



NOTE TO THE READER

The below draft paper from Social Impact Commons is intended as a companion piece to a field-wide scan of the fiscal sponsorship ecosystem, being undertaken as a collaboration between Social Impact Commons and the National Network of Fiscal Sponsors (NNFS) in the fall of 2022. The field scan will gather basic organizational, diversity and inclusion, and capacity-related data on U.S.-based fiscal sponsors of all sizes and models.

*The goal of this paper is to present and continue to shape the **case for fiscal sponsorship** to accompany the field scan's data on the **size and shape of the fiscal sponsorship ecosystem**. These are two different, but complementary elements of the argument for the overall value and impact of our work.*

The below text is an opening salvo from Social Impact Commons. In lieu of traditional "peer review" processes, and to incorporate multiple voices in this casemaking effort, we are welcoming input and direct contributions of content to this paper from our community, including but not limited to:

- *Editorial and commentary*
- *Stories and case studies*
- *Data and analyses*
- *Photos and graphics*
- *Vision statements for the field*

The contribution period will be open August 11 and close on or around September 30, 2022, with the intention of issuing a final paper in October or November. All contributions are voluntary and will be credited. The final paper will be released under a Creative Commons license. If you are receiving this paper from another source other than the [Social Impact Commons website](#), please refer to [this page for more information on this initiative and how to engage](#).

Possible Futures - A Vision Quest for Fiscal Sponsorship

PART I: MANIFESTO

The field of fiscal sponsorship stands at the threshold of a new era of growth and transformative potential for the nonprofit sector. This moment has been largely propelled by the growing challenges to civil society and urgent call for social justice in the face of resurgent autocracy and white supremacy, coupled with an accelerating cadence of ecological disaster. In our age of social and environmental justice movement building, it is also likely being fueled by new generations of change leaders that find resource sharing and solidarity-oriented solutions more compelling than going it alone.

Fiscal sponsorship is *commonized nonprofit management and infrastructure*, or “*management commons*”. It describes a range of approaches to nonprofit structure and practice aimed at sharing essential operating capacities among multiple aligned missions and visions. As such, fiscal sponsors offer a potential path to permanent and scalable restructuring of our sector around collectivizing management, distributing risk, driving efficiency, and enabling more equitable access to charitable resources.

Yet, we labor under a private-sector worldview that privileges independent nonprofit formation, tax status, and operations as the orthodox “model” and only path to validity and vitality. Independent formation and operation and the “enclosure” (privatization) of assets may make sense for certain business models situated in the for-profit sector. But it is incoherent or unnecessary in the nonprofit sector, whose assets are managed in public trust. As such, nonprofits and the sector as a whole are the closest we come to true *commons*—resources held in common and managed in a cooperative manner. Fiscal sponsors present both the archetype and entrée into a future of vastly more robust resource sharing.

The American mythology of rugged individualism, inflated by neoliberal capitalism’s worship of self interest still prevails and has left us with the false axiom that independent vision demands independence of infrastructure in the social good sector. Every person or group of people with a charitable vision requires their own nonprofit, staff, tax exemption, operating systems, and so on. As a result, there are roughly 1.5 million nonprofits in the U.S. today, 88% of which operate below \$500,000 in annual revenue. Ninety-seven percent of all nonprofits operate below \$5 million. And this not even counting the immeasurable “informal” activity of our sector—work happening outside traditional nonprofit structures.

The assumption that independence of nonprofit mission and vision *requires* independence of formation, exemption, and operation is not only false, it is also fatal to the long-term sustainability and impact of the nonprofit sector. Decades of research on the sector offers a

consistent refrain: organizations are financially fragile (but stalwart in spirit!), lack capacity, struggle with developing resources, and so on. These are symptoms of the same underlying affliction: fragmentation brought on by the above false axiom. The result: a vast landscape of (often) intentionally smaller but invaluable stand-alone nonprofit organizations, most of which are not scalable by design or intention. These organizations are most often the ones operating in communities and possessed of trust and cultural competency to deliver effective and responsive services. Unfortunately, they remain under capacity and under-resourced owing to their small scale.

Fiscal sponsors, as *collective capacity builders*, offer a new vision of hope for the sector. We are risk managers at heart, helping projects navigate risk, failure, and success. We are expert repositioning technicians, designers of efficient systems. We are trusted platforms that can leverage networks, cultural competencies, and relationships at scale. And most of all, we are structures for shifting power to leaders and communities that have long been starved of access. We can be the vanguard of long-overdue change in our sector. It's no longer an option. It's urgent and imperative.

What's at stake? Quite possibly the future of civil society in America and our planet.

Today, 501(c)(3)s represent more than \$2 trillion in annual spending and activity—not counting the under-documented and under-compensated labor and in-kind contributions that are the lifeblood of our work. In financial terms, this makes public charities financially equal to about 50% or more of the *entire U.S. federal budget*, which averages about \$4 trillion. Since half of the federal budget is spent on the military, our sector's investment in social benefit work is arguably *equal to* if not greater than that of Congress.

The nonprofit sector has always carried the lion's share of water for social good in this country. But as polarization continues to tear apart the American social fabric, it is also fast becoming the last refuge of civil society and efforts to curb planetary disaster. We are witnessing the erosion of function and legitimacy of our foundational democratic institutions across all three branches of government. A Cold Civil War has yielded social unrest and intractable deadlock in legislative bodies at all levels that everyday threatens the wellbeing of millions of people. While we must continue to fight for the hope of better government and more civil polity, the extreme dysfunction of government and its direct service agencies has made the nonprofit sector the frontline of the battle for social justice and the health of our planet. Government funding for nonprofits remains significant, but where government funding fails, nonprofits can turn to private sources.

We cannot continue with a paradigm that mandates independent nonprofit formation and status as the goal for every social mission. Our reigning strategy, to build the capacity of one organization at a time falters every day in the face of barriers to accessing philanthropic resources and the challenges of moving resources into a fragmented ecosystem. It also feeds a vicious illusion of scarcity—there seems to never be enough money to buy the capacity we need. This *may* be true if we confine ourselves myopically to the limits of institutional philanthropy as

the predicate for social action. But the American nonprofit sector has always relied on the generosity of individuals, which opens a much more vast landscape of potential resources.

In truth, the human will to make and do and, at any given time, our collective drive will always outstrip the resources on hand. This will is the leading force that drives our sector forward. In the perennial chicken-and-egg question of which comes first, financial capital or human drive? It's always the latter; the former follows but mostly in instances where the doers have the right combination of luck and privilege. What we most urgently need, then, is more ready, equitable, efficient, and sustainable access to the scaffolding needed for people to gather the resources and get to work. Fiscal sponsors are that scaffolding for the nonprofit sector. And with it, we may build and strengthen the edifice of civil society with the care and urgency that the crises of our world demand.

Despite our most selfish predilections, which have been fanned by the fires of late capitalism, humans in general are, at their core, collaborative and compassionate, at least so says evolutionary biology. In the face of adversity, we help others, solve problems, take initiative, and the result is millions of informal acts of social good, happening both between and outside of conventional institutions, and under a surging tide of nonprofit organizations.

To challenge the path of independent nonprofit formation, however, is to challenge a fundamental paradigm—to change the very core of our beliefs from one grounded in the management of bounded privatized assets to one of mutual stewardship of boundless public commons. Make no mistake: to propose such a shift in today's America is to suggest that the world is flat or that the sun does indeed revolve around the earth.

Fiscal sponsors lead the way for our sector out of this desperate and fragmented land toward greater *collective* fulfillment of our will to work on the project of civil society. We are the original *commons managers*, stewarding a multitude of visions in the direction of hope.

PART II: CALL TO ACTION

As the *nonprofit sector*, our first step down this path is to declare that...

We embrace a world of radical pluralism in which independence of ideas and agency does not require independence of infrastructure. Through the commonized management of fiscal sponsors, everyone with an impulse to bring about positive social change can have access to the infrastructure they need to pursue their vision and flourish, or falter, adjust and continue on. We shed the garb of economic Darwinism imposed by free-market capitalism and recognize that the will to justice and pro-social work in all its diversity is *itself* a charitable purpose. Fiscal sponsors provide a welcome haven for that purpose.

We move from fragmentation to collectivisation. When regarding the vast landscape of fragmented nonprofits the minds of many move to dystopian visions of placing it all on the cloud

(if we ask Silicon Valley) or undertaking a mega-merger of all the small organizations (if we ask Corporate America). There is a more grounded solution that leverages the strength of local communities and the power of local knowledge, leadership, and cultural solidarity: commons management, for which fiscal sponsors already hold the model. What if we moved our fragmented nonprofit community one step toward greater solidarity through regional, field-focused, and identity-driven fiscal sponsors—a commons manager in and for every town, city, and community?

For *fiscal sponsors* to lead this journey, we must...

Expand the fiscal sponsorship ecosystem. While there is still case making to be done, after sixty years of practice, we enjoy some confidence in our work and future. Our attention needs to be trained on securing long-overdue philanthropic investment, workforce development, innovation, and democratization of the collective knowledge we possess. Fiscal sponsors likely manage less than 5% of the more than \$2 trillion activity of the nonprofit sector. There's ample room to grow, if we muster the courage and organizing capacity.

Shift from a field defined by law and finance to a field more defined by organizing, activism, commoning, and movement building. While the tools and trappings of finance and law are essential to our work, the field of fiscal sponsorship (as with most of today's institutions) has been largely defined by law and finance. From the beginning we have defined charitable work predominantly by *corporate form* and *tax status*. It is no surprise that the only definitive text on fiscal sponsorship is a legal text. At this point, we need to expand our tools and definitions to ground fiscal sponsorship in the practices of organizing, solidarity, and movement building—ensuring not just statutory compliance, but nurturing the social bonds and trust needed to address today's most pressing problems.

PART III: POSSIBLE FUTURES

We vastly accelerate the forces of solidarity building and social justice. As global challenges facing civil society continue to mount, we are turning to solidarity and movement building. Indeed much of the grassroots leadership around social justice over the last five years has found a welcome haven in fiscal sponsors, which are well positioned to be the backbones for fostering and sustaining greater social equity.

We re-task billions in charitable funds from needlessly duplicated infrastructure directly to front-line work. According to the Urban Institute, the nonprofit sector realized \$1.94 trillion in expenditures in 2020. Social Impact Commons has conducted several sample economic studies using the rich nonprofit financial data of Data Arts, looking at about 1,000 organizations operating under \$2 million in budget. We compared costs to manage through independent legal formation with the equivalent costs to manage by sharing the same back-end infrastructure fiscal sponsors offer. Under fiscal sponsors, backbone costs were between 10% and 30% *lower* than those incurred by operating independently—and that's just a sample and does not even

speak to the intrinsic values to nonprofit leaders of receiving such holistic back office support. If we were to collectivize infrastructure across our sector through fiscal sponsors, as suggested above, that could mean a *minimal “savings” (re-allocation to programs) of about \$200 billion per year—roughly twice the amount of all giving and grantmaking in the U.S. in calendar 2021!*

To realize this audacious vision, the fiscal sponsorship field ***grows and becomes more diversified*** through expansion to new cities, towns, suburbs, exurbs, and rural communities and through specialization across cultural competencies, identity groups, and field expertise. Instead of nearly 1,000,000 small nonprofits struggling alone in the wilderness, they share core backbone capacity and social solidarity through 10,000 local or specialized fiscal sponsors providing commonized management.

To move from the roughly 1,000 fiscal sponsors operating today to an ecosystem of 10,000, our field becomes understood by philanthropy, policy makers, and nonprofit leaders as no longer a ***marginalized model***, accounting for a fraction of the sector’s activity, ***but critical infrastructure*** for the sector, managing a substantial amount of its activity and future growth.

Our field continues its work to ***relinquish the reins of power to BIPOC and other marginalized communities***. It shifts its culture and practices from those that consolidate power and replicate white supremacist models of nonprofit management—the Nonprofit Industrial Complex—to a community of practice that provides more equitable, sustainable, culturally relevant, and impactful nonprofit resources for communities everywhere.

And lastly, fiscal sponsorship sheds its moniker, born of finance and legal coinage, and becomes ***management commons***, transforming its image ***from a temporary waystation*** on the weary road to independent nonprofit status ***to a permanent structuring solution for solidarity and social justice***.

This vision is not new. It is as old as our sector. Why does it still seem so elusive? Because we have not yet conjured the fortitude to challenge the ontology of the private sector that holds *our sector* so thoroughly in its thrall. To suggest that the proliferation of the independent charitable form is not only unnecessary, but perhaps the greatest thing holding our sector back from true flourishing, still draws looks of quizzical unease.

It took well over a century for Nicolaus Copernicus’s heliocentric model of the universe to be accepted by the powers to be, religious and secular. We hope for the sake of our people and the planet that we don’t take as long to lean into the work of shifting our ontology for the social good sector. If we are to salvage centuries of progress toward a more civil society, currently under threat, and rescue our planet home, time is not a luxury we possess.

PART IV: FROM MYTHS TO MANIFESTATION

NOTE: In this section, we are inviting expansion through commentary, case studies, research, analysis, and vision statements that challenge the below myths and explore and amplify the case for fiscal sponsorship. Initially, we are organizing this around four topic areas and myths that persist about fiscal sponsorship related to each one: Scale, Efficiency, Justice, and Sustainability. We have started the thread in each case with a few myths, but welcome others. In each section we have started the ball rolling with some preliminary text, to be expanded over the coming weeks.

Essential to realizing the actions and vision outlined above is moving from *myth* to *manifestation* through challenging and illuminating a number of frequent misperceptions and misunderstandings about the fiscal sponsorship field. In this section, we focus on four major areas of conversation, Scale, Efficiency Justice, and Sustainability and have invited voices from the field to expand and fill in the contours of these subjects.

SCALE - *of or pertaining to the ability of fiscal sponsors to support the scaling of sponsored projects, their fiscal sponsor resources, to the field of fiscal sponsorship itself. We hear...*

Fiscal sponsors are only incubators and accelerators to help organizations on the way to independent formation and exemption. We know that fiscal sponsors, in particular “Model A” comprehensive sponsors, are increasingly seen as the forever homes for the projects they sponsor. We work with fiscally sponsored projects benefiting from decades long fiscal sponsorship relationships. Given their size and focus, eventual independent status is entirely illogical. While the incubator and accelerator functions will always be a value of fiscal sponsorship, it may become a minority case in the future.

The path to scale for fiscal sponsorship is only scaling the established sponsors; building new fiscal sponsor infrastructure is too hard/expensive. We hear frequently about the challenges fiscal sponsors have in garnering direct philanthropic support to build capacity. Funders often feel it’s an easier path to invest in large, established sponsors, instead of going through the effort and cost of starting a new one. This is a path, but we can’t ignore the forces of field *specialization* as well as diversity in cultural competency and community building that more recent generations of fiscal sponsors represent.

Fiscal sponsors cannot support projects once they hit a certain budget or operating scale. We hear this often—usually with arbitrary assumptions about the size of the budget that would inspire spin out. In fact, many large sponsors support projects that exceed \$5 million in budget—projects that would otherwise be in the highest percentile of budget size for nonprofits overall. The economics of fiscal sponsorship, assuming appropriate sponsor capacity, can work at virtually any scale.

EFFICIENCY - *Of or pertaining to the cost of fiscal sponsors and their classification as nonprofit intermediaries and the kinds/nature of support they provide. We hear...*

Fiscal sponsors add unnecessary cost and inefficiency to the work of the sector; sponsor fees are too high. We know that study in recent years of nonprofit overhead has led to the debunking of the pernicious sense that nonprofits ideally should have *zero* overhead. The “Overhead Myth” has proven that some kinds of missions register more than 50% in so-called overhead, and that “indirect cost”, as we’ve always known, is a relative and highly variable notion, depending on the resource model of the nonprofit. As mentioned earlier, our own studies using the rich DataArts database of IRS Form 990 data, has evidenced upward of 10% “savings” in costs for organizations operating under a comprehensive fiscal sponsors, as opposed to going it alone.

Related to concerns over cost, are assumptions that administrative time and process threatens to bog down the work of sponsored projects. This can be the result of poor management or lack of capacity at the sponsor, but it is more often the result of the management capacity that fiscal sponsors provide to projects where in many cases there had been none. Filling a management deficit can easily seem like an imposition, but expediency of action needs to be balanced with good and consistent stewardship and management practices.

Fiscal sponsors are only purveyors of back office support and nonprofit compliance. The perception that fiscal sponsors are just transactional providers of finance, HR, and compliance support persists. While fiscal sponsors do this work, the range and depth of services offered is expanding to include everything from advancement support, to constituent management, coaching, and other capacity building. In fact, we argue that sponsors are *less* intermediaries, and more *collective capacity builders*—common management platforms where almost *any* management capacity may be developed and shared for greater sustainability. Indeed, the persistence of the core “back office” as the fiscal sponsor staple may largely be tied to the sense that sponsors are only temporary stations on the road to independent status. Why would you want to add more shared capacity, when the goal is to break away? If we shift our thinking to fiscal sponsors as permanent shared management and collective capacity, we open the possibility of developing capacities such as fund development and advocacy at scale for our sector that have long eluded philanthropic solutions.

JUSTICE - *Of or pertaining to the ways in which fiscal sponsors diversity, equity, access, and inclusion within the nonprofit sector. We hear...*

Fiscal sponsors perpetuate the Nonprofit Industrial Complex. There is a well-founded refrain that fiscal sponsors may deliver economies of scale and efficiency, but are just replicating white-supremacist models of management. This is true, but increasingly, sponsors—in particular those truly embracing a DEIA work or with BIPOC leadership—are able to leverage cultural competency, values, and established trust with their communities. They are building intentional communities around common values and identities. They also manage and distribute risk

collectively, allowing people who often cannot otherwise *afford* the risk (financially or socially) to experiment, learn, iterate, and hold ambiguity.

Fiscal sponsorship is not values aligned with the Solidarity Economy. We hear that fiscal sponsors ask visionary leaders to relinquish agency, autonomy, and power. And fiscal sponsors are often myopically judged, along with the nonprofit sector, as an antiquated infrastructure for social change, to be replaced by more cooperative Solidarity Economy solutions. But in fact, fiscal sponsors can and do engage in Solidarity Economy approaches, centering constituent-governance, mutuality, and power sharing in their relationships with projects. The percent allocation-based cost recovery approach that fiscal sponsors use, allows sponsors to offer low financial barriers to nonprofit expertise and infrastructure. And cost is also proportionate to need.

SUSTAINABILITY - *Of or pertaining to the financial, staffing, legal, or structural sustainability of fiscal sponsors. We hear...*

Fiscal sponsor business models are not sustainable. Since we only report the planes that don't land, there remains a perception, in particular in the funding community, that the fiscal sponsorship "business model" doesn't work. In truth, fiscal sponsor resource models resemble closely those of co-ops: there is a shared management resource and multiple organizations (projects) pay their portion of the carrying cost. Within that basic idea, there is a spectrum of revenue models, all of which are sustainable so long as they are intentional and mindful of their driving values, maintain a balanced portfolio (specific to their model), and responsive to surrounding economic conditions. Sponsors range from 100% cost recovery models (mostly "Model A") to 100% subsidized models, and everything in between. That said, fiscal sponsors have the same capacity challenges that any nonprofit encounters; they struggle to secure capital from philanthropy to build their shared resources.

Fiscal sponsors are exotic and untested models. Fiscal sponsors are not novel nonprofit structures or practices, but rather the codification and expansion of long-standing nonprofit models. In many ways, a fiscal sponsor is no different than a large nonprofit for multiple distinct programs. Only with the latter, the program likely has less day-to-day management autonomy, needs to cleave to the brand and identity of the main organization, and usually doesn't have the authority to leave or "spin out". With the myth of existicism also comes over-concerns about fiscal sponsors and legal and tax compliance issues. To fund a sponsored project is *not* giving money to a non-tax-exempt entity; in all cases fiscal sponsorship entails making a grant or gift directly to a public charity. And the compliance needs and issues related to both funder and project are no different than with any other nonprofit.