



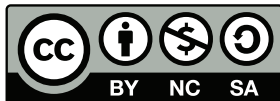
**SOCIAL IMPACT
COMMONS**

The Case for Debt Capital

Expanding Common Financial Resources for Fiscal Sponsors and their Projects



A collaboration with American Nonprofits



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Defining our terms

cap·i·tal | \ 'kɑ-pə-təl

- a stock of accumulated *goods* especially at a specified time and in contrast to *income* received during a specified period; also, the value of these accumulated goods
- accumulated goods devoted to the production of other goods
- accumulated possessions calculated to bring in income
- a store of useful assets or advantages

The definitions and discourse around **capital** are strongly based in a free-market (capitalist) paradigm of resource extraction and accumulation for private interest.

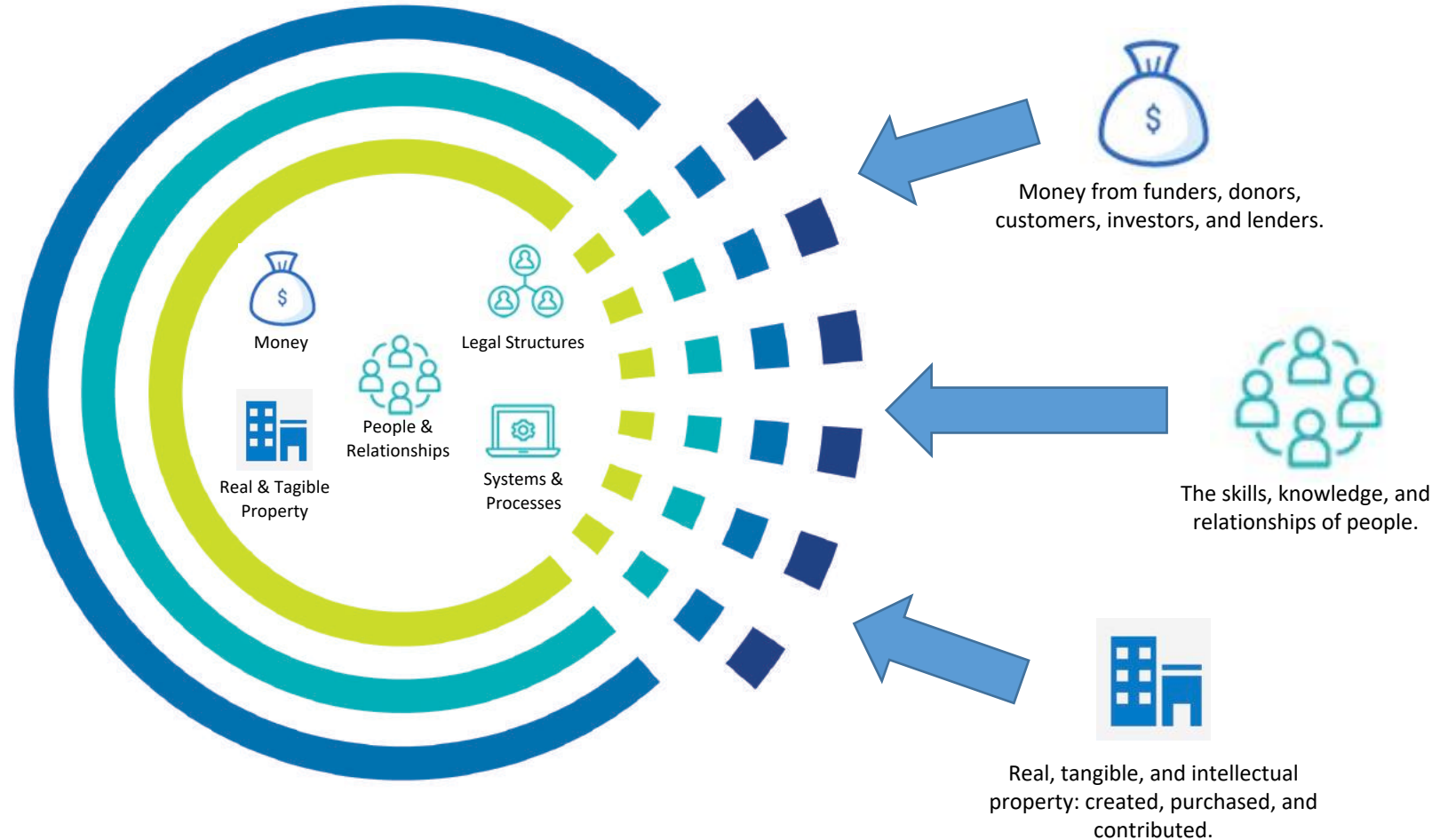
It has been extended to ideas of “human capital”, “social capital”, and others—all notions that have developed a strong association with private wealth building, as opposed to commoning and public trust.

What if we replace the term “capital” with “commons resources”...?



Building commons resources

A **commons**, managing resources with intention for the benefit of a defined but open community.



While commons can build resources from within, a steady inflow of external resources is also needed.

This is a process of *re-commonizing* resources that have been largely extracted from communities by external private interest and free markets.

What's at stake?

The greatest commons resource of our sector is the people who drive it—their contributed time, energy, skills, and knowledge—likely more valuable than all philanthropy combined.

Despite wide recognition of the need for various forms of resources in the nonprofit sector, most nonprofits remain chronically “undercapitalized” and fragile from a financial standpoint.

Nearly half of all nonprofits (which includes fiscal sponsors!) have less than 30 days cash on hand, according to Nonprofit Finance Fund. Candid has recently predicted that we may lose between 3% and 38% of our nearly 1 million nonprofits as a result of the economic and other stresses of COVID.

We believe the number of failed nonprofits will be closer to Candid's *lower* estimate, based on the relentless drive of our *people*. This is cause for hope *and* despair. *What will be the human cost?*

Nonprofits end not when the *money* runs out, but when the *motivation* runs out.



The balance of time and money

...is out of whack, big time...

The time and effort resources represented *people* far outweighs the financial resources we have to compensate for our human capacity.

So we need – more than ever – to focus on building and bolstering our financial resources.

We need more money, and we need it when we need it.

People

Money



The “supply of finance”

...is limited in the nonprofit space, from the standpoint of *sources* and *responsiveness*:

If you need to make a “capital” investment in your organization (i.e., new staff, technology, program implementation costs), you have the following options with regard to *sources*:

Net Income – Nonprofits can use their Liquid Unrestricted Net Assets (“LUNA”)

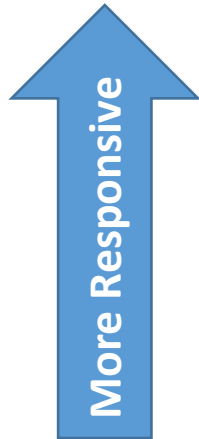
Major Gifts – Major donors, per their discretion, can often provide responsive support.

Loans/Recoverable Grants – Revolving loan funds and low-cost debt or loan-to-grant products.

Foundation/Government Grants – This remains our most common source of capital.

The challenge is that aside from net income, which may be used at management and board discretion, the other sources present challenges in access/availability and responsiveness.

If loan funds are built and targeted toward a particular intermediary, such as fiscal sponsors, debt could offer another comparatively responsive option for our community.



Kinds of financial resources

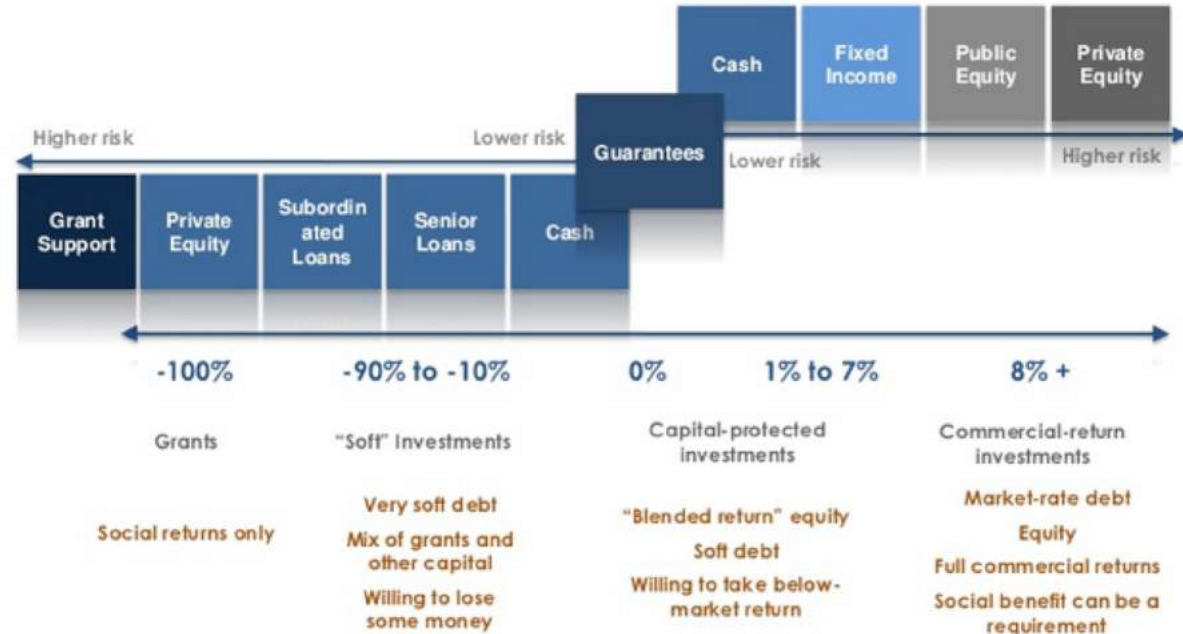
Beyond traditional income sources, we need to consider the range of low-cost **debt** options in the middle of the F.B. Heron “supply of finance” spectrum.

- **Capital-protected Investment:** Program Related Investments (PRIs) and below-market equity and debt at 1% - 3%;
- **Soft Investment:** non-interest-bearing debt and equity, recoverable grants, etc.

These financial resources are relatively under-developed for the nonprofit sector, in particular “small cap” lending between \$10,000 and \$100,000.

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Supply of Finance

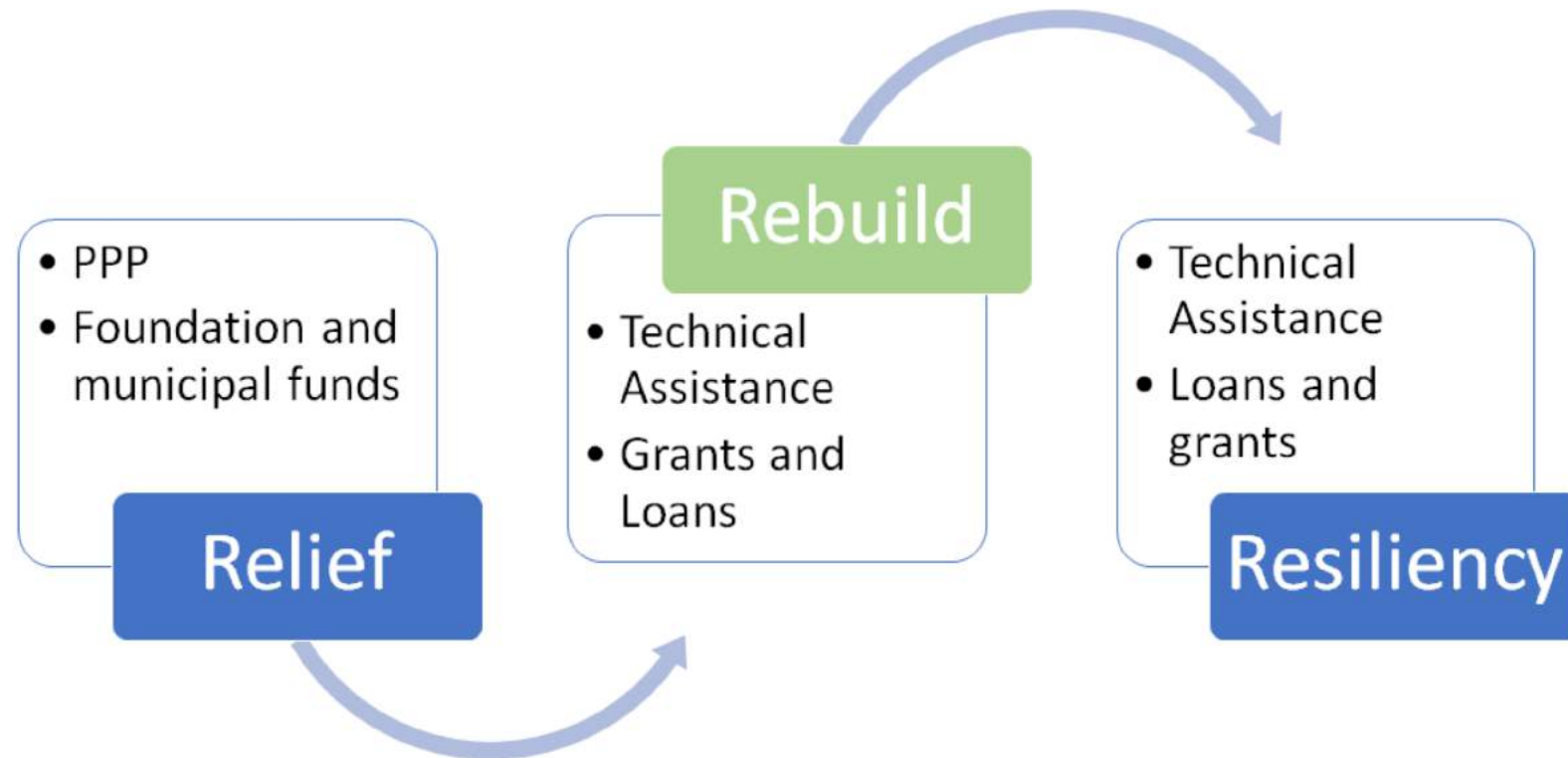


Source: F.B. Heron Foundation and Jessica Shortall (2009): "Introduction to Understanding and Accessing Social Investment"



What is the path forward?

Loans can and should be part of our capital strategy to stabilize our sector moving forward.



Some uses for lending

Preliminary research conducted by Social Impact Commons in 2019 revealed needs among both **sponsors** and **projects** for financial resources, available for the following needs:

- **Bridging** – Providing temporary cash flow relief against contracted receivables (grants or service contracts) or anticipated income (from proven programs or services).



The Ecosustainability Project has two government contracts and a grant totalling \$250,000 that they have yet to receive, but need to make payroll next week. They can borrow against these contracted receivables and make sure their people are paid on time!

- **Recovering** – Funds for retiring debts and liabilities that resulted from broken business models or external events, assuming a sustainable business path forward has been defined and committed.



Very Experimental Theatre Company was hit hard by the pandemic, having to cancel a whole season. They need some funds to take care some aging payables and keep their core staff employed, while they pivot to virtual programming and plan for future live events. To get through, they want to borrow funds at no interest, with the potential to convert some to outright contribution.



Some uses for lending

- **Scaling** - Funds for investment in staff and infrastructure capacity in advance of new or increased revenue streams and demonstrable external demand for/interest in growing programs.



Community Healthcare Partners, a “Model A” comprehensive fiscal sponsor, has several large new projects waiting to spin in, but must invest in staff and systems before bringing them onboard. To move quickly, they want to supplement some LUNA with low-cost and low-risk debt, leveraged against the anticipated income from the new projects.

- **Pivoting/Innovating** - Funds for supporting organizational change or innovation in advance of new or increased revenue streams and/or savings and cost efficiencies.



The Advocacy Project has been working on its social justice advocacy and has developed a bold new online platform and fundraising campaign strategy, but needs to invest in implementing it ahead of projected income. They would like to explore low-cost debt as a quicker path to finance. Time is of the essence!



Good debt and bad debt

There is “good” debt and “bad” debt for nonprofits...

Good Debt: Loans taken on with intention and financial due diligence, usually to address near/medium-term needs (if unsecured) or longer-term asset (i.e., real estate) management.

Bad Debt: Debt taken on without financial due diligence, intention, or planning, often as the result of external events or unrealized operating assumptions; high-risk or high-cost commercial debt.

For nonprofits, more lending avenues are needed for “small cap” borrowing (\$10,000 to \$100,00), with low-risk terms and low cost. This largely does not exist in the market today.

Philanthropy, in partnership with fiscal sponsors, can play a transformational role in providing these kinds of lending resources.



Some of the challenges concerning debt

- **Equity & Access:** Communities of color and other marginalized groups are most frequently excluded from accessing loans and underwriting models are rife with racist assumptions.
- **Debt Aversion/Awareness:** There are sector-wide prejudices against nonprofits taking on debt, and related, lack of awareness or knowledge of how to think of debt as a solution (not just a “problem”).
- **Availability of Finance:** There is comparatively little debt-based finance available to nonprofits for *operating investment*, in contrast to *bricks and mortar or other tangible property investment*.
- **Collateral:** Lack of collateral assets to secure operating loans holds nonprofits back from obtaining loans at good rates from traditional lenders. (This is less true for real estate investments.)
- **Creditworthiness:** Small nonprofits (in particular the 88% of organizations operating below \$500k/year) are seen as too financially fragile to take on any amount of debt.



Fiscal sponsors can change the game

Fiscal sponsors are uniquely positioned to address the challenges we identified and change the finance game for loan-to-grant resources both for *sponsors* and their *projects (sponsees)*.

- **Distributing Authority:** We can facilitate local, community-based origination and underwriting criteria and include community members in lending decisions.
- **Sharing Risk & Increasing Access:** We are structures for sharing risk: the sponsor is the primary borrower *on behalf* of their projects, allowing smaller projects and start-ups access to lending.
- **Leading Fund Development:** Fiscal sponsors can lead the way in developing loan funds with a mix of outright grants, recoverable grants, and low-cost debt.
- **Ensuring Responsiveness & Ongoing Support:** The close relationship with projects enables rapid risk assessment, data gathering, and decision making; ongoing technical support is built in.



A path forward...

Social Impact Commons and American Nonprofits see a possible path forward to providing fiscal sponsors and their projects access to sustainable small-cap, low-cost, loan-to-grant resources.

- 1. Build a Fiscal Sponsor Loan Fund Toolkit & Training Program:** Guidelines and tools for creating community-based underwriting criteria, loan management, financial modeling, and fundraising case-making, as well as staff, board, and project orientation and training and materials.
- 2. Support Field/Regional Fund Creation:** Working with our members to identify and cultivate either field-focused and/or regional funders and financing partners for loan creation and piloting of either field specific and/or regional Consortium Capital Funds focused on fiscal sponsors.*
- 3. Create a National Loan Loss Reserve Fund:** Working with one or more field/regional fund consortiums to develop a single, central Loan Loss Reserve Fund to de-risk or “backstop” loans made by participating consortiums loan funds.

(*) We are making an assumption that capital for such revolving loan funds will depend on field- or regional-oriented philanthropy (there would be less likely interest from national funders), as “capital” is rarely (if ever) a funding priority *by itself*, absent a particular geographic or nonprofit field focus (i.e., healthcare in Philadelphia). For example, a consortium of fiscal sponsors serving the City of Atlanta would have a better shot raising a fund for their community from local funders and banks than attempting this raise loan funds on the national level.



Next steps

Social Impact Commons, in collaboration with American Nonprofits, sees the following possible next steps, beginning in early 2021.

- 1. Identify at least one pilot fiscal sponsor consortium by field focus, region, or other grouping.***
- 2. Develop the tool kit, trainings, and lending business model with this pilot consortium.**
- 3. Take the model to funders and finance partners, proposing a pilot Consortium Loan Fund.**
- 4. Raise initial funds for the central Loan Loss Reserve Fund.**

(*) While it would be preferable to develop the proposed tool kit in collaboration with several fiscal sponsors and their projects, there may be value in developing some of these tools regardless in the interest of advocating for more lending resources for the field.





About Us



is a California-based nonprofit organization which provides financing and technical assistance to impactful nonprofits.

American Nonprofits was formed by a group of nonprofit sector leaders to serve as a platform to address issues of finance for small to medium-sized organizations, which continue to be underserved by banks and nonprofit lenders alike.

<http://americannonprofits.org>



**is a nonprofit organization
supporting a national
community of fiscal sponsors,
our Members.**

A fiscal sponsor, or *commons manager* (our term), is a nonprofit backbone organization that provides shared corporate structure, finance, HR, legal, insurance, risk management and other resources among multiple semi-autonomous missions.

Social Impact Commons is an incubator and shared service provider for the fiscal sponsorship field, with the goals of *growing* and *strengthening* the field.

(We are *not* a fiscal sponsor, we *support* fiscal sponsors.)

Who We Serve

We support the creation of **new** fiscal sponsors as well as the growth of **emerging** and **established** fiscal sponsors.

As an ally organization, our focus is supporting fiscal sponsorship resources that are led by and serve BIPOC and other marginalized communities.

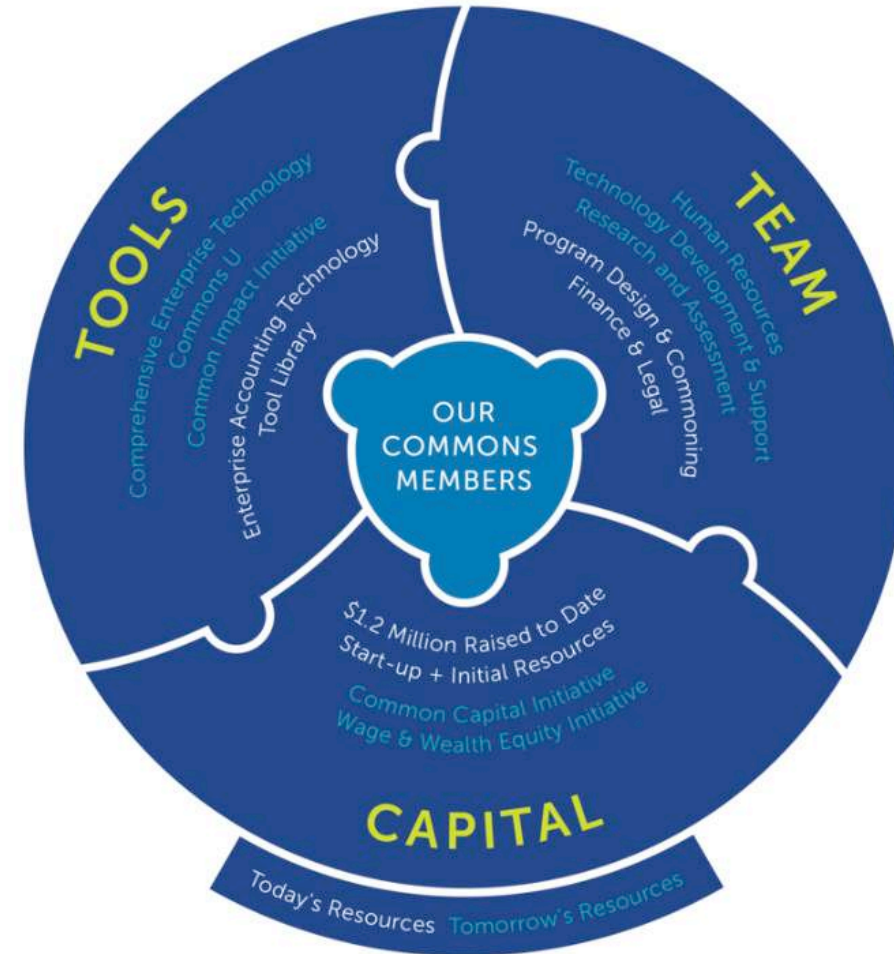
We build the capacity of the field through **shared knowledge, language, impact measures, tools, technology platforms** and **expertise** targeting the immediate needs of fiscal sponsors.



Shared Resources

Based on two years of field research, we have found that the chief *needs* for building the capacity of the field are:

- **Team:** Providing direct advisory support in finance, HR, legal, program development, assessment, technology development, and other key areas of capacity building.
- **Tools:** Shared cloud-based enterprise technology systems, common impact model, training curricula, forms, documents, etc.
- **Capital:** We are directly capitalizing the field through developing all of our shared resources, alongside creating targeted financial products: Multiple Employer Retirement Plan, Capital Fund Network, Incubation Fund, etc.



Commoning Practice

In the interest of centering equity, diversity, and inclusion in our work...

We have created a model that infuses *fiscal sponsorship practices* with principles of *commoning* to create the next generation of practice: **commons management**.

The field of commoning practice has a long history and is enjoying renewed interest, as it concerns more equitable and participatory management principles focused on mutual care and economic self-sufficiency.

Our model of commoning, applied to the fiscal sponsorship field, is lightly adapted from the work of Silke Helfrich and David Bollier and their notion of the “commoning triad”.

Commons Management





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Generous support for the development and work of Social Impact Commons has been provided by:



and

