NPI EXPAND EXPERIENCE WITH INDIRECT COST RECOVERY

An NPI EXPAND Learning Question Paper

MAY 2024

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New Partnerships Initiative: NPI EXPAND is a five-year cooperative agreement funded by the U.S. Agency for International Development (USAID) and implemented by Palladium under Agreement No. 7200AA19CA00015, beginning October 7, 2019. This tool is made possible by the generous support of the American people through USAID. The contents are the responsibility of Palladium and do not necessarily reflect the views of USAID or the United States Government.

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ACKNOWLEDGEMENTS

We express our sincere gratitude to all participants from our local partners who contributed their time and insights to this research study. Your invaluable input has been instrumental in enhancing our understanding of the use and impact of indirect funds that are a part of grants provided through USAID and has greatly enriched the depth and breadth of our findings. Additionally, we extend our appreciation to Oleg Polozov and Francia Poholchuk from Palladium for their support and guidance in offering expertise on the subject. This study would not have been possible without the collaborative efforts and commitment of all involved.

ABBREVIATIONS

CFR	Code of Federal Regulations
FAA	fixed amount (sub)award
KII	key informant interview
MTDC	modified total direct costs
NGO	non-governmental organization
NICRA	Negotiated Indirect Cost Rate Agreement
U.S.	United States
USAID	United States Agency for International Development

INTRODUCTION

One of the critical constraints cited by local organizations in low- and middle-income countries is their inability to mobilize financial resources to use for internal management and business development; expenses that are not associated with any specific grant or activity but are necessary for the organization's functioning and growth. Most donors who fund local organizations are willing to support direct project costs but are not proactive in supporting their sub-recipients to cover the general costs needed for organizational functioning, such as recurring operating costs, fundraising or business development, investing in governance, institutional strengthening for information systems, human resource management, etc. (Leach, 2018). Yet, these activities are recognized as essential to an organization's long-term viability. Without funds to support capacity strengthening investments that are not tied to specific projects, sub-recipients are limited in their ability to deliver on the projects they are awarded (Bedsworth et al., 2008). While there seems to be a general understanding of the importance of the issue, little research has been done on it.

United States legislation recognizes the need for federal financial assistance to cover indirect costs and allows for them in 2 Code of Federal Regulations (CFR) 200, which establishes uniform administrative requirements, cost principles, and audit requirements for federal awards to non-federal entities. The 2 CFR 200 defines indirect costs as "[…] those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved."

Much of the limited literature on this topic focuses on funder and donor policies regarding indirect rates, generally advocating for increased rates to avoid the "starvation cycle," where nonprofit organizations are pressured to cut overhead costs or underreport them in order to compete for donor funds (Queenan et al., 2013). This, in turn, often fuels unrealistic expectations of the costs of program implementation. The United States Agency for International Development (USAID) authorizes some local organizations to obtain and apply a Negotiated Indirect Cost Rate Agreement (NICRA) to fully recover their indirect costs, including such organizational expenses. However, the steps required to obtain and maintain a NICRA (USAID, 2016) may be costly or otherwise prohibitive for small sub-recipients. Specifically, the cost of conducting an annual audit to verify indirect rates can be prohibitively expensive for smaller non-governmental organizations (NGOs) who receive limited funding from USAID, either directly or indirectly. In some cases, actual rates can significantly change year to year and this can make planning and budgeting more challenging. U.S.-based small businesses also face these challenges.

Following the adoption of 2 CFR 200 in December 2014, recipients and subrecipients of federal awards, including local organizations, may elect to recover indirect costs through the use of a de minimis rate (USAID, 2017) of 10 percent without requiring an audit, justifying documentation, sophisticated cost accounting systems, or time and resources to negotiate (and routinely renegotiate) the indirect cost rates. Under cost reimbursable grants, this de minimis rate allows grant recipients to recover indirect costs from USAID at a rate of 10 percent of modified total direct costs (MTDC) (Cost sharing or matching, 2013; Indirect (F&A) costs, 2013). Prime recipients should explain to sub-recipients all options for a full recovery of their indirect costs, including the 10 percent de minimis rate available to them if they meet the criteria. Sub-recipients are allowed to use this rate in their proposed budgets for cost reimbursable and fixed amount awards.

Reports by advocacy groups such as Humentum make it clear that 10 percent of modified total direct costs is not sufficient to cover organizational costs not associated with a specific project (Boyes-Watson, 2022). In response, foundations such as the MacArthur Foundation and the Ford Foundation have recently increased their indirect rates to 29 percent and 25 percent, respectively (Stahl, 2023). Though grants provided by these foundations are not directly comparable to those offered by USAID as a federal agency, this shift among other donors sheds light on the need for additional funds to cover indirect costs. Both foundations are part of Funding for Real Change, a group of grant-making organizations advocating for more funding and loosening restrictions surrounding indirect cost coverage. It should be noted, however, that such private foundations are subject to fewer constraints related to transparency and public accountability compared to USAID and other federal agencies. As such, mirroring their approach may not be appropriate or feasible. Yet, the U.S. government recently announced a change to the de minimis guidance that would increase the rate from 10 percent to 15 percent effective starting October 1, 2024 (Office of Management and Budget, 2023).

The scant literature on indirect funds from the sub-recipient's perspective suggests confusion regarding the definitions of what is considered an indirect cost, which often varies by donor due to variation across donor policies. These definitions are often unclear to sub-recipients and leave room for misinterpretation (Queenan et al., 2013). Additionally, incentives to underreport and unclear definitions of indirect costs may lead sub-recipients to charge what should be indirect costs directly to projects, obscuring how unrestricted funds would otherwise be used (Rana, 2017).

NPI EXPAND'S APPROACH

New Partnerships Initiative EXPAND: New Partners for Better Health (NPI EXPAND) is a five-year USAID-funded project with the ultimate goal of increasing the availability and utilization of high-quality services through local partners globally. A core objective of NPI EXPAND is to strengthen the organizational sustainability of local partners and to provide thought leadership on issues related to local organization and localization strategies. As a part of these efforts, the program encourages local organizations to adopt indirect cost recovery policies.

Awareness of planning for indirect cost recovery has been generally low among most NPI EXPAND sub-recipients. None of NPI EXPAND's sub-recipients have a NICRA and only one ever previously had a NICRA, which it did not maintain. Most of the organizations that NPI EXPAND supports either try to build in indirect costs as direct costs in project budgets, often struggling to properly allocate and support such costs, or do not include any indirect costs whatsoever. As a result, indirect cost activities that are important for organizational sustainability are neglected. With this in mind, NPI EXPAND wanted to be proactive in encouraging its sub-recipients to budget for indirect costs.

Charging a de minimis indirect rate is normally done through cost reimbursable grants, but NPI EXPAND's granting strategy was to use fixed amount (sub)awards (FAA) whenever possible. Cost reimbursable grants are often not appropriate for local organizations who do not have accounting systems adequate for managing cost type awards. Moreover, they do not have sufficient operating capital to continue activities while waiting for reimbursement of incurred program costs. Additionally, cost reimbursable grants create a greater audit risk for both the funder or prime-recipient and the sub-recipient. For these reasons, NPI EXPAND has exclusively issued fixed amount awards and renewable fixed amount subawards wherein payments were made against achieved milestones at fixed amounts established at the grant preparation stage.

To maintain NPI EXPAND's granting strategy and still address the needs of local partners to recover indirect costs, NPI EXPAND encouraged local partners to include 10 percent of modified total direct costs at the stage of grant development as a means of approximating the de minimis rate in setting the overall grant amount and amounts for each of the milestones. NPI EXPAND's expectation was that since sub-recipients had 10 percent of the grant amount (and presumably of each milestone amount), the NGOs would manage expenditures against their budgets, internally separate and track these "indirect cost revenues" from "direct project revenues," get full recovery of their indirect costs, and use any potential savings for institutional strengthening expenses. This appeared to have worked well enough, but because NPI EXPAND could not audit expenses under fixed amount awards, the project had little insight into how sub-recipients were making use of their indirect pool of funds and what their understanding was around indirect rates and costs. The study of sub-recipients in this paper was one way to shed some light on and draw attention to the need for indirect cost recovery by local organizations.

This study was conducted by NPI EXPAND and findings are solely based on the perspective of sub-recipients of funds through NPI EXPAND. Given the large number of FAA grants with the majority of sub-recipients using a 10 percent indirect rate, NPI EXPAND leveraged their vast experience in this topic to summarize findings from perspectives on indirect rates from sub-recipients. Since its first grant to a Malian NGO in April 2020, 65 NPI EXPAND sub-recipients have used a 10 percent de minimis indirect rate as a proxy for pricing grants and milestones to cover indirect costs in 11 countries as of December 2023. These represent 71 percent of all NPI EXPAND sub-recipients.

METHODOLOGY

This qualitative assessment was designed to respond to the question: "To what extent does the adoption of the minimum 10 percent rate for indirect costs improve management capacity and resource generation and diversification for local partners receiving NPI EXPAND grants?" The key assessment questions were:

1. How are indirect funds utilized by organizations receiving grants from NPI EXPAND?
2. How are different pools of funding managed by sub-recipients?
3. How do the procedures for using indirect funds differ from the procedures for managing donor funds for projects?
4. What impact (if any) does an indirect pool of funds have on an organization's management capacity as well as resource generation and diversification?

To respond to these questions, the assessment team conducted key informant interviews (KIIs) with individuals representing select sub-recipients that have received NPI EXPAND grants that included indirect funding.

RESPONDENT SELECTION

To select organizations for the interviews, the assessment team created a list of all organizations receiving indirect funds from NPI EXPAND and purposefully selected respondents such that the sample would have the following characteristics:

- Representation from a variety of countries within the NPI EXPAND portfolio

- A variety of programmatic focus areas (family planning, maternal and child health, education, COVID-19)
- Large and small organizations, using the age of the organization and size of grant as proxy

Only organizations that had started receiving the indirect funds at least 10 months before the interview were selected.

DATA COLLECTION AND ANALYSIS

Potential respondents were emailed and invited to participate. Their response to the email agreeing to participate constituted informed consent and was saved for record-keeping. The interviews were all conducted virtually using Palladium's Microsoft Teams platform and were undertaken by the assessment team using a question guide (Appendix A). All interviews were audio-recorded and auto-transcribed by the Teams program. The interviews were conducted in three languages (English, Spanish, and Portuguese), based on the preferences of selected participants. The French and Portuguese transcripts were translated to English prior to analysis. The translations were done by the individuals who conducted the interviews to ensure correct interpretation.

Data were coded and analyzed soon after each interview by the interviewers and note-takers. The transcripts were coded manually to identify recurring themes, commonalities, and differences. Organizations were selected incrementally with additional respondents being added and interviewed until the findings reached saturation—that is, until it became apparent that additional interviews would not yield new information.

ETHICAL CONSIDERATIONS

Participation was voluntary. Due to the nature of the assessment objectives, there were a finite number of respondents eligible to participate. Each respondent provided context-specific answers in their interview responses about their organization, activities, and geographic context as well as organization-specific information about their financial management and resource mobilization systems. For this reason, the data could not be de-identified. However, the assessment team took all possible precautions to maintain respondents' privacy and the confidentiality of the information they provided. Only members of the assessment team had access to the data, which are saved on Palladium's encrypted cloud server.

FINDINGS

A total of 10 interviews were conducted with 10 organizations representing Africa, Asia, and Latin America, which was sufficient to reach saturation. Their characteristics are shown in the following table:

TABLE 1. CHARACTERISTICS OF PARTICIPATING ORGANIZATIONS

CHARACTERISTIC	NUMBER OF ORGANIZATIONS
Country	
Brazil	2
Ethiopia	1
Kenya	1
Mali	2
Pakistan	2

Senegal	1
Tanzania	1
Focus of grant(s)	
Maternal and child health and family planning	7
Education	1
COVID-19	2
Years of operation	
50 years or more	1
25 – 50 years	5
10 – 25 years	3
Under 10 years	1
Cumulative value of grants managed*	
US$<300K	3
US$300K-499K	4
US$500K+	3

* At the time of the interview

PERCEPTIONS OF THE LEVEL OF INDIRECT COST RECOVERY

NPI EXPAND sub-recipients were encouraged to include 10 percent of modified total direct costs[1] as a proxy to estimate and budget for indirect cost recovery. One respondent, however, claimed that their organization only received 8.5 percent in indirect funds; although, it may be that the organization did not understand how the rate was calculated, or the organization opted for a lower rate to align with what other donors provide. Another organization said that the formula used can be complicated, which can result in getting less than 10 percent, suggesting that the respondent expected a rate as a percentage of value, not of MTDC.

> *"[…] the environment is shrinking, we are getting less indirect cost from the donor side. Even if I mentioned from NPI EXPAND site, and it's not 10% it's 8.5% that we received for this ongoing project"* (Pakistan).

> *"[…] managing the formula is complicated and results in getting less than 10% of everything that goes through the organization's financial system"* (Tanzania).

Most respondents said that their organizations are either currently receiving or had previously received grants from other USAID-funded projects that provided them with resources for indirect costs.

1 MTDC is defined as "all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of $25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs" (Office of Management and Budget Guidance for Grants and Agreements, 2013).

However, one organization is currently a sub-recipient on a different USAID project that does not provide for indirect costs and another was on a previous project that did not provide for indirect costs.

> *"Yes, when we had this other previous project which was in force, we also received indirect resources"* (Brazil).

> *"They decided not to provide these fees [indirect funds], they gave us no explanation and we fought in vain"* (Mali).

MAKING DECISIONS REGARDING USE OF INDIRECT FUNDS

Most respondents said they create plans for using the indirect funds as part of their annual forecasting, but some said their organizations use the indirect funds on an ad hoc basis as the need arises.

> *"We have […] we do annual budgets for the institution because […] we know what we anticipate to spend over the year when it comes to overhead costs"* (Tanzania).

> *"[…] it is based on need. So whenever we say maybe there's a, you know, I need something, we actually meet and […] put into whatever is needed"* (Kenya).

> *"[…] but in future, God forbid, if there comes a time of two months or three months or four months when we do not have a donor-funded project, were even the partial salaries of the people in the office are funded"* (Ethiopia).

Organizations vary with respect to who makes the decision on how to use the indirect funds and the process for making these decisions, but the decision is typically made at the director or executive level.

> *"Board of Directors, defined a, what we call a resolution. From now on, for each donor, we will take 10%, and the different lines of use of these 10% are already well identified in the resolution"* (Senegal).

> *"They [the executive committee] are signatories and they are also co-authors of the elaboration of this document that serves us to position ourselves to improve our performance […] We don't go outside of what was dictated. That is, we made a plan […] we listed the activities that can be financed by money, indirect costs"* (Mali).

Typically, the determination for the use of direct and indirect funds follows the same approval process. One organization, however, said the signatory level is different.

> *Budgets are prepared and approved by the executive committee, including a secretary, auditor, and treasurer […] here is the budget that we submitted, and here are the activities that we will carry out with this budget"* (Mali).

> *"The indirect funds, the institutional funds, require the approval of the Board of Trustees. On the other hand, programmatic funds, project funds, you don't need the approval of all the Board members to execute that, that's the difference"* (Senegal).

One respondent pointed out that the type of costs typically utilizing indirect funds, such as rent, are usually fixed and do not fluctuate throughout the year. Still, most respondents said that their organizations have the ability to adjust their plans if needed. One sub-recipient conducts quarterly review meetings to try to avoid emergencies.

> *"[…] these are, you know, kind of fixed costs because it's budgeted. We knew we have agreements with the owners, we have agreements with the staff, the annual increment structure […] so we know them at the beginning"* (Pakistan).

> *"If today we have identified urgent needs that we have not planned for, we can be flexible, but we stay within the lines of the resolution. We can't finance things that are not already included in the resolution that is signed by the Board of Directors"* (Senegal).

> *"[…] each quarter will go and revisit. So it's what we call flex budget. So like April, we do flex, then July we do again, and October also, we are looking like how do we flex the budget if there's additional funding or maybe if there's some variation that need to rework on. So we do quarterly checks on the budgets"* (Tanzania).

TRACKING AND MANAGING INDIRECT FUNDS

All respondents noted that they track their use of indirect funds. Most keep indirect funds separate from direct funds and combine the indirect funds they are receiving from all sources into one pool to manage jointly. Managing indirect funds means tracking both expenses for indirect costs as well as incoming revenues to cover those indirect costs. Only one respondent said that they do not have a separate pool for indirect funds, and that they track these funds together with direct project funds.

> *"It comes to the pool. A pool for within [name of organization] and that would fund is then spent according to the needs […]"* (Pakistan).

> *"[…] these are monthly expenses that we apportion between projects, right? [...] so we share these costs across all projects. Inside this account that I told you is an institutional account"* (Brazil).

> *"Deposited from the milestone-based project budget, but we follow up that it is properly, you know, or transferred to our account along with the project milestone budget"* (Ethiopia).

Respondents mentioned various mechanisms for tracking the indirect funds, such as via Excel spreadsheet, specialized software (like QuickBooks), or their bank statements.

> *"Our internal accounting system utilizes the computer best accounting system. It is called QuickBook. So every entry is made in the QuickBook as well. When we receive funding as well as when we spend the funding, so it is recorded in our both manual as well as the computerized accounting system"* (Pakistan).

> *"[…] checking the status of the receipts from the donor, we can track the transfer and receipt of transferred money through checking the bank"* (Ethiopia).

Some organizations track expenditure against indirect funds quarterly, others monthly.

> *"[…] so this one is done annually, but each quarter will go and revisit"* (Tanzania).

"*Monthly reconciliation of activities against the bank account"* (Mali).

When asked if there were any challenges to tracking the indirect funds, all respondents agreed that there were none.

> *"[…] in its monthly financial reconciliation, it's basically part of the financial management and our policy. So it's like part of the regular business"* (Pakistan).

> *"You can always get it, so for our internal monitoring it is not difficult"* (Tanzania).

USE OF INDIRECT FUNDS

Respondents mentioned a variety of expenses that they cover with indirect funds, including operating costs (rent, utilities, salaries for support staff, etc.), expenses incurred for resource mobilization efforts, internal and external meetings, and costs of business development.

> *"It's office rent, vehicle rent with fuel, support staff, utilities […] fund raising is another aspect where we have used this indirect cost. This comes, you know, campaigns and meetings"* (Pakistan).

> *"There's water, electricity, internet, telephone, security, building maintenance, accounting services, which is outsourced from the legal service, everything I use regardless of the project"* (Brazil).

Two organizations indicated challenges in segregating indirect and direct project funds. One of these organizations said they use indirect funds to support mobile clinics which is a programmatic expense that should have been budgeted as direct.

> *"[…] support operation costs for health facility licensing, and also support what we call here mobile clinics in the greater mobile clinics, where we go to the communities who are not able to reach our facilities"* (Kenya).

> *"[…] it comes with overall project budget, it's sometimes difficult to, you know, extract out this much is meant for indirect cost and this much is meant for the milestone project activities implementation, for the challenge is to my understanding and advice had the indirect costs were planned for specific activities"* (Ethiopia).

IMPACT OF ACCESS TO INDIRECT FUNDS ON ORGANIZATIONAL FUNCTIONING

According to respondents, access to indirect funds had a positive impact on all of their organizations. It improved management, helped to mobilize resources and strengthen capacity, and to secure more funding opportunities. They also liked being able to make their own expense decisions rather than these being determined by the donor.

> *"So that allows the institution to have a good management […] in relation to the implementation of programs to achieve success. But also, a good administrative […] and financial management. It allows us to cover these expenses that are not taken into account by the project programs"* (Senegal).

> *"Benefits are that we are sustaining our core structures like the head office, the provincial offices, the supports of the utilities cost of these two offices that can only be managed through indirect costs"* (Pakistan).

"Instead of being guided and each time they don't have to tell you, do this, do that [….] you can actually decide in terms of growing your program. You can do business development with that money […] it also makes people continue and it's about organizational viability" (Tanzania).

Similarly, all respondents indicated that their organizations would not have functioned as well or been as successful if they did not have access to indirect funds.

"We have to find somewhere where we have resources to be able to carry out certain activities that are related to the organization. And these indirect costs, in my opinion, are indispensable" (Senegal).

"[…] for the local organizations, the struggle of survival is very intense […] so this fund is sort of a source of survival for us and very important. If we do not have the donor funding like for three months or four months, we can survive with our, with our own funding" (Pakistan).

There also seems to be a consensus that the 10 percent rate is not quite sufficient to cover overhead and allow for organizational growth. A higher rate is needed to allow organizations to function and retain competent staff.

"We estimate maybe around 16 to 17% would be working for us. Even the experiences that one will have people be doing it and we can keep their personnel that we need and do all the strategic plans that we have in place" (Tanzania).

"[It's about] the ability of organizations to maintain a competent workforce. So, you recruit a staff on a project, today you negotiate a salary for the project, he brings you a lot of results, but at the end of the project you are not able to maintain him because you don't have his salary. So how can organizations do enough? No, we can't. It's related to this because organizations have not capitalized enough funds. I say 15% minimum, it's really that allows us to work and it also protects us" (Mali).

ADDITIONAL SUPPORT

Respondents mentioned several additional areas for further support, including information on lessons learned from other organizations on how indirect funds are managed, support in obtaining a NICRA using their indirect experience, identifying better software for managing indirect funds, and help in analyzing their indirect expenses to help them justify obtaining indirect funds from other donors.

"The sharing of experience in relation to the use of these funds, we can see how other structures have used them, which have reached a certain level of development" (Senegal).

"Is there any other software that allows us to manage, or that allows us to quickly get the added value of the management fees? Can we get that through our finance manager, can we get that training? Because that's what's going to make our business sustainable" (Mali).

"You say to an organization, 'I want you to pay me 10% management fee.' They're going to ask you the question, why 10%? And what do you want to do with it? First of all, what are you basing your story on to tell me it's 10%? And why didn't you say 30? You have to justify the amount" (Mali).

DISCUSSION

This assessment explored how sub-recipients manage, track, and use indirect funds they receive from NPI EXPAND, and their perceptions regarding the importance of receiving indirect funds. We conducted in-depth interviews with representatives of ten organizations from seven countries in three continents that received grants from NPI EXPAND for at least ten months, and that included indirect funds as proxy for budgeting indirect costs. Overall, we found that organizations highly value receiving indirect funds. For the most part, they use them for critical operational expenses.

NPI EXPAND explains to sub-recipients that they have the option to use the 10 percent de minimis as a proxy under the fixed amount award to cover indirect costs, orienting them to the concept, explaining the difference between direct and indirect costs, and encouraging them to take advantage of the opportunity. However, our findings suggest that not all prime recipients consider and appropriately account for indirect costs in sub-recipient awards, and that sub-recipients are not always aware that they should generally expect to recover the full costs of program implementation under federal awards and subawards. It may be that U.S. government guidelines on the inclusion of indirect costs in awards and subawards are not sufficiently understood or shared by prime recipients. Moreover, there is a lack of understanding among sub-recipients on how to determine the MTDC in order to apply the 10 percent rate, which can cause additional confusion.

Sub-recipients reported using a variety of mechanisms to track and manage indirect funds, which correlate with their financial management skills and experience. This flexibility in managing the funds is important, as indirect funds do not require standard reporting in the case of fixed amount awards. However, organizations that are new to receiving grants may benefit from support on managing indirect funds as part of their overall finances, above and beyond the orientation they are currently receiving.

USAID and other donors intend indirect costs to cover operational expenses, capacity strengthening, business development, and other expenses not associated with any one program or project. While most organizations reported classifying the costs associated with these types of activities as indirect costs, a couple of them expressed confusion as to what costs can be covered as direct as no clear guidance was given to them. One respondent reported using indirect funds to cover mobile clinic expenses, which should have been budgeted as a direct cost. While not prohibited, organizations rob themselves by not budgeting these costs as direct. Some respondents also said they would benefit from learning how other organizations use their indirect funds, as it could help them explore alternative uses for the indirect funds.

All respondents agreed that indirect funds are invaluable to them, but also that 10 percent is not sufficient to cover their expenses that are not project- or program-specific. Given the increased need for a higher threshold for indirect funds indicated by local organizations, it is important to note that the U.S. government recently announced a change to the de minimis guidance that would increase the rate from 10 percent to 15 percent effective starting October 1, 2024 (Office of Management and Budget, 2023). Some respondents expressed the desire to receive support in advocating for indirect funds in future donor-funded awards or in obtaining and maintaining a NICRA. Although, a NICRA may not be a viable option for most sub-recipients as a NICRA is USAID's agreement with the NGO that may not be enforced on other non-U.S. government donors.

One limitation of this assessment is that the total number of respondents was relatively small. However, despite the heterogeneity of represented organizations in terms of geography, size, and programmatic focus, responses were fairly consistent. We therefore feel that we reached saturation and that our findings and recommendations are valid.

CONCLUSIONS

Our findings suggest the following conclusions:

- Much more needs to be done to educate not only local organizations themselves on indirect cost recovery, but also the donor community and prime recipients that issue subawards to local organizations. The importance of indirect cost recovery to local organizations' sustainability and the broader localization agenda needs to be better understood.
- Prime recipients and subrecipients, especially local partners, need to understand the availability of various full cost recovery options in order to ensure optimal use of indirect funds.
- In addition to existing USAID resources, current and potential sub-recipients would benefit from additional guidance on how they can track and manage indirect funds while maintaining flexibility across the sub-recipient and donor community.
- Use of financial software for cost aggregation and analysis is limited among most local organizations. As capacity is strengthened in this area, management of indirect costs should also be incorporated as a topic for support and advice.
- There is a lack of clarity among new sub-recipients on what type of expenses are indirect costs and how they can be differentiated from direct costs, suggesting that prime recipients should offer support to sub-recipients that request it beyond the current orientation on the general principles.

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ANNEX A. QUESTION GUIDE

WELCOME AND INFORMED CONSENT

Thank you for joining us today. My name is *[Interviewer name]* and with me is *[Notetaker name]*. On behalf of NPI EXPAND, we greatly appreciate and value your participation in this assessment.

As you know, NPI EXPAND is providing grantees with a 10% overhead rate that is included in grant amounts without requiring an audit and sophisticated cost accounting systems. In the interest of ensuring that grantees obtain the greatest possible benefit from the indirect funds and to identify lessons learned from the adoption of the 10% indirect rate, NPI EXPAND is conducting interviews with grantees to learn about the organization's experience in managing these indirect funds.

You have been selected to participate based on your role and experience in *[Organization]*. Your responses during this interview will inform NPI EXPAND's learning agenda and benefit the broader community that focuses on localized capacity strengthening efforts.

We have received your consent to participate in this interview via email. We thank you for agreeing to participate. As mentioned in the consent email, you do not need to answer any questions that you would prefer to skip. We want to reassure you that the information provided during this interview will be used solely for learning purposes and any information identifying the organization will remain confidential. We may use your quotes in the final report, but without mention of your name or the name of your organization.

Before we begin, I would like to ask that we take a moment to turn off or silent any electronic devices, including cell phones, to avoid distractions. I would also like to remind you that during our conversation, there are no right or wrong answers to the questions we ask, so please feel free to be open and honest.

Do you have any questions for me? *[Respond to any questions from the participant]*

We are going to record the conversation to help us in our analysis.

Let's get started.

INTERVIEW QUESTIONS

1. Do you track the indirect funds received as part of the grant from NPI EXPAND?
    a. If so, how are you tracking the indirect funds?
        i. *[Probe if needed]* Are you using any specific software or system for tracking the funds?
        ii. Are they tracked separately from other funds the organization manages?
    b. Do you get regular reports of availability of the funds? If so, how often?
    c. Have there been any challenges in tracking the funds?

2. Does your organization have a plan established for the use of the funds?
    a. If yes, can you tell us about how this plan was developed?
        i. *[Probe if needed]* Who approved this plan when it was developed? Does it need to be re-approved on any regular basis?
        ii. Does the approval of this plan require a similar number of approvals as organizational budgets? (Fewer, more approvals?)
    b. Can this plan change or be adjusted if needed?
        i. *[Probe if needed]* Has the plan ever changed? If yes, what dictated the need to change it?

   c. If no, does your organization have any sort of unofficial or informal document you have in your records for planning purposes?

3. How often do you use the indirect pool to pay for expenses?
   a. What types of expenses have been paid using the indirect pool of funds?
   b. *[For each expense mentioned]*
      i. How has this purchase or expense impacted the organization?
      ii. How would this expense have been paid without the indirect funding? Or would this expense not have been made? Are there things they can afford now that they couldn't before since they have the indirect funds?

4. Has *[Organization name]* received any other USAID grants? If so, have you been charging an indirect rate on other USAID grants? If not, why not?
   a. *[If needed, clarify]* Is there any reason you're aware of that there isn't an indirect rate? It isn't a requirement of USAID grants, but do you know of any particular reason this wasn't included?
   b. How do the indirect funds from another USAID grant affect/impact how the NPI EXPAND indirect funding pool is used?

5. What challenges has your organization faced in managing this indirect funding pool?
   a. *[For each challenge mentioned]* How have you addressed or overcome this challenge?
   b. What support would be needed to address this challenge?

6. Is the rate of 10% of the subaward sufficient for your organization's operations? If not, please explain.

7. Have the indirect funds benefitted the organization and its capacity to generate resources?

8. Are there any notable changes in organizational management and networks that can be attributed to the indirect funds received as part of the NPI EXPAND grant?

9. Is there anything else you can add related to what we talked about today?

WRAP-UP AND NEXT STEPS

We'd like to again thank you for your participation and valuable input in this assessment process. As discussed at the beginning of this interview, you are welcome to contact the individual(s) conducting the assessment to get further information on the discussions, or request that any of your responses be removed from our records. Thank you again for your participation, and we look forward to subsequent conversations.

For more information, contact:

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