Rate	85

**Household Enrollment & Back checking**

**General**

Total funds disbursed (USD)	4,650,000
HH Transfer Size	1,000

**Supervisor**

**International & Nairobi Travel**

Salary (USD)	60,000
Allocation to Enrollment	31,229
Plane (per flight)	1,600
# Trips	3
Visa (USD per trip)	150
Nairobi Per Diem (USD)	100
Field Per Diem (USD)	50

**Field Travel**

Training days	7
Days Required for enrollment	116
Buffer (%)	50%
Buffer (Days)	58
Nairobi days (per trip)	4
Nairobi to Field Travel (per trip)	2
Total Travel days	187

**Enrollment**

No. of households to enroll	4,650
No. enrollment staff	3
HHS/enrollment staff/day	20
Days required for enrollment	78
Staff Wage (Cost KSH/ HH)	40
Travel Cost (KSH / trip)	1,500

**Back Check**

% Back checked	100%
No. back-check staff	2
HHS/back-checker/day	20
Days required for back-check	116
Staff Wage (Cost KSH/ HH)	40
Travel Cost (KSH / trip)	1,500

**Misc**

Data Entry Staff Wage (Cost KSH/HH)	50
SIM Card (KSH/SIM)	100
Printing cost (KSH/ survey)	6
Insurance (% of staff wages)	10%
Contingency (% of non-contractual fees)	10%
Kenya Audit (Cost USD)	3,000
US Audit (USD)	3,000

**Verifications**

**General**

Verification Rate	100%
No of Staff	3
No of Verifications/HH	2

**By Phone**

% Verified by Phone	93%
HHS/phone verifier/day	15
Days required for phone verification	192
Airtime (KSH/min)	3
Length of Call	20
Staff Wage (Cost KSH/ HH)	35

**In person**

% Verified by Phone	7%
HHS/field verifier/day	15
Days required for field verification	14
Staff Wage (Cost KSH/ HH)	40
Travel Cost (KSH / trip)	1,500