

Chapter 20

Crowdfunding for Non-Profits: Opportunities and Challenges

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ABSTRACT

Crowdfunding has been applied to equity investments as well as in a preproduction consumer purchase model. Crowdfunding is projected to become a \$US90-96 billion industry by 2025, and is being touted as a valuable tool for fundraising for charitable non-profits. For leading non-profits around the globe a critical question is whether charitable crowdfunding is a threat or an opportunity for them. This chapter demonstrates that charitable crowdfunding represents a powerful new fundraising tool for leading, start-ups and not for profit organisations. This discussion contributes to the financial knowledge, specifically in the online crowdfunding and non-profit organisations and concludes that non-profit organisations through crowdfunding has the potential to expand the donor base.

INTRODUCTION

Crowdfunding, a recent phenomenon of the contemporary not for profit marketplace, raises capital from an extensive online community of individuals, called a crowd. The funds obtained from the individual is usually small-to-medium (Ordanini, 2009). According to Mulvey, (2013), the non-profit sector can couple crowdfunding with social media to produce radical changes in the way nonprofits obtain funds. Crowdfunding has changed the dynamics of funding and has become the new avenue of fundraising for non-profits to do so social good (Hobey, 2014). Crowdfunding occurs on an information technological platform which directly links donors and requestors, resulting in a very effective fundraising method. In the contemporary marketplace environment, non-profit stakeholders should seriously analyze the potential of crowdfunding revenue raising and the financial contributions to the organization. Crowdfunding today has become so important that some researchers now consider crowdfunding for non-profit sector as important as what digital file sharing once was for in the music industry (Southin, 2013).

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This chapter examines crowdfunding as a phenomenon, applications and impact of crowdfunding as an additional source of revenue for nonprofits. Following the introduction, a background of crowdfunding is provided. A brief summary of the non-profit sector and crowdfunding explores recent trends that have made crowdfunding a significant opportunity for non-profits. Section four explores various regulatory changes that would be needed keeping in view the trends that are occurring in the nonprofit sector. The behavior of donors, aggregated increase in funding for not for profit organizations, legislation and taxation are discussed. This chapter generates knowledge in facilitating alternative revenue opportunities and concludes with

CROWDFUNDING PHENOMENON

Crowdfunding is an attractive alternative to traditional funding even for individuals. Crowdfunding is so popular that the campaign sponsors can achieve their funding goal in a very short period. It takes a lot of preparation before the launch of crowdfunding campaign to achieve funding goal. Sometimes, celebrity power can also help achieve funding goal. Take example of music legend Neil Young. He started his crowdfunding campaign and was able to achieve his \$2.4 million funding goal in just one day (Ursery, 2014). For small businesses, crowdfunding is a great source of alternative funding. These businesses, musicians, and real estate are the major beneficiaries of crowdfunding (Hogue, 2015; Fisk et al., 2011). In 2014, more than 60% of small and medium businesses (SMBs) in USA alone were looking at alternative sources of funding including friends and family.

For not for profit organizations as well, there is enormous potential to secure financial resources and to leverage the power of the crowd to achieve organizational outcomes by using crowdfunding platforms, such as:

1. Kickstarter,
2. Fundly,
3. IndieGoGo,
4. Kiva,
5. Peerbackers,
6. Fundable.

The US Jumpstart Our Business Startups (JOBS) Act of 2011 allowed smaller investors to purchase shares of a company and some US states enacted their own legislation to allow exemption for intrastate crowdfunding. Several states (including Georgia, Michigan and Washington) were actively seeking actions to shape crowdfunding industry to suit today's needs (Ursery, 2014). The JOBS act allowed the use of small amounts of capital from a large number of individuals to finance a new business venture over the Internet.

Crowdfunding is an opportunity as well for both large and small non-profits. Specifically, crowdfunding is a powerful fundraising tool for nonprofits that can substantially increase the donor base for all nonprofits. It's easy for anyone living anywhere to set up a web page for his/her crowdfunding project and start soliciting donation from the crowd. There are however, few basic requirement that the initiator of the crowdfunding project must meet. These requirements relate to the crowdfunding platform the initiator will be using. First, the initiator must set a funding goal. A funding goal determines the amount of funds the initiator wished to receive. Second, there must be a timeline of the crowdfunding project.

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