The Bridgespan Group

Building Strong, Resilient NGOs in India: Time for New Funding Practices

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Collaborating to accelerate social impact

March 2021

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Cover photo: Daily village meeting facilitated by Adhikar Sakhies of Ibtada in Alwar. Credit: EdelGive Foundation

Messages from the Anchor Partners

This report is the product of a newly launched, multiyear Pay-What-It-Takes (PWIT) India Initiative committed to building stronger, more financially resilient NGOs. The initiative is led by The Bridgespan Group and the 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. Each partner believes strongly in the importance of better understanding true costs and approached the initiative from a different perspective.

"Funders must build strong and meaningful partnerships with their NGOs to understand and support the true cost of delivering impact. This research will help peel back the layers underneath the illusion that there is sufficient unrestricted funding for NGOs enabling them to build for sustainability. With the PWIT initiative, each donor should take a step forward in strengthening organizations' core capacities so that they can solve big problems in the country."

A.T.E. Chandra Foundation

"As a private philanthropy focused on systemic change, we are committed to building a thriving ecosystem of partners in line with our strategic and geographical priorities across sub-Saharan Africa, India, China, Europe, and Latin America. Following the development of our organizational development strategy in 2019, CIFF aims to strengthen the institutional capacity of our grantee partners to implement programs, increase their resilience and long-term impact. Understanding the true cost of grantee support functions and creating sustainable funding models is key to this agenda. The Pay-What-It-Takes initiative provides a unique opportunity to help generate the evidence required across a wide range of NGOs and sectors to build a movement that encourages funders to pay their fair share."

Children's Investment Fund Foundation

"As funders, it is our responsibility to enable the creation of self-sufficient growth for the organizations that we support. In the current context particularly, this need is even more significant as operational hindrances have appeared to be one of the main challenges that organizations have faced in the pandemic. Through the Pay-What-It-Takes (PWIT) initiative, we are making a collective attempt to find solutions to these challenges and create sustainable growth for grassroots organizations. The only way to do this efficiently, is to directly hear from them, understand their priorities, and enable flexibility to be able to fund their immediate needs. We are certain through PWIT we will be able to start a needed initiative to look beyond financial support to programs, toward building resilience for organizations."

EdelGive Foundation

“Financial resilience is at the core of strong, sustainable organizations. The COVID-19 pandemic has exposed this fragility in Indian civil society organizations (CSOs). Ford Foundation continues to remain committed to strengthening CSOs for improved sustainability and deeper impact. Working together with several donors, we are delighted to partner with the Pay-What-It-Takes initiative in our common goal to understand the sources of financial fragility among Indian CSOs. Through this effort, we hope to create an enabling ecosystem that values and nurtures institutional strengthening of CSOs.”

Ford Foundation

“Nonprofits in India often play a critical role in providing missing sectoral infrastructure, as well as grassroots support and innovation. Our approach to supporting nonprofits at Omidyar Network India ranges from providing specific program-related and project-focused grants to supporting our partner organizations with flexible, unrestricted grants. The latter, referred to as “core grants,” are a way for our grantees to build organizational capability in addition to achieving specific project outcomes. We believe that it is important for other funders as well to follow similar practices in order to help nonprofits achieve their full potential. We are therefore excited to partner with The Bridgespan Group and other funders to understand the current state of practice and the steps that can be taken to improve current practices in the sector.”

Omidyar Network India

Executive Summary

Chronic underfunding of India's nongovernmental organizations (NGOs) acts as a brake on their ability to grow programs to reach more communities and individuals in need. New research from The Bridgespan Group describes the magnitude of what one NGO leader called "systemic deprivation." The research concludes that Indian funders broadly share practices that inadequately fund NGOs' true costs, rendering the sector perpetually subscale.

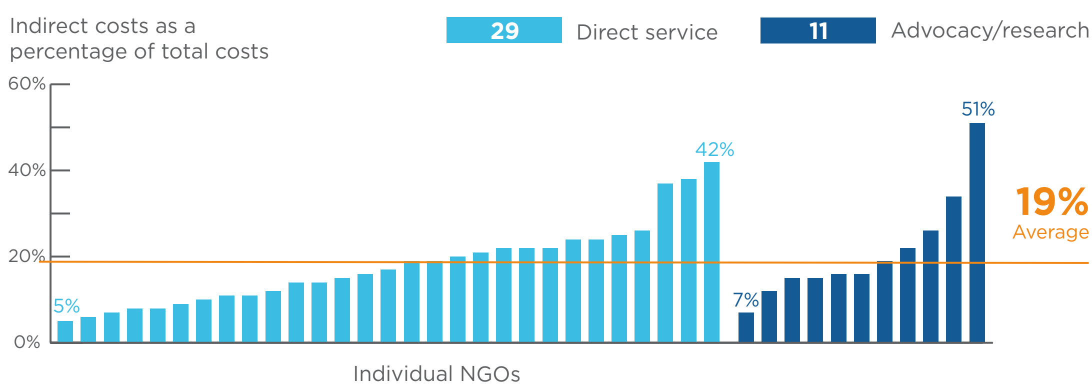
For the most part, funders prefer to write checks for program support, leaving critical nonprogram-related expenses underfunded. Those include indirect costs associated with shared administrative or support functions, capacity building expenses associated with organizational growth, and reserves needed to sustain the organization in times of revenue shortfall or unforeseen shocks. Several stakeholders described the typical funder mindset as anything that goes outside of program costs does not contribute to impact.

Advocates for change have been hindered by what one Indian funder called "a serious shortage of evidence." To address this shortage, Bridgespan conducted a survey of 388 NGOs representative of the sector, and a financial analysis of 40 leading and relatively well-funded NGOs. Our research revealed a clear pattern of chronic underfunding leading to severe financial stress.

- The financial analysis confirmed what we have found in similar US studies: **no single indirect-cost rate fits all NGOs**.[1] Indirect costs ranged from 5 percent to 51 percent of total NGO costs.

Actual indirect costs as a percentage of total costs

Bridgespan analyzed expenditures of 40 NGOs in India. Their actual indirect costs ranged from 5 percent to 51 percent.



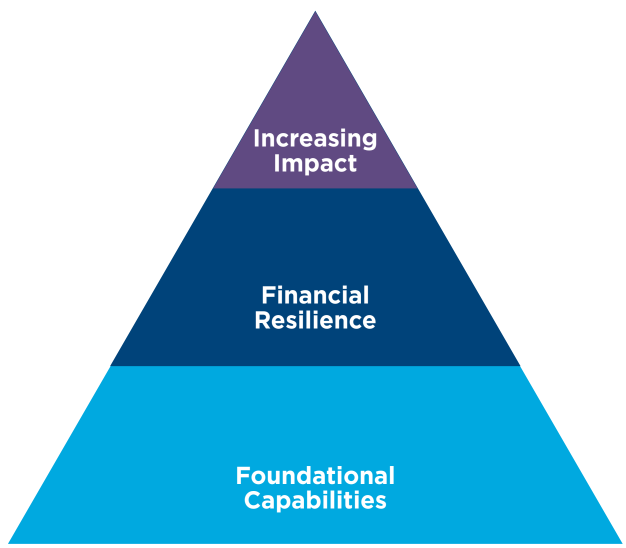
Source: Financial analysis of 40 NGOs in India.

1 KPMG in India provided support for this analysis for the limited purpose of assisting The Bridgespan Group in analyzing data provided by the 40 NGOs to derive insights pertaining to their funding. The analysis should not be construed as an audit or validation of cost structures of any of the NGOs covered in this project.

- Eighty-three percent of survey respondents reported struggling to secure coverage of indirect costs.
- More than half of the survey respondents reported having fewer than three months of reserves.
- Half of survey respondents reported no operating surplus for the past three years.
- While our research shows that NGOs investing in organizational development are able to scale impact faster, only 18 percent of the survey respondents said they invest adequately in organizational development.
- Certain NGOs face greater challenges than most. For instance, 70 percent of NGOs led by members of the Dalit, Bahujan, or Adivasi (DBA) communities have not reported any operating surplus in the past three years, compared to 45 percent for non-DBA-led NGOs.
- Sixty-one percent non-metro and rural NGOs reported fewer than three months of financial reserves, compared to 51 percent of NGOs based in eight major cities.

Changing the practices that lead to these results requires a different approach to grantmaking. In search of a solution that supports both strong programs *and* strong organizations, Bridgespan developed with the Ford Foundation a simple Grantmaking Pyramid that reframes how funders and their grantees can think about building successful, resilient organizations. Like the pyramids of old, this one rests on a sturdy foundation that builds upward toward an impact goal. First, NGOs need to build strong foundational capabilities, such as strategic planning and leadership development. Second, NGOs need financial resilience that comes from accumulating unrestricted reserves. Third, NGOs need to scale the reach, effectiveness, and impact of their programs.

The Grantmaking Pyramid



Source: The Bridgespan Group

The Grantmaking Pyramid has the potential to broaden conversations between funders and NGOs about true costs and adequate funding. Based on our India and global experiences, and drawing on our interviews with sector leaders, we have distilled four recommendations that draw on the Grantmaking Pyramid and hold promise to set funders and NGOs on a new path.

- **Develop multiyear funder-NGO partnerships:** A commitment to longer-term partnerships based on aligned objectives builds greater mutual trust between NGOs and funders. As a result, both can focus on all the elements required to deliver higher impact.

- **Close the indirect-cost funding gap:** NGOs can facilitate adequate funding by clearly communicating and engaging funders in conversations about their indirect-cost needs. Funders can respond by not relying on low, fixed indirect-cost rates.
- **Invest in organizational development:** For NGOs to grow, they must invest in organizational development, such as strategic planning, leadership development, and technology infrastructure. Funders can communicate to grantees that they understand the importance of building strong organizations and are willing to provide needed financial and non-financial support.
- **Build financial reserves:** When feasible, funders can encourage grantees to accumulate operating surpluses that can be used to build reserves. And NGOs need to help funders understand the importance of generating surplus and raising reserve funds (e.g., from high-net-worth individuals) to build financial resilience.

With so much to do, and so much at stake, it is understandable for a funder to feel overwhelmed and uncertain about where to start. We suggest three immediate actions. Right away, **reach out** to grantees and understand their true funding needs. Simultaneously, **reflect** on your own policies and how they contribute to chronic underfunding. And resolve to **refine** those policies as needed to advance change, drawing on the experience of peers that have already committed to investments in nonprogram costs and organizational development of NGOs.

Chronic underfunding undermines the very impact funders and NGOs strive for. This is a complex, systemic issue, and all stakeholders need to work together to solve it. The evidence in hand argues that it is time for funders to act—to partner with NGOs and provide them the resources they need to build the organizational strength and financial resilience to help solve some of society's most pressing problems. The status quo serves no one well.

Introduction

Quality Education Support Trust (better known as QUEST) has been on a 13-year journey from grassroots start-up to successful purveyor of educational enrichment experiences to more than 260,000 underserved children.

Along the way, its leaders gained an unexpected education of their own on how to build a strong, resilient non-governmental organization (NGO).

From the start, QUEST's founders excelled at developing programs to strengthen public education through professional development of teachers and educators. But they struggled when the time came to develop and fund organizational infrastructure and financial health.

"We took a long time to even realize that organizational development costs exist," recalled Nilesh Nimkar, a QUEST director and trustee. As a start-up, QUEST's motivated staff put in long hours and took on multiple tasks to launch successful programs. The need for capacity building, such as in human resources, finance, technology, and measurement, only became clear as QUEST began to expand. But funders focused on program support showed little interest in fully funding nonprogram expenses, such as indirect costs associated with administrative or support functions, capacity building investments in the organization's growth, or financial reserves to weather a funding shortfall. (See "Definitions" sidebar.) "As you start growing, your organizational costs become a big barrier to scaling impact," said Nimkar.

Funders typically offered QUEST between 5 percent and 10 percent of grant funding to cover nonprogram expenditures, even though QUEST conservatively estimated it needed at least 18 percent. "That's the cost that we actually incurred, but we never got it from any funder. And when we tried to negotiate for it, they recognized the need but said no because they were bound by internal policies," said Nimkar. Building a reserve fund posed even greater difficulty. NGOs

Definitions

- **Direct Costs:** Expenses directly attributable to a specific project, and also referred to as program costs or program-related expenses.
- **Indirect costs:** Shared administrative or support function expenses not tied to a specific program (e.g., salaries of nonprogram employees, rent and electricity for central office, and central technology costs). Indirect costs and nonprogram costs have been used interchangeably for the purpose of this report.
- **Indirect-cost rate:** Indirect costs divided by total costs, expressed as a percentage.
- **Organizational development:** Investment in critical institutional growth areas such as strategic planning, leadership and talent development, fund-raising, monitoring and evaluation, technology, and financial resilience, among others. Organizational development can overlap with indirect or nonprogram costs. For instance, an initial organizational development investment in technology could become a recurring nonprogram expenditure in subsequent years.
- **True costs:** Include indirect costs, organizational development costs, and reserve funding, along with direct program costs.
- **Financial resilience:** The long-term financial stability of NGOs, cultivated through prudent and long-term financial planning, diversification of funder base, proactive monitoring of financial performance, and creation of reserve funds.

(which we are using synonymously with "nonprofit organizations," as they are known in some countries) find it almost impossible due to restrictions on foundation giving and pervasive misunderstanding about funding rules among corporate social responsibility (CSR) donors, he added.[2] Without reserves, however, NGOs cannot withstand unexpected shortfalls in funding—as many experienced when COVID-19 began to spread in 2020.

Fortunately for QUEST, key funders stepped up before it became a problem to support its organizational development needs as it deployed programs for tribal and rural schools, teachers, and other educators across 24 districts in Maharashtra. But QUEST's frustrating experience in securing nonprogram funding will sound familiar to most NGOs across India. "There is almost systematic deprivation of NGOs in terms of funding management costs," said Anant Bhagwati, director of capacity building at Dasra. Several stakeholders described the typical funder mindset as anything that goes outside of program costs does not contribute to impact.

> "As you start growing, your organizational costs become a big barrier to scaling impact."
>
> NILESH NIMKAR, DIRECTOR AND TRUSTEE, QUEST

That mindset is due for a refresh. Without sufficient nonprogram funding, it is no wonder that NGOs are "perpetually subscale," as one NGO leader observed. Changing funding practices that have left so many NGOs unable to grow their impact will take time. We hope the survey and financial analysis data presented in this report provide the basis for funders and NGOs to take a fresh look at how to build not just strong programs, but resilient organizations that can deliver those programs most effectively.

2 The Indian Finance Act of 2017 introduced an amendment that restricts corpus (i.e., reserve fund) donations by one charitable organization to another.

What the Data Show

Chronic underfunding of nonprogram costs is a recognized problem that has attracted increasing attention in India and other countries. The issue centers on inadequate funding of indirect costs that pay for administrative expenses not directly tied to a specific program. It also includes lack of investment in organizational development and insufficient reserves. Domestic and international funders, social sector intermediaries and influencers, and NGOs have tried to solve different elements of this complex problem. Their work includes taking steps to develop standardized accounting practices and financial reporting norms for NGOs; providing toolkits and other guidance to funders and NGOs to stimulate honest and constructive conversations about all nonprogram costs; and supporting multiyear, unrestricted grants that can be used for organizational development and financial resilience.

However, advocates for change have been hindered by what one Indian funder called "a serious shortage of evidence." To address this shortage, The Bridgespan Group conducted a broad-based survey of 388 NGOs representative of the sector,[3] and a separate financial analysis of 40 leading and relatively well-funded NGOs.[4] Our survey and financial analysis mark the first stage of a newly launched, multiyear Pay-What-It-Takes (PWIT) India Initiative led by Bridgespan and 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. The partners have committed to collaborative action to literally pay what it takes to build stronger, more financially resilient NGOs. Our research revealed a clear pattern of the "systemic deprivation" that Bhagwati identified. For example:

- The financial analysis confirmed what we have found in similar US studies: **no single indirect-cost rate fits all NGOs**. Indirect costs ranged from 5 percent to 51 percent of total NGO costs. Yet 68 percent of grants that the 40 NGOs received over a three-year period allocated less than 10 percent for indirect costs.
- Eighty-three percent of survey respondents reported struggling to secure coverage of indirect costs.
- Only 18 percent of 388 survey respondents said they invest adequately in organizational development.
- Fifty-four percent of survey respondents reported fewer than three months of reserves.
- Certain NGOs face greater challenges than most. For instance, 70 percent of NGOs led by members of the Dalit, Bahujan, or Adivasi (DBA) communities have not reported any operating surplus in the past three years, compared to 45 percent for non-DBA-led NGOs.[5]

3 These NGOs spanned multiple sectors, including agriculture and rural development, education and child development, health and nutrition, human rights, and civil rights. Eighty-three percent of the surveyed NGOs had annual budgets of less than INR 10 crore.

4 KPMG in India provided support for this analysis for the limited purpose of assisting The Bridgespan Group in analyzing data provided by the 40 NGOs to derive insights pertaining to their funding. The analysis should not be construed as an audit or validation of cost structures of any of the NGOs covered in this project.

5 The Dalit, Bahujan, and Adivasi (DBA) communities in India have historically faced systemic socioeconomic discrimination. This classification strongly intersects with the formally recognized categories of Scheduled Castes (SC), Other Backward Castes (OBC), and Scheduled Tribes (ST).

- Sixty-one percent non-metro and rural NGOs reported fewer than three months of financial reserves, compared to 51 percent of NGOs based in eight major cities.

To be sure, government regulations also come into play. Corporates are required to make CSR donations, but CSR funders typically set low indirect-cost rates and neglect funding for organizational development and reserves. Some funders (e.g., charitable trusts) are barred from granting money for NGOs to build reserves, but others (e.g., high-net-worth individuals) are permitted to do so.[6] And the Foreign Contribution Regulation Act (FCRA) amendments in September 2020 cut by more than half (from 50 percent to 20 percent) the amount that foreign donors can give to cover an NGO's nonprogram costs.[7]

A small number of funders, including the five anchor partners of this initiative, already have committed to supporting the organizational development needs of their grantees and cultivating the mutual trust needed to underpin such funding. In addition, some NGO leaders we interviewed described how they have succeeded in covering nonprogram costs by clearly explaining to their funders how indirect costs, organizational development, and reserves are essential to their impact. Together, they are beginning to reframe conversations in the social sector about funding true costs.

6 Centre for Advancement of Philanthropy, "Finance Act 2017."

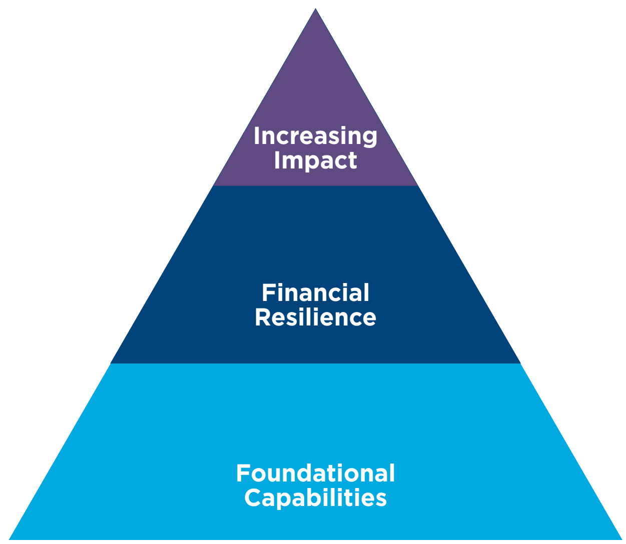
7 Puja Saha and Rahul Rishi, "FCRA Provisions Further Tightened, Non-profits to Face Increased Government Scrutiny," Nishith Desai Associates, September 25, 2020.

Reframing the Funding Conversation

A fresh look at funding practices starts with getting the complete picture of NGO expenditures. Prior Bridgespan research involving leading US NGOs offers lessons for their Indian counterparts.[8] Our work identified project grants, which represent over three-quarters of US foundation giving and nearly all government funding globally, as the source of chronic underfunding.[9] While project grants are an essential tool in philanthropy, they routinely discount the core administrative and operational costs of delivering programs and services. Thus project grants cover the direct costs of delivering a specific program, but they restrict indirect costs that pay for administrative expenses not directly tied to a specific program.

As a result, NGOs, whether in the United States or India, that succeed in landing more and bigger program grants often lack funding to build the organizational capabilities and financial resilience needed to maximize and sustain their impact. No one wins, least of all the communities that funders and NGOs intend to serve. In search of a solution that supports both strong programs and strong organizations, Bridgespan partnered with the Ford Foundation in 2017 to develop a simple Grantmaking Pyramid that reframes how funders and their grantees can think about building effective, resilient organizations. (See Figure 1.)

Figure 1. The Grantmaking Pyramid



Source: The Bridgespan Group

First, **NGOs need to build strong foundational capabilities**. This requires securing adequate funds to cover the actual costs of core functions, such as strategic planning, leadership development, information technology, staff training, and fundraising. In addition, each NGO has certain differentiating capabilities essential to fulfilling its mission. An advocacy organization, for example, requires excellence in strategic communications, and a medical research lab requires specialized facilities.

8 Jeri Eckhart-Queenan, Michael Etzel, and Julia Silverman, "Five Foundations Address the 'Starvation Cycle'," *The Chronicle of Philanthropy*, August 29, 2019.

9 Niki Jagpal and Kevin Laskowski, "The State of General Operating Support 2011," National Committee on Responsive Philanthropy, May 2013.

Second, **NGOs need financial resilience**. That means accumulating unrestricted reserves/operating surplus in the bank and having a diversified funder base. Without sufficient reserves, NGOs cannot sustain operations when funding falls short, as when a grant arrives later than expected (or not at all). Similarly, if an NGO relies on only one or two large funders, any significant cut in funding could jeopardize the NGO's ability to function.

Third, **NGOs need to scale the reach, effectiveness, and impact of their programs**. Programs are the public face of NGOs and the place where, understandably, funders and grantees focus most of their attention. Successful programs propel the growth that increases an NGO's impact. But without adequate foundational support for organizational development and financial health, programs falter and impact suffers. In short, chronically underfunded NGOs chronically underperform when it comes to solving some of society's most pressing problems.

The Grantmaking Pyramid has the potential to broaden conversations between funders and NGOs about true costs and adequate funding. Our NGO survey and financial analysis in India show a need for those conversations based on major gaps between actual need and widespread funding practices.

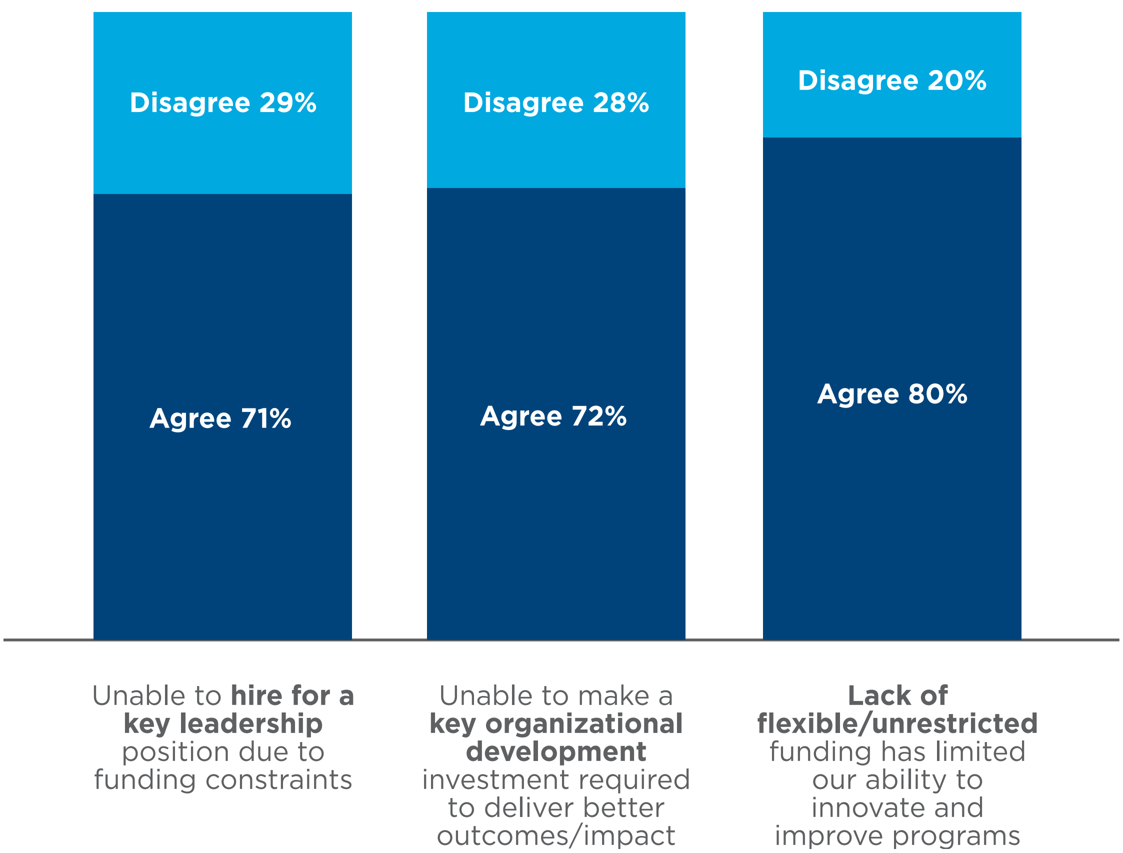
NGOs Need Funding for Organizational Strength

Our survey showed that NGOs rarely have enough money to invest in critical institutional capabilities, the base of the Grantmaking Pyramid. Only 18 percent of the 388 surveyed NGOs said they "invest sufficiently" in organizational development.

The impact of this shortfall plays out in a variety of ways. "We are starved for critical investments in key infrastructure, such as technology systems, leadership development, and facilities upkeep, among other things," said a survey respondent. "We don't have positions for support functions, such as fundraising, due to lack of resources," said another. Seven out of 10 respondents reported lack of funds to fill key leadership positions or make investments in essential capabilities. Eight out of 10 missed fundraising opportunities because they could not hire a development staff. (See Figure 2.)

> "We are starved for critical investments in key infrastructure, such as technology systems, leadership development, and facilities upkeep, among other things."
>
> NGO SURVEY RESPONDENT

Figure 2. Among 388 NGOs surveyed, most lacked sufficient funds for organizational development



Source: The Bridgespan Group survey of 388 NGOs in India, September 2020.

On the other hand, NGOs that reported "sufficient" spending on organizational development grew faster than those that came up short. When we compiled financial data on 20 survey participants, we found that NGOs intentionally investing in organizational development grew annual expenditures on average 15 percentage points more each year over a five-year period than NGOs that were not making those investments. The sample size is small, so the results are directional rather than definitive. But they certainly suggest that organizational development is important for an NGO to grow in size and impact.

To further explore the impact of organizational development spending, we analyzed data from the 40 NGOs that participated in our financial analysis. Most had invested in organizational development. But some were more focused; they explicitly linked capacity-building needs to their strategies and presented those needs to funders as essential for success. Our analysis showed that NGOs intentionally connecting organizational development to strategy outperformed those with a more informal or opportunistic approach, growing eight percentage points faster each year over five years. (See Appendix B for our methodology.) That can happen only when funders invest in organizational development.

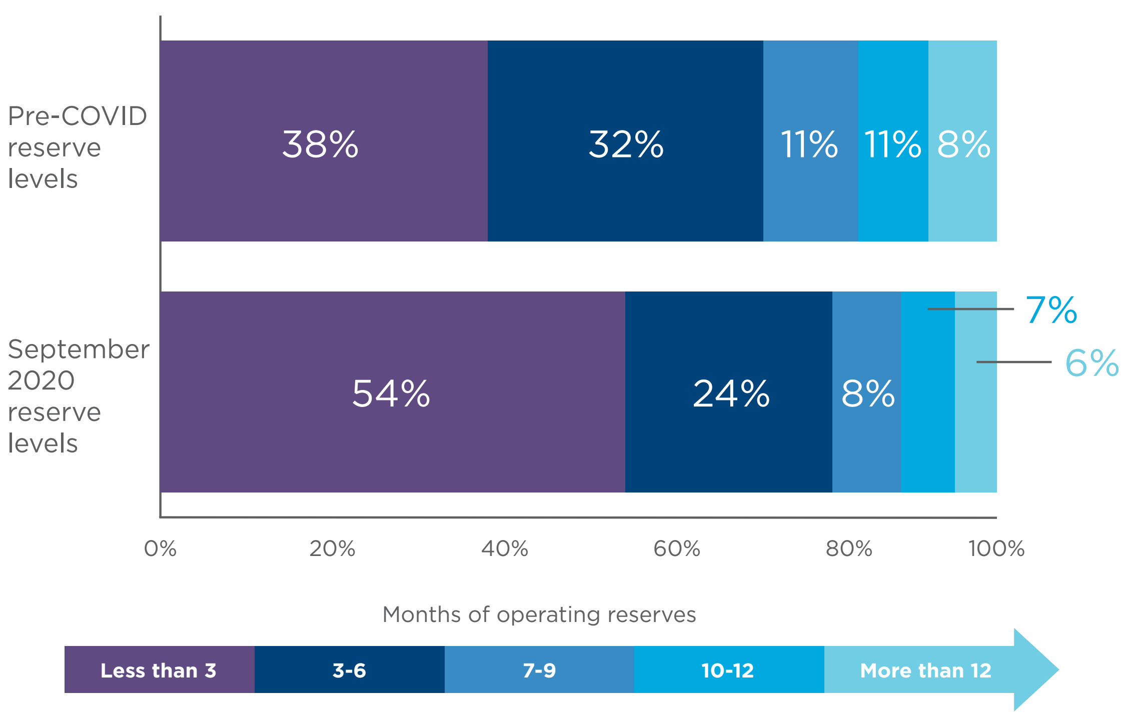
NGOs Struggle to Build Cash Reserves Needed for Financial Resilience

Our survey found that almost four out of 10 NGOs operate in a state of financial stress because they have little or no cash reserves on hand. Without reserves, they cannot pay salaries or bills when faced with an unexpected funding shortfall. Building cash reserves is essential to an NGO's financial resilience, the second tier of the Grantmaking Pyramid.

Our survey asked respondents for their experience with two key metrics of financial resilience: surplus or deficit reported on the income statement during the past three years, and months of operating reserves (liquid unrestricted net assets) to cover ongoing expenses. We consider NGOs with fewer than three months of operating reserves to be financially stressed.

Half of the 388 survey respondents reported no operating surplus for the past three years. Since surpluses are essential for building cash reserves, it came as no surprise that 38 percent of respondents fell into the stressed category with fewer than three months of cash on hand. "We do not have any corpus funds to help us in case of a shortfall," said one NGO leader, referring to operating reserve funds. "Small savings over the last decade can only help us manage one or two months." The COVID-19 pandemic that began sweeping around the globe the first quarter of 2020 only made matters worse. By September 2020, when we conducted the survey, 54 percent of NGOs landed in the financially stressed category. (See Figure 3.) Sixty-three percent of NGOs said some or all of their funders had reduced or cancelled planned commitments during the pandemic.

Figure 3. COVID-19 pandemic has drained NGO reserves

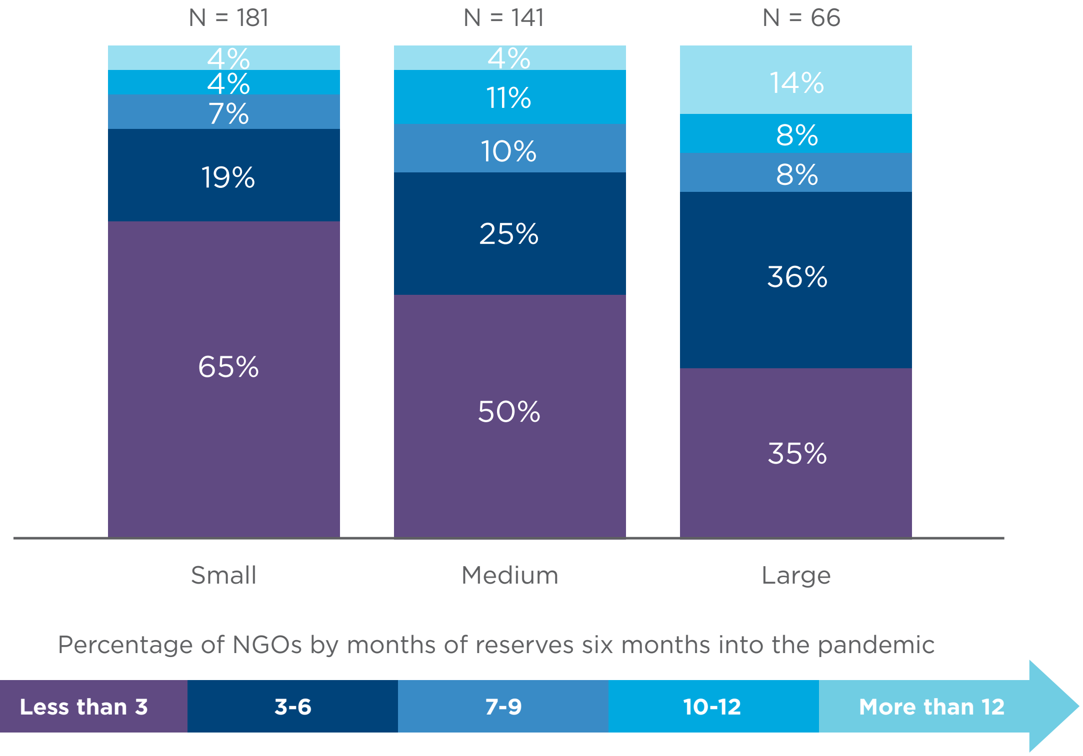


Note: Due to rounding, percentages may not always add up to 100%.

Source: The Bridgespan Group survey of 388 NGOs in India, September 2020.

The survey data also showed that small (less than INR 1 crore or USD 135,000 in annual expenditure) and medium-sized (INR 1–10 crore in annual expenditure) NGOs suffer the most financial stress; more than half had fewer than three months of reserves in September 2020. However, even the 66 large NGOs (over INR 10 crore or USD 1.4 million in annual expenditure) in our survey struggled financially.[10] (See Figure 4.) One in three of these large NGOs had fewer than three months of reserves in September 2020.

Figure 4. Most small NGOs are financially stressed, but over one-third of even the largest NGOs are stressed



Notes: Months of operating reserves is estimated as number of months that expenses can be covered using unrestricted reserves and other liquid assets. Small NGOs have less than INR 1 crore annual expenditure; medium NGOs have INR 1-10 crore annual expenditure; large NGOs have more than INR 10 crore annual expenditure. Reserve levels are as of September 2020. Due to rounding, percentages may not always add up to 100%.

Source: The Bridgespan Group survey of 388 NGOs, September 2020.

10 Only a small number of NGOs in India have a budget above INR 10 crore. A 2018 Bridgespan survey 949 NGOs in Guidestar India's database found that 85 percent had annual expenditures less than INR 5 crore.

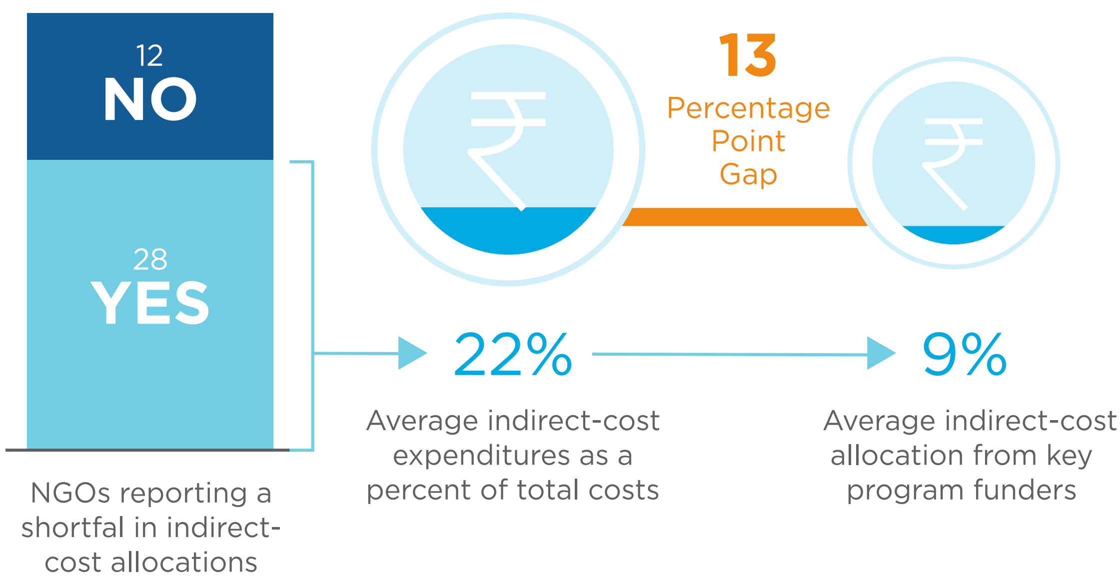
Program Grants Routinely Shortchange Essential Indirect Costs

NGOs propel impact on the strength of their programs, the peak of the Grantmaking Pyramid. Funders provide generous support to those programs through grants, yet grants come with strings attached that hamper NGOs' ability to pay for nonprogram expenses that build the base of the pyramid.

Following a nearly universal practice, funders award project grants that cover direct program costs but limit how much money can be used to pay for indirect costs. Moreover, different program funders have different definitions and policies with respect to indirect-cost coverage, which further complicates the lives of NGOs. These costs underpin day-to-day operations. Yet 83 percent of survey respondents reported struggling to secure coverage of indirect costs. When we analyzed the actual expenditures of 40 well-known NGOs, all with backing from leading funders, 28 faced a gap between the funding they got for indirect costs from program funders and what they actually spent. For the group facing this gap, the average indirect cost rate (total indirect costs expressed as a percentage of total costs) came to 22 percent, but major program funders on average paid for only 9 percent.[11] That left a gap of 13 percentage points between the actual indirect costs and average allocations from major program funders. (See Figure 5.) The funding gap is likely wider for NGOs that, unlike our sample organizations, do not have access to funders with the policies and practices that support indirect-cost funding.

Figure 5. Most NGOs face an indirect-cost shortfall

Twenty-eight of 40 NGOs reported a shortfall in indirect-cost allocations



Source: Financial analysis of 40 NGOs in India.

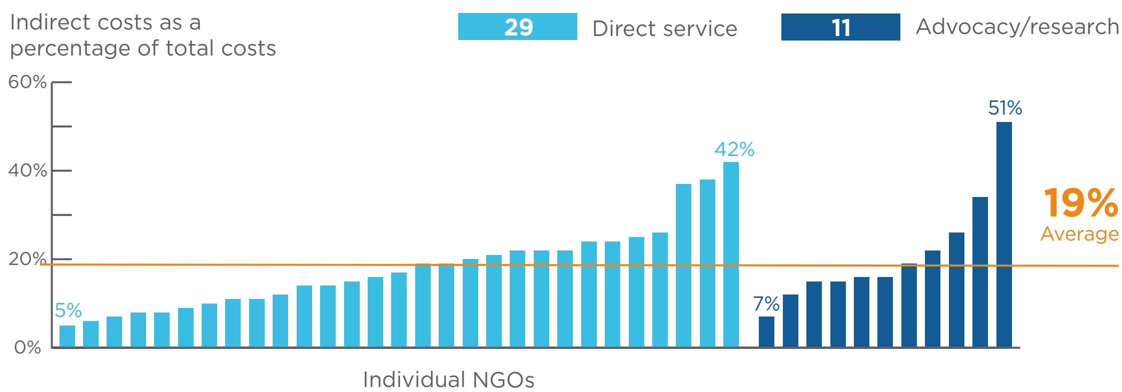
11 In the United States, the indirect-cost rate is commonly calculated by dividing indirect costs by direct costs; in India, the indirect-cost rate is calculated by dividing indirect costs by total costs.

NGOs also routinely underreport true indirect cost needs and spending, knowing that funders will not cover them. As a result, NGOs may end up underbudgeting and underreporting their indirect costs, and using flexible funding or earned income to cover the gap. Both approaches erode the prospects of growing impact over the long term. And they reinforce incorrect funder expectations about actual indirect costs.

While averages paint a broad picture of chronic underfunding, they mask an important story about individual differences. Here, our financial analysis confirmed what we have found in similar US studies: **no single indirect-cost rate fits all NGOs**. Among the 40 NGOs in our financial analysis, actual indirect costs ranged from 5 percent to 51 percent, and averaged 19 percent. (See Figure 6.) The 29 direct-service providers averaged 18 percent; the 11 research and advocacy groups averaged 21 percent. Yet 68 percent of program grants the NGOs received over a three-year period allocated less than 10 percent for indirect costs. Clearly, current funder practice does not pay what it takes to cover NGOs' true costs to build strong and financially resilient organizations. Moreover, within the funder community, those who underfund grantees' true costs put pressure on others to subsidize the shortfall.

Figure 6. Actual indirect costs as a percentage of total costs

Bridgespan analyzed expenditures of 40 NGOs in India. Their actual indirect costs ranged from 5 percent to 51 percent.



Source: Financial analysis of 40 NGOs in India.

Subsidies often manifest as unrestricted funds, a popular way for NGOs to close the indirect-cost funding gap. International and domestic funders[12] granted just over INR 112 crore in unrestricted funds to the 40 NGOs in our financial analysis over the past three years.[13] While substantial in aggregate, the total represents only about 15 percent of total grants received by them over the same period. For most NGOs, even that relatively small percentage contribution would be welcome. Among the 388 survey respondents, 80 percent said that lack of unrestricted funding has limited their ability to innovate and improve programs.

12 Domestic funders include, but are not limited to, philanthropic foundations, trusts, and high-net-worth individuals. It does not include CSR because CSR provided a negligible amount of unrestricted funding in the sample set.

13 Our financial analysis of 40 NGOs showed that international funders contributed INR 73 crore in unrestricted funding compared to INR 39 crore for domestic funders.

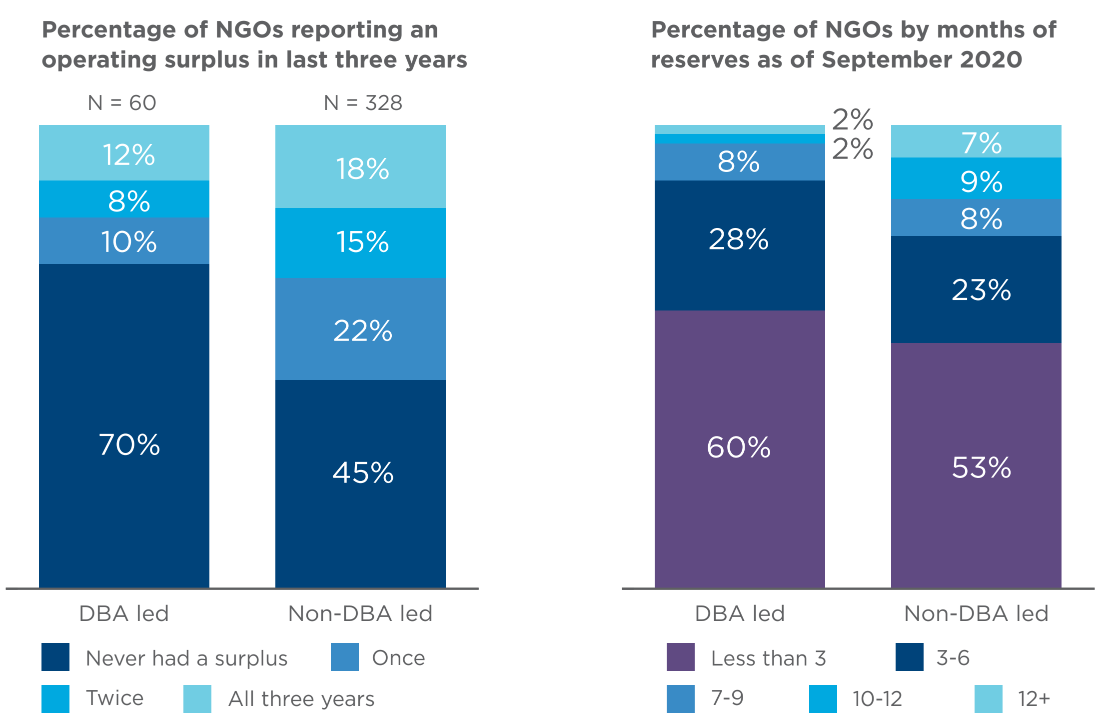
Systemic Underfunding Hurts DBA-led and Rural NGOs More than Others

No groups suffer more from foundational cracks in the Grantmaking Pyramid than those with leaders from Dalit, Bahujan, and Adivasi (DBA) communities and those located in non-metro or rural areas.[14] Our survey of 388 NGOs, while not fully representative, is striking in its implications and suggests an avenue for future research.

Sixty survey respondents identified as DBA-led NGOs. They are twice as likely to operate outside of the country's eight largest cities and have modest financial resources. Half reported annual budgets of less than INR 50 lakhs, compared to 30 percent among those with non-DBA leaders.

Fundraising poses a major challenge. Seventy percent of the DBA-led NGOs had no budget surpluses over the past three years, and 60 percent had fewer than three months of reserves in September 2020 after the advent of COVID-19—significantly worse on both counts than non-DBA led NGOs. (See Figure 7.)

Figure 7. DBA-led NGOs face higher financial stress than non-DBA-led NGOs



Notes: Months of operating reserves estimated as the number of months that expenses can be covered using unrestricted reserves and other liquid assets. Due to rounding, percentages may not always add up to 100%.

Source: The Bridgespan Group survey of 388 NGOs in India, September 2020.

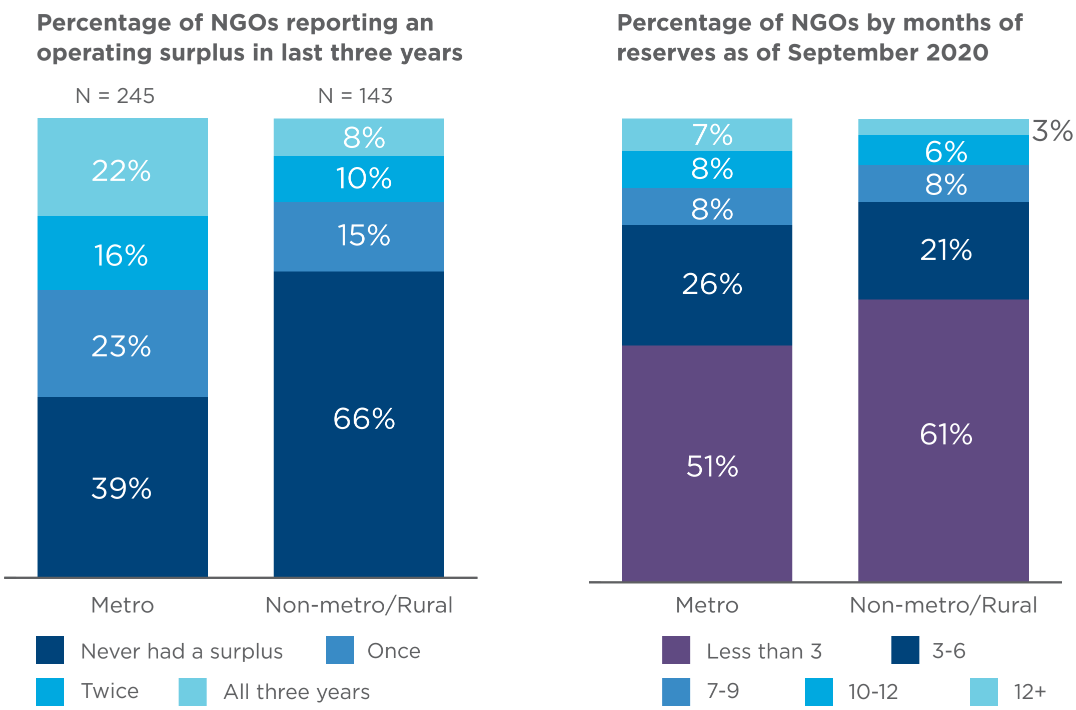
14 Eight metro cities were identified by Census 2011: Ahmedabad, Bangalore, Chennai, Delhi-NCR, Kolkata, Mumbai, Pune, and Hyderabad. All other cities, towns, villages have been considered non-metro or rural.

Sixty-two percent said they do not feel comfortable sharing true indirect costs with funders, compared to 35 percent of non-DBA led organizations. And 45 percent said that key funders lack trust in their ability to operate and spend on indirect-cost areas, compared to 33 percent for non-DBA led organizations.

We believe this disparity between DBA-led and other NGOs reflects systemic barriers these organizations face as they seek philanthropic and CSR funding. Overcoming those barriers starts by acknowledging caste realities. For example, culture and education-related factors such as differences in proficiency and comfort with English, and possible differences in life experiences compared to those making funding decisions, can cause challenges. Such differences could result in conscious or unconscious bias that might adversely affect funding decisions for DBA-led organizations.

Regardless of who leads the organization, location matters when it comes to an NGO's financial health. NGOs based in non-metro and rural areas struggle more to build financial resilience than their counterparts in metro areas. Among the 143 NGOs in our survey from non-metro and rural areas, 61 percent had fewer than three months of reserves in September 2020, compared to 51 percent for metro-based NGOs. Two-thirds of the non-metro and rural group reported no surpluses in the last three years, compared to 39 percent of metro-based NGOs. (See Figure 8.) This disparity reflects the practical difficulties of ensuring visibility and building trust and rapport with potential funders, most of whom are based in major cities many kilometers away. It also reflects limited networking opportunities for NGO leaders based outside the metro cities.

Figure 8. Non-metro and rural NGOs trail metro counterparts in financial resilience



Note: Months of operating reserves estimated as the number of months that expenses can be covered using unrestricted reserves and other liquid assets. Eight metro cities were identified by Census 2011: Ahmedabad, Bangalore, Chennai, Delhi-NCR, Kolkata, Mumbai, Pune, Hyderabad. All other cities, towns, villages have been considered non-metro or rural. Due to rounding, percentages may not always add up to 100%.

Source: The Bridgespan Group survey of 388 NGOs in India, September 2020

Four Steps to Building Strong and Resilient NGOs

Our survey and financial analysis paint a stark picture of NGOs suffering from financial stress created by funder-imposed limits on indirect costs, organizational development, and reserve allocations. It takes all three to build strong, sustainable organizations. Yet, funders choose to focus narrowly on programs. NGOs go along, convinced that asking for more is fruitless or may, in fact, create a negative image of their efficiency. Thus, current practices create a vicious cycle of chronic underfunding: funders constrain nonprogram spending, NGOs accept underfunding as a reality and are reluctant to complain, and thus funders think they should do more of the same. The result is a subscale sector.

The evidence we have compiled with the help of over 400 survey and financial analysis participants, plus more than 100 stakeholder interviews, begins to address the shortage of evidence that stands in the way of breaking this cycle, and makes a strong case for changing minds and practices. The question is how to move from creating awareness of a problem to changing mindsets and practices?

We recognize that change will not come easily or quickly given the deeply ingrained systemic nature of the funding problems NGOs face. Nonetheless, we see a way forward. Funders and NGOs need to work together to bring about the change. Sector experts and intermediary organizations also play an important part in advocating for change.

Based on our India and global experiences, and drawing on our interviews with sector leaders, we have distilled four recommendations that hold promise to set funders and NGOs on a new path.

1. Develop multiyear funder-NGO partnerships

Funders often regard grants as short-term, transactional arrangements. As such, funders have no incentive to understand a grantee's true costs and financial needs. By contrast, multiyear partnerships nurture trust built on mutual understanding. Funders should take the time to get to know their grantees, raising their comfort level by committing to multiyear grants that serve both parties. "Once trust is established, we leave the actual expenditure to grantees. Our focus is on actual achievement of goals," said one funder.

"Once trust is established, we leave the actual expenditure to grantees. Our focus is on actual achievement of goals."

ANONYMOUS FUNDER

Partnerships lay the groundwork for funders to take an organization-building perspective with grantees, resulting in paying what it takes for NGOs to succeed. Closer partnerships are often built on transparency and communication, which both funders and NGOs can advance. For example:

- **Funders** can encourage grantees to provide more transparency about their true costs and expenditures, and to candidly share the challenges NGOs face in fulfilling their missions. They can then reward transparency with multiyear partnerships that provide flexible, unrestricted capital.

- **NGOs** benefit when they pursue partnerships with funders who closely align with their mission and goals. Thus, when approaching funders, they can build relationships supported by three-to-five-year strategic plans and financial projections, and engage funders in conversation about the investments needed to achieve meaningful long-term change, not just short-term activities.

2. Close the indirect-cost funding gap

Indirect costs aren't, as we heard from some stakeholders, "a waste of money." Rather, they include expenditures essential to the success of an organization, such as salaries for administrative staff and leadership, fundraising expenses, and rent and electricity.

Closing the indirect-cost funding gap will require funders to change the way they think about grantmaking, something NGOs can facilitate by clearly communicating their needs. For example:

- **Funders** can establish practices to determine and pay a fair share of grantees' indirect costs. That means engaging NGO leaders in conversations about their specific needs, and not relying on low, fixed indirect-cost rates as a substitute for true costs. Funders also can insist on appropriate measures for reporting the impact of the money expended.
- **NGOs** can invest in determining their actual indirect costs, something too few currently do, and convey those costs to funders along with a clear explanation of how those expenditures underpin the impact funders want to achieve. Clarity around actual costs would undercut reliance on fixed indirect-cost rates by clearly showing that costs vary with different types of NGOs and their stage of maturity. This shared knowledge would open the door for frank discussions about paying what it takes to deliver and scale effective programs.

  Cost transparency and open communication on cost structures and efficiencies would also enhance mutual trust. As mutual trust grows, funders can increase unrestricted grants that enable NGO leaders to put money to nonprogrammatic priority uses.

3. Invest in organizational development

For NGOs to grow, they must invest in organizational development, such as strategic planning, leadership development, and technology infrastructure. NGOs typically pay for organizational development out of unrestricted funds, but such funding remains relatively scarce, which reflects the current lack of trust between funders and grantees.

- **Funders** can start by providing training to their own grant staff and program officers to understand the importance of investing in grantees' organizational development. Internal staff awareness, in turn, facilitates communicating that message to grantees. It also helps for funders to be clear with grantees about the capabilities they prioritize, such as leadership development, fundraising, measurement and evaluation, or strategic planning. Those needs change with different missions and levels of NGO maturity. Funders also can provide grantees with information, toolkits, and network connections to help them conduct self-assessments for short-term and long-term organizational development needs.

- **NGOs** benefit by sharing an assessment of their organizational development needs and what those needs will cost in the short term and the long term. Those assessments should make clear that failure to fund organizational capabilities, such as leadership development, fundraising capacity, and technology, among others, will constrain growth and ability to meet impact goals. NGOs can also make the case for unrestricted, multiyear grants in order to invest in organizational capability improvements. They can cite examples of peer organizations that have used such grants to improve organizational capabilities.

4. Build financial reserves

The COVID-19 pandemic put a spotlight not only on the role that NGOs play by serving low-income and marginalized communities, but also on the need for NGOs to have cash reserves to survive a sudden plunge in funder support. Sixty-three percent of our survey respondents lost funding during the pandemic. For many, this drop in grants coincided with a sharp increase in demand for services. Cash reserves cushion such unexpected shortfalls, and, for many, make the difference between survival and shutting down.
A few ways to address reserves include:

- When possible, **funders** should be open to building NGO reserves. The Indian Finance Act of 2017 restricts some funders (e.g., charitable trusts) from providing grants for NGO reserves, but some others (e.g., high-net-worth individuals) are permitted to do so. Funders also can encourage grantees to take advantage of a provision in the Income Tax Act that permits NGOs to set aside up to 15 percent of a year's donations to build reserves. Funders can initiate conversations about reserves by asking grantees about the challenges they face in building surpluses.
- **NGOs** need to help funders understand the importance of generating surplus and raising reserve funds to build financial resilience. When NGOs think longer term about fundraising, their strategies might also include seeking multiple funders and articulating the connections between financial health and the ability to grow and achieve impact.

Pursuing an End to Systemic NGO Underfunding

Funders and their grantees share a commitment to making progress on solving some of society's most pressing problems. To succeed, the NGOs that do the day-to-day work on the ground need organizational strength and financial resilience. Yet, current funding practices provide neither, with predictable results. Chronic underfunding undermines the impact funders and NGOs strive for.

This is a complex, systemic issue, and all stakeholders need to work together to solve it. But funders hold the purse strings, which puts responsibility for leadership in their court. "Funders cannot just pay for change, they must participate in it," said Gautam John, director of strategy for Nilekani Philanthropies. "There is a power imbalance, and so funders need to act and do what it takes to move toward trust-based philanthropy and collaboration." Funders alone can create the enabling context that provides a safe space for their grantees to come forward and have frank discussions about their financial needs, a necessary condition for change.

> "Funders cannot just pay for change, they must participate in it. There is a power imbalance, and so funders need to act and do what it takes to move toward trust-based philanthropy and collaboration."
>
> GAUTAM JOHN, DIRECTOR OF STRATEGY, NILEKANI PHILANTHROPIES

With so much to do, and so much at stake, it is understandable for a funder to feel overwhelmed and uncertain about where to start. We suggest three immediate actions. Right away, **reach out** to grantees and understand their true funding needs. Simultaneously, **reflect** on your own policies and how they contribute to chronic underfunding. And resolve to **refine** those policies as needed to advance change, drawing on the experience of peers that have already committed to investments in nonprogram costs. Use the four steps outlined above to guide your efforts. And commit to the long haul. Systemic change takes time and requires multiple small course corrections.

Funders can also play a role in developing an ecosystem to support the social sector. NGOs need access to research, accounting, talent development, and financial services providers, which are still few in number in the Indian nonprofit sector. These are the organizations that can create the missing benchmarks, standards, and norms to guide as well as support NGOs in organizational development and funders in true-cost grantmaking. Funders can also take a look at their practices and identify how they may be creating more challenges for certain communities over others.

Implementing these recommendations will require many funders and NGOs to engage in unfamiliar conversations. The Grantmaking Pyramid sets the stage by drawing attention to foundational, organizational, and financial resilience needs. This broader perspective leads to discussions that explore what it takes to build strong organizations, and ensures that key capabilities and financial resilience get the support needed to underpin delivery of effective programs.

Pursuing that path will require patience and perseverance to overcome deeply ingrained attitudes and practices cultivated over many years. But funders that have already adopted a true-cost approach have found that it pays dividends by ending the insufficient and restrictive funding practices highlighted in this report. The evidence in hand argues powerfully that it is time for funders to ensure that NGOs have the resources they need to build the organizational strength and financial resilience to help solve some of society's most pressing problems.

Pritha Venkatachalam *and* **Donald Yeh** *are Bridgespan partners based in Mumbai. Also in Mumbai are* **Shashank Rastogi***, a Bridgespan principal;* **Anushka Siddiqui***, a consultant;* **Umang Manchanda***, a senior associate consultant; and* **Kanika Gupta***, an associate consultant. Editorial Director* **Roger Thompson** *is based in Boston.*

The Impact of Regulatory Changes

Recent changes to corporate social responsibility (CSR) and foreign funding regulations are expected to have a positive effect on NGO funding.[15]

India became the first country to require CSR with passage of Section 135 of Companies Act in April 2014. The act made it mandatory for companies with a certain turnover, net worth, and profitability to spend 2 percent of their average net profit for the preceding block of three years on CSR. In the first five years of implementation, some 29,000 companies spent a cumulative INR 72,000 crore on CSR.[16]

Cash-strapped NGOs have been grateful for the money, but it was typically allocated toward short-term goals and neglected nonprogram costs. Among the 40 NGOs participating in our financial analysis, the average CSR indirect-cost reimbursement rate was 10 percent, half the average true cost rate, and lower than both domestic (13 percent) and international (12 percent) funders. CSR funders also avoid unrestricted grants. The financial analysis participants received INR 256 crore from CSR donors over three years, but none of that was unrestricted funding.

Some CSR funders operate under the mistaken notion that regulations limited them to only 5 percent allocations for indirect costs. In fact, the 5 percent restriction applied to what companies could spend on CSR implementation. "A company is not supposed to spend more than 5 percent on administration. But they try to impose it (the 5 percent cap) even on NGOs, and I think that's very unfair," said Noshir Dadrawala, CEO of the Centre for Advancement of Philanthropy. Rule changes made public on January 22, 2021 clarified that the 5 percent limit refers to expenses incurred by the company for general management and administration of its CSR function, not to NGO indirect costs.

Several NGO leaders expressed frustration over receiving year-to-year funding, rather than more beneficial multiyear commitments. The new rules allow companies to undertake multiyear funding, up to four years (three years excluding the year of commencement). Moreover, NGO leaders report that CSR funders routinely shun allocating money for organizational development or building reserves, although regulations permit them to do both.

Among our interviewees, NGOs with the most positive CSR experiences reported working with companies that had professionalized their CSR operations. That means hiring staff with social sector experience and who understand the need for covering actual costs, capacity building, and financial stability. An increasing number of companies are taking this approach.

The new CSR rules will promote professionalization. Companies for the first time can work with international organizations recognized by the United Nations to assist with designing, monitoring, and evaluating their CSR projects.[17] International organizations also can advise companies on building their own capacity to implement CSR projects. In addition, companies spending on average INR 10 crore on CSR projects annually must undertake impact assessments of their projects through an independent agency.

continued overleaf

15 This sidebar reflects regulations at the time of our research, ending in early 2021.

16 India Data Insights, "India's CSR Story," August 7, 2020.

17 "International organization" means an organization notified by the Central Government as an international organization under section 3 of the United Nations (Privileges and Immunities) Act.

The Impact of Regulatory Changes *(continued)*

Meanwhile, recent changes to the Foreign Contribution Regulation Act (FCRA) will alter how NGOs, especially smaller ones, sustain their operations. In September 2020, Parliament approved changes designed “to prevent the misuse of foreign funds.” In the past, larger NGOs often received sizeable foreign donations, which totaled INR 16,343 crore in 2018-19, that they transferred to numerous smaller NGOs, a practice known as “subgranting.” In 2018-19, some 4,107 NGOs registered in 380 districts—or about one in five FCRA NGOs—received such subgrants.[18] That practice is no longer permitted, causing many small NGOs in rural or remote areas to fear they will not be able replace the lost funds.

In addition, FCRA-registered NGOs now must limit their administrative expenses to 20 percent of foreign donations, down from 50 percent. The reduction hits research and advocacy organizations hardest since they have the highest administrative costs.

Regulations also govern how NGOs can build operating reserves. The Indian Finance Act of 2017 restricts some funders (e.g., charitable trusts) from providing grants to build NGO reserves, but some others (e.g., high-net-worth individuals) are permitted to do so. While the Income Tax Act permits NGOs to set aside up to 15 percent of a year’s donations to build reserves, few NGOs appear to be aware of this provision in the law. Practically speaking, interviewees told us that the provision is of little benefit because most NGOs do not have unspent money at the end of the year to put into a reserve account.

18 “India’s crackdown on NGOs, in four charts,” Mint, September 30, 2020.

Acknowledgments

We are deeply grateful to all the NGO leaders and stakeholders in this study for participating in the interviews, the survey, and the detailed financial analysis. We appreciate their time, effort, and insightful contributions. We also thank the social sector influencers, service providers, and funders who helped us understand the challenges faced in true cost funding and organizational development in India.

A heartfelt thank you is due to Sandra Fallon and Pinky Thakkar for their operational and logistical support. We are also indebted to our Bridgespan colleagues Carole Matthews and Jen Driggs for their support in editing and designing this report, and Liz London and Ryan Wenzel for their support in marketing and dissemination. We appreciate the strategic guidance provided by our US-based colleagues Gail Perreault, Michael Etzel, Jeri-Eckhart Queenan, Julia Silverman, and Rachel Dickens throughout the project.

A number of sector organizations have provided invaluable insight, guidance, and support to our project. We would like to thank the Center for Social Impact and Philanthropy, Dasra, Danamojo, Nudge, Samhita, and VANI for providing support in dissemination of our survey electronically. We are thankful to Sunita Bhadauria for translating the survey to Hindi, and Bala Rastogi for editorial support on it. In addition, we would like to thank GuideStar India for their support in data collection and assimilation. We are grateful to KPMG in India for analyzing the accounts and financials of a sample set of NGOs during the study to help us derive insights pertaining to funding to NGOs.

This body of research would not be possible without the support, counsel, and guidance of the five anchor partners in this multiyear initiative. We are grateful for their time and effort toward this important topic.

We also are grateful to the JPB Foundation for its support of Bridgespan's knowledge work for the Pay-What-It-Takes India initiative and other research projects.

Anchor Partners in the Pay-What-It-Takes India Initiative

A.T.E. CHANDRA FOUNDATION (ATECF)

ORGANIZATION DESCRIPTION

One of India's leading philanthropic foundations, by scale, it works with a strategic problem-solving approach to address social issues in two core verticals:

A. Social Sector Capacity Building—ATECF makes high-multiplier investments broadly serving the sector by being one of the largest sponsors of leadership development programs for NGOs; investing in helping a range of organizations build their core capability; disseminating learnings for the greater benefit of the sector; and investing in systemically important organizations and movements.

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; propagating natural farming to enhance marginal farmer incomes; and by adopting eight villages in Beed district for holistic transformation.

CHILDREN'S INVESTMENT FUND FOUNDATION (CIFF)

ORGANIZATION DESCRIPTION

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 & 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.

EDELGIVE FOUNDATION

ORGANIZATION DESCRIPTION

EdelGive Foundation is the philanthropic initiative of Edelweiss Group. It functions as a grantmaking organization, 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. Grants are used for both financial and capacity building needs of the organizations supported. This approach has enabled EdelGive to be a go-to partner of choice for Indian and foreign funders wanting to engage with the Indian development ecosystem.

EdelGive's unique philanthropic model places it at the center of grantmaking, by providing initial grants and by managing funding from other institutional and corporate partners. Consequently today, EdelGive functions as a philanthropic fund manager and advisor between grantmakers and credible NGOs.

FORD FOUNDATION

ORGANIZATION DESCRIPTION

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. We are proud of our ongoing partnership with India's government, universities, charitable sector, and civil society, as well as the many South Asian regional organizations with which we work.

OMIDYAR NETWORK INDIA

OMIDYAR NETWORK INDIA

ORGANIZATION DESCRIPTION
The Omidyar Network India invests in bold entrepreneurs who help create a meaningful life for every Indian, especially the hundreds of millions of Indians in low-income and lower-middle-income populations, ranging from the poorest among us to the existing middle class. To drive empowerment and social impact at scale, we work with entrepreneurs in the private, nonprofit and public sectors, who are tackling India's hardest and most chronic problems. We make equity investments in early stage enterprises and provide grants to nonprofits in the areas of Digital Society, Education, Emerging Tech, Financial Inclusion, Governance & Citizen Engagement, and Property Rights. Omidyar Network India is part of The Omidyar Group, a diverse collection of companies, organizations and initiatives, supported by philanthropists Pam and Pierre Omidyar, founder of eBay.

Appendices

Appendix A: Research Methodology[19]

We adopted a three-pronged, mixed-methods research approach to inform this report.

First, we conducted in-depth interviews with more than 100 individuals—NGO leaders, social sector influencers, service providers, and funders—to understand the nuances of the funding challenges faced by NGOs in the Indian social sector. (See the list of organizations and individuals in Appendix D.)

Second, we conducted a detailed financial analysis of 40 NGOs (a subset of portfolios of our five anchor partners) with the assistance of KPMG India, in order to assess financial health and challenges faced in indirect-cost coverage by these NGOs. The analysis is based on the data voluntarily shared by participating NGOs. We took steps to maintain data quality and NGO anonymity. We developed a cost allocation methodology that could be customized for different operating models, created a standardized template for data collection from NGOs, and had multiple discussions with NGOs to confirm and classify major costs as direct and indirect expenditures. Lastly, where possible, we cross-checked data against audited financial statements and publicly available information. The methodology uses a weighted average across three financial years (2017-18, 2018-19, and 2019-20) for NGO-level metrics, and simple average across multiple NGOs for sector-level (and other aggregate) indicators (unless noted otherwise).

Third, we surveyed a broader group of NGOs in September-October 2020 to capture a broader representation of organizations in India. In order to reach a large and diverse audience, the survey was translated to Hindi and disseminated through email, newsletters, and social media with the help of outreach partners. We received 388 unique responses from NGO leaders, including 22 responses to our Hindi survey. These responses cover a wide range of NGO sizes (in terms of annual expenditure and team size), sectors, focus areas, and geographies, representing a range of India's NGOs.

We took steps across all three methods to mitigate bias where possible:

- To mitigate selection bias, a diverse sample of NGOs (by size, location, operating model, etc.) was selected for the financial analysis (within the parameters of the anchor partner portfolio); outreach for the survey was conducted through multiple channels in two languages.
- To mitigate sampling bias, multiple channels and partners disseminated the survey. It was also translated in Hindi to partially overcome language barriers.
- Lastly, to mitigate confirmation bias, feedback was solicited on insights from external experts. This included sharing preliminary findings with a group of intermediaries in a focus group discussion as well as with our anchor partners during periodic steering committee meetings.

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19 Detailed methodology available upon request.

Limitations of our research:

- All data points and inputs received in the survey, financial analysis, and interviews are self-reported and have not been independently validated or audited. Despite our best efforts, there may be factors such as small sample size, selection bias, self-reporting bias, etc. that limit the accuracy of our analysis.
- The financial analysis was conducted on a set of NGOs from the anchor partner portfolios that consented to participate. Given that these NGOs have access to large funders who support nonprogram costs, the findings from this analysis are likely an underestimate of the challenges faced by NGOs in the broader Indian social sector.
- The financial analysis was carried out by KPMG India for the limited purpose of assisting The Bridgespan Group for the Pay-What-It-Takes India Initiative based on the data provided by the NGOs to derive insights pertaining to funding to NGOs. It should not be construed as an audit or validation of cost structures of any of the NGOs covered in this project. The analysis and KPMG India's brand should not be used beyond the purpose of the project.

Additionally, the distribution of costs between direct and indirect costs was based on rationale provided by the NGOs. Independent verification of the rationale and allocation logic was not possible under the scope of our research.

Appendix A: The Impact of Investment in Organizational Development

We wanted to know whether investment in organizational development had a positive impact on NGO growth and ability to generate financial surpluses to build reserves. Given limitations of available data, we looked at two data sets—one from our survey and one from the financial analysis. Even then, our analysis could only provide a directional sense of the positive impact that organizational development expenditures because the sample size in both cases is limited.

For our analysis, in both data sets, we looked at NGOs intentionally investing in organizational development and compared them to a control group of those that are either not investing in organizational development or have not been strategic/intentional in their investment. In the survey data set, we categorized NGOs that said they "invest sufficiently" and have "funders that support organizational development" as being intentional. We started with a list of 30 NGO respondents in this set, but complete financial data were available only for 10 NGOs in this group. For the control set, we took an equal random sample of those that said they "do not invest sufficiently." For the financial analysis data set, we created the treatment and control groups based on how strategic the NGOs were in investing in organizational development, based on their responses to questions in our conversations with them.

We considered growth in their expenditures over the past five years as a proxy for scale as well as for the ability to generate surplus and create reserves. We measured growth in expenditures as compound annual growth rate (CAGR) calculated based on two-year moving averages. The analysis indicated that spending on organizational development has a positive effect on the organization's growth.

Limitations of our research:

- Given limited availability of data, the sample size in this analysis is small. Despite starting with a much larger sample size for the survey set, lack of publicly available data constrained our ability to expand the analysis to a wider set of NGOs.
- The quantitative analysis for organizational development provides a directional sense of the impact of investment in organizational development, and does not establish causation by itself. It confirms the findings of our qualitative assessment, which we conducted through focused interviews with more than 20 NGOs.

Appendix A: Profile of NGOs in Our Analysis

A 2018 Bridgespan survey of 949 NGOs from GuideStar India's database found 85 percent percent have an annual expenditure of less than INR 5 crore. The survey for this report found a similar pattern. Forty-seven percent reported less than INR 1 crore annual expenditure, and 36 percent reported between INR 1 and 10 crore annual expenditure.

By contrast, the 40 NGOs participating in our financial analysis ranged from medium-sized (65 percent) to large and received financial support from some of the top domestic and international funders in India.

The survey sample represents the range of NGO sizes in India

ANNUAL EXPENDITURE	COUNT	PERCENTAGE
Small	181	47%
Medium	141	36%
Large	66	17%
TOTAL	**388**	**100%**

The financial analysis includes NGOs supported by top funders in India

ANNUAL EXPENDITURE	COUNT	PERCENTAGE
Small	2	5%
Medium	26	65%
Large	12	30%
TOTAL	**40**	**100%**

Note: Small NGOs—less than INR 1 crore annual expenditure, Medium sized NGOs—INR 1-10 crore annual expenditure, Large NGOs—more than INR 10 crore annual expenditure.

Appendix D: Entities that Supported Our Research[20]

We would like to thank the many representatives of the 80-plus organizations we interviewed for their contributions to this report. We are grateful to all the people we spoke to during this research, without whom, this research would not have been possible.

NGOS
Area Networking and Development Initiatives (ANANDI)*
Antarang Foundation*
Apnalaya*
Arpan*
Association for Advocacy and Legal Initiatives (AALI)*
Centre for Health and Social Justice (CHSJ)*
Centre for Internet and Society (CIS)*
Centre for Science & Environment (CSE)
Centre for Social and Behaviour Change (CSBC)
CORO India*
Center for Study of Science, Technology and Policy (CSTEP)*
Development Support Centre (DSC)*
Educate Girls*
eGovernments Foundation*
Ekjut
Foundation for Ecological Security (FES)*
Foundation for Excellence (FFE)*
Girl Effect
Gramin Vikas Vigyan Samiti (GRAVIS)
Gyan Prakash Foundation (GPF)*
Ibtada*
Ideosync Media Combine
IDFC Foundation
IT for Change*
Jai Vakeel Foundation
Jan Sahas*

20 NGOs marked with an asterisk have participated in the financial analysis. We are grateful to them for the time and effort they invested in this research. One NGO preferred to stay anonymous.

NGOS
Janaagraha*
Kaivalya Education Foundation*
Kutch Mahila Vikas Sangathan (KMVS)*
LeapForWord*
Manavlok
Mann Deshi Foundation*
MicroX Foundation*
National Foundation for India
Olympic Gold Quest (OGQ)
Parivaar
Partners for Law in Development (PLD)
Population Foundation of India (PFI)*
Professional Assistance for Development Action (PRADAN)
Praja Foundation*
Prayas*
Project Kaveri
PRS Legislative Research*
Quality Education Support Trust (QUEST)*
Quest Alliance*
RAZA Educational and Social Welfare Society*
Saajha*
Sama Resource Group for Women and Health
Samaritan Help Mission*
Sanjog
Society for Education, Action and Research in Community Health (SEARCH)
Sikshasandhan*
South Orissa Voluntary Action (SOVA)*
Sshrishti India Trust*
Tandem Research
The/Nudge Foundation
Vasundhara
Vidhi Centre for Legal Policy*
Vikas Samvad Samiti
World Resources Institute (WRI) India*
The YP Foundation*

SOCIAL SECTOR INFLUENCERS AND SERVICE PROVIDERS
Anand Bang (personal capacity)
Aria CFO Services
Centre for Advancement of Philanthropy (CAP)
Centre for Social Impact and Philanthropy (CSIP)
Dasra
GiveIndia
GuideStar India
Humentum
Ireena Vittal (personal capacity)
Samhita
Sanjay Aditya & Associates
Sattva

FUNDERS
A.T.E Chandra Foundation (ATECF)
Children's Investment Fund Foundation (CIFF)
CIPLA Foundation
EdelGive Foundation
Ford Foundation
Hindustan Unilever Foundation (HUF)
H. T. Parekh Foundation
Rohini Nilekani Philanthropies
Omidyar Network India
Tata Trusts

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