BTW INFORMING CHANGE

More Than the Money: Fiscal Sponsorship's Unrealized Potential

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Like foals getting their bearings on wobbly legs, many emerging social change organizations are eager to step into their mission work with energy and fresh perspective, but they lack the "legs" of an infrastructure to lift and carry them forward and steady. They do their best to simultaneously deliver program, publicize their good works and build organizational and managerial capacity.

Under the strain of these competing priorities, many falter and deprive the communities and populations they exist to serve of the promise they hold for new ideas, new solutions and new opportunities. While some start-ups falter and fail, others compromise; they short-change program delivery in order to focus on building visibility and infrastructure.

This dilemma demonstrates the value of and need for a nonprofit organizational platform that provides administrative and managerial supports to accelerate the pace and success of bringing new ideas and services to the public problem-solving market place. The good news: Such a platform does exist. The bad news: It is not well known nor widely understood.

The platform we're referring to is fiscal sponsorship, the arrangement in which one entity agrees to accept and manage funds for another. Within the nonprofit sector, fiscal sponsorship usually occurs when a group or an individual wishes to receive tax-exempt contributions for charitable or community-focused activities without building a full organizational infrastructure or receiving formal 501(c)3 status from the Internal Revenue Service. Unfortunately, many in the sector would be willing to use this last sentence as a definition of fiscal sponsorship, although it is a dangerously narrow conception of fiscal sponsorship—narrowed unnecessarily to the issue of how money changes hands and dangerous because it passes over the legal and financial obligations of a fiscal sponsor.

In our work with the clients of BTW *informing change*,[1] we have had opportunities in the past few years to explore and observe fiscal sponsorship in action.

1 BTW *informing change* provides nonprofits and philanthropy with information-based consulting services designed to help define and improve organizational process, practice and results.

The myths resulting from a narrow interpretation of fiscal sponsorship have served to limit the sector's ability to make the best use of this structure for building sector capacity, fostering innovation and increasing social impact.

The BTW team has queried leaders of organizations that provide the service, leaders of projects that use or have used fiscal sponsorship and funders of both groups. From this work we have learned that although the use of fiscal sponsorship is primarily among emerging and early-stage nonprofit organizations, the benefits of fiscal sponsorship can extend well beyond the needs of start-up organizations. Later-stage organizations value the resources made available through a shared services model and the links that a fiscal sponsor can provide into vibrant networks of like-minded social change groups and individuals.

As part of a recent examination of fiscal sponsorship, BTW conducted interviews with foundation executives and philanthropic thought leaders; we wanted to understand their perception of and experience with this platform for nonprofit development and support. The interviews revealed a combination of ambivalence, misapprehension and misunderstanding about the nature and value of fiscal sponsorship, even among individuals possessing years of experience within the sector.

While the private sector long ago embraced the concept of shared services, cooperative purchasing and strategic outsourcing, the nonprofit sector (meaning the nonprofits and the foundations and individual donors funding them) is still operating primarily from a place of valuing independent incorporation over collective cooperation. This premium placed on independence is costly on many levels: It is diverting philanthropic resources into start-up investments to build and then feed infrastructure; it strains and drains leadership and talent as nonprofit executives struggle to reinvent the management capacity and accountability systems required to comply with laws and regulations and to manage the inflow and outflow of public and charitable funds.

The results from BTW's interviews with foundation representatives inspired us to write this brief, to try to debunk some of the misunderstandings revealed during our information gathering process. Our intention is first to replace fiction with fact about the practice of fiscal sponsorship and then to offer a perspective about the power fiscal sponsorship may hold for building a stronger, more efficient and more effective independent sector.

We hope these thoughts help inspire a new conversation about the architecture of the nonprofit sector, including an examination of the need for new, strategic platforms to help sum the parts of nonprofit and social change endeavors. We believe that fiscal sponsorship is one such platform, and one whose potential is not yet realized.

FISCAL SPONSORSHIP: WHAT IT IS

Fiscal sponsorship begins when one entity agrees to accept and manage charitable funds for another. A fiscal sponsor (sponsoring organization) commits to supporting the charitable activities of individuals or unincorporated groups by extending its tax-exempt status to include them, thus enabling donors to make tax-exempt contributions to support their work. The fiscal sponsor accepts financial and legal liability for the charitable work being done by the group or individuals, thus relieving them from having to formalize any new organizational structures for their work and incurring the expense of applying for 501(c)3 status from the Internal Revenue Service.

In accordance with legal requirements, a fiscal sponsor may sponsor only projects with a charitable purpose consistent with the sponsor's own mission. The fiscal sponsor must exercise control over the financial resources it receives on behalf of the project, including monitoring that the funds are spent only for the purposes for which they are given. An organization that serves as a fiscal sponsor accepts significant legal and financial risk in doing so. It is therefore critically important that fiscal sponsorship be offered by organizations that are well-informed of the risks and structured to manage and accept those risks. At this time, there are only a handful of organizations in the country that have a dedicated practice of providing fiscal sponsorship services to charitable efforts.

Given the significant exposure as well as the like-minded mission of the sponsoring and sponsored organizations, effective fiscal sponsorship requires a high-touch, high-engagement relationship, one that will help the sponsored project develop both capacity and the good habits of nonprofit practice. A great fiscal sponsor walks a fine and difficult line between providing appropriate oversight and enabling projects to develop independent identities with dedicated stakeholder involvement.

THREE NOTIONS WHOSE TIME HAS PASSED

Myth #1 That fiscal sponsorship is only good for incubation.

In our discussions with foundation executives and philanthropic thought leaders, there was a consistent perception that fiscal sponsorship is only good as a tool for early-stage organizational efforts, a launching or testing pad for what will or could become new nonprofit corporations. The value proposition reflected in this perception is that fiscal sponsorship is a service to infant/toddler organizations but that all good charitable efforts grow up to be independent entities. This perception establishes a parallel expectation that pressures sponsored projects to move into formal incorporation, whether they are ready or not.

What assumptions underlie the belief that all start-up charitable endeavors must grow up to be independent nonprofit corporations? That only fully independent nonprofits have good and responsible governance? That only fully independent nonprofits are able to exhibit accountability and skill in managing financial resources?

Yet we know that nothing magical happens when a project obtains its own nonprofit status, that project directors do not suddenly develop new skills and sensibilities when they become employed by a new nonprofit, nor do project advisory board members suddenly become more fully engaged and participatory when their legal status changes to a governing board.

Consider These Facts

- Independent incorporation means that projects and their leaders become responsible for obtaining and supervising financial management, benefits administration, human resources and legal and compliance services.
- When project staff are responsible for managing these back-office services, their attention is diverted from mission-critical work.
- Nothing inherent in fiscal sponsorship confines its value to start-up endeavors.

The for-profit sector has demonstrated through its increasing use of shared services, outsourcing and cooperative relationships that companies can soar when they focus on core competencies and shed functions and responsibilities that can be better managed and executed elsewhere.

In pursuit of good nonprofit citizenship, an effective fiscal sponsor should be monitoring and supporting its projects to develop an appropriate level of capacity and understanding in all realms of business operations so that the leaders are knowledgeable about the business they are in and the advisory boards connect and align the good work with the community they represent and serve.

Myth #2 That fiscal sponsorship is just financial management.

When foundation executives and philanthropic thought leaders in our interviews described fiscal sponsorship, most of them focused their comments on issues related to moving funds among entities with the appropriate tax status. Underlying these descriptions was a lack of understanding about the nature of the liability that is conferred upon and accepted by a fiscal sponsor. The interviews revealed some legally faulty assumptions held by grantmakers; three examples are the beliefs that the fiscal sponsor is a transmittal vehicle, not an actor, without a role in monitoring and supporting program activities; that the fiscal sponsor should be a disinterested party that lets the project do as it sees fit; and that a high level of fiscal sponsor engagement with a project is undesirable because it indicates the sponsor is trying to control the destiny of the project.

But we know that a fiscal sponsor is limited by law to extend sponsorship only to projects with good alignment with its own mission, so therefore the sponsor should have a stake in the programmatic value of the project activities. Serving as a fiscal sponsor means accepting significant legal and financial responsibility, and it is in the interest of the project and its funders that the sponsor exercise appropriate oversight and engagement not only with the project's contributions and expenditures, but also with staff management and program execution.

Consider These Facts

- A fiscal sponsor, specifically its board of directors, accepts significant financial and legal liability when it embraces a project under its 501(c)3 designation; it would be irresponsible not to set expectations and monitor the project's activities, from programmatic efforts to community interactions to personnel practices.
- An experienced fiscal sponsor can demonstrate to prospective funders how it ensures that its projects are in compliance with laws and regulations, how it works with sponsored projects to develop their organizational capacity and how it helps projects exercise good judgment in the execution of their program activities.
- It is in the best interests of the fiscal sponsor, the project and the project's funders to have an active and engaged project advisory board that understands the nature and limits of its authority and responsibilities.

Myth #3 That fiscal sponsorship has limited utility in the nonprofit sector.

While the nonprofit sector has been in a phase of significant self-examination and transformation, the concept of fiscal sponsorship continues to languish under a definition set decades ago. Despite the sector's vigorous growth in the past few decades, changes in nonprofit standards and higher public expectations of charitable organizations, there has been little examination of the role that fiscal sponsorship has played and could play in this changed environment. The general perception among foundation executives and philanthropic thought leaders is still that fiscal sponsorship is a limited means to a limited end.

The following out-of-date assumptions continue to be prevalent:

- That fiscal sponsorship is a transactional relationship and makes only a small contribution to a group's development or effectiveness;

- That fiscal sponsorship is not about impact, only process; and
- That fiscal sponsorship is just as effective when offered on a one-by-one basis as when it is offered to a networked community of charitable endeavors.

But we know that an effective and responsible fiscal sponsor monitors program impact as a first order priority in meeting its legal obligations. Also, a fiscal sponsor is in a unique position to produce financial efficiencies for its projects through shared services and access to a broader range of services than projects could afford independently. When done well and re-cast to reflect the nonprofit sector's highest standards and expectations, fiscal sponsorship can demonstrate to the independent sector some of the practices that have helped build larger, more efficient and more effective business operations, including sharing costs of back room operations, creating partnerships with distant companies and groups to form virtual corporations, using networks to test new ideas and challenging long-held assumptions and venerated practices. In fact, some funders do wonder aloud why fiscal sponsors' voices are not more significant in the sector, given that fiscal sponsors and their projects have been historically on the cutting edge of sector innovation.

Consider These Facts

- While fiscal sponsorship carries explicit and specific responsibilities and liabilities, it is not by definition confined to that realm of activity.
- There are signs of increasing interest in fiscal sponsorship by philanthropy. Some funders are calling upon the fiscal sponsors they use to provide training, education and capacity building services to funded projects and assume more responsibility for community-based social change. The W.K. Kellogg Foundation has supported efforts to create new connections among dedicated fiscal sponsors and build a body of knowledge about good fiscal sponsorship practice.
- Fiscal sponsors are creating new communities of social change endeavors within the nonprofit sector—they are introducing groups and leaders to one another and weaving together networks that reflect useful programmatic or organizational characteristics (e.g., issue areas, geography, size, staffing patterns). Projects report that joint gatherings with other sponsored projects allow them to focus on the skills they need to attain their program and organizational ambitions and help them build useful connections with others engaged in similar work.

LIFTING OUR SIGHTS

At the heart of the mythology surrounding fiscal sponsorship is a belief that fiscal sponsorship is a tool with limited value, useful only to aid and abet financial transactions for charitable activities. This notion directly conflicts with what the law expects of fiscal sponsors, and on a practical level it undervalues the potential of both the sponsor and the project. The myths resulting from this narrow interpretation of fiscal sponsorship have served to limit the sector's ability to make the best use of this structure for building sector capacity, fostering innovation and increasing social impact.

Rather than being viewed as a financial tool, fiscal sponsorship should be framed as an arm of organizational development services. Fiscal sponsorship can provide legal, financial and administrative back-up to enable fledgling projects to take flight or mature organizations to focus their time, talent and energy on mission-critical work.

Until we have solved the problems of our day, the obligation of the public charity sector is to continue to try. How long will we engage in the same behaviors and produce the same results before we challenge ourselves to take risks? What powerful connectors can help us see and manifest our own potential by introducing us to compatriots and allies? Where are the opportunities for the nonprofit sector to accelerate the pace of progress? And what role can fiscal sponsorship, renewed or reinvented, play in this important work?

These questions are worthy of debate. Ten years from now, when we look back at this moment in the development of the independent sector, will we be satisfied with our pursuit of innovation and change? It is our hope that we will be able to say, "Oh, yes, then…we were not limited by the past, by what we had seen before; instead, we were inspired by a future we knew we needed to create."

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The authors welcome your comments on this article as well as your observations of the practice and the impacts of fiscal sponsorship, either by email message to jblair@btw.informingchange.com or by comments posted on the BTW website, www.btw.informingchange.com.

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