

Incubating for Impact:

Considerations for Social Impact Leaders to Make the Most of Fiscal Sponsorship at Each Stage of Its Life Cycle



by Jessica Love, Monique Mehta, and Mariana Botero



As a social impact leader, you make consequential decisions about your organization every day, and working with a fiscal sponsor introduces a distinct set of considerations. You might be a community organizer who is considering using a fiscal sponsor to quickly launch a campaign and hire staff. You might be a climate scientist charged with managing a research initiative in a way that shares decision-making power among partners, and fiscal sponsorship might offer you a way to pool funds and share governance. Or perhaps you're an experienced nonprofit leader who is considering whether your organization has outgrown the fiscal sponsorship model. Whatever the case, fiscal sponsorship changes the calculus of your decision-making process—and it's important to understand the full landscape to achieve the tremendous value this partnership makes possible.

Over the past 15 years, Arabella Advisors has supported the incubation of hundreds of social impact initiatives, working closely with our partners at a variety of nonprofit organizations

that provide fiscal sponsorship, including the New Venture Fund, the Windward Fund, the Sixteen Thirty Fund, and the Hopewell Fund. Through that experience, we have built a deep appreciation for the value fiscal sponsorship can bring to the social sector. We have also gained an intimate understanding of best practices for social impact leaders and decision makers to manage their initiatives' growth and operations through fiscal sponsorship. Over the years, we have observed that most initiatives (what we call "fiscally sponsored projects") move through a series of distinct stages of organizational development. Knowing the challenges and opportunities inherent in each stage can position changemakers for exponentially greater success.

In this paper, we map the typical life cycle of a fiscally sponsored project and suggest questions for you to explore at each stage. With this information, you'll be empowered to identify opportunities, anticipate challenges, and move more quickly and seamlessly toward fulfilling your mission.

Understanding Fiscal Sponsorship

Fiscal sponsorship enables social impact leaders—funders and founders—to launch new charitable ideas or initiatives quickly and efficiently by building on administrative and operational support from an established nonprofit (the fiscal sponsor). Fiscal sponsorship can offer streamlined services and benefits across many projects, delivering economies of scale and access to deep operations expertise while allowing projects to focus on their individual impact goals. At a basic level, fiscal sponsors extend their own 501(c)(3) or 501(c)(4) status to a project, allowing it to receive philanthropic gifts. Beyond that, fiscal sponsors provide a wide range of accounting, human resources, and operational support.

If you are considering whether fiscal sponsorship might serve your idea or initiative—at the start or any time in its life cycle—consider these five variables.

Time: Securing 501(c)(3) or 501(c)(4) status for a new nonprofit means embarking on a roughly six-month to one-year process. If you expect your new organization to exist long term or if launching immediately is not a concern, this might be a time investment well spent. On the other hand, fiscal sponsorship can speed up the launch process and enable you to begin fundraising as soon as a contract is signed. Time-bound projects especially benefit from this setup, as they would not need to spend time building administrative structures or gaining nonprofit certification for a project that will only exist temporarily. Fiscal sponsorship can also make it easier to sunset a project because many of the tasks and responsibilities involved in dissolving a project happen in conjunction with the fiscal sponsor.

Customization: Independent nonprofits have full power to design custom finance and accounting systems, human resources processes, and grant-making operations, but this can create an enormous administrative burden. With a fiscal sponsor, you can largely adopt the standardized systems your fiscal sponsor has already built (with some flexibility, depending on the fiscal sponsor). This reduces the administrative lift for your project and allows you to benefit from the sponsor's economies of scale.

Reputation: It can take significant time and effort for a new nonprofit to build its brand equity and image among its target base and its funders. Being housed by a fiscal sponsor allows you to associate your project with the fiscal sponsor's established brand and track record. Working with a fiscal sponsor can also help you attract new funders who might feel more confident funding a new idea if they know the fiscal sponsor has the right systems and structures in place to manage those funds.



Independence: Launching a new nonprofit requires building a board of directors with full decision-making authority over your mission and strategy. Especially during launch, this board will likely be more involved in day-to-day planning and operations. While this structure provides valuable oversight, support, and accountability, it can be challenging to identify board members with the right fiduciary experience, responsibility, time, and capacity when first launching. A fiscal sponsor, on the other hand, has its own board of directors, which holds fiduciary and legal responsibility for all its projects. This means your project only needs to build an advisory board, which offers guidance and support primarily on a programmatic level. This is generally a less

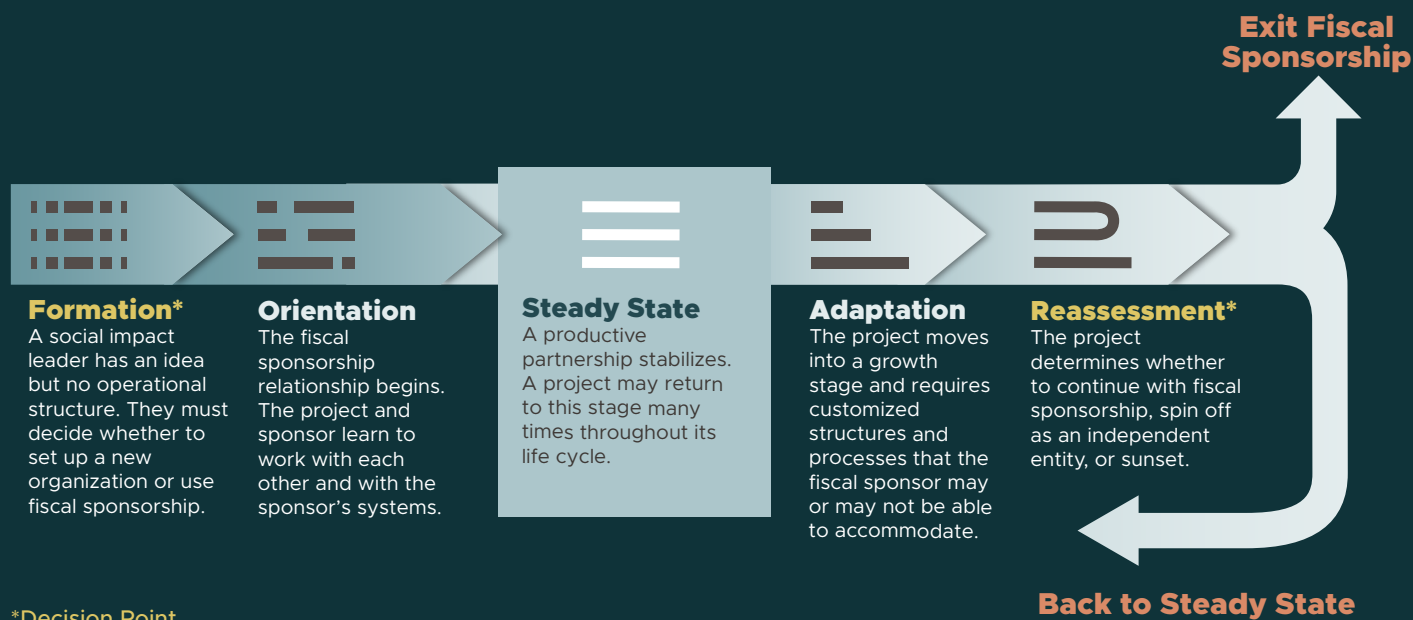
onerous task, and it relieves many of the financial and legal burdens facing new projects.

Flexibility: A new nonprofit can build its own systems and processes from scratch, but setting all this up while also hiring staff and creating the board can be costly and time-consuming. Working with a fiscal sponsor gives you the chance to scale up, scale down, or shift models as your project grows and evolves. If you are unsure about your project's impact or long-term viability, fiscal sponsorship lets you experiment by quickly launching it with less upfront infrastructure or cost commitment. You can easily dissolve the project if maintaining it is not a long-term strategy.



The Life Cycle of a Fiscally Sponsored Project

The life cycle of a fiscally sponsored project begins and ends with two stages that are characterized by decision points—at the beginning, whether to enter fiscal sponsorship (the Formation stage), and at the end, whether to exit or continue (the Reassessment stage). In between, there are three stages—Orientation, Steady State, and Adaptation—that exemplify how dynamic a fiscal sponsorship relationship can be.



*Decision Point

Every project is unique, and we do not intend this framework to encompass every possibility. It simply captures the trends we have seen across a variety of projects. We share it in the hopes that you, as a social impact leader, can see yourself along this life cycle and gain insight into what you should consider during each stage to make your partnership as productive as possible.



Formation

In the Formation stage, a changemaker or group of changemakers finds the right structure to get a big idea off the ground. An idea can take many different forms and structures—private foundation, LLC, nonprofit organization—depending on your impact goals, audience, and plan to secure resources. If you opt to use a charitable structure, you will still need to decide whether to start a new 501(c)(3) or 501(c)(4) or incubate within a fiscal sponsor, based on the variables described in the previous section. Fiscal sponsorship offers a faster and more efficient launch, streamlined operations (with systems and structures already in place), and economies of scale (i.e., access to HR systems and benefits of a large-scale organization).

Knowing the pros and cons of each pathway is important to select the most appropriate structure. For example, prioritizing both speed of launch and deep customization of systems and processes may not be feasible. If setting up quickly is your top priority, you may decide that working with a fiscal sponsor's existing standardized services is the right step for you.

After you determine that fiscal sponsorship is the right structure, you still need to find the right fiscal sponsor. Research is essential at this stage to find a sponsor that offers the services you need most. In initial discussions with potential fiscal sponsors, you may not know what detailed questions to ask about their services, but you should come away with a high-level understanding of what they can and cannot offer. This will help you set proper expectations for the partnership.

While fiscal sponsorship is not a silver bullet that makes launching a project challenge-free,

it does offer valuable grounding from which you can build out your staffing capacity to carry out programmatic work without the headaches of building back-office infrastructure. In the end, of course, many operational decisions will still be in your hands.



“You need to understand what capacities the fiscal sponsor has and what capacities the project needs to develop to build a successful partnership.”

—Francesca van Doorn, Senior Financial Analyst, Arabella Advisors

Questions to ask yourself at the Formation stage:

- How quickly do I need to begin work, and how much infrastructure do I already have in place?
- Can this fiscal sponsor become a partner and not just a vendor? Do our vision and values align? Do they have expertise in my issue area, or can they connect me with a broader network?
- Do I want an independent brand, or is being associated with my fiscal sponsor's brand advantageous?
- How much flexibility do I need about who will be on my board, how they'll interact with the project, and how much decision-making power they'll have?
- Do I have the internal capacity and knowledge to run the administrative backbone of the project, or will I need support and coaching?
- How much say do I need related to hiring, firing, and employee benefits? Am I willing to give up some control to the sponsor?
- Would the track record of a fiscal sponsor offer me increased credibility with potential donors who are familiar with the fiscal sponsor?
- Would donors who are unfamiliar with fiscal sponsorship balk at a fiscal sponsorship fee?
- Do the financial and administrative systems of the fiscal sponsor meet my needs, or do I require more customization?
- Do I know the legal requirements of running a nonprofit, or do I have support to help me navigate them?
- What is my tolerance for risk? Do I need the security of an established organization, or do I want the autonomy and flexibility of complete independence?





Orientation

Once you have partnered with a fiscal sponsor, you'll enter the Orientation stage. At this point, you'll meet the people managing the fiscal sponsor's back-office systems and build out your project's internal structure—hiring staff, setting up the advisory board, developing the project budget, etc.—while also getting to know the fiscal sponsor's systems, processes, and structures. This build-out period is when you will secure everything that needs to be in place for a new project to launch.

Since the Orientation stage sets the groundwork for the partnership, it is useful to understand what your fiscal sponsor can offer and what you will need to source or build yourself. For instance, a fiscal sponsor can offer human resource support such as job description templates, help sourcing candidates, hiring guidelines, and well-defined benefits packages, but it cannot define what capacity and expertise your team lacks, your three-year hiring plan, or how to train those new hires. The fiscal sponsor is a resource to help you navigate these new responsibilities.

The Orientation stage may be the first time customization questions arise. For example, perhaps your team would value more customized accounting systems or more frequent financial reporting than what the fiscal sponsor typically offers. You may find that your fiscal sponsor can offer some level of customization, despite the efficiency of offering standard systems across all projects. This ability of your fiscal sponsor to customize—or not—will surface at each stage of your project's life cycle. The most valuable way to address the customization concern is by building trust early on between the fiscal sponsor and

your team. Seeing your fiscal sponsor as a thought partner in delivering impact, rather than simply a vendor, will go a long way to ensuring a productive relationship as your project grows or evolves.

“Projects often see their fiscal sponsor as a vendor rather than a partner. This can lead to projects not pursuing capacity-building, operational, or coaching support that they need, and that the fiscal sponsor can offer. To make the best use of your time at a fiscal sponsor, think of them as more than a transactional platform—they are able to empower projects through both strategic and operational partnership.”

—Gideon Steinberg, Senior Director,
Arabella Advisors

“The Center for Disaster Philanthropy (CDP) was fiscally sponsored at the New Venture Fund (NVF) before we spun out to become an independent organization. NVF provided a safe space for us to incubate, to test out our mission and programs and begin to grow. The NVF team helped with managing the books, the budget, and organizational operations. They provided crucial capacity that helped position us to deliver on our goals and grow into the fully fledged organization we have since become.”

—Regine Webster, Vice President,
Center for Disaster Philanthropy



Questions to ask yourself at the Orientation stage:

- Do I understand where my responsibilities end and my fiscal sponsor's role begins?
- Who on my team will be the primary contact with the fiscal sponsor, and do they fully understand the relationship?
- What should my team structure look like now, and what do I want it to look like in one year? In three years? Do I want to hire permanent employees right away, or should I consider working temporarily with consultants?
- What governance structure will serve my project's goals and values? Do I need one advisory board or multiple governance bodies? Does my board reflect the community I want to impact? How should the board make decisions together?
- How will I explain the fiscal sponsorship relationship to partners and funders? How much should I grow my own brand, separate from the fiscal sponsor's?
- How can I work with my fiscal sponsor to embed an equity lens in my project's operations, including HR, decision-making, and procurement practices?
- What culture will help my organization thrive, and how do I create it from an early stage?



Steady State

Once your project moves through the Orientation stage, it may settle into what we call a Steady State. At this stage, your project's operational engine hums like a well-oiled machine—maximizing your ability to focus on programmatic goals and deliver against your mission. You and the fiscal sponsor have tested your compatibility and become accustomed to the partnership, internal systems are set up, and the project is functioning well on a day-to-day basis. There may be some tweaks and changes in the relationship, but this is the time when you, your team, and the fiscal sponsor are aligned and can maximize the relationship. While the path here may vary from project to project, being in the Steady State is the ultimate goal. It is an arrival point after Orientation and a

place to return to after potential Adaptation and Reassessments when projects grow, evolve, and change.

You should talk with your advisory boards at least once a year to evaluate the benefits and tradeoffs of continuing the fiscal sponsorship relationship. How long your project can stay in Steady State or how easily it can return to this stage may inform long-term decisions about how long to stay within the fiscal sponsorship relationship. You may incubate your project within fiscal sponsorship and find it so useful you have no need to become independent. Other projects may find that increasing operational or programmatic complexity forces them to the next stage in the cycle.

Because not all pain points for your project are related to the fiscal sponsor relationship, it's important to note that your project may experience obstacles even in the Steady State. You may need to work through personnel issues, shifts to the advisory board structure, staff hiring decisions, or questions about how to create multi-year budgets. In some cases, the fiscal sponsor can be a resource in addressing these issues. In other cases, you may need additional support from external consultants.

“Having a dedicated staff member in the project who works with the fiscal sponsor and has the context and knowledge of the partnership can help iron out many bumps along the way.”

–Kimaya Grace, Director,
Arabella Advisors



Questions to ask yourself at the Steady State stage:

- Am I continuing to fully use the knowledge, networks, resources, and thought partnership of my fiscal sponsor?
- What am I learning about my governance model, and how might I adjust it to better meet my project's needs?
- Does my current team structure maximize my project's effectiveness and bring out the best in each staff member? Do I need to update or revisit roles and responsibilities?
- How well are my accounting and financial reporting systems meeting my project's needs? Are there areas that should be streamlined or expanded?
- Are my fiscal sponsor's compliance systems working for me? Are there areas to deepen alignment or speed processes?

Adaptation

As your project grows and matures, some of the pain points of growth may push it out of Steady State into the Adaptation stage. You may notice that some of the fiscal sponsor's standardized systems no longer work well for your project, while other systems might be easier to adapt. Generally, we see some type of trigger for the Adaptation stage—a project's significant growth or decrease in funding, programmatic evolution, or staff management and retention issues, among others. In many cases, you and your fiscal sponsor will be able to work through these changes and adapt your relationship, in which case you would return to Steady State. However, this depends on the strength of the relationships you and your fiscal sponsor have developed, as well as systems or structures put in place during Orientation to minimize the level of adaptation required.

If you took the time in the Orientation and Steady State stages to build a strong foundation for your project's growth, you will be more likely to overcome the few, mild pain points that arise during this stage. Similarly, if you have built relationships with consultants or external vendors, or if you have hired operations staff to provide complementary support, you may be in a better place to address any issues.

As in the Orientation stage, Adaptation is a time of negotiation in which the fiscal sponsor assesses how best to support you and your project as your needs evolve. You may request some customization, and the fiscal sponsor will determine what is feasible within the existing fee structure or what it is able to offer for an additional fee. You likely have more complex needs in this stage of your project's growth than you did during the Orientation stage, and

customizing may be more difficult or expensive depending on how much your project's scope and scale have changed. You may find that making adjustments can ensure the ongoing effectiveness of the partnership; alternately, the process may trigger a broader reassessment of the fiscal sponsorship relationship.



“We were initially a time-bound project, so fiscal sponsorship made sense as a way to reduce our administrative burden and to start the work with the strong operational capacity offered by the New Venture Fund [the fiscal sponsor]. This worked really well for us in our early years. Over time, with the expansion of our grant-making portfolio and staff to support the work, our needs became more complex, hence the decision to spin out and set up an independent entity with policies and practices that matched our vision and values. This expansion is now requiring us to prioritize a spin-out to an independent organization.”

—Gurgen Balasanyan, Finance and Operations Manager, Co-Impact



Questions to ask yourself at the Adaptation stage:

- How have the vision, values, and brand of my organization evolved, and am I still in alignment with my fiscal sponsor?
- How is decision making evolving in my organization, or how does it need to evolve to meet the project's desired impact?
- How can my fiscal sponsor support me in rethinking my staffing structure as the work changes? What additional support might I need in organizational design or recruiting?
- Can my fiscal sponsor's accounting structure adapt to accommodate some of my changing needs? Should I consider adding my own financial and operations staff or renegotiating the level of support I receive from my sponsor?
- Do our current processes and platforms support the kind of growth we are experiencing or expecting? Where should we consider investing in technology or knowledge management?
- Where can I eliminate redundancies or slowdowns in the processes I manage with my fiscal sponsor (such as contracting or grant making)?
- As my project grows or changes, what adjustments are necessary to make sure the work remains compliant?



Reassessment

Your project may find that fiscal sponsorship is a productive long-term solution for your project—many do, and they never reach this stage. However, after some growth, change, negotiation, and adaptation have taken place, you might come to a point when you need to decide whether to continue with fiscal sponsorship, spin out of the relationship to create an independent nonprofit, or sunset your project. This decision is not an easy one. Even if you suspect your project has outgrown fiscal sponsorship, it can be hard to leave the safety and comfort of the relationship to launch a new nonprofit organization. Thoughtfully weighing the costs and benefits of becoming independent is essential.

Before making a decision, fully examine all the services your fiscal sponsor has been providing, many of which may have been behind the scenes. For example, you will want to consider who will provide human resources, finance and accounting, and legal services. It can be helpful to map out a solution for replacing each of these systems, as well as the costs and implications of outsourcing to other vendors as opposed to building those resources internally. Creating a comprehensive, realistic model for what it will take to operate as an independent nonprofit is a critical element of the Reassessment stage, and doing so helps you decide whether the benefits of independence outweigh the costs. An experienced consultant can often help with this task.

After making these calculations, you may determine that becoming independent is too difficult or expensive; in that case, you would work with your fiscal sponsor to find your way back to Steady State. However, you may determine that leaving fiscal sponsorship—either to sunset or to establish an independent organization—is the better route. These are not easy decisions, and your fiscal sponsor can be a resource in helping you understand the scope and scale of each option.

“Don’t underestimate how long it takes to spin out. You won’t regret a longer spin-off time. You will regret a shorter one.”

–Chris Hobbs, Chief Operating Officer, Arabella Advisors

“You need to think strategically about what the organization needs to be in the future, what the ingredients for success are, and whether fiscal sponsorship advances that vision.”

–Lee Bodner, President, New Venture Fund



Questions to ask yourself at the Reassessment stage:

- What organizational structure would best serve my organization’s mission long term?
- Have I outgrown my fiscal sponsor’s financial management system? Would the benefits of flexibility and customization outweigh the cost of managing my own accounting?
- Does my team have the capacity and knowledge to assume the operational tasks my fiscal sponsor currently manages? Where might I need to hire additional support?
- Are my advisory board members willing to take on the fiduciary responsibility of leading an independent nonprofit? How would my governance structure need to adapt (for example, adding finance and audit committees)?
- Do I still rely on my fiscal sponsor’s brand and credibility for fundraising, or would independence be more attractive to my donors and partners? What capacity will I need to develop an independent brand?
- What technology platforms does my fiscal sponsor use, and how would I procure similar capabilities for an independent organization?
- How much do I rely on my fiscal sponsor to meet funders’ compliance requirements? Could I gain similar support from outside counsel, or would I need to build that expertise on staff?
- Does my project have the scale to secure similar employee benefits to what my fiscal sponsor offers? If not, what are the costs and tradeoffs of using a professional employer organization (a vendor that would manage your HR systems and processes)?
- How will I balance my organization’s programmatic activities and the time and energy necessary to execute a successful spin-out? What is the ideal time for a transition? Do I need point-in-time support to keep the process on track?

Conclusion

Fiscal sponsorship comes with numerous benefits and considerations, but the most important thing to remember is that it's almost never a static endeavor. As your project changes or grows, your operational needs will change with it. Understanding where a fiscal sponsor's services end and where your project's operational responsibilities begin is essential to ensure a smooth experience. If you build a strong foundation and strategic organizational design in the Orientation and Steady State stages, you and your project can reduce the time spent addressing pain points in the Adaptation stage and continue your productive, efficient relationship. With open and honest communication between you and the fiscal sponsor, a clear-eyed assessment of the relationship, and a strong understanding of the road ahead, your fiscally sponsored project can be firmly positioned for impact.

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