

The Stigma Against Fiscal Sponsorship Needs To End

By Vu Le

November 10, 2017

One of the common complaints lobbed against the nonprofit sector is that we have too many nonprofits competing for resources. So when someone suggests that they might possibly be thinking of maybe starting their own nonprofit, the response from many of us is often “Get the torches and pitchforks!” Then we chase after them, flinging rocks and hummus, until they and their ridiculous ideas of founding a nonprofit are driven out of our village.

The more reasonable and understanding of us, though, may suggest that they do some due diligence, possibly looking to be fiscally sponsored by another nonprofit instead of forming their own. According to the [Network of Fiscal Sponsors](#), “*Fiscal sponsorship generally entails a nonprofit organization agreeing to provide administrative services and oversight to, and assume some or all of the legal and financial responsibility for, the activities of groups or individuals engaged in work that relates to the fiscal sponsor’s mission.*”

This makes a lot of sense. However, the concept of fiscal sponsorship is somehow unpalatable in many parts of our sector. It’s as if you’re not a “real” nonprofit unless you have 501c status. My organization until recently was fiscally sponsored, so we know how it feels. You feel like a kid trying to get a seat at the adult table. Like Pinocchio, you’re not a “real boy” if you’re fiscally sponsored!

And some funders reinforce this by not trusting you and not funding you at all unless you have formal status. One of RVC’s partner organizations, for example, spent 40 or more hours on a grant proposal only to be told by a foundation that they were ineligible for funding because they are fiscally sponsored (Hint, funders: Disclose this type of information on your website and during the LOI process!). Another organization was about to receive a large donation from a potential major donor, only to have them change their mind, again because of their status.

Well, it’s time to stop with this archaic, ridiculous, and inequitable stigma against organizations that are fiscally sponsored, as well as against the concept of fiscal sponsorship itself. If our sector is going to remain relevant and effective in light of funding cuts and a volatile political climate, we need to be able to do things better, and that includes understanding and appreciating the important role that fiscal sponsorship plays. Here are six main reasons we need to encourage, not discourage, organizations from pursuing fiscal sponsorship and not independent nonprofit status:

It increases efficiency: A strong fiscal sponsor can handle critical administrative tasks like financial management, HR, legal compliance, etc., much more efficiently, since they're doing it for several organizations. The economies of scale allow for these services to be much more cost-effective for the sponsored organizations than if each organization does these things themselves.

It fosters transparency and accountability: Because of scale, fiscal sponsors often will be able to hire more experienced staff to handle technical areas that require special skills like financial management. This means that financial reports will likely be more consistent and of higher quality than if small organizations try to do it themselves on top of everything else they have to do. The umbrella organization, as the fiduciary entity, reviews finances, contracts, and HR policies, ensuring a deeper level of accountability and sound policies for even the smallest organizations

It lets nonprofits focus on their work: Many small, grassroots nonprofits spend half their time trying to manage a dozen highly complex administrative tasks. We need them to focus on doing programming, community outreach, advocacy, stuff that only they can do. Being fiscally sponsored allows them to focus on the work they are good at and that our community needs them to do. Executive Directors should not be entering transactions into QuickBooks!

It creates opportunities for collaboration and power building: The sector has been set up to so that nonprofits are fighting with one another for resources and survival, instead of working together more effectively to address challenges our community faces. Being under one fiscal umbrella organically provides opportunities for different nonprofits to interact, exchange ideas, and collaborate. This may lead to mergers, coalitions, and collective building of power and influence in an, organization-and-community-driven manner instead of funders forcing organizations to collaborate.

It allows for new ideas to be tested: Being fiscally sponsored means new ideas can solicit funding and get tested right away without waiting the months it may take for formal status to be approved. Considering how volatile our society is and how complex the challenges are that we are trying to solve, we need to encourage people to propose and rapidly test different solutions.

It supports grassroots, communities-of-color-led organizations: Many small, grassroots organizations are led by communities of color and other marginalized communities. They often deal with the most complex challenges of all the problems our sector is trying to address, while simultaneously trying to understand and comply with the myriad confusing legal requirements. Fiscal sponsorship supports these organizations to gain footing, build their capacity, and focus on their work—work that, again, often only these organizations could effectively do due to

language and cultural dynamics. Embracing sponsorships may provide more flexible, creative forms of organization management that better fit the different cultures and approaches that leaders of color want to take in doing the crucial social justice work they are doing

We need to shift the way we see fiscal sponsorship. Fiscally sponsored organizations are not the kids vying for a seat at the adult table. They may actually be the adults, since they can be more efficient and can focus more of their time and energy on what truly matters. This is not to say that all nonprofits should become fiscally sponsored, or that it's bad for nonprofits to pursue independent 501c3 status. But we as a sector need to be more thoughtful and see the strength and potential that lie within fiscal sponsorship as a practice.

Funders and donors: Those of you who only fund nonprofits with 501c3 status, knock it off. You may not be aware of this and not intentionally doing this, but you are actively discriminating against communities of color, communities of disability, LGBTQ communities, and rural communities. These communities tend to have smaller nonprofits that are more likely to be fiscally sponsored. Your stance is also preventing nonprofits from collaborating and innovative ideas from being implemented.

Prospective nonprofits: If you are thinking of founding a nonprofit, determine if you really need independent status. What is it that you really want to do? Do you want to spend half your time worrying about financial management, wrangling board members, filing paperwork, and creating policies and procedures? Or do you want to focus on doing the work that you are passionate about? If it's the latter, being fiscally sponsored may make a lot of sense for you. You may decide to become your own nonprofit later. But at least in the very beginning, think carefully, because people underestimate just how much work and energy it takes to found and administer a formal nonprofit.

Existing nonprofits: If your org already has 501 status, you can still be fiscally sponsored. It may mean putting your formal status on hiatus, and it does take a lot of analysis of costs and benefits. But think about the advantages your organization and community may get from your collaboration with a strong fiscal sponsor. The benefits are not just financial—cutting down on costs—but also you can let someone else focus on the administrative elements of the work so you can spend your time and brain power on solving societal issues. Especially in this volatile political climate, where communities and civil liberties are under threat, our world needs you to focus on societal issues.

All of us: This will be its own post later, but let's get over the idea that fiscal sponsors are temporary solutions or just incubators and that all nonprofits eventually need to "spin off" into their own 501cs. If they are cutting down on costs, running effective programs, and collaborating

more, why is there pressure for them to spin off? We need to reexamine the concept of scaling and growth. Maybe many nonprofits don't need to scale. Maybe they are effective just the size they are, all right?!

As my organization expands our mission, focused on strengthening organizations led by communities of color, providing fiscal sponsorship will be one of our comprehensive strategies. We are learning and adapting practices from other fiscal sponsors. We hope to generate lessons as we apply them to our communities here in Seattle, and publishing those lessons here on this blog. We would love to hear about your lessons learned.

Vu Le

Vu is involved with this work because there is a lot of injustice in our world. He believes that the only way we can address them effectively is if we get everyone to work together. "We have amazing organizations led by communities of color, and we have a lot of talented emerging leaders of color." He believes that we just need to support them so they can do even more awesome things. After realizing he wanted to do community work, he got a degree but couldn't get a job because of lack of experience. Vu was accepted into a similar program and learned a lot through it. The program kept him in the sector and allowed him to keep doing the work he loves. Vu is the former Executive Director of the Vietnamese Friendship Association. Fun Fact: Vu is the author behind the nonprofit humor blog, Nonprofit: Absolutely Fabulous

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