

Crowdfunding for Nonprofits: Defining Crowdfunding



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Nonprofits have always been aiming at receiving financial support from individuals.

Traditionally, this was achieved through fundraising campaigns, lotteries, selling coupons across specific locations (usually around the nonprofits main areas of operations).

This process has limits:

1. Are the people, going store by store, able to convince others to donate?
2. How many people could we reach in a given time frame?
3. How many small donations could we handle in terms of financial procedures?

The new era

- More and more people have access to the internet.
- More and more people use the social media: Facebook, Instagram, Snapchat, etc.
- In addition, the new trend is cross-generational: people of all ages, even the elderly, are gaining some access and utilize them.
- Users are not just recipients of news and initiatives. They are potential transmitters of them – enhancing the potential virility of any given post.

The new era

The tremendous increase in the use of social media has transformed the landscape:

Positive impact:

- It gets easier to reach people.
- There is the ability to utilize more visual features.

Negative impact:

- Lack of face-to-face communication creates issues of trust.

The new crowdfunding

What is it?

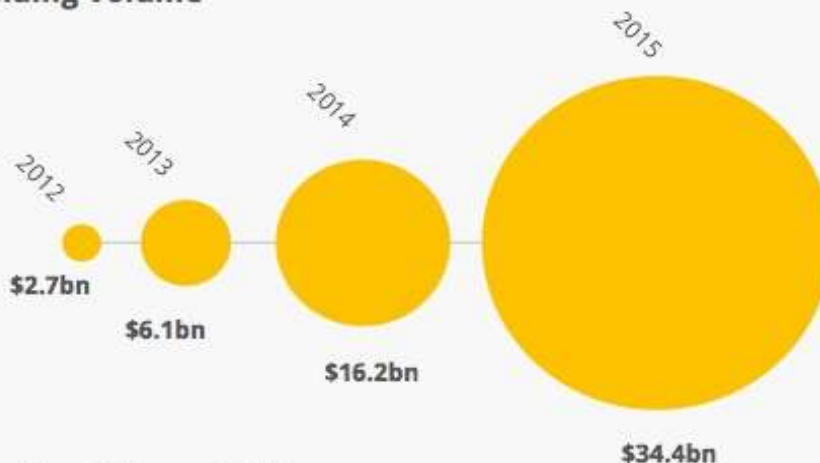
- Getting small donations from large crowds – you can reach them through the social media!
- More cost-effective in principle.
- In theory, our target group can include millions of people.

Is it something worth checking?

Definitely yes!

- ✓ One of the biggest amounts ever collected is for an online game titled “Star Citizen”, which got more than 39 million US\$.
- ✓ More than 2 million campaigns are active globally.
- ✓ The World Bank funded a survey on crowdfunding, which highlights that the relevant “market” can reach the levels of 90-96 billion US\$ by 2025!

Total Funding Volume



Total Funding Volume: 2015

\$34.44bn



Source: Massolution 2015CF

Growth by crowdfunding model prediction for 2015 in millions of USD (research based estimate).

How did it start?

Crowdfunding has always been in place, but the social media have sky-rocketed potential gains.

At first, it was mainly start-ups – you have this nice idea for a product but there is no seed funding, no angel investor to support you and no bank to lent you...and nobody trusts you enough to give you a large amount of money yet.

How did it start?

So try to attract people to support your crazy idea – giving a small amount that could potentially give you equity or access to the next iPhone!

As start-ups and business ideas would get the targeted money, other sectors would also attempt crowdfunding: you want to get the money for a new video, a new play, etc. – crowdfunding could be the way.

Thus, social causes could be left outside, and gradually nonprofits have started utilizing this reinforced funding channel...

How does it work?

You start by preparing a campaign.

A “campaign” is the term for your Call for (financial) support.

A campaign encloses a reason for asking the money, (usually) the amount of money asked and a timeline.

How does it work? – the platforms

Then you upload your campaign in a crowdfunding platform.

Wait! What is a crowdfunding platform...?

It is actually an online platform on which crowdfunding campaigns are uploaded.

They act as the “middle-man” between the nonprofit and individual donors.

How does it work? – the platforms

The platform is in a way a “trust-builder” for the campaign: the platform is there and will continue to exist after campaigns end.

The platform also safeguards transparency and reliability, and it is a nice way to display the necessary information.

Platforms provide the template/page on which you upload your campaign.

How does it work? – the platforms

They collect the money for you and will only dispatch them to you when specific conditions are met: the most usual one is that you have succeeded in reaching the amount set as a goal in the campaign

They will provide you with the contact details (if given) of donors when the campaign ends, in order to thank them or send them specific perks.

How does it work? – the platforms

There is a great variety of crowdfunding platforms.

Normally you can use them for a fee, which varies from 0-15%

As donations are given electronically (online deposits, PayPal, credit cards, etc.) some additional fees may also apply.

How does it work? – Running a campaign

When you upload the campaign you set the timeline for receiving donations, as well as the amount targeted.

There are a lot on the visual part of the campaign (photos, videos, links, etc.) that you need to take care of.

In addition, it is highly recommended that you set some perks for your prospective donors.

Perks are small gifts that the donor will receive if the campaign is successful – some people will be attracted by them, or they donate higher amounts because of them.

What are perks?

Perks are small gifts you give to your potential donors.

Perks in crowdfunding usually take the form of a ladder: when people donate more, they get better perks.

An example:

- By donating up to 10 US\$, you get an electronic thank you note.
- By donating up to 20 US\$, you get a thank you note through mail.
- By donating up to 50 US\$, you get a personalized t-shirt.
- By donating up to 100 US\$, your name will be written to our Hall of Donors .

How does it work? – Running a campaign

When you are ready, you have to inform your audience that the campaign is up and running.

A lot must be done for dissemination – emailing lists, social media posts, etc.

Ideally, you could try to reach people both nationally and internationally.

How does it work? – Running a campaign

A successful crowdfunding requires that you get small/medium donations from a large crowd – thus you aim for quantity.

Nevertheless, it is very important that the first wave of donors not only gives but also disseminates the campaign through the social media: you need to find those strong **“ambassadors”** of your campaign!

How does it work? – After the campaign

When the campaign ends, in most cases, the nonprofit gets the money collected.

In addition, it also gets a list including the contact details of the donors (if they have not selected the option “donate anonymously”).

The latter is used for thanking the donors as well as sending them their perk (if this was provided).

How does it work? – After the campaign

There are two options regarding getting the collected money:

- a. Closed campaigns
- b. Open campaigns

In the first option, you get the money only if the campaign is successful, i.e. if you have reached the targeted amount.

In the second option, you get the money irrespective of whether the campaign has been successful or not.

Some statistics (worldwide)

- Average donations have been set at 88\$.
- Groups of people (not start-ups) have been generating on average 9.500-10.000\$ per campaign.
- Around 2.9 billion US\$ were given through crowdfunding during 2015 as donations .
- Across sector, a 28% of donors will give again – this must be much higher in the nonprofit sector.

Why do people donate?

There are lots of surveys conducted, trying to understand why people donate for social causes.

They all lead to a series of assumptions without defining one single absolute factor urging individuals to donate to social causes. Here is a non-exhaustive list of the main factors:

- Post-materialism and the idea that people have gradually moved from striving for material possessions to adhering to values (including altruism), has a growing number of supporters.

Why do people donate?

- The rewarding feeling of helping seems to play an important role.
- Belonging to a group – if my friends donated, I will also donate – can have an effect too.
- Getting the perk promised can push for donating, but it doesn't seem to be the main reason for donating -rather for donating a little bit more.
- The fact that social media seem to be detrimental for successful crowdfunding supports the idea that some, at least, people donate in order to say that they have donated.

Are there more benefits than just funding?

Definitely yes - for running a successful crowdfunding campaign you need to make a lot of preparations that will strengthen your organization overall, including to:

- Enhance your social media presence.
- Improve your website and overall brand.
- Create lists of potential donors, as well as of journalists and media outlets, that could potentially disseminate your campaign.
- Enhance your ability to generate trust, convince people that what you do is important and worth funding.
- Get a list of donors: these are people that are sensitive to your cause and could become regular supporters (e.g. in the new crowdfunding campaign that you will initiate in a 9-12 months time.)

Additional resources

- <http://www.seerc.org/atsiv/vle/>
- <https://www.facebook.com/trainingNGOs/>
- www.ngotraining.eu

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