INTRO: [00:00:04]
You're listening to the Fund the People podcast. I'm your host, Rusty Stahl. Each episode, we serve up nutritious, delicious alternatives to the nonprofit starvation cycle. We're the only show focused 100% on investing in America's nonprofit workforce. So whether you work in social justice, social service or something else, we've got something for you. The guests and ideas you'll get access to here will help you to drive equity, effectiveness and endurance, in the social sector. So let's get cooking.

RUSTY:
Welcome to the first installment of our special series Smashing the Overhead Myth Once and For All. Future installments of this series will be released throughout the season. In this episode and throughout our Smashed The Overhead Myth series, we will touch on the practices of talent investing related to respect and root causes: respecting nonprofit workers, and addressing the root causes of the deficit of investment in the nonprofit workforce. For more about these practices, listen to season 4 episode 1, where I introduced the 8 practices of talent investing.

Now, we are talking about funders providing resources that enable nonprofits to build their people systems and address the inequity that has been part of the funding system and part of nonprofit compensation for many, many years. Specifically, we will be exploring the practical ramifications and results of a group called Funders for Real Cost Real Change. This was a learning and research effort among a dozen major foundations that took place over the last several years. These funders examined the realities of overhead and indirect costs in their grants and in their grantee organizations. And they've made some real changes as a result.

Today, we'll hear from one of the people who helped to staff and guide that learning process. In future installments of this series we'll hear directly from some of the participating funders about their journeys, improving how they support the real costs of nonprofits. So my guest today is Rodney Christopher, Managing Director of Philanthropic Services at BDO FMA. BDO FMA is a fiscal management consulting firm made up of accounting and management professionals who are dedicated to helping nonprofits achieve their missions and FMA stands for Financial Management Associates.

With 30 years of consulting, and grant-making experience in the nonprofit and philanthropic sectors, Rodney Christopher's primary work with BDO FMA is to lead their growing philanthropic services which aims to provide exceptional support to philanthropic organizations who are seeking to advance their own infrastructure, staff expertise, grant strategy and grantee financial due diligence. Additionally, Rodney designs and delivers consulting and training engagements for philanthropy and service providing organizations. He works to stimulate and facilitate productive conversations between nonprofits and their funders, enabling nonprofits to achieve long-term impact from a position of strength, while giving grantmakers confidence that their dollars are going to capable well-managed organizations. In his role at BDO FMA Rodney led the aforementioned learning collaborative called Funders for Real Cost Real Change, which is what we will focus on in our conversation today.

Previously, Rodney spent 5 years at Heron Foundation where he led a grant-making practice that provided nonprofits with business planning support and sizable multi-year capital grants to support healthy growth and change. Prior to that, he spent 15 years developing the consulting practice at the nonprofit Finance Fund Serving as a trainer and consultant to more than 400 nonprofits and 80 grant-making foundations in 30 States and across many sub-sectors. Rodney is one of the most insightful people I've met in philanthropy and I'm so pleased to welcome him to the podcast now. Welcome Rodney.

RODNEY: [00:04:35]
Thank you, Rusty. It's a pleasure to be here.

RUSTY: [00:04:37]
It's my pleasure. Thank you for making time to speak with me and our listeners. For folks who are not familiar, can you tell us what BDO FMA is?

RODNEY: [00:04:50]
Sure. Thanks for asking. So for folks who may have known, Fiscal Management Associates or FMA, it's about 20 plus years old, maybe 23 now. We were a separate consulting practice, we joined BDO in 2021 and are now known as BDO FMA. We help build the capacity of nonprofits to help them with their strategic and practical elements of their financial management and operating infrastructure. Funders hire us to work with their grantees, as well as to help them carry out their own work with greater knowledge and efficiency while building trust based relationships with the organizations they fund.

RUSTY: [00:05:33]
And what does it mean to be in your role there?

RODNEY: [00:05:37]
It's an incredible privilege to have worked in this field for 30 years and to be at this place where I'm in regular conversation with folks who have resources and want to make them available to folks doing good work. They want to make them available in ways that make sense and are supportive of those folks and because I've worked as a consultant and trainer and lender and all those other things, I get to bridge that gap and be in really good conversations to help funders do their work better, it's really a privilege.

RUSTY: [00:06:08]
I'm glad you're the one there because clearly, you know what you're doing. And I've been a big fan of Heron Foundation where you worked, and the Nonprofit Finance Fund as well, where you worked. So it's a lot you're bringing to the table. Today, I am excited to talk with you about this work you did for a number of years there at BDO FMA called Funders for Real Costs Real Change collaborative. So can you share with us a synopsis of the story of that collaborative? Where did it come from? What was it? Who was involved? Who did it and where is it now?

RODNEY: [00:06:46]
Sure. So probably it's worth acknowledging that this work has built on work for decades that has actually happened in the sector but to keep it sort of current, our friends at the Bridgespan Group worked closely with five of the largest endowed foundations in the world, who agree that it was worth looking at this question. We know, we keep hearing about the overhead myths, and we keep hearing about indirect costs not being properly covered. Are we, these five institutions, part of the problem or is it possible that we're doing okay? And so to their credit, they worked closely with the Bridgespan, really tried to answer that question and that was sort of 2016 - 2018, and there was some published work that came out of that, that was clicked into the Chronicle of Philanthropy at the end of 2019.

The short answer is they began to realize that, in fact, it is a problem that they are contributing to and one that they want to do better at and that they knew that by themselves, five funders could not solve this problem, but they do believe that funders can be part of the solution. They decided to expand the group from five and the presidents of those five and they were (I want to do this quickly): MacArthur, Packard, Ford, Hewlett's and Open Society. By the way, they've been turned over at the top, a couple of those, since this all started, and decided they wanted to have a community of practice where the presidents of ideally more funders to sit around the table and to have folks who are doing this work all the time to think about: how can we do a better job of making project grants that cover the actual costs that an organization incurs to deliver on those projects, so that project grants become less harmful as you know well, that's a big part of it, we can talk more about that later.

So this group formed, it did not have a name, it was a community of practice. My colleagues and I at BDO FMA were hired to facilitate this community of practice, that chose to think about the work in several streams. One of which was how does this look from a global perspective, for organizations outside the US how is this showing up? That led to some research. Another was, how can we do a better job of straightforward we're making project grants with an indirect cost rate, how can we do better on that and how can we help grantees help us do better on that? And another was: are there ways to make project grants that are not strictly speaking there's an indirect cost rate and you've got a budget to it and got a show that you spent the money, etc. And so those are our three primary lines of inquiry if you will.

And so, we spent some time with funders going through this, we were interrupted by Covid as many of us in the world were. So we began the work in 2019 and by the end of 2021 we had some things to share with the field and so there's a series of articles in the Chronicle of Philanthropy, that synopsize at a high level what it is we were learning, we produce some tools, we were published a couple times in Center for Effective Philanthropy's blog and so, at the end of the day, the question remains: can project grants do a better job of supporting the true costs of an organization or the real costs of an organization than they have in the past? And importantly, the funders wanted to continue the dialogue. And so we were able to go through a process of identifying a new resource that would take all that we've learned and share it with the field. And so after a competitive process, our friends at Ariadne and Edge Funders Alliance, both of which are philanthropy serving organizations, importantly they work internationally, they now have a site called fundingforrealchange.com which pulls resources that Funders for Real Cost Real Change created and importantly, also combines it with resources that focus exclusively on how funders can do flexible funding writ large, including general operating support. So, that's sort of the quickest version I can give you of the narrative arc of what this is, and has been.

I want to thank a few people, because I did not by any stretch do this work alone: my own team at BDO FMA, my colleague John Summers, who is an incredibly smart individual, has been an incredible thought partner and sort of creation of content person. Colleagues Alicia De Toffoli who is now at Tides. My colleague Katrina Venturina, if you read those articles you'll see some of these names just want to acknowledge them. And Hilda Polanco, who is our fearless leader and has been a great advisor in this work. I believe if you go to the articles, you'll see the names of the twelve funders who participated, so I will not read them aloud but I just want to say thank you to the 44 individuals who represented those 12 institutions, and spent the better part of three years thinking about this content. You all know who you are, but I just want to make sure I pause to thank them.

RUSTY: [00:10:58]
Great, that was, that was good. Shout outs are important. So, three phases: 2016 to 2018 the five groups working with Bridgespan. 2019 to 21 BDO FMA facilitating the community of practice which did get a name, right?

RODNEY: [00:11:11]
Ultimately landed on Funders for Real Cost Real change. That was a fun experience. Trying to get to a name…

RUSTY: [00:11:16]
Is the hardest part of doing anything, right? And now Funding for Real Change, the website and resources hosted at Edge Funders Alliance and Ariadne.

So Thank you, thank you for that summary. Lot of work behind that. So thank you for summarizing it. So let's just, before we kind of go further, I know it's fairly recent that I heard the term indirect costs, when I was interviewing a woman previously from the mayor's office of Contracting in New York City, about these issues -Jennifer Geyling- and she used this term indirect costs and I had not really heard it before. I'd certainly heard of overhead and the overhead myth. But can you just share with folks what is the difference between overhead and indirect cost? If there is anything, what are we talking about here?

RODNEY: [00:12:03]
Sure. So the easiest way that I can describe this is for everyday conversation overhead and indirect costs generally mean exactly the same thing. The critical difference -and this is very wonky, so want to try to make this straightforward- is that when people say overhead rate what they're saying is what are those “non program costs” (note that I’m doing air quotes with my fingers for those of you who are only listening), what are those non-direct program costs that an organization incurs in order to deliver its programs. Take those overhead costs and divide them by the total cost the organization incurs, and that gives you an overhead rate. That overhead rate is interesting, potentially lots of conversation about it. But the difference with an indirect cost rate is you take that same overhead dollar amount and you divide it by program costs or direct costs as opposed to dividing it by total costs. And math will tell you that when you do that rate, which is an indirect cost rate, if when you do a budget you say these are my direct costs of this project and then you multiply that dollar amount by the organization's indirect cost rate and add that amount to the direct costs, you've now covered the total cost including a fair share of the indirect costs. If you use the overhead rate, you're not going to do it. That is the cleanest way, I can describe that to you.

RUSTY: [00:13:28]
Well, you blow my mind. So there is a difference and that's an important difference for the math if you're trying to come up with a budget that integrates these things.

RODNEY: [00:13:38]
Yes and I think many people confuse those things, and organizations get short changed as a result, not through anyone's intention. But again the costs that you would describe as overhead are the same costs that you would describe as a direct. It's just what's the rate that you apply to those direct costs to actually make sure you're covering the indirect portion.

RUSTY: [00:13:59]
Wow, that is a nuance, that is important. So, thank you. I didn't even know I was going to get that answer. So thank you for that, I think. Yeah, it's still a learning curve for me. But, you know, we were talking about this stuff because it is so important. It is so kind of behind the scenes and challenging to get your head around for so many nonprofit leaders. So, I guess I wanted to call

the question early in this conversation, like, I think you and I are more on the same page than some folks might perceive, based on the initiative and some of the messages coming out of it. But why do funders feel the need to measure indirect cost? Why are we even talking about this? What would happen if funders just abolished this concept altogether, this indirect or overhead since it just seems to me kind of like subjective, context-specific, difficult to figure out and nearly impossible to get right. So like, why are we having this conversation Rodney?

RODNEY: [00:14:59]
Well we're having this conversation in part because it exists, this is a thing that happens. And so, we're sort of taking the situation where it is. It is also true that pretty much any constituency that you will come across who is involved in or cares about the nonprofit sector, will have the general opinion that we want as much of every dollar that is raised to go to the direct costs of the work that the organization is doing, and that's not only true for funders.

It is true for the leaders of organizations, it is true for their board members, it is true for the people that the organization serves, as you know well it's very important to media who loves to point out when organizations sort of run afoul from their perspective, and frankly watchdogs have made a sort of point of "an organization is good if they spend less on overhead". The truth is every organization for profit or nonprofit, if they're going to be a healthy organization capable of delivering whatever it is that they're doing, they need to spend on their infrastructure. They need to have an appropriate infrastructure related to the work that they do. And that could be very different in size depending on the organization, but it'd be a huge mistake to pretend that that's not necessary. So that's number one.

Number two, in our work with nonprofits at BDO FMA we're often helping them understand what is the right infrastructure for them. What are the people, the processes, the systems that you need to deliver successfully on your programs and how do you set yourself up to get those resources and maintain them well. So, in all of that we would encourage individual organizations to understand their own indirect cost rates, so they understand what it really costs them to do the work, so that when they are negotiating with funders who have indirect cost rate policies, they can be as clear as possible with themselves about what it is they're not getting covered and be in a position to negotiate to talk about what isn't being covered. And to the extent that it's possible, to have a genuine conversation about what's missing and needs to be supported. So abolishing it would actually not necessarily solve the problem, it might actually unintentionally create different problems.

The other thing that I want to say is that in the for-profit sector, companies want to minimize their expense on general and administrative, G&A is what they will call it. And the truth is no one wants to waste money, right? But at the same time, in the for-profit sector it's understood that that investment in infrastructure is essential and so they will invest in it properly, while also monitoring, they will monitor their own indirect cost rate effectively.

The last thing I'll say is, this is something Bridgespan pointed out on some of their own research. Basically, this calls at indirect costs as a way of looking at dollars and cents from funded sources, is really a federal government thing that came out of World War II, so we've got to go back almost 100 years, I can't believe we're almost 100 years since World War II, but there we are. And by the 2000s, according to my colleagues at Bridgespan's research, it sort of was a thing that project funders were asking organizations and I think the intent is good, meaning we don't want you to waste your dollars and yet the consequences have actually been really challenging for the field.

RUSTY: [00:18:25]
Well, thank you for those important caveats about unintended consequences of my abolitionism, and for the bit of history as well. I think it is interesting how these things kind of spread across nonprofit, business, government, right? Like these concepts and managerial practices and funding practices, they influence each other and yet they have distinctions, right? Nobody asks what your overhead was on this can of Coke, they just say: oh yeah, you want to make money off of me, so of course it took you a nickel to make the Coke but you're charging me $1.50 and it's sort of a given, but anywho, that's another conversation.

RODNEY: [00:19:09]
We'll get there, I'm sure…

RUSTY: [00:19:11]
Yeah, we'll get there. Ok, so one of the things you've asserted is that improving how indirect costs are supported in project grants is an equity issue for the sector and for funders and nonprofits. And on this show and at Fund The People we have put a stake in the ground around talent justice and equity in our workforce. So, I was curious to talk with you about, you know, why and how is indirect costs an equity issue?

RODNEY: [00:19:42]
Yeah, I really appreciate that. Yeah, so what I will say is a couple things. One, it was unanticipated, obviously, the George Floyd murder. And yet it unlocked a fairly anemic conversation, I would say, in philanthropy around how dollars are inequitably distributed and it actually sort of opened the door for the funders in the group to say, how does equity intersect with indirect costs? And it sort of gave us, my colleagues and I at BDO FMA, the opportunity to really delve into this topic and we actually did some research that I think is among the more interesting things that we observed.

So we took the database of IRS form 990s of which there are roughly 240 thousand organizations that file them. Each organization is required on their 990 to divvy up their expenses: program, management and general, and fundraising. And we ask the question, what was the indirect cost rate of all these organizations? With the understanding that that indirect cost rate is going to be skewed low, because everyone is under pressure to have that number be as low as possible. So it's an imperfect analysis, but still it's indicative, right? And if you look at it across budget size, what do you learn? And it shouldn't be surprising, but it was really affirming to see that without fail, generally speaking, larger organizations have lower indirect cost rates and smaller organizations generally have higher indirect cost rates. So where does equity come in?

Many funders have a flat indirect cost rate policy, where they say you can spend no more than 10 or 15% of this project grant on indirect costs. Those policies unintentionally are disadvantaging smaller organizations whose indirect cost rates, as reported on their 990s, which are artificially low, those flat indirect cost rates are going to not hit the mark for them. They got to find the money someplace else. Meanwhile the largest organizations actually fall around 10% so they're not going to be hit as hard. [NOTE: CORRECTION - this number is 15%, not 10%]

And that's a surprising sort of realization moment. I think all the funders when they saw that data point, were really struck by what it's telling them. And they don't all fund small organizations, but we also, by the way, we took data from the portfolios of five of our own funder clients, to just see how true is that trend in general. And in each case, the smaller organizations have higher indirect cost rates and large organizations have lower indirect cost rates, regardless of the sample that you're looking at. And we think that's important and we think one, if nothing else came out of this, for funders and nonprofits to acknowledge that smaller organizations, as a percent of their expenses, have to spend more on indirect costs and that's actually right and good and necessary, that would be a huge contribution to the field, and then figure out, how should we pay for those things, is also a real opportunity for the field.

RUSTY: [00:23:01]
And we know that many social justice organizations are in that smaller bucket and many grassroots groups and many people of color led and focused groups are, for better or worse, are in that smaller area, a smaller budget size.

RODNEY: [00:23:22]
I would add to that, importantly, rural and smaller city organizations, and there's the intersection of those things, right? So you've got people of color led, social justice, in rural communities, like you keep adding those things and you will find that you have smaller organizations who, by the way, not only have higher indirect cost rates but often have less access to flexible funding to cover the gap between what funders are willing to pay for project grants and what their actual indirect costs are. So there's sort of a multiplier effect that I think is worth being aware of, both for nonprofit leaders and for the funders who support them.

RUSTY: [00:24:04]
Thank you for adding that and thank you for all the work you've done to make it clear that the indirect cost issue is an equity issue.

RODNEY: [00:24:15]
Can I add one more thing to that?

RUSTY: [00:24:16]
Yes, please.

RODNEY: [00:24:19]
And that is, I think, a big reason why this problem of properly covering indirect costs and project grants has not been fully solved, is that it does not affect all organizations equally, to the extent that equity is about getting everyone to the same starting place in a race, if you will. Larger organizations, organizations that happen to have relationships that get them general operating support more easily, organizations that have government funding that's local as opposed to federal, often have a difficult time covering their costs. Organizations that are sort of on this low end of opportunity of flexible funding are not necessarily the organizations that are known well by the people who start philanthropic organizations, lead philanthropic organizations, and govern philanthropic organizations. They tend to be more familiar with larger organizations that are relatively well resourced, for whom this issue is not as urgent. And so there's a sense, this is my personal observation, that because that is true it may feel like not as urgent an issue, as it might if those people were closer to the ground. So organizations who actually are struggling with this on a daily basis.

And that is not simply a criticism and it's not like I want to beat folks up. It's, let's just pause and reflect on how society is structured, and how it means that if people are not close to a problem, they don't see the problem in a way that the people in the problem feel it.

RUSTY: [00:25:45]
Yeah. Reflecting on my two years working at the Ford Foundation and subsequently being a grantee, on and off, that resonates in terms of like, which organizations feel they have the right to call up the Ford Foundation and schedule a meeting or go try to meet with Darren Walker, you know, or what have you, they tend to be not necessarily elitist but they tend to be the elite in their field of work, and the bigger institutions, research entities, that kind of thing. So, there is that access and perception and need combination on this equity issue. Who has access, at what pain points they're feeling, versus the folks who don't have such easy access.

RODNEY: [00:26:31]
Yeah, I guess that at the end of the day what I'm trying to say is: indirect costs is not a particularly interesting topic for most of us, and yet, if we can do a better job of covering them, everybody wins. Especially if we think about it from an equity perspective and we actually choose to do a better job of covering the indirect costs of smaller organizations, bipoc led that organizations, rural organizations, social justice organizations. You know, there are several layers of that, but that's a real opportunity in the field.

RUSTY: [00:27:03]
And it is a choice, you use the term choose. These are not predetermined practices in the Bible, the Constitution or the tax code. They are choices that funders can freely make and that's an important point, too.

Let's turn to your concept of: project grants don't have to be the enemy. This is an assertion you've made during a time of increased advocacy for multi-year general operating dollars. You and your colleagues have publicly made the case that project's grants don't have to be the enemy and you wrote about it in the Chronicle of Philanthropy and the Center for Effective Philanthropy blog. So, tell us what you meant and why you believe this to be the case.

RODNEY: [00:27:50]
It's important to me that folks hear me say that prior to facilitating this collaborative, I was pretty firmly in the camp that the only and best way to help organizations be healthy for the long term, which I believe is essential to achieving missions of organizations, that multi-year general operating support is essentially the only way to do that, and that project grants are just terrible. They don’t cover those indirect costs and I’ll say more in a moment about what they also don’t do.

What this project has helped me to do is realize that one of the most important things we can do is to help everyone, funders and nonprofits, realize that these project grants are probably not going to go away and there’s plenty of evidence of really smart people making the case for multi-year general operating support and, oh by the way, even more and I think with greater success in the current moment.

To the extent that project grants are not going to go away, I would argue and I think we have been arguing as a team in this work, there are things that can be done differently and better in terms of how project grants are structured. Because the truth of the matter is, this is controversial, every funder may not be comfortable saying I will make a grant to an organization to do all the things that it does and, you know, have it be multi year nature. There are sources of funding who feel strongly that they're not interested in supporting full organizations, they want to fund specific activities that organizations do. I think it's going to be really hard to prevent anyone from saying that's what they want to do. And so what we're trying to say is, if that's what you want to do, can you agree that it is important as a funder to cover the actual costs associated with the activity that you want to support, and can you understand that the organization delivering that is comprised of more than just the direct costs of that particular activity.

And so there are two really key things about project grants that I think are important to think about in that regard. One is, are they covering a fair share of those indirect costs. And if the only thing that came out of all this work is that every funder said, we want to cover a fair share of the indirect costs, that would help the sector quite a lot.

However, the bigger problem which we didn't go deep on in this collaborative, and we did talk about it several times, is that project grants by definition require organizations to spend every dollar of that grant. So if we pause there, and that gets us back to the coffee cup and how much is overhead versus all the other things, one of my favorite moments in the course of this initiative and it's related to all the career work that I've done, was when one of our, I would say, particularly modest members of the collaborative had this reflection moment where she said: why do we treat nonprofits differently from the way that we treat consultants, or other vendors, who we purchase things from and we understand that a profit is included in that price. And a lot of eyes went up, it was at one of the committee groups, and so we took that opening and that's what built out this question of what are some other ways to make project grants?

The simple fact is project grants require you to spend all the dollars that they're giving you. So if all we did was make sure to cover the fair share of the indirect costs we're getting to break even for organizations and that's a lot better than not being at break even. But what would happen if we actually asked the question, can we make flexible project grants that would acknowledge that a surplus is necessary for the organization's health? And if we could do that, the need for multi general operating support actually changes, and could be used for higher and better purposes than backfilling project grants that don't cover their fair share of indirect costs.

Flexible project grants was one of those things we were coming to as the collaborative was coming to an end. So it is not a fully fleshed-out, fully realized thought, although we know that at least one funder is doing something similar. But if I could wave my magic wand, I'd want attention to be paid to the notion that project grants could be structured in ways that at minimum cover their indirect costs and ideally would offer surpluses. That would be a huge change for the field.

RUSTY: [00:32:25]
I love it. That's great. So you did write about four ways that funders could possibly improve project grants. I think you've begun to outline those in your comments just now. But are there any others that you haven't covered?

RODNEY: [00:32:39]
So I'll restate, because it might be helpful to just be really explicit. And so this is, these are options that we recommend that funders consider if what they want to do is make project grants that do less harm than traditionally structured project grants do. So one is to fund the actual indirect cost rate of the organization applying that to the project costs and therefore covering a fair share. That's a challenging option because it requires organizations to be able to articulate clearly what their indirect cost rate is, and for people on staff at the foundation either to simply trust it or to have the ability to assess how much they trust it. So that's one option, and it requires skill and time.

Another is, if you have a fixed rate policy, which many funders do, just increasing that rate could make a difference. And what we would recommend funders consider is something that the Annie E. Casey Foundation has done and they've written about it, and hopefully you'll be able to talk to Katie Tetrault about this. They actually created a sliding scale. So looking at the findings that we talked about earlier, where larger organizations have lower indirect cost rates and smaller organizations have higher indirect cost rates, The Annie E. Casey Foundation's new policy is that the allowance for indirect costs is going to be higher for smaller organizations and lower for larger organizations. So it's a way to address this. And the reason why fixed rates exist, or a reason, is efficiency. As you heard earlier, I was saying if you want to find the actual indirect cost rate, someone's got to figure out what that is, someone's got to vet it. Fixed rates just makes everyone's life easier, and that's what we do. And yet, it rarely covers all the costs and so that's a challenge for the field.

Then, there's this notion I said earlier - flexible project support, as we pitched it to the funding group, we talked about it as, believe It or not Rusty, moving away from direct and indirect cost budgeting all together, and instead saying to an organization: what's your price for delivering this work, and to say to the organization: we assume that you recognize that having surpluses that builds your reserves and allow you to do all the things I know you care about, Rusty, how do you make it possible for organizations to understand that and then articulate it, and funders to say we're willing to pay that price, with that understanding. It doesn't mean the indirect and direct cost allocation goes away. It just means it's not the point of the grant. Focus on the impact, focus on the other things, and if you need an operating, a project budget, you can have one, but can we not require organizations to prove they spent only the amount that was assigned in that project budget.

Because the other thing about project grants we haven't talked about is where mission place. Depending on how they're defined, they can be extraordinarily rigid and the reality is the world changes, right? The one constant in life is change, and so if you've got a project grant that's really rigid in terms of how the dollars can be spent, you're actually unnecessarily hamstringing an organization. So that third option is providing flexible project support.
And the last one, which is kind of elegant, and some funders have thought about this and some funders do this without announcing it, is make a project grant that may or may not cover indirect costs, make an additional smaller general operating support grant alongside it, and you can have, you can address equity considerations elegantly by doing that.

So, four options: cover the actual indirect cost rate, increase the fixed rate or make a sliding scale rate, provide flexible project support that allows for surpluses, and the fourth is adding general operating support grants to the project grants. These were all things that this group found worthy of further discussion and some of them have actually taken on different ones of them, in how they're approaching their work.

RUSTY:[00:36:43]
I love it. It's great. And you're giving people a menu of ways to handle this is really, I think smart. There's so much to say about all of this but I'll move us along.

So, the next couple questions are just about next steps, because this stuff can get heady and people are like, where do I start? So let's say I'm a grant maker listening to this podcast interview, you know, what are a few things I could do to begin making these changes? Where would you recommend I start this journey, you know, are there essential readings, is there a website I should go to, is there a tool?

RODNEY: [00:37:22]
So the end of this work was the creation of Funding for Real Change, which is a website, and each of the things I'm going to talk about right now, we'll make sure to get you links to share with

your listeners on your website. And so, in a way you can all start out there, go to that website to learn that, I think if nothing else, we want the field to have options because not everyone's going to do multi-year general operating support and that can't be the only option, although I would agree that it is the best for organizations. And yet, there are other options so there's a sort of a body of work there.

It's built on work that I would encourage folks who like to read and learn. I would say start with the last blog post that was published by the Center for Effective Philanthropy, which contextualizes this issue in terms of equity and some of the points I tried to make today, and it actually has links to all the other resources which include: the three part series in the Chronicle of Philanthropy; it includes the research report that Humentum did on how this issue is showing up outside the US; it has links to, in some ways one of the most important things that this group did, was establish an indirect cost rate guide and an excel tool that would help individual organizations have a more consistent way of allocating their costs and presenting their own indirect cost rate to themselves, to their boards, and to their funders so that they're better positioned when they have the opportunity to negotiate, to say this is what it really costs us to do this project. And to go back to that wonkiness about indirect cost rate, if they know their actual indirect cost rate when they apply for a project grant, they want to apply that rate to the direct costs and then add that number in to get to cover a fair share of those indirect costs, that would be a huge win for the sector.

RUSTY: [00:39:27]
So I think you've answered the question for funders and for nonprofit, right?

RODNEY: [00:39:33]
Unfortunately, I did that.

RUSTY: [00:39:35]
No, no, that's good, it's go to the same place. So, we will put a link up to all the resources so if you go to cep.org and search for Rodney Christopher, you'll find his posts on the blog, but we'll provide that link on the show notes page. And then the other one where all the resources kind of live that came out of this work is fundingforrealchange.com so that's fundingforrealchange.com.

RODNEY: [00:40:04]
Can I say one more thing about this?

RUSTY: [00:40:06]
Yes, please.

RODNEY: [00:40:07]
I think yes, you can read. I think one of the biggest challenges to this issue is helping people understand that it matters at all and then deciding to do something about that. And the truth is, that takes time. I think those of us who are not involved in institutional philanthropy can legitimately be frustrated, by the fact that this research started in 2016 and it's 2023 and not

every funder has made this change. What I know from experience is: change is hard and the thing that kept coming up for us is, this is no one's full-time job to solve this problem and so it has to go in at the pace that it goes and I've seen real progress. But the question that I invite funders in particular to reflect on is: do I care about the organization that I'm funding to do this work? And if the answer is: I do care because I recognize that the work doesn't get done if the organization isn't healthy. If that's where you land, then you are somewhat obligated to look at this question and think about: if you're making project grants, are you covering those costs and are there ways you can do it better, then these resources can actually help you get there.

If your answer is: I really don't care about the organization, I just care about the impact. Then I ask you a different question, do you really believe that an organization can achieve impact if it is not a healthy enterprise with an appropriate infrastructure that allows them to deliver on this activity that you care about? If you are still not there, I don't know how to help you, because I've been in this field for 30 years and I feel very confident the organizations that are best capable of delivering on mission over the long term are those that are properly resourced from an infrastructure place and have surpluses and reserves.

Does that mean that every organization needs those things to do anything good? Of course not. Because the other problem that we have in the field is that really smart people will say why does this matter? It is working now, organizations are doing good things, why do we even care about this? You can choose that path. And that is your right. I only say to you pause and reflect on what really matters. And I would argue that having healthy organizations is actually really important. And to the extent that that's true, helping them cover their costs and invest properly and making sure they're capable of delivering on these missions is really worthwhile. And I will tell you that all the funders who committed to working on this believe that, and many funders who aren't in this collaborative also believe that. And so I just want to make sure that gets heard and understood by the field.

RUSTY: [00:42:49]
Thank you, that was so good. I'm so glad you added that, and so diplomatic as well because you know, you can say the system is working now, but I would say it may work from the funder perspective but it may not work from the person working in the nonprofit perspective, who's got that Grant. And so, back to that question of who feels the pain of these problems and what kind of voice and agency do they have, you know, I have argued that the nonprofit sector, the business model of philanthropy and the nonprofit sector is one of exploitation, where we actually exploit nonprofit workers and their organizations to deliver on these programs that we fetishize while we don't pay attention to the conditions of the workers. So, is the system really working that well for everyone involved, is a question I would add to your good questions, more diplomatic questions, than I can muster. And that’s said with a lot of love for funders and philanthropy as well.

RODNEY: [00:44:00]
I will just say I think those are fair questions and I think that when you are not close to a problem, you don't necessarily know all that is required to address it. And I'll also say that really,

really smart leaders in communities around the world are literally doing the best they can all the time, with substandard resources at best. And the interesting thing is they are doing really good things. And so that sort of feeds the sort of the doom loop if you will. And we don't want to end the doom loop by them not doing good things and therefore… because that doesn't solve it.

RUSTY: [00:44:35]
It doesn't solve it, but we often hold up, you know, those great folks as superheroes and it drives me nuts, we don't need superheroes, you know, we need good solid well-supported teams.

RODNEY: [00:44:52]
I'll offer one other thing and I totally agree with that. What I like to say to nonprofits, when I'm in training sessions, I'll say: raise your hand if your organization's mission has a clear end date in sight. Almost no one's hand goes up, which leads to, if that's true, then it is on you to figure out to the best of your ability to be a healthy organization, with surpluses and reserves as much as you can get there. This is not to say that it's all on you to do it, but to commit to wanting to do it and then to say to funders: yeah, you may not be planning to fund this organization for 10 years but the issue you're funding them to do probably isn't going to be solved in the three-year cycle of your grant. So, you kind of want to make sure that you're not harming their ability to continue doing the great work when your grant is done. So there's an opportunity to think about long-term matters, and if long-term matters healthy organizations matter.

RUSTY: [00:45:53]
Another way to think about beyond the grant, not just what the funder does during the grant, beyond the grant, but what happens beyond the term of the grant. The organization needs to keep going and maybe the program needs to keep going. All right, that is awesome. Another good framing device there.

So I'm using up a lot of your time and I just appreciate all the wisdom you're bringing. I wanted to offer another push on what I've read from what some of the results have been from the Real Cost Real Change collaborative. So from what I read, correct me if this is a misreading of things, that several of the funders who participated in the collaborative increased their allowable indirect cost rate near or just up to 29% which was sort of this average indirect cost rate that your research found among the financially healthiest of this 130,000 nonprofits in this data set you had. So I have two questions about this. So first, should there be a definitive percentage number that we peg as a best practice or as a common practice, isn't that what got us into this mess in the first place? That is, we have a harmful subjective but widely utilized rate of 10 to 15% that's commonly bandied about and used. Why are we even measuring or setting this percentage rate that everybody sort of is drawn to?

RODNEY: [00:47:28]
Yeah. So I actually want to make a correction to something that I said earlier, which is that the largest organizations the indirect cost rate that they sort of fall under is around 15% not 10%. So I want to make sure that I correct that error. Earlier, I believe I said 10% that would be incorrect. To get to your question, I want to start by saying the 29% number is explicitly an effort that the

MacArthur Foundation did to do better than they were doing and in their own writing about this, which there is a blog post about this, which includes a report that my colleagues at BDO FMA wrote about that research effort, and they've also provided technical assistance to grantees, to help them understand indirect cost rates, etcetera. Think about it this way, they were only providing 15% regardless. Bridgespan's research made it clear, which by the way, we participated in to get there, that isn't sufficient.

So their question, which is a different question I think, but it was an important question. What is the indirect cost rate associated with healthier organizations? We don't just want to have a rate that is, you know, covering the minimum. Can we do better? And this was their case. So we helped look at a bunch of data, and there is a range. If you take the quartile, if you take the nonprofit sector and put them into quartiles, the top quartile - the top 75% to a 100 - in terms of months of reserves as a measure of health, what's the indirect cost rate for those organizations and the average was 29%. So you and I could criticize the limitations of that choice, but not only because they paid us to do it, but I genuinely believe that that choice was a really important choice that they made to increase, almost doubling, the allowable amount for indirect costs, not a small choice to make. And as they would say in their own writing and they said in the conversations we've had with them, that was not the end of the game for them, this was a first effort to do better and they want to learn from it and determine what their additional options are.

Importantly, they are a funder who intends to do project grant making indefinitely and so this was their effort and I choose to celebrate it. I find humor in the fact that it's not a round number, 29, right? And that's a MacArthur choice, that I think folks will pay attention to think about learning from them.

Then you've got folks like the Robert Wood Johnson Foundation, whose flat rate was 12%. They asked us to look at the actual indirect cost rates of their grantees. And we basically, I'm going to, I don't want to get this wrong, so I'll say that based on our research, they determined that 20% as a flat rate was more fair to their grantees. And so they increased their flat rate. Are those things sort of the end of the line for either institution? I don't think they are. And meanwhile, you've got Ford who had a floor as this was all kicking off by 2019, but before that they had created a floor for indirect cost rates of 20% and they've now risen that floor.

So different funders are looking at this differently and that was important, I think, in the collaborative to not try to come up with one solution, because different funders had different priorities. There were days when that was hard for me, personally, to navigate and yet what I've witnessed is that each funder has moved the needle in their own shop meaningfully and I think there's one who made clear they weren't going to in the near term, but they were among the most active in making sure that we produced content that will be valuable to the field. So it's not, it's not perfect. But when I think on what I got to witness and participate in, I think the sector is better for this work having been done and I have reasons to believe that it's not sitting on a shelf somewhere. I think people are actually continuing to explore it.

RUSTY: [00:51:36]

I mean these aren't, private institutions can make these choices, as I said earlier, they have the choice so it is interesting to witness the different choices they've made, and the different questions they've asked while being in this same conversation, and hearing some of the same data about the harm that may happen from their old practices, and what real needs are.

So as we kind of come to a close here, I have a couple more real simple questions. So when we spoke in preparation for this conversation, we ended up talking a little bit about how increasing the financial health of an organization, for example, you talked about reserves and surplus, so increasing the financial health of an organization might actually be in conflict with or competing with another good, which is increasing the human health of the same organization. So I was really interested to talk with you about that, because at Fund The People we, you know, all this indirect costs and overhead stuff is for the end goal of increasing investment in the nonprofit workforce, not just healthy organizations but a healthy workforce within them. So what were you thinking about? What did you mean when you said these might be actually in conflict with each other? And how might we think about making them not in conflict with each other in some way going forward?

RODNEY: [00:53:03]
Sure I would say a couple things. One, this is a thought that's in progress that we are exploring. And as we share this observation, and I'll explain a little bit more, with nonprofits and funders we're finding that people are finding it interesting to reflect on this. So what the "it" is, is that we generally, here at BDO FMA and in general in the sector, there's a lot of talk about the importance of financial health of organizations and that every year you have a surplus, you build your reserves, every year do you have a deficit, you deplete your reserves. It really is that simple, how simple is it to get us the surplus is a separate conversation, right?

Organizations can choose and are under some pressure to maintain or build their financial health. It is true, however, that for an organization to be healthy and to be completely clear, organizations of almost every stripe, humans are the largest annual investment / cost that they make, it is especially true in the nonprofit sector. So when we're talking about organizational health, we have to be talking about human health, although I will admit, I and others will talk about organizational health and not be explicit about the importance of human health. So I want to own that in this conversation. At the end of the day, you have to invest in the organization and its people in order to deliver on the mission. And sometimes that's going to involve spending money that might feel better to some of us if it were in that surplus or reserve.

And so, in my mind, and if you're listening, you can't see this, I'm putting my two hands out next to each other, thinking of like the balancing of the scales. How do you do both of those things? How do you hold that tension between proper investment in organizational, including human resources, and ensuring the organization has a runway in terms of its surpluses and reserves. And it is being explicit, I think the addition in our work that we're finding important, is opening up the dialogue that says you've got to be thinking about both of those things explicitly and I think historically to sometimes talk about them in separate conversations.

RUSTY: [00:55:26]
Yes. Yes, thank you so much for that because you've articulated a challenge that I've felt but never articulated or could figure out. So like that's, you know, honestly been my critique of things like the California Philanthropies real costs or full cost project, it's changed names at different times. Or the Nonprofit Finance Fund, where I know you worked at one point, they do just what you just said, they talk about the financial health, but not the human health, investing in the financial well-being of the organization, but not the human well-being. And I'm like, like you said, if humans are the biggest line item and the biggest asset, how can you talk about you know, the health of an organization and not to… but that has been what the field has done. We've talked about financial health without the element of human health. So I'm so glad that you brought that to my attention and articulated it here.

And I hope, I would urge you and encourage you at BDO FMA and in conversations you're part of to like, push that. Because right now, there is so much conflict in the sector, internal conflict in organizations about salary, about benefits, about professional development, about burnout and turnover and all those things. And if funders don't have some kind of intention around supporting that, as they also help with financial health, it's going to continue to be not a good situation.

RODNEY: Absolutely agree.

RUSTY: Okay, I'll get off my soapbox.

RODNEY: It's okay, I have them, it's all good.

RUSTY: Okay, so you know as I mentioned In the opening of this, this episode is going to kick off a pretty special series of episodes in which we'll have some representatives from these foundations that participated in The Real Cost, Real Change collaborative join us to talk about the changes they've made, which you've talked about some of them today. And so you've already given us a little preview of how Casey did it differently from MacArthur, did it differently from Ford, and only one out of the twelve hasn't taken in like a concrete action to improve their indirect cost practice. Is there anything else, any other context or preview you could help us understand, as we talked with some of these funders going forward.

RODNEY: [00:58:01]
This is something I wish I said earlier and it's related to your question about what they're going to hear. If a funder really wants to do a better job of covering indirect costs for their grants, their project grants, it's going to take money to come from somewhere to cover what are effectively additional costs.

One thing they can do is increase the overall budget for grants. So that that additional amount can fall within the existing budget and there are lots of reasons why that can be difficult. Another is they can decrease the number of grants to accommodate that growth in covering indirect costs, that is also a really unpleasant conversation for funders to have. And the last would be decrease, if you want to keep the grant size the same but cover more indirect costs, you actually have to negotiate a smaller scope for the direct costs in order to cover the indirect costs. Nobody, including the grantee, wants to say I will do less.

So you've got three really tough choices that a funding institution needs to grapple with and make in order to make change and in a lot of ways, that my friends, is the problem. Because you got to do one of those three things if you're genuinely going to be covering those indirect costs. And I think each of those is kind of a really tough thing to say yes, we're going to pick that. I do know, that Annie E Casey will talk about, they chose option one. They increased their overall grant budget. Whether that's something they can do forever, I don't know, but it's important, I think, for the field to get their head around the fact, it's not just, I don't want to cover those costs, it's that they gotta come from somewhere. And I know that in the early days, with some of the funders you're going to talk to, those things came up.

You'll also hear, to the extent that they choose to share it, that this is a journey for them and that it involves many people thinking about this. These are large institutions so change can take time and each of them went on the journey that they went on, there were staff changes in organizations at the leadership level. What I will say, and I know there are people who listen to this will be like “ah!” but I'll say it anyway. I would much rather be in a world where really smart people who care are trying to do better, than a world where they're not. Whether they're doing it as fast as I might like, or thoroughly as I might like, we can have a long conversation about that, but I choose to live in a world where I want to celebrate that I think some really good things have been happening. And these are folks who I've come to respect a great deal, who will be speaking with you, and they will likely be pretty transparent about the fact that this wasn't the easiest thing they're going to do. And importantly, it's not the only thing they're doing. We don't want this to be the only thing anyone is doing. We want them to be focused on human health, and impact achievement. And yet, this stuff gets in the way.

RUSTY: [01:00:56]
That’s such an important point, I'm really glad you kind of went back to that set of choices, difficult choices that it takes to do this. Even if you have the will to do it, and again that’s another set of competing goods, right? More grants is good but it means less money per grant is available. Less grants might mean bigger grants but less access to grants for other organizations. So, these are all these choices and I appreciate you laying it out. And I'm excited and thank you for introducing me to some of the foundations who participated in this effort. And I think it's going to be really great to hear about their journeys from them.

You've already mentioned a number of the products and written materials that came out of this work that are publicly available. So we will be adding those to the show notes page. So those include the three part series in the Chronicle of Philanthropy, the two blog posts on the Center for Effective Philanthropy website, the Indirect Cost Guide for Nonprofits and I think the spreadsheet as well that goes with that, and whatever else you send my way. Also folks remember the website fundingforrealchange.com and we'll put that link up as well. And are there ways that our listeners can connect with you, with BDO FMA as well? And are there other things coming up that folks should be looking out for?

RODNEY: [01:03:28]
Sure. So we do actually have a website. We do lots of things, not just this work with funders, we work with lots of nonprofits to help them navigate their infrastructure needs and I have a great set of colleagues. So you can reach out to us through that. I will say that there's some interesting stuff that we're working on that I want your listeners to know about. Probably the most important, is coming out of this work we've gotten really clear that the way that financial due diligence is done across the field of grantmakers deserves some attention, and increasingly funders are in conversation with us about how they can do a better job of being efficient, grantee respectful, etc. in terms of how they do that work, and I think we've got some really interesting things going on there and I know that we're starting to publish some content on that topic as well.

RUSTY: [01:04:31]

Rodney. Thank you so much for your time and for the work you've done for 30 years in the sector and in this Funders for Real Cost Real Change collaborative, very important contribution and making real strides, as you said, real concrete changes to some of the biggest foundations in the world and to how they make their grants. So kudos to you sir for leading with values and effectiveness. So, thank you, and thanks for your time today.

RODNEY:
Thank you. I really appreciate it.

NEXT EPISODE TEASER: Don't miss our next episode, when Janet Nami McIntyre and Paula Morris from the Resilience Initiative share their model of how one funder in this case, The David and Lucile Packard Foundation can provide capacity building resources in a fast, responsive fashion to help grantee leaders endure and thrive in times of crisis. So join me to get valuable insights from the Resilience Initiative next time on Fund The People Podcast.

OUTRO: [00:44:09]
Thanks for listening to Fund the People Podcast! Visit fundthepeople.org and click on “Podcast” to find a transcript for this-and other-episodes, all the links discussed in the episode, and more about our guest. If you enjoyed the episode, we’d really appreciate a 5-star rating and a quick review if possible on Apple Podcasts - it helps more people to find the show. Thank you for driving change in our communities. Remember to keep your tank full, take care of yourself, and take care of one another.