

# Bridging the Gap on Funding the True Costs of NGOs in India

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Like so many small NGOs, [17000 ft Foundation](#) aspired to increase its impact but barely registered on funders' radar screens. Sujata Sahu founded the organisation in 2012 to improve education for children living in remote Himalayan villages of the Ladakh union territory. Money trickled in for programmes, such as stocking libraries and building playgrounds, but funders balked at paying for nonprogrammatic expenditures, such as hiring administrative staff. "It was the hardest thing in the world for us to try and get them (funders) to support nonprogrammatic expenditures," says Sahu.

After eight years, 17000 ft still existed "hand-to-mouth," spending whatever revenue it could get nearly as quickly as it came in. It desperately needed a funder willing to invest in the organisation's growth. "We were really clutching at straws at that point," recalls Sahu.

Outreach to A.T.E. Chandra Foundation in 2019 set the wheels in motion for its transformation. The foundation paid for a year-long engagement for 17000 ft with Atma, a nonprofit organisation that builds the capacity of education NGOs to be sustainable and scalable. Sahu calls it an "eye-opening" experience. "I wasn't aware that there were organisations that worked with nonprofits on organisational development."

She initially focused on addressing two "bottlenecks": fundraising, and measurement and evaluation. But through the work with Atma, Sahu learned so much more. Looking back, she says organisational development is a journey of discovery: "You don't know what you don't know until you start this journey."

For 17000 ft, the journey led to a stronger organisation in a better position to grow. For example, Sahu honed her ability to create multiyear leadership plans, much more than the fundraising and evaluation support she initially sought.<sup>1</sup> Learning how to assess and present indirect costs (often called overhead) and organisational development costs to funders opened doors. New funders stepped up, resulting in a six-fold increase in 17000 ft's annual budget and enabling it to hire administrative staff and expand into Sikkim state. Just as important for the future, says Sahu, is her change in mindset. Going forward, she has learned to tell funders what she *needs* for the organisation to thrive, versus "*making do* with what people are giving."

A.T.E. Chandra and 17000 ft bridged a gap that is all too common: Funders say they fund (if selectively) the indirect costs and organisational development needs of NGOs, while NGOs say they lack the funds to invest in their growth, sustainability, and resilience. The gap hinders NGOs effectiveness, but the reality is that funders and NGOs aren't that far apart. For one thing, they share a common desire to work together for lasting change. Nevertheless, the gap can sometimes feel like a chasm. Understanding the mindset of the funder - our research found three distinct archetypes - could be the key to unlocking earnest conversations about what it truly costs to run an organisation and closing the gap.

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1 Atma's work with 17,000 ft Foundation has been described in a [case study](#) on Atma's website.

## Surveying the Landscape

17000 ft Foundation's inspirational journey from stagnation to scale is an outlier amongst Indian NGOs. Today, too few NGOs find funders willing to invest in building their organisations. Instead, funders prefer to write cheques to pay for programmes, leaving critical indirect and organisational development expenses underfunded, and undercutting the effectiveness of the very programmes funders support.<sup>2</sup> A 2021 Bridgespan Group report which surveyed Indian NGOs concluded that such "systemic deprivation" renders them perpetually subscale.<sup>3</sup>

The 2021 report based its findings on a survey of 388 NGOs and was the culmination of the first year of a multiyear Pay-What-It-Takes India Initiative led by Bridgespan and five anchor partners.<sup>4</sup> To break that deprivation cycle, the report recommended four steps to build strong, resilient NGOs: develop multiyear funder-NGO partnerships, close the indirect-cost funding gap, invest in organisational development, and build financial reserves. Guiding their work, funders should take an additional step: commit to the principles of diversity, equity, and inclusion (DEI).

Left unanswered was how funders respond to the needs of NGOs. How do they think about paying for programmes while restricting funds for indirect costs, organisational development, and financial reserves (corpus)? Together with programme funding, these three categories of expenditures represent an NGO's "true costs." (See "['Pay What It Takes' terminology](#)" on page 5)

To shed light on funders' thinking, we conducted a survey in late 2021 and early 2022 to better understand funder mindsets for their practices and policies. We supplemented the 77 funder survey responses with 53 interviews of funders and other stakeholders, and presented at several funder roundtables and workshops to gather additional input. (See "[Methodology](#).")

The results give voice to a funder perspective that differs in important ways from that of NGO leaders we surveyed a year earlier, strongly suggesting the need to improve communication and trust-building between them. Still, most funders say they are willing to pay for indirect and organisational development costs, provided NGOs make a good case linking additional funding to additional impact. 17000 ft Foundation's experience demonstrates how transformational that funding can be. The question is how to encourage more funders to follow A.T.E. Chandra's lead.

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2 Jeri Eckhart-Queenan, Michael Etzel, and Julia Silverman, "[Five Foundations Address the 'Starvation Cycle'](#)," *The Chronicle of Philanthropy*, 29 August 2019.

3 Pritha Venkatachalam, Donald Yeh, Shashank Rastogi, Anushka Siddiqui, Umang Manchanda, Kanika Gupta, and Roger Thompson, *Building Strong, Resilient NGOs in India: Time for New Funding Practices*, The Bridgespan Group, March 2021.

4 The Pay-What-It-Takes India Initiative was seeded by five anchor partners: A.T.E. Chandra Foundation (ATECF), Children's Investment Fund Foundation (CIFF), EdelGive Foundation, the Ford Foundation, and the Omidyar Network India (ONI). While ONI is no longer an anchor partner, they continue to be a strong supporter and champion of the work.

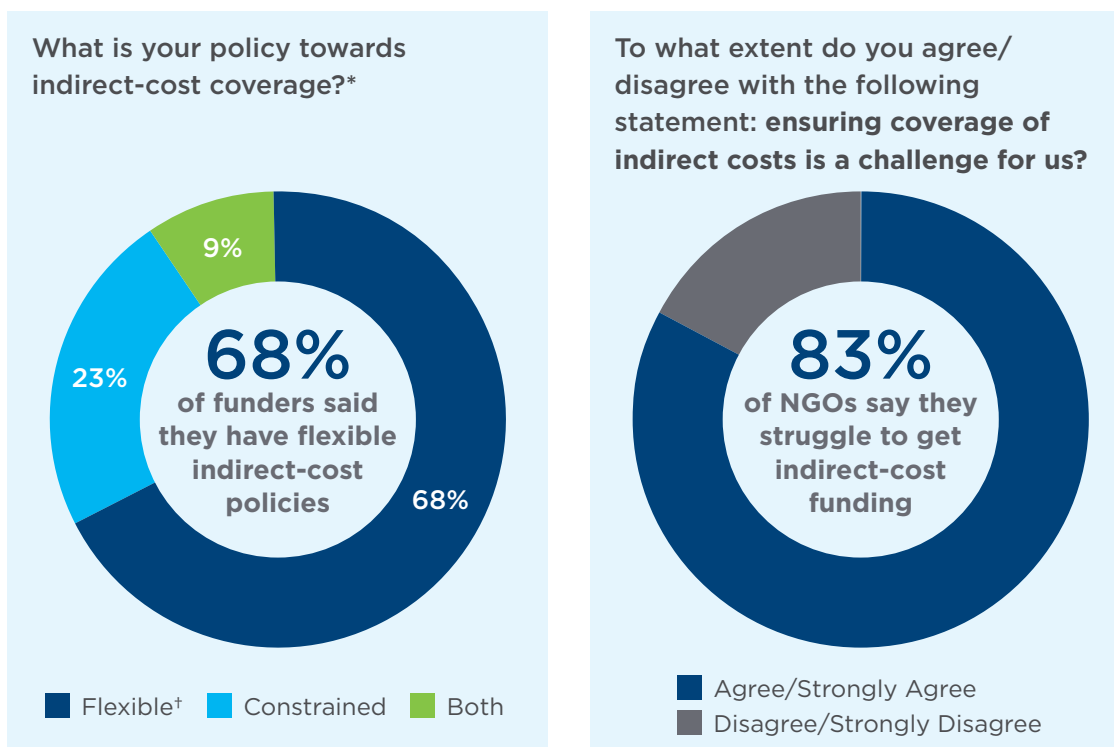
## “Pay What It Takes” terminology

- **Programme Costs:** Expenses directly attributable to a specific project. Also referred to as direct costs.
- **Indirect costs:** Shared administrative or support function expenses not tied to a specific programme (e.g. salaries of nonprogramme employees, rent and electricity for a central office, and technology costs – also known as nonprogramme costs).
- **Indirect-cost rate:** Indirect costs divided by total costs, expressed as a percentage.
- **Organisational development:** Investment in institutional growth and sustainability, such as in strategic planning, leadership and talent development, financial management, fundraising, measurement and evaluation, technology, and financial resilience, amongst others. Organisational development can overlap with indirect costs. For instance, an initial organisational development investment in technology could become a recurring indirect expenditure in subsequent years.
- **True costs:** Includes indirect costs, organisational development costs, and reserve funding, along with programme costs.
- **Financial resilience:** The long-term financial stability of NGOs, cultivated through prudent and long-term financial planning, diversification of the funder base, proactive monitoring of financial performance, and creation of reserve funds.

## The Size of the Gap Between Funders and NGOs

Strikingly different perspectives from funders and NGOs highlight the need for better communication between them. Some 68 percent of the funder survey respondents said their policies are flexible towards paying the indirect costs of grantees.<sup>5</sup> (See [Figure 1](#).) Yet more than 80 percent of NGOs surveyed in the 2021 report find it challenging to recover indirect costs from their funders. Sixty-seven percent said that their funders did not pay their fair share of indirect costs.

**Figure 1: Funders and NGOs differ on adequacy of indirect-cost support**



\* Indirect cost and nonprogramme cost have been used interchangeably in the survey and report. Please refer to “[Pay What It Takes](#)” terminology box on page 5 for a glossary of the terms used.

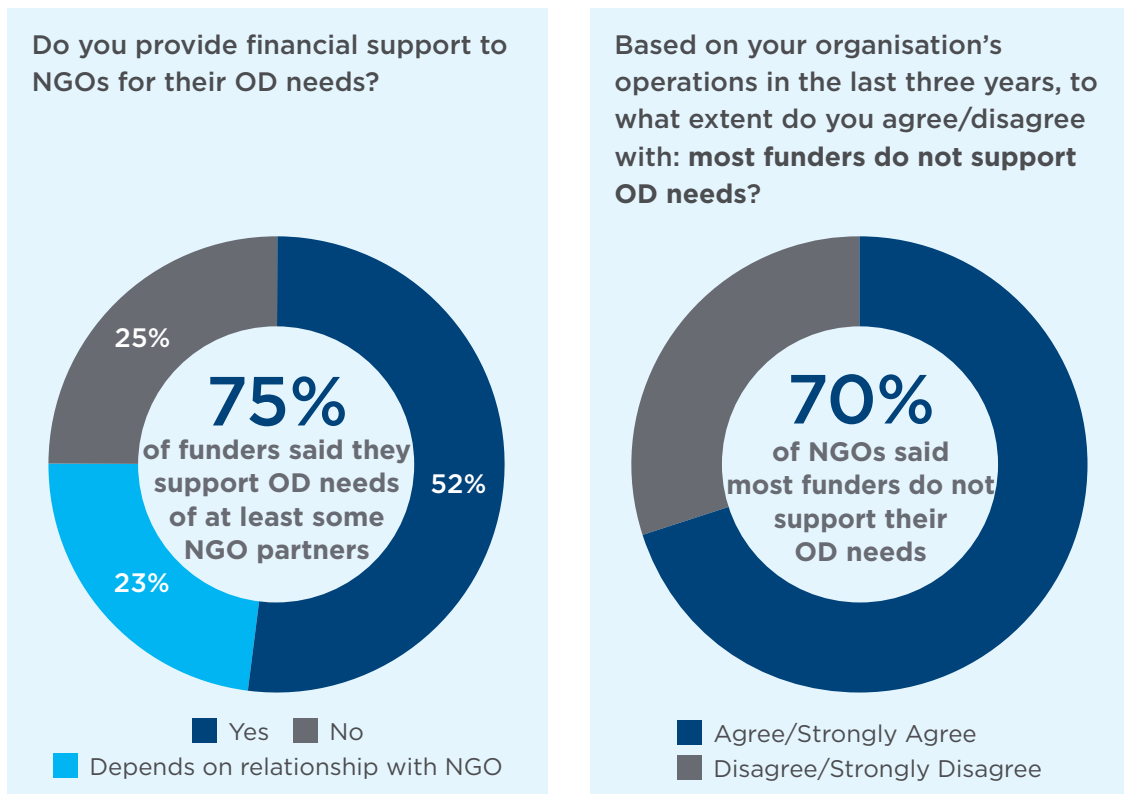
† Flexible: Funders provide unrestricted grants or fund actual indirect costs of NGOs instead of applying a fixed rate. Constrained: Funders have a fixed indirect-cost rate or have an upper limit/ceiling for funding indirect costs of NGOs. Both: Indirect-cost policy of funder varies from case to case, and may be a mix of the above scenarios.

**Source:** Bridgespan Group survey of 77 funders in India, October 2021–February 2022; Bridgespan Group survey of 388 NGOs in India, September 2020.

5 “Flexible” means providing unrestricted grants or funding actual indirect costs of NGOs, instead of applying a fixed rate.

When it comes to organisational development support, 75 percent of funders said that they provide financial support for grantees' organisational development needs, mostly on a case-by-case basis.<sup>6</sup> (See [Figure 2.](#)) By contrast, 70 percent of NGOs said that most funders do not support their organisational development needs.

**Figure 2: Funders and NGOs differ on adequacy of organisational development (OD) support**



**Source:** Bridgespan Group survey of 77 funders in India, October 2021–February 2022; Bridgespan Group survey of 388 NGOs in India, September 2020.

What accounts for the dissonance between funders and NGOs? We suspect there was a low response rate from funders with restrictive grantmaking policies. We sent the survey to more than 300 funders through multiple channels, such as Bridgespan's networks and those of anchor partners in the Pay-What-It-Takes India Initiative, intermediaries, philanthropists' networks, and industry bodies. To mitigate potential sample bias towards funders with flexible funding policies, we validated the survey results by interviewing over 35 funders who follow a diverse range of policies and practices regarding indirect and organisational development costs. Nonetheless, we recognise that the survey likely underrepresents funders that have restrictive funding practices.

6 Fifty-two percent mentioned that their organisation's funding can be used by grantee NGOs to meet their organisational development needs while 23 percent said relationships with grantees are a key determining factor for organisational development support.

Even so, two explanations for the gap between funders and NGOs emerged from our funder interviews. Many interviewees cited the lack of a shared understanding of what is included in indirect costs and organisational development. For example, is the executive director's salary part of programme costs or an administrative cost? Is a human resource manager's position a programme cost or an organisational development cost?

"When we say capacity building, I can't tell you the number of funders who think of capacity building as just programmatic training," says Gayatri Nair Lobo, chief operating officer at the A.T.E. Chandra Foundation. "They say, 'Oh, but we do fund capacity building.' And I respond, 'No, that's not what we're talking about. That's still programmatic funding. What about funding the capacity of the organisation itself, so that it grows or deepens its impact in a sustainable fashion?'"<sup>7</sup>

In addition, funder leaders who filled out the survey may not be on the same page with their programme staff who handle the day-to-day implementation of policy. "The same programme with the same leadership may be rolled out very differently based on the programme officer," explained a programme officer at a large international foundation. "The programme officer's role is more important than anyone else in the funder organisation, including leadership."

## Few Funders Help NGOs Build Reserves

Grants for cash reserves, or corpus, pose a challenge for funders and NGOs. Only seven of the 77 respondents to our funder survey said they support building NGO reserves. (See [Figure 3.](#)) This underscores the bleak picture of reserves that NGOs reported in our 2021 report. Before COVID, 40 percent had fewer than three months of cash on hand, a category we defined as "financially stressed." The pandemic ratcheted up that stress, leaving 54 percent of surveyed NGOs with fewer than three months of reserves by September 2020.

Reserves matter. Without cash on hand, NGOs cannot pay salaries or bills when faced with an unexpected funding shortfall, such as a funder's departure or financial difficulties caused by a natural disaster. Without reserves, NGOs often are unable to cover the cost of research and innovation to invest in their futures, expenses not typically included in programme funding. Thus, cash reserves are essential to an NGO's ability to withstand financial shortfalls and validate new opportunities.

Most funders are not constrained by legal barriers to contributing to grantees' reserves. Corporate social responsibility (CSR) programmes are an exception. CSR law bars companies from directing any funds to building a grantee's reserves.<sup>8</sup> (See "[Size impacts CSR grantmaking practices.](#)") However, funders across the board have the potential to more proactively track, and if possible, support the financial resilience of NGOs.

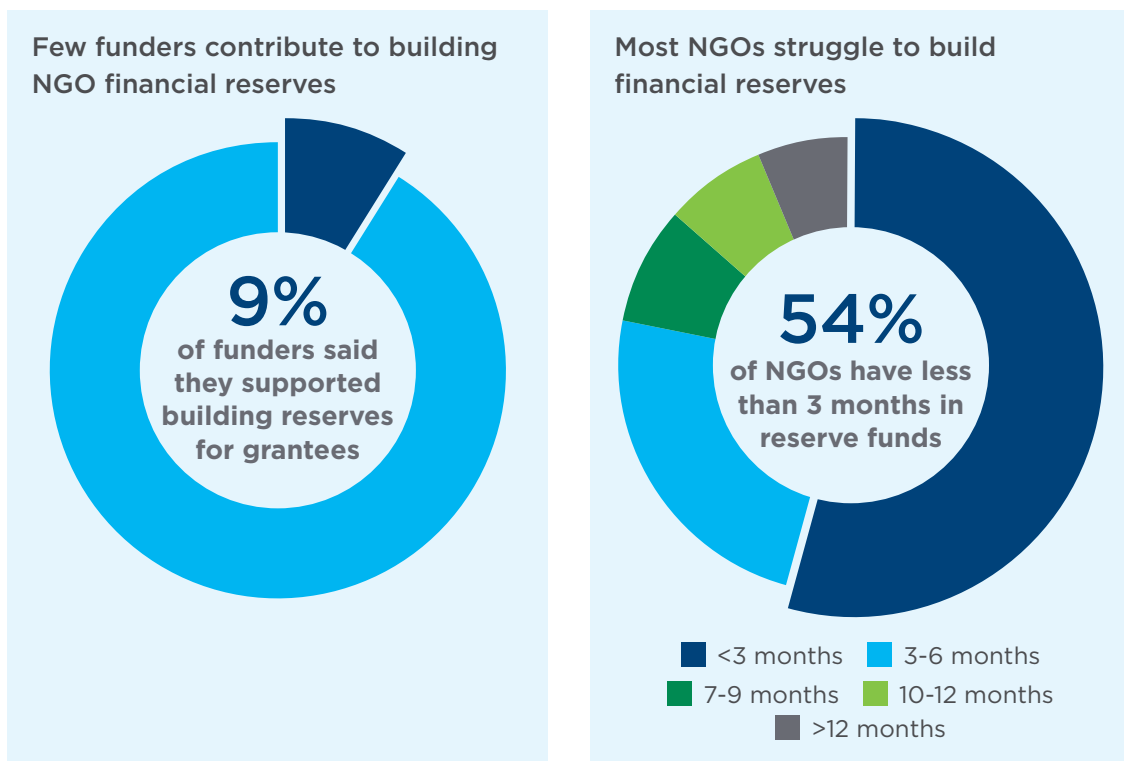
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7 GuideStar India awards Gold or Platinum certification to NGOs that make critical public disclosures to inspire trust needed for securing philanthropic support. During a recent due diligence review of 90 NGOs seeking Gold or Platinum certification, [GuideStar India](#) found that about 20 percent organisations needed capacity building support in three areas: governance disclosures; articulating mission, vision and impact; and disclosures in financials.

8 Government of India-Ministry of Corporate Affairs, "[Frequently Asked Questions \(FAQs\) on Corporate Social Responsibility \(CSR\)](#)," by Shobhit Srivastava, General Circular No. 14/2021, 25 August 2021.



**Figure 3: Funding NGO financial reserves is a low priority for a majority of funders**



**Source:** Bridgespan Group survey of 77 funders in India, October 2021–February 2022; Bridgespan Group survey of 388 NGOs in India, September 2020.

## Bringing Funders and NGOs Closer Together

An NGO’s true costs include its programmatic expenses, as well as investments in indirect costs, organisational development, and reserves. Most funders say their organisation’s policies and systems are not a barrier to true-cost funding, even as a third acknowledge that they do not have the right financial systems to track how money for indirect costs and organisational development is used.

Rather, a majority of funders say the biggest barrier to true-cost funding is that NGOs are not adequately prepared to explain why they need more indirect cost, organisational development, or reserve funding. Half of the funder survey respondents said that NGOs do not share accurate cost structures and organisational development needs. (See [Figure 4.](#)) Moreover, half agreed with the statement that NGOs don’t understand the benefits of investment in organisational development and don’t spend sufficient time on the topic.

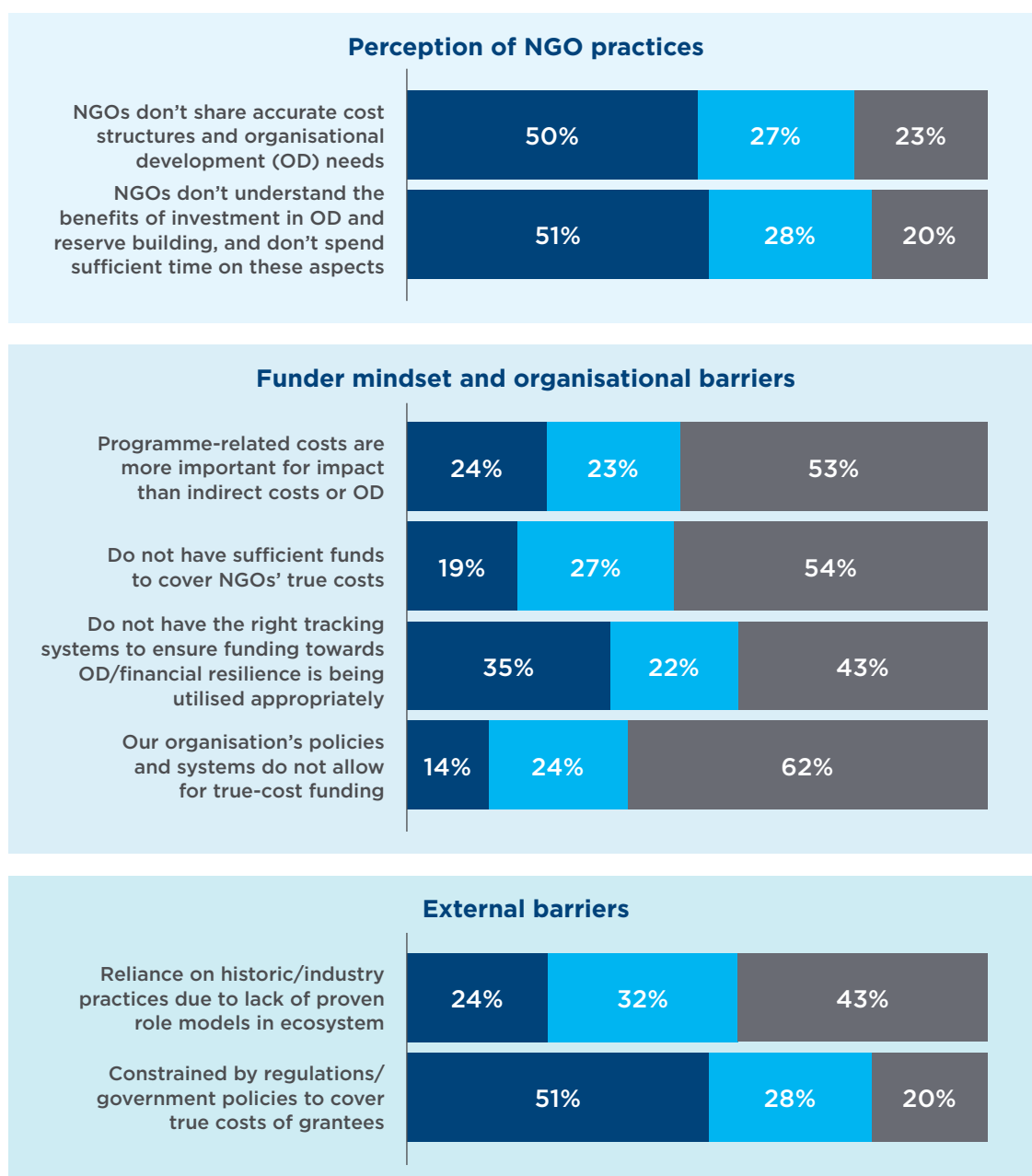
“NGOs may need to do more homework,” said Rohini Nilekani, chair of Rohini Nilekani Philanthropies. “They can sometimes be initially fuzzy about what they need,” she added. Siddhartha Iyer, manager of CSR for the ASK Group and head of the ASK Foundation, agreed: “NGOs need better articulation of their indirect cost and organisational development needs, with roadmaps on where they are, what they want to achieve, and what it takes to get that result.”

But funders can take the lead, said Nilekani: “We need to help nonprofits tell the story of why they need organisational development – how do they make an argument at the strategic level versus the generosity level.” To that end, her philanthropy often gives one-year learning grants to NGOs to build mutual trust and understanding about organisational development priorities.

### Figure 4: Funders identified NGO practices and regulatory compliance as the greatest barriers to true-cost funding

On a scale of 1 to 5, how strongly do you agree/disagree with the following statements regarding true-cost funding for grantees? (5-4) Agree; (3) Neutral; (2-1) Disagree

■ Agree ■ Neutral ■ Disagree



Source: Bridgespan Group survey of 77 funders, with 74 valid responses for this analysis, in India, October 2021-February 2022.

For their part, many NGOs would welcome funder support in telling their stories. They note the paradoxical situation they're in: they do not have the staff, evaluation skills, and financial resources needed to make the case for more indirect cost and organisational development funding.

NGO leaders also note that most funders approach grantees with a transactional mindset, meaning they are more interested in short-term programme results than in longer-term partnerships that emphasize building stronger, more resilient organisations. Moreover, few funders have written policies describing their approach to organisational development grants, leaving NGOs in the dark about whether and how to apply.

In response to such critiques, some funders see reason to change course. "There is a need for a mindset change on funders' part to be more transparent and communicate about their funding policies," said Vimmi Malhotra, the Children's Investment Fund Foundation's (CIFF) global director of organisational development. "It should not be that if NGOs don't ask, we will not provide. Funders should be invested in nonprofit resilience and sustainability."

Thus, the survey highlights an impasse: funders and NGOs cite the other party as the source of the true-cost funding gap.

To break the impasse, we reached out to five intermediary organisations – Dasra, Dhvani Foundation, Samhita, Sattva, and toolbox INDIA Foundation – about co-developing an organisational development toolkit to help funders and NGOs define and prioritise organisational development needs. All five intermediaries have experience working with NGOs on these issues and agreed to participate. (See "How to Build an Organizational Development Plan," which will be available on the [Bridgespan website](#) by July 2022. The toolkit is designed to help both parties communicate more clearly about what it takes to build strong organisations, laying the groundwork for mutual trust and understanding upon which to build a true partnership going forward.)

## The Gap Is Larger for DBA-led NGOs

Few NGOs are more chronically underfunded than those with leaders from the Dalit, Bahujan, and Adivasi (DBA) communities. Our 2021 NGO report found that 70 percent of DBA-led NGOs had no budget surpluses over the previous three years, and 60 percent had fewer than three months of reserves in September 2020 after the advent of COVID – significantly worse on both counts than non-DBA led NGOs.<sup>9</sup> This disparity between DBA-led and other NGOs reflects systemic barriers these organisations face as they seek philanthropic and CSR funding.

The barriers would be lower if funders collected information on NGO leadership teams. Only 5 percent of the funders responding to our survey's equity and inclusion questions said they track the leadership composition of grantee organisations serving marginalised communities. (See [Figure 5](#).) Nor did funders track whether grantee leadership has lived experience of the communities they serve. A growing body of global research supports the

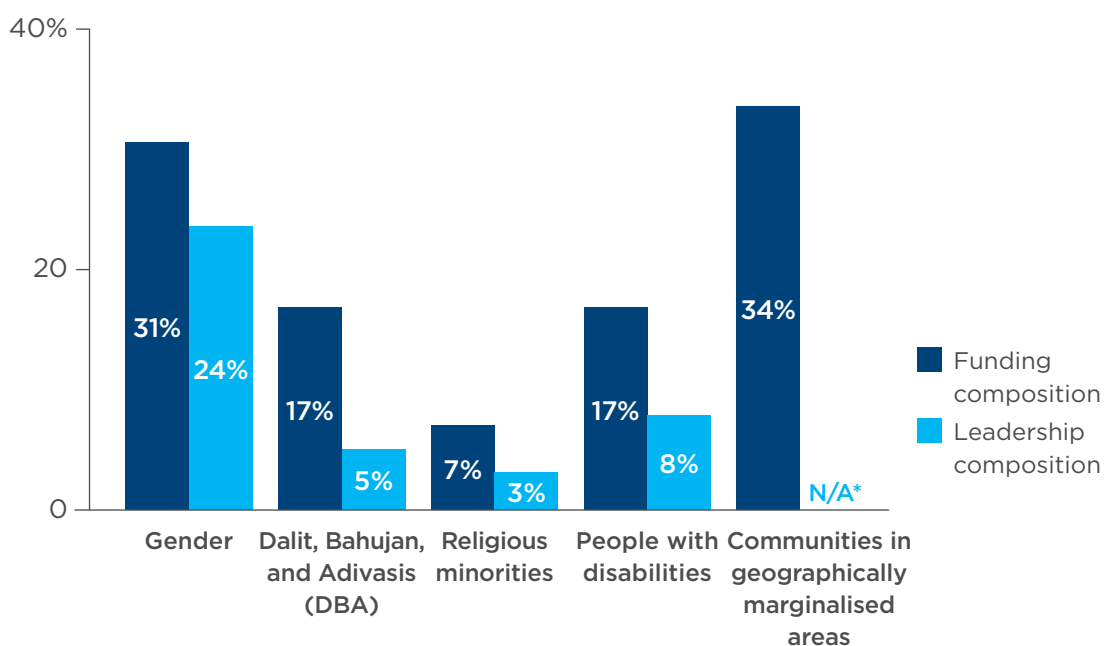
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9 Pritha Venkatachalam, et al., *Building Strong, Resilient NGOs in India: Time for New Funding Practices*.

importance of NGO leaders who live and breathe the day-to-day life of the communities they serve. Such leaders are best equipped to understand community issues and to help develop lasting solutions.<sup>10</sup> Hence, without data on NGO leadership, funders miss an opportunity to more closely align equity and inclusion intent with practice.

However, 60 percent of funders said they track the portion of funding going to NGOs serving at least one of five marginalised groups. Funders are most likely to track grants going to women and communities in geographically remote areas. Far fewer track funds flowing to people with disabilities and religious minorities. (See [Figure 5](#).)

**Figure 5: Funders vary on tracking the diversity of their portfolios**



\* Did not ask the question.

**Note:** Funders were asked the following questions on diversity and inclusion: Q1. Do you/does your organisation track the proportion of funding going to NGOs that support the equity and inclusion of the following marginalised populations? (Select all that apply) and Q2. Do you/does your organisation track the leadership team composition of your grantee organisations (NGOs) with respect to representation on the following dimensions? (Select all that apply).

**Source:** Bridgespan Group survey of 77 funders in India, October 2021–February 2022.

Even funders attuned to equity and inclusion issues acknowledge struggling to apply these principles in their work. Said Gayatri Nair Lobo, chief operating officer at A.T.E. Chandra Foundation, “We don’t practice tracking any DEI metrics very openly and honestly. We should, but we don’t. We primarily look at impact metrics.”

<sup>10</sup> Angela Jackson, John Kania, and Tulaine Montgomery, “[Effective Change Requires Proximate Leaders](#),” *Stanford Social Innovation Review*, 2 October 2020.

## Funders Operate with Three Distinct Mindsets

India’s philanthropic community is large and diverse, including high-net-worth individuals, CSR funders, Indian foundations, and international organisations.<sup>11</sup> Some are veterans at their work, others are relative newcomers. Some disburse large sums, others more modest amounts. Their circumstances, influences, and values steer their grantmaking decisions and practices in unique ways. Yet, when we parsed funders’ responses to questions about indirect costs and organisational development spending, we found they coalesced into three distinct funder archetypes: **Programme Proponents**, **Adaptive Funders**, and **Organisation Builders**. (See [Figure 6](#).)

**Figure 6: Perceptions of barriers to true-cost funding vary across funder archetypes**

| Emerging Archetypes  |  |  |
|--|--|--|
| ①<br>Programme Proponents  | ②<br>Adaptive Funders  | ③<br>Organisation Builders   |
| <b>Dominant belief</b>   |  |  |
| Programme funding produces the results I value most for my limited resources                       | I can adapt funding practices for select grantees to cover underfunded administrative and organisational expenses                    | I value the importance of funding administrative and organisational expenses of NGOs to maximise programme impact and organisational resilience    |
| <b>Current associated behaviour</b>  |  |  |
| Fixed indirect-cost rates between 5-15%; limited or no support for organisational development (OD) | Indirect-cost rates are flexible or between 15-25%; may fund OD in select cases if NGO partner can make a compelling case for impact | Indirect-cost rates exceed 25% or are determined in conversation with NGO partners; provide OD support; less than 10% support financial resilience |

**Source:** Bridgespan Group survey of 77 funders in India, October 2021–February 2022.

**Programme Proponents** do not see their role as supporting all facets of an organisation. They share a mindset that programme support is the best use of their limited resources. Most respondents in this category cite sector-wide historical funding practices as a model for their focus on programme funding. In addition, CSR funders, many of whom are Programme Proponents, cite regulatory compliance as a focus of their grantmaking policies – and for good reason. CSR law amendments enacted in 2021 subject a noncompliant company and its officers to substantial financial penalties.<sup>12</sup> In terms of practice, Programme

<sup>11</sup> For its part, the Indian government contributes more to the social sector annually than all philanthropy combined. The government allocated some Rs 17.16 lakh crore (\$220.32 billion) during financial year 2020-21.

<sup>12</sup> Michael R. Littenberg, Anuj Trivedi, and Anand Srivastava, “[India Substantially Revamps CSR Requirements - The Impact on Compliance at Indian Subsidiaries of U.S.-Based Multinationals](#),” Ropes & Gray/Link Legal, 26 July 2021.

Proponents limit what they pay for indirect costs to a fixed rate generally between 5 percent and 15 percent, less than half of what our 2020 research showed NGOs actually need to cover their indirect costs.<sup>13</sup> These funders contribute little or no money towards organisational development expenses or reserves.<sup>14</sup>

**Adaptive Funders**, the largest group amongst our survey respondents exercise some flexibility in their approach to grantmaking. This segment includes funders who have predetermined indirect-cost rates between 15 percent and 25 percent. They're not completely rigid in their grantmaking, however. Some negotiate bespoke rates based on conversations with grantees or provide grants to cover organisational development expenses based on their relationship with a particular grantee. The impetus for flexibility can come from several places. Sometimes, conversations with peer funders show the way. Others shift after getting clarification on what appeared to be a regulatory barrier, such as the mistaken belief that CSR law caps funding of grantee indirect costs at 5 percent. Perhaps most importantly, funders say that they recalibrate their thinking when NGOs present a persuasive pitch that links greater impact with more indirect cost and organisational development funding.

**Organisation Builders** see more value in financing organisational strength and resilience in addition to programmes. They think broadly about funding a mission, not just a programme or service. Nonetheless, they still expect grantees to make the case for indirect costs and organisational development. In terms of practice, these funders approach NGOs as partners and engage them in discussions about their needs, building mutual trust along the way. Most commit to multiyear funding in the belief that NGOs need the certainty of support to maximise their impact. Indirect-cost rates typically are determined in conversation with NGO leadership and might exceed 25 percent. These funders also provide specific types of organisational development funding based on NGO priorities. However, even amongst this group, only a small minority consistently help NGOs build their cash reserves.

The three archetypes of funders have different attitudes about true-cost funding. (See [Figure 7](#).) For example, when asked whether “programme costs are more important for creating impact than indirect costs,” 67 percent of Programme Proponents agreed, compared to 27 percent of Adaptive Funders, and only 13 percent of Organisation Builders. When asked whether they rely on historic funding practices that restrict indirect and organisational expenses, half of Programme Proponents said yes, compared to 27 percent of Adaptive Funders, and 16 percent of Organisation Builders.

Funders can make great contributions to social impact no matter which archetype best represents them. Our goal with the Pay-What-It-Takes India Initiative is to encourage funders to take a more supportive approach to paying NGOs' true costs, regardless of what drives their giving. For most, that begins with gradual steps to increase their understanding of, and support for, NGOs' indirect costs and organisational development. Two CSR funders illustrate different ways the transition process can play out.

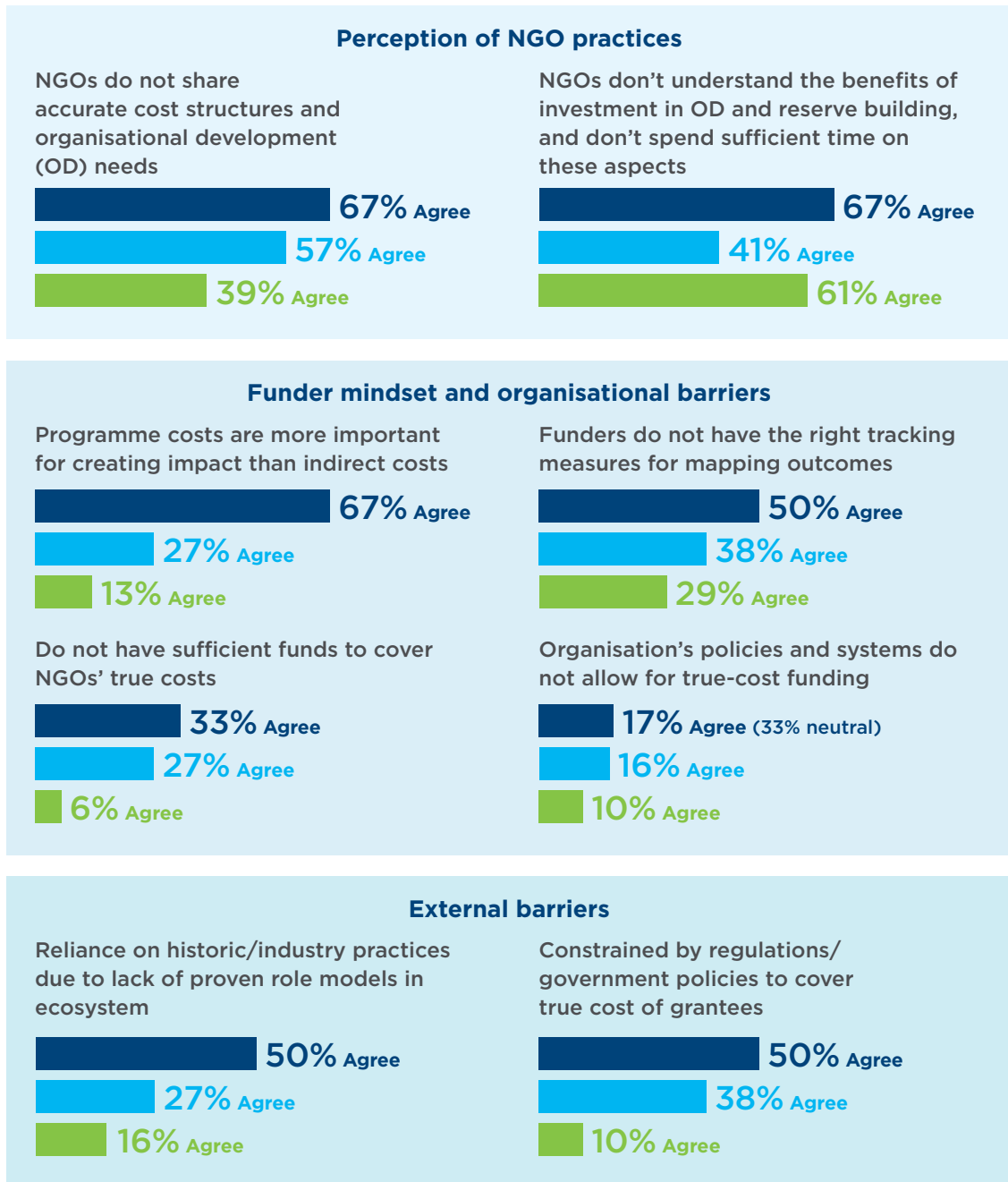
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13 Pritha Venkatachalam, et al., *Building Strong, Resilient NGOs in India: Time for New Funding Practices*.

14 Responses to the funder survey tilted towards funders attuned to true-cost funding principles. Hence the low number of Programme Proponent respondents. However, research has shown in India and elsewhere that programme funding is the dominant approach amongst funders. See Jeri Eckhart-Queenan, et al., “Five Foundations Address the ‘Starvation Cycle’.”

**Figure 7: Each funder has a different perception regarding barriers to true-cost funding**

■ Programme Proponents   ■ Adaptive Funders   ■ Organisation Builders



**Source:** Bridgespan Group survey of 74 funders in India, October 2021–February 2022.

The ASK Foundation, the CSR arm of ASK Group, focuses on rural development. Until about four years ago, the foundation favoured annual programme grants to multiple NGOs, limited indirect cost coverage to between 5 percent and 10 percent, and did not provide organisational development expenses. The foundation began to change its grantmaking practices after it adopted a multiyear approach to working with grantees. The new approach

opened the door to more support for indirect costs, upping the permissible amount to 20 percent after the CSR team presented examples and benchmarks of the higher rates paid by peer organisations. In fact, peer examples, including best practices, were important factors in getting board approval for supporting the nonprogrammatic costs of grantees at the ASK Group.

An India-based multinational corporation's CSR arm prioritises vocational training and improving quality of life for marginalised communities living in and around the districts where the company's manufacturing plants are located. Initially, the organisation's grants restricted support to NGO programmes. However, there was a growing recognition that grantees often require significant organisational development investments to fund growth initiatives that would lead to greater impact. Government contracts, which often account for half of a grantee's budget, did not include organisational development costs. Nor did most CSR budgets, including its own. Rather than limit its organisational development support to a percentage of programme grants, and to more fully meet grantees' needs, the CSR arm decided to separate organisational development grants from programme grants. Today, it has two tracks for grants: programme funding and organisational funding.

The transition to Organisation Builder happens when funders shed their tentative approach to true-cost funding. Thirty-one funders responding to our survey exhibited the mindset and practices of organisation building, although considerable variation exists within this group in terms of how they fund true costs. Actual practices reflect the unique circumstances of each organisation.

In an effort to accelerate funds flowing to organisational building, the EdelGive Foundation in 2021 led the formation of a collaboration with several other organisation builders to launch the Grassroots Resilience Ownership and Wellness (GROW) Fund. GROW plans to dispense Rs 100 crore (\$12.8 million)<sup>15</sup> to build the capabilities and financial strength of 100 growth-ready grassroots organisations. Each will receive a total of Rs 80 lakhs (\$102,714) over two years to support indirect costs, organisational development, and future readiness (i.e. reserves). EdelGive understood that funders acting alone would not have the impact of a joint effort by like-minded individuals and institutions. Today, GROW has 20 funders representing both domestic and international philanthropy.

Diversity, equity, and inclusion principles guided GROW's selection process. For example, the application was available in eight languages and advertised in 83 regional and national publications in India. More than 2,300 NGOs applied, aided by a dedicated, multilingual help desk set up to answer their queries. Those selected came equally from all four regions of the country and represented all major thematic areas. "I think purposeful inclusion is a responsibility for people like us," says EdelGive CEO Naghma Mulla. "We cannot assume inclusion in an environment where exclusion is so easy. That should be something that stands centrally about the way GROW has been planned."

Ultimately, the success of GROW will be measured by its impact. EdelGive made a commitment to GROW's funders to oversee a thorough assessment process to measure the impact of the initiative. "Collaborative work cannot be defined by how much money is being given," said Mulla. "It has to be defined by what it set out to do."

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<sup>15</sup> US dollars based on 21 June 2022 R to US currency exchange rate.



## Funder Archetypes Provide a Framework to Inspire Change

The three archetypes help to explain how funders differ in mindset and practice. Such knowledge has practical value to help guide conversations between funders and NGOs.

**For funders**, the archetypes provide a framework for how to talk with grantees about their grantmaking practices. Funders do their grantees a service by being clear upfront about what they will and will not support financially, and why. Further, funders could be candid with their grantees on their different motivations for giving and how they view impact.

The archetypes also give funders a framework for considering new ways of grantmaking. For those open to exploring change, we have found a three-step process to be helpful: **Reflect** on your current policies and how they may limit, or promote, the effectiveness of your grantees, giving particular consideration to DEI. **Reach out** to grantees and work with them to identify priorities for true-cost funding. A higher level of indirect-cost reimbursement, or a separate grant for a particular organisational development priority or for financial resilience might come into view. **Refine your** policies as needed, drawing on the experiences of peers that have already taken steps to help their grantees with indirect and organisational development expenses or with corpus for financial resilience. All these steps could benefit from a more explicit commitment to diversity, equity, and inclusion.

**For NGOs**, the archetypes can shape how they approach funders. (See our companion guide: "[Tips for Grant Pitches: Know Your Funder's Mindset.](#)") For instance, when pitching to a Programme Proponent funder, highlight how indirect costs and investment in organisational development improve or speed up the outcomes of the programme(s) a funder cares about. For an Adaptive Funder, present a clear assessment of indirect costs and organisational development needs, and link those expenditures to a strong rationale of how they contribute to long-term, sustainable impact for the organisation, not just for programmes. For Organisation Builder funders, come prepared to link support for true-cost needs to building a stronger, higher-impact organisation. Across all archetypes, track and communicate indicators of financial resilience (e.g. number of months of reserves, donor diversity, and size of operating surplus).

For both funders and NGOs, we hope the organisational development toolkit will facilitate collaborative journeys leading to more investments to improve NGOs' impact and sustainability. Based on survey results and our discussions with other sector intermediary organisations, the time is ripe for such guidance. Consider how exposed NGOs were when the pandemic spurred lockdowns across the country. Organisations became financially stressed at the precise moment when they were needed most as social supports. Funder support for financial resilience, currently negligible, would go a long way towards helping the social sector respond to the next crisis.

Many funders have already begun to adapt their grantmaking practices to invest not only in programmes, but also in strengthening the organisations that deliver them. Change often happens in cautious, incremental steps over years, reflecting the unique circumstances of each funder and NGO. The common thread across these approaches is that funders and NGOs engage in trust-building conversations that shift attitudes and practices, and are willing to learn and correct their course, as needed. Working together as long-term partners, funders and NGOs can build a stronger, more effective social sector.

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## Methodology

For this report on funder grantmaking policies and practices, in late 2021 and early 2022, we surveyed funders to gather detailed insights into their mindsets, policies, and practices related to true-cost funding. We wanted to compare funders' views about their grantmaking with those we gathered from 388 NGO leaders in a 2020 survey.

With the help of 10 outreach partners, we sent the survey to more than 300 funders – including high-net-worth individuals, institutional givers, international funders working in India, CSR organisations, and Indian philanthropies – and received 77 responses from 71 organisations (for six organisations, we received two distinct responses from different individuals). The results are self-reported and have not been independently validated or audited. Sample size, selection bias, low response rates from restrictive funders, and self-reporting bias may limit the accuracy of the data analysis.

To broaden our understanding of the topic and validate survey insights at our end, we interviewed 35 funders individually, conducted workshops with select funders and intermediaries, and presented PWIT research at sector conferences and roundtables (for example Dasra Philanthropy Week). The funders represented a diverse range of policies and practices on indirect cost funding and investment in organisational development. We also conducted interviews with representatives from eight NGOs and 10 intermediaries.

Based on funders' responses to questions about indirect costs and organisational development spending, we identified three segments, or archetypes, of funders that have distinct mindsets and approaches to grantmaking: **Programme Proponents**, **Adaptive Funders**, and **Organisation Builders**.

**Programme Proponents:** They provide fixed indirect-cost rates between 5 percent and 15 percent, and limited or no support for organisational development.

**Adaptive Funders:** They provide either flexible indirect-cost rates or fixed rates between 15 percent and 25 percent. They may fund organisational development in select cases if an NGO partner can make a compelling case for impact.

**Organisation builders:** They usually provide indirect-cost rates that exceed 25 percent or are determined in conversation with NGO partners. They also provide organisational development support to grantees. Less than 10 percent fund financial reserves.

Seven of the 77 survey respondents reported practices associated with Programme Proponents, 39 reported Adaptive Funder practices, and 31 reported Organisation Builder practices. We believe that the low response rate from restrictive funders resulted in underrepresentation of Programme Proponents. However, as stated above, we used follow-up conversations in individual and group settings to validate these archetypes and better understand the practices and policies associated with them.<sup>16</sup> We believe that insights derived from the segmentation provide funders and NGOs with helpful tips on how to work more collaboratively to build stronger and more resilient NGOs.

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<sup>16</sup> During our online session at Dasra Philanthropy Week 2022, for example, we asked participants to respond to an online survey to select which archetype best describes their policies and practices. Forty-seven percent of the 89 respondents, including funders, NGO leaders, and intermediaries, chose Programme Proponents as the archetype they most identified with, or best reflected their funders' policies.

## Size impacts CSR grantmaking practices

Mandated corporate social responsibility (CSR) spending in fiscal year 2021 is expected to hit Rs 23,665 crore (roughly \$3 billion), representing one quarter of all private giving in India – doubling since 2016. CSR's growing presence, however, masks the considerable diversity amongst participants. Roughly 90 percent are relatively small, unlisted companies. More than 70 percent spend less than Rs 50 lakhs annually (\$64,196) on CSR projects. Just 3 percent spend more than Rs 10 crore annually (\$1.28 million).<sup>17</sup>

What does this diversity mean when it comes to how CSR funds the indirect costs and organisational development expenses of grantees? Based on our research, a number of large businesses have dedicated CSR staff and resources to develop high-impact approaches to giving. Research by Bridgespan distilled what we learned into seven guidelines for others to follow, including focus on fewer NGOs and prioritise marginalised populations.<sup>18</sup>

Smaller companies, however, may not have a CSR staff or even a CSR committee. The head of CSR often is a senior leader in another function, such as HR director or corporate communications head. Sometimes the role even falls on the CEO.<sup>19</sup>

The 70 percent of companies that spend less than Rs 50 lakhs per year are not required to create a CSR committee. Without a committee, the board assumes the committee's role, which includes formulating an annual action plan that lists the CSR projects, implementation, and monitoring schedules.<sup>20</sup>

In most such cases, the CSR head and the board have little or no experience dealing with NGOs. Their attention is drawn towards what they already know, compliance and risk avoidance rather than social impact. Given uncertainty about annual profitability, annual grants are less risky for them than multiyear commitments. Hence the frequent criticism from NGOs that CSR funders are slow, bureaucratic, and unfamiliar with how NGOs function. Amendments to the CSR law enacted in 2021 upped the stakes for noncompliance. For the first time, a noncompliant company and its officers are subject to substantial financial penalties.<sup>21</sup>

As this research found, CSR programmes typically gravitate towards funding programmes, providing little or no support for indirect or organisational development expenditures. By law, CSR programmes cannot contribute to NGO reserves (corpus).

Moreover, misunderstandings about CSR rules present an additional obstacle to paying indirect and organisational development costs. Contrary to widespread belief, the 5 percent cap on “administrative overhead” costs only applies to the amount a business spends to run its internal CSR operation, not to a grantee's administrative costs. Nor are expenses for organisational development capped by the CSR law.

When it comes to the design of project budgets, “I don't think CSR laws are restrictive at all,” Dhruvi Shah, CEO of the Axis Bank Foundation, commented at a 2022 Dasra Philanthropy Week “Pay What It Takes for Impact” panel. “Our CSR funding is designed to support an institution's growth and build the capacity of the people who drive these institutions, be they NGOs, CSOs or community-based organizations. Supporting the capacity of the institutions and people

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17 Arpan Sheth, Radhika Sridharan, Neera Nundy, Pakzan Dastoor, and Prachi Pal, [India Philanthropy Report 2022](#), Dasra and Bain & Company, March 2022.

18 Soumitra Pandey, Shashank Rastogi, Hari Haran, Anushka Siddiqui, Jackson Tse, and Bradley Seeman, [Building High-Impact CSR Programs in India](#), The Bridgespan Group, April 2021.

19 Anushree Parekh, “[How CSR decisions get taken in India](#),” *The Times of India*, 18 June 2021.

20 Samheeta Rao, “[CSR Act amendments: All you need to know](#),” *The Times of India*, 30 April 2021.

21 Michael R. Littenberg et al., “[India Substantially Revamps CSR Requirements - The Impact on Compliance at Indian Subsidiaries of U.S.-Based Multinationals](#),” 26 July 2021.

that deliver impact shouldn't be classified as nonprogrammatic funds." She cautioned, however, that NGOs have a responsibility to know their true costs and negotiate accordingly. "The majority of the time, they don't know what their real costs are."

Small CSR funders in particular may find helpful guidance in the [Frequently Asked Questions \(FAQ\) on Corporate Social Responsibility](#) issued by the Ministry of Corporate Affairs in August 2021. For example, CSR programmes with small budgets don't have to act alone. CSR rules enable companies to pool resources with other CSR programmes. Nor must companies carry out their CSR activities in their local areas. "The preference to local area in the Act is only directory and not mandatory in nature," states the FAQ. CSR programmes also can make multiyear grants not exceeding three years, excluding the year of commencement.<sup>22</sup>

Just as a number of CSR funders have developed high-impact programmes, many other CSR funders can do the same. "Funders will have to make the first move," says Axis Bank Foundation's Shah. "But responsibility also lies with the NGOs. Change is required on both sides. If you do not collaborate, if you don't work together, it [current restrictive funding practice] is not going to change."

## Appendix

### Acknowledgements

We are deeply grateful to all the funder organisations and stakeholders that participated in this research project. We also thank the NGO leaders, social sector influencers, and service providers who helped us understand the challenges NGOs face in securing true-cost funding.





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<sup>22</sup> Ministry of Corporate Affairs General Circular No. 14/2021.

## Anchor partners in the Pay-What-It-Takes India Initiative

| Name & Logo   | Organisation description   |
|---|--|
| <p><b>A.T.E Chandra Foundation (ATECF)</b></p>               | <p>One of India's leading philanthropic foundations, it works with a strategic problem-solving approach to address social issues in two core verticals:</p> <p>A. Social Sector Capacity Building - ATECF makes high-multiplier investments broadly serving the sector by being one of the largest sponsors of leadership development programmes for NGOs; investing in helping a range of organisations build their core capability; disseminating learnings for the greater benefit of the sector; and investing in systemically important organisations and movements.</p> <p>B. Sustainable Rural Development - ATECF combines data and people-driven approaches to create templates for solving problems in rural India at scale by anchoring one of the largest water-for-farmers initiatives via rejuvenation of water bodies and propagating natural farming to enhance marginal farmer incomes.</p>   |
| <p><b>Children's Investment Fund Foundation (CIFF)</b></p>  | <p>CIFF is the world's largest philanthropy that focuses specifically on improving children's lives. CIFF has offices in Addis Ababa, Beijing, London, Nairobi, and New Delhi. It works with partners to tackle challenges across child health and development, climate change, sexual reproductive health and child protection aiming to play a catalytic role as a funder and influencer to deliver urgent and systemic change at scale. CIFF supports grantees' organisational development needs across all programme areas.</p>  |
| <p><b>EdelGive Foundation</b></p>                          | <p>EdelGive Foundation is a philanthropic asset management organisation helping build and expand philanthropy in India by funding and supporting the growth of small to mid-sized grassroots NGOs committed to empowering vulnerable children, women, and communities. This approach has enabled the Foundation to be a go-to partner of choice for Indian and foreign funders wanting to engage with the Indian development ecosystem.</p> <p>EdelGive's unique philanthropic model places them at the centre of grantmaking, by providing initial grants and managing funding from other institutional and corporate partners. Consequently, today, EdelGive functions as a Philanthropic Fund Manager and Advisor between grantmakers and credible NGOs. Their grants are used towards both the financial and non-financial needs of the organisations they support. Apart from adding capacity and scale, grants are used towards building the operating capabilities of NGOs.</p> |
| <p><b>Ford Foundation</b></p>                              | <p>The Ford Foundation has been working in India since 1952. Over the past 60 years, it has made more than 3,500 grants in the region, totaling more than \$508 million to nearly 1,250 diverse institutions. It partners with India's government, universities, charitable sector, and civil society, as well as the many South Asian regional organisations with whom it works.</p>  |

We would like to thank the many representatives of the 53<sup>23</sup> organisations we interviewed for their contributions to this report. Without their input, this research would not have been possible.

| No. | Funders                                      | No. | Funders   |
|-----|--|-----|---|
| 1   | Ashish Dhawan                                | 16  | Godrej  |
| 2   | ASK Foundation                               | 17  | HCL Foundation                                    |
| 3   | A.T.E Chandra Foundation (ATECF)             | 18  | HDFC Bank   |
| 4   | Axis Bank Foundation                         | 19  | Healthium Medtech*                                |
| 5   | Bahaar Foundation                            | 20  | Hindustan Unilever Foundation (HUF)               |
| 6   | Bill & Melinda Gates Foundation (BMGF)       | 21  | IIFL Wealth Ltd                                   |
| 7   | British Asian Trust                          | 22  | LGT Venture Philanthropy                          |
| 8   | Caring Friends                               | 23  | MacArthur Foundation                              |
| 9   | Children's Investment Fund Foundation (CIFF) | 24  | Mahajan Imaging*                                  |
| 10  | Dr Lal Path Labs*                            | 25  | Rohini Nilekani Philanthropies                    |
| 11  | EdelGive Foundation                          | 26  | Oak Foundation                                    |
| 12  | Forbes Foundation                            | 27  | Omidyar Network India (ONI)                       |
| 13  | Ford Foundation                              | 28  | Shiv Nadar Foundation                             |
| 14  | GE Healthcare                                | 29  | Tata Steel Foundation                             |
| 15  | Givaudan India Pvt Ltd                       |     |   |
| No. | NGOs   | No. | Intermediaries                                    |
| 1   | Arpan  | 1   | Accelerate India Philanthropy                     |
| 2   | Child In Need Institute (CINI)               | 2   | Atma  |
| 3   | CORO   | 3   | ASPIRe (an Ashoka & Societal Platform Initiative) |
| 4   | Janaagraha                                   | 4   | Confederation of Indian Industry (CII)            |
| 5   | Kaivalya Education Foundation                | 5   | Dasra   |
| 6   | Masoom                                       | 6   | Dhwani Foundation                                 |
| 7   | Vidhi Legal Policy                           | 7   | Saathi Re   |
| 8   | 17000 ft Foundation                          | 8   | Samhita Social Ventures                           |
|     |  | 9   | Sattva  |
|     |  | 10  | toolbox INDIA Foundation                          |

\*These interviews were conducted in conjunction with another Bridgespan project on CSR best practices.

23 Six organisations have requested to remain anonymous; their names are not mentioned in the acknowledgement section.

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