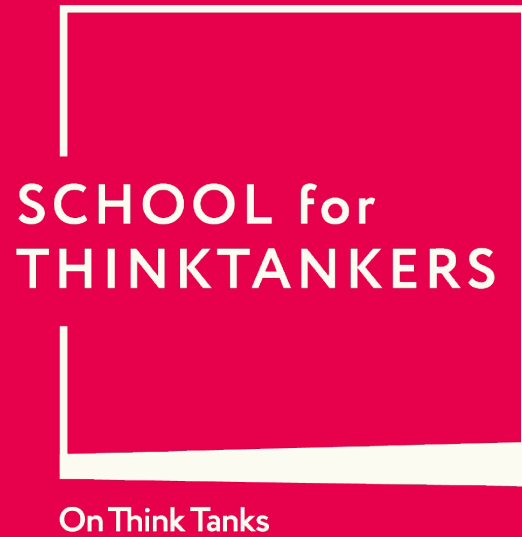




**SCHOOL for
THINKTANKERS**

On Think Tanks



Finance for Non-financial Managers

Sonja Stojanović Gajić
07 February 2022

FOCUS

Finance for Non-Financial Managers



**FINANCIAL MANAGEMENT &
LEADERSHIP IN OLD NORMAL**



**FINANCIAL HEALTH
IN THE CRISIS**

POLA ŽENA, POLA REFORMA

Bože mili, pogledaj MI6 ekspozituru,
Na broju 6, u Jakšića Đure!
Jedan poslanik tako podiže galamu,
Dok je pio kafu u jutarnjem programu.

Ali, nisu to Britanci i nije služba,
Već to je mala Sonjina družba.
BG centar za bezbednosnu politiku,
Najbolji balkanski tink-tenk za analitiku.
I tu je Sonja za vreme svog mandata,
Bila super-žena i prava tata-mata.

Trinaest dugih prošlo je leta,
Otkad u CCVO ti ušeta,
I sada odlaziš, ali ne plači,
Ostavljaš BCBP nikada jači.

Da nije bilo tvoje intuicije,
Ne bi bilo ni prEUgovor koalicije,
A zbog tvoje hrabrosti lavlje,
Mora da se pazi na svako poglavlje.

Ali, od skoro, upitno je naše preživljavanje,
Sve je jače sa Partijom sukobljavanje,
Jer u Srbiji se događa državno zarobljavanje
I od demokratije sve veće udaljavanje.

Sve iznad je istina i nije varanje,
Na dokazima je zasnovano svako naše zagovaranje!
A da bi došlo do raspetljavanja,
Potrebno je još mnogo našeg domišljavanja.

Pred sam kraj, da bi ova pesma bila usekšena,
Nastavi da budeš super-žena!
Jer, možda nisi nosila uniformu,
Ali si pionirka za bezbednosnu reformu.

Gde ti stade mi ćemo produžiti,
Drugu fazu reforme sektora ćemo zaokružiti.
Zajedničkim snagama protivu Diktatora,
Mi na terenu, ti kao članica Upravnog odbora.

U Beogradu, 31. oktobra 2019.



Sonja Stojanovic Gajic

2006-2019 Director of Belgrade Centre for Security Policy (BCSP) and helped it transform from national NGO into the internationally recognized think tank on security policy

- **Mixed job description:** management and programme
- **Self-educated manager** - learned by doing it and leading an organisation through change process

Assisted also the organisations in East Europe, Middle East and Latin America

BCSP budget over years in Euros

The oldest organisation in the Western Balkans focussing on **accountability of security institutions** (police, military, intelligence....) since 1997

Among bigger ones in the region of South-East Europe - mid-income country

2008.	2009.	2010.	2011.	2012.	2013.	2014.
340,337	378,649	374,574	411,637	404,632	522.805	667.694
2015.	2016.	2017.	2018.	2019.	2020.	2021.
589.659	446.000	509.878	471.285	417	636.111	700.000

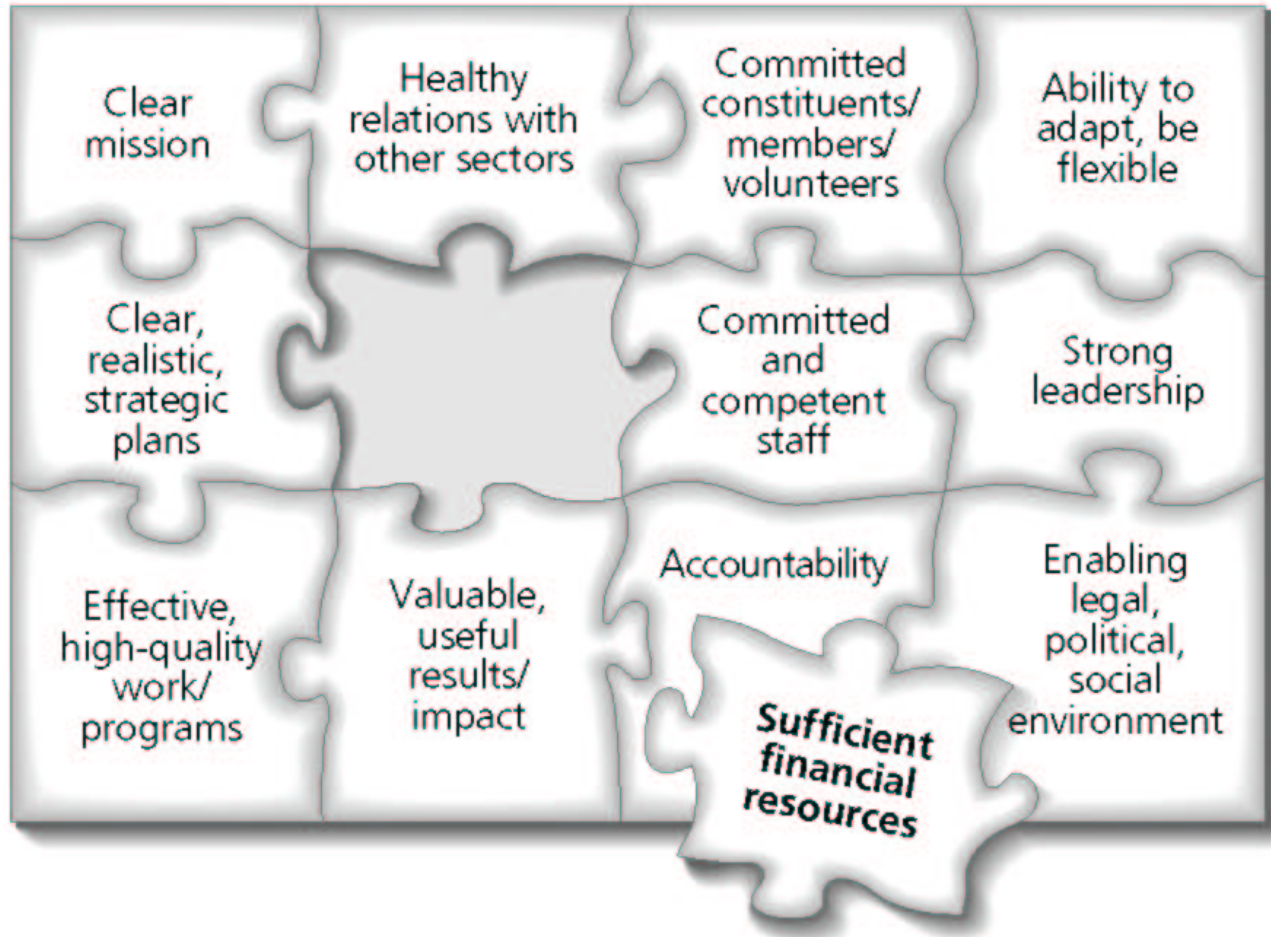
How do you feel about finance management and fundraising?



INTRO SURVEY

<https://docs.google.com/forms/d/e/1FAIpQLSfesXQTGaBRpQMDlIRHVEYynf7wJUCqhDlp8vtHDOrZLNvcgQ/viewform>

Financial Sustainability is just a component of Organizational Sustainability




Organizational sustainability is not strictly a financial consideration;

Financial sustainability is only one of several factors contributing to a TT's overall sustainability;

Pillars of Financial Management

1. Business and Financial Model
2. Budgeting (costing, revenues and operating reserves)
3. Budget monitoring - cashflows
4. Operations: division of labour, responsibility and reporting
5. Accountability, transparency and integrity



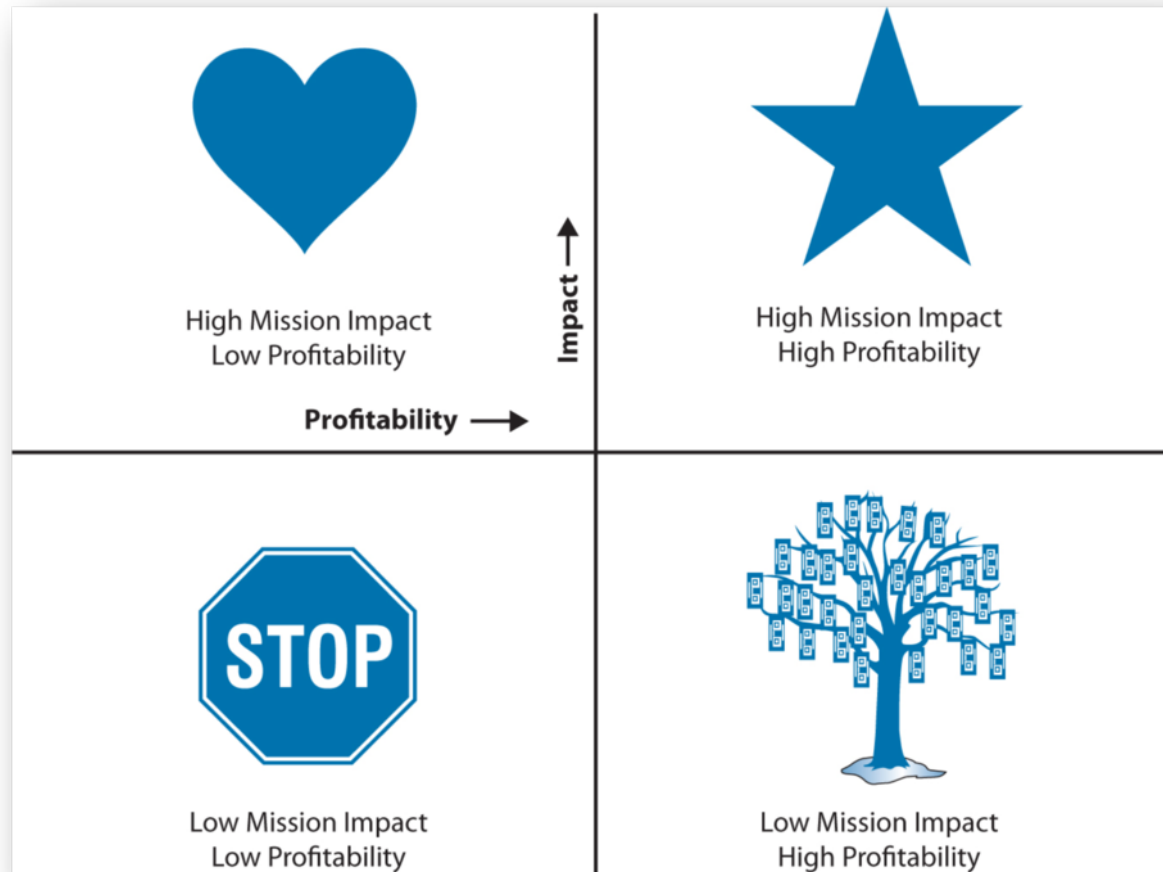


Difference between business and funding models

	Business Model	Funding Model
Focus	Value creation (unique) and delivery, cultivation of trust and reputation	Revenue generation - what kind of sources? What is the proportion of different sources in the budget? What is duration/funding circles? The cost structure: % operational costs (rent, research, overhead...), partner costs...
Activities	Research performed and communicated	Raise, receive, account for, report on funds
Staff	All staff, Board, peer-reviewers	<ul style="list-style-type: none"> • Director, Financial Officer (+book-keeper, auditor), Board • Project Officer or Researchers or specialized fundraising team
Goal	Organisation is empowered to achieve its mission on a continuous basis	<ul style="list-style-type: none"> • Cash in the bank, • audit reports signed off, • funders' support maintained over time due to correct financial processes and management
Key stakeholders	Research community writ large, policymakers, private sector and third sector actors, donors, ordinary citizens	Donors (individuals, companies, governments, philanthropic organisations)

	Business Model	Funding Model
Example statement	<p>Organisation X conducts and disseminates original research on key public policy issues in Country Y.</p> <p>It receives financial support from: three sources, which enable it to employ the services of a team of professionals, including a high-level and widely cited and respected policy researcher.</p> <p>The director of Organisation X is widely regarded too by the research community, and its Board is made up of individuals that leverage their positions to create new policy influence and funding opportunities.</p>	<p>Organisation X derives</p> <ul style="list-style-type: none"> • <u>20% of its budget</u> from subscriptions to its flagship publication; • <u>30%</u> from research contracts; • <u>and 50%</u> from international sponsors. <p>• This funding model requires the full-time services of <u>a book-keeper, the part-time services of a financial manager, and an external audit partner</u>. The inputs of middle-management and the organisation's director are also required month-on-month to ensure steady revenue generation and correct financial reporting.</p>

Sustainability Matrix



It is about finding the right mix for your organisation:

✓ **Fits your mission**

✓ **Combination of sources** and types of funding (not all eggs in one basket)

✓ **Allows you to do your core work** (long, reasonable costs)

<https://nonprofitquarterly.org/the-matrix-map-a-powerful-tool-for-mission-focused-nonprofits/>

Adaption to the external context is required to continue succeeding e.g.

- **What are sources of money to be found?**
- **Policy environment:** Is there demand for research?
- **Thinking about the Implications on:**
 - **Human and other costs of running organisation:** Research, Staff & Project Management, Communications, and Policy influence.
 - **in the project market** (partnerships, brand communication, quality control, transparency and strategic orientation)
 - **in managing relationships with funders:** balancing demands and interference (how to guarantee independence?)

The Transformation of BCSP's business and financial model to the context

Years	Context	Business Model	Capacities	Funding Model
1997-2000	Authoritarian Closed Country under international Sanctions	Activist NGO	Ideas and activism of 2 founders supported by friendly CSOs	No money, no trouble
2000-2006	Democratic Transition Golden Area of donors' interest No competition	NGO with focus on research	Founders and external research associated All in 1 person admin/finance	Projects from donors
2006-2012	Democratic Consolidation Increased national competition	Transformation into Think Tank until 2010 Regional Leadership	2 members in the Finance Team + 1 all other admin Comms team	Institutional Funding with smaller other projects

The Transformation of BCSP

Years	Context	Business Model	Capacities	Funding Model
2012-2015	EU Integration and the EU as a main donor in town Peace Talks on Normalisation of Relations with Kosovo Dense regional and national competition	Think Tank with Regional Focus Policy Broker on Dialogues	Same <u>Project writing for all research staff</u> as project management is with researchers Advance financial procedures and <u>organisational audit</u>	Phasing out institutional support 2015: no 2014: 10% 2012: 40%
2014 - 2019	State Capture Closing civic space and media freedoms Huge competition from other types of organisations (investigative journalists, fake NGOs) EU is the biggest and most cumbersome donor, bilateral donors retreat	Think Tank focusing more on citizens and other democracy-defenders	2 person finance EU funding Income-generating activities Thinking of professionalization of <u>project management & fundraising role</u>	Mixture EU different types International donors (govs and foundations) Income through consultancy work No gov funding

Context matters for funding opportunities

POLICY ENVIRONMENT: **Is there demand for research and what is a competition?** A lot of media interest in security topics, but on wrong topics. Democratisation agenda is almost dead on donor's agenda **How to stay true to the mission?**

FUNDING ENVIRONMENT: **Is there money to be found?**

- **Foreign funding sources** for civil society: the biggest is EU, but few cumbersome opportunities as it is very demanding for administration (co-funding demand, liquidity), Bilateral donors retreat from the Balkans except Kos & BiH. A number of small grants by individual foundations and embassies. De-legitimisation of foreign funded NGOs
- **Government funding:** The biggest donor at the local level - non-transparent, funding technical & QUANGOs. Not any more independent oversight bodies (e.g. Anti-Corruption Agency, Ombudsperson) used to have transparent competition for NGO funding
- **Private/corporate** funding for our policy area is limited and dubious
- Increased opportunities for **consultancy work** and academic and international partnerships
- **Crowd-funding** for think tanks is a terra incognita

FUNDING MODEL	Research Agenda	Policy Influence			Staff	Fiscal Stability
		Allows to conduct relevant research?	Allows to take advantage of policy windows?	Covers operating costs		
Core/Institutional funding						
Grants/ Project Funding						
Corporate or Private Sector Funding						
Government funding						
Membership						
Crowd-funding						
Consultancy work (service and product sold commercially)						
Academic research funding						
Endowment						

Revenues: Understanding the Options Gifts and Grants

Here are some typical sources and pros and cons.

Source Description	Pros	Cons
Individuals	Donations tend to be less tied to specific program outcomes, more untied revenues. Can provide ongoing revenue streams if repeat donors. Individuals can be cultivated over time for larger gifts.	Building an individual donor base of repeat donors who give increasing amounts is a long term process that requires continuous communication.
Corporations	Tend to fund projects with high levels of visibility and marketing opportunities.	Often ask for names to appear on publications, events etc. also smaller amounts for the most part. Fluctuate with corporate profits.
Foundations	Tend to fund innovative projects	With a few exceptions fund the same organization for no more than a few years
Government	Fund larger scale projects or smaller short term one year projects, risk of politisation	Require a great deal of report detail. Restrictions on line items expenditures Change with each election
National/ International Agencies	Grants tend to be significant size and require significant capacity to manage	Discontinue funding when region no longer of strategic interest. High reporting requirements

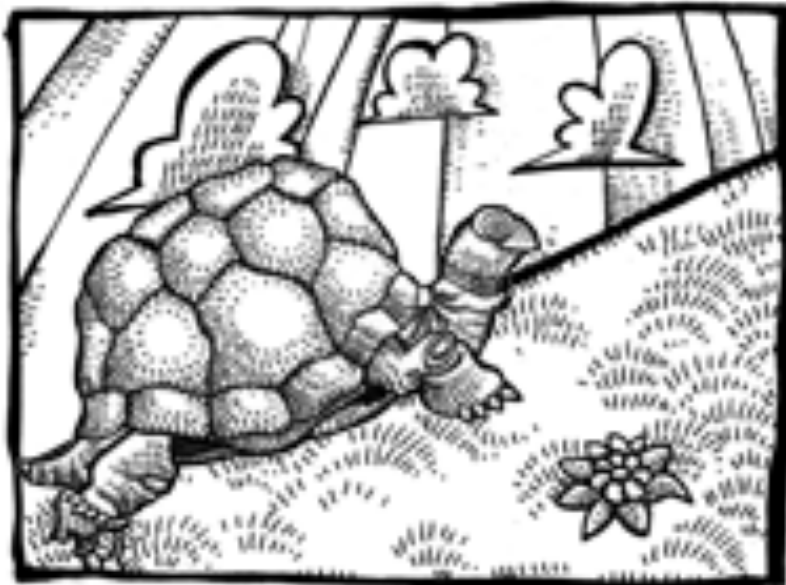
Funding Mix - Types of Revenues

REVENUES (EUR)	2015	2016
Grants (International Contributors)	83,9%	82,9%
Grants (Domestic Contributors)	10,4%	2,8%
Earned Income - Consultation Services (International Contributors)	0,2%	9,2%
Earned Income - Consultation Services (Domestic Contributors)	5,3%	2,0%
Other income (Reimbursement of maternity leave, etc)	0,2%	3%



SUCCESSFUL FUNDING

Is this Sustainable Think Tanks Financing?



- ✓ more steady flow of secured income - **reliability**
- ✓ diverse funding sources, decreased dependence - **diversification**
- ✓ more unrestricted income (**reserves**) - flexibility
- ✓ ability to think and plan **more long-term**



Under which conditions are we getting funds?

- ✓ **Relationship to mission:** Does this source enhance or detract from your mission? Does it enhance or detract from your reputation?
- ✓ **Acceptable conditions:** Whatever administrative, contractual and/or programmatic conditions are attached to funds, they should enable the think tank to do their policy work to the best of their abilities.
- ✓ **Independence:** A basic condition of a good funding model is for it to guarantee that a think tank remains independent to govern itself and define its policy research agenda: deciding how to run the organisation, which issues to pursue, etc.
- ✓ **Transparency:** A growing concern related to funding models has to do with being able to track the origin of funds that think tanks receive and the main conditions attached to them.
- ✓ **Visibility:** Does this source have positive public relations or visibility benefits? What are the costs to our reputation and credibility?

What are the costs and investments required in relation to benefits:

- ✓ **Start-Up Costs:** How difficult and costly is it to begin receiving income from this source?
- ✓ **Continuing Costs:** How difficult and costly is it to obtain this source of revenue (staff time to perform work or report, infrastructure investment, etc.)
- ✓ **Organizational Capacity:** Do you have the capacity (staff, infrastructure, financial, cultural) to develop and maintain this source?



“What if pizza shops were funded like non-profits?”

<https://youtu.be/-gELZnORV4U>

Lesson:

Make your organization's
matrix for
assessment of funding
opportunities

Dilemma:

Who should be in charge of
fundraising: research or
specialised person/team

Lessons learned on budget structure

Growth is not necessarily a good thing! Increased budget over years, but not operational budget same

Partnerships are both an opportunity (for longer programme research and advocacy and defense against attacks) **and challenge to manage** (coordination costs and high burden on financial staff of coordinator, co-funding requirements)

Description	2014		2015	
BCBP SHARE	269	58%	510.096	87%
PARTNERS SHARE	191	42%	75.087	13%
Total EUR	460.000		585.183	

A **budget** is your organization's strategy expressed in currency.

1. Core organisational budget

Salaries 23%

Office costs 8% (11% with admin staff)

2. Program costs

Capacity building 3%

Comm/advertisement 1%

Public opinion survey 2%

Publications 7%

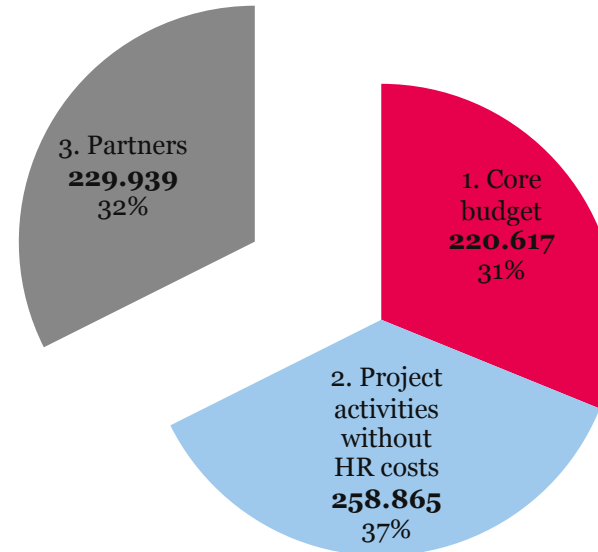
Other activities 23%

3. Capacity-building and investment

4. Contingency

Lesson: For balanced budget, you may will need the reserve or unrestricted funds!

Budget distribution 2014



What are the resources to be used to most effectively meet your mission and that your organization remains sustainable and accountable to its stakeholders?

1. **Assemble a budget team** (CEO, CFO - finance manager, development-fundraising person, program managers)
2. **Create a budget calendar** - enough advance time for this process
3. **Prepare for budget process** (set financial goals, reserves, data on spending for few years e.g. the types of costs donors do not want to support, kickoff mtg)
4. **Build the budget** (budget expenses: direct to delivery of services, shared expenses and overhead) - program costs, fundraising costs... Revenues and risk analysis less predictable (scenario planning for risks), secure Board approval (finance committee)
5. **Monitoring the budget**
 1. Budget-to-actual revenue and expenses - program managers
 2. Executive director -budget-to- actual revenue and expenses for each program and organization-wide, balance sheet, year-end forecast,
 3. Board - same plus Dashboard (% against targets)

**ORGANISATIONAL CAPACITY for
sound financial management and accountability
matters for your internal and external
credibility, fundraising.**



DARIUS FOROUX

- ✓ Keeping track of income and expenses.
- ✓ Which are essential procedures/organizational budget, standardized coding costs and then different attribution (project, staffing...)
- ✓ Creating a **sound finance team**: roles and responsibilities.
- ✓ Know your targets for fundraising and reserves!
- ✓ How to be **transparent**? Lessons from Transparify
<https://www.transparify.org>

Check out and adjust templates to your context (demands by domestic legislation, foreign funders....)

<https://www.wallacefoundation.org/knowledge-center/resources-for-financial-management/pages/default.aspx>

MANGO Guide for Financial Management for Non-profits
<https://humentum.org/free-resources/guide/free-downloads?>

Mistake of forgetting about Liquidity

not just *what* an organization's revenues and expenses look like, but *when* they come and go

an organization with a balanced (or even surplus) budget can still end up running out of cash **healthy cash balance doesn't necessarily translate to cash fluidity.** For instance, particularly in organizations that have multiple streams of funding for individual programs (where, as alluded to earlier, some money is restricted to certain activities), it is easy to lose track of the purposes for which each stream may be used. You may have enough money to run the program, but the money may end up being spent in ways other than what each funder requires. o the costs....

Contracts with government entities pay for services only after the services are delivered, forcing the service-providing nonprofit to cover the initial outlay of cash

Calendars of foundations vary

If neither reserves nor credit are options in a cash crunch, nonprofits may be forced to resort to less appealing means of riding out the storm.

- approaching funders for accelerated or advanced payments
- delaying payment of certain noncritical vendors.
- a loan from a staff or board member, which could raise conflict-of-interest concerns.
- the worst-case scenario is delaying payroll for some or all staff

<https://www.wallacefoundation.org/knowledge-center/resources-for-financial-management/pages/cashflow.aspx>



FINANCIAL MANAGEMENT AND LEADERSHIP DURING A CRISIS

Financial management in the crisis

Increasingly unpredictable revenue

- Foundations receive the income from stock market
- Donors are under the pressure to re-direct funding to COVID-19 assistance and research
- Expectation of funding to decrease E.g. almost half of members (48%) of **BOND**, the leading UK network of INGOs leading on international development do not see themselves operating in 2 years time

Restrictive and polarised environment

- Foreign agent argument



Group Work

Group 1 - Good practice of **costing for project** (how do you get money for indirect costs...)

Group 2 - List **the possible ways to earn income and make reserve:** sources, benefits, downfalls, best practices

Group 3 - **Create demand and donor for unpopular topic** or for which there is no call



USEFUL RESOURCES

Recommended reading

- <https://nonprofitquarterly.org/pizza-and-a-laugh-a-reminder-about-your-nonprofit-financial-stress-level/>
- On Think Tanks's section devoted to funding for think tanks:
www.onthinktanks.org/themes/funding-and-supporting-think-tanks
- Nine webinars on sustainability <https://onthinktanks.org/resources/nine-webinars-on-sustainability-for-think-tanks/> (recommend How to create a smart project budget for a think tank & Evidence-informed Fundraising Strategy)
- Politics & Ideas has a collection of articles that are based on a series of online course on funding models, which were delivered to dozens of think tanks in 2015, 2016 and 2017: <http://politicsandideas.org/tag/funding-model>

Recommended reading on nonprofit finance and crisis

- NPQ (2010) The Four Horsemen of Nonprofit Finance Apocalypse <https://nonprofitquarterly.org/the-four-horsemen-of-the-nonprofit-financial-apocalypse>
- NPQ (2020) Sustainability to Survivability: 5 Nonprofit Must-Do's in the Time of COVID <https://nonprofitquarterly.org/sustainability-to-survivability-nonprofit-finance-must-dos-in-the-time-of-covid>
- Cash Flow Nonprofit Model <https://nonprofitquarterly.org/cash-flow-nonprofit-business-model-question-whats-whens>
- Bond - 4 ways funders are supporting NGOs <https://www.bond.org.uk/news/2020/04/4-ways-funders-are-supporting-ngos-and-responding-to-coronavirus>

How to manage finances in nonprofits

- <https://www.wallacefoundation.org/knowledge-center/financial-management-for-nonprofits/pages/default.aspx>
- MANGO Guide for Financial Management for Non-profits
<https://humentum.org/free-resources/guide/free-downloads?>
- Executive directors guide to financial leadership
<https://nonprofitquarterly.org/executive-directors-guide-financial-leadership-2>
- Financial stress forecasting tool <https://onthinktanks.org/resources/think-tanks-stress-test-a-forecasting-tool/>
- Transparify - transparency of funding <https://www.transparify.org/our-methodology>

Stay in touch

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