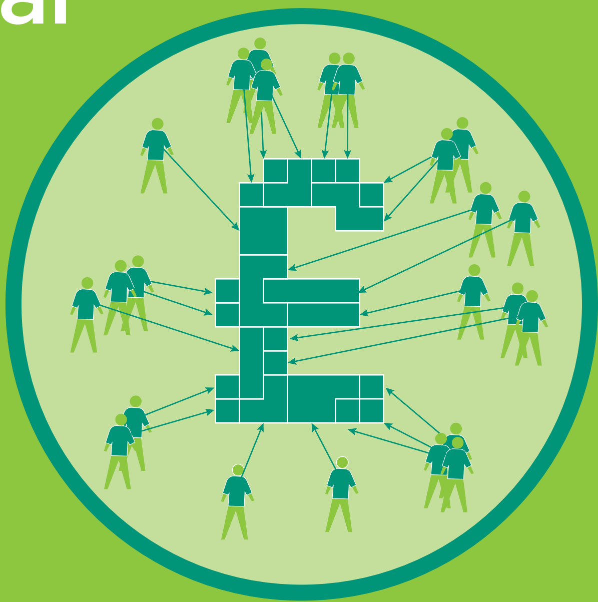
Nesta...

CROWDFUNDING GOOD CAUSES

Opportunities and challenges for charities, community groups and social entrepreneurs



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In partnership with NCVO

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We would also like to thank all those charities, community groups and social enterprises who completed or shared our survey.

Much of the crowdfunding market size data used throughout the report is based on past studies of the UK alternative finance market, such as *Understanding Alternative Finance* (2014) and *Pushing Boundaries* (2016) that Nesta has published in partnership with the University of Cambridge.

As ever, all errors and omissions remain our own.

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FOREWORDS

Nesta has been researching and supporting the crowdfunding and alternative finance sector since 2010. As both a major innovation in finance, and a key route to funding for innovative ideas, Nesta has studied how it has taken off in a wide range of sectors.

Our alternative finance market studies (in partnership with the University of Cambridge) have helped shed a light on an industry that has grown from £267 million in 2012 to £3.2 billion in 2015, and our analysis of the market and the models has helped create typologies, guides and tools to support those using crowdfunding, as well as examining the potential and pitfalls of this new approach to investment, loans and donations.

However, while small businesses, startups and the creative industries have been some of those making the most of this new form of finance, charities, community groups and social entrepreneurs are yet to make the most of crowdfunding. This is surprising as many of the attributes of crowdfunding - the direct engagement with funders, ability to select projects and beneficiaries, and the importance of creating a community - play to the strengths of the sector, and could bring real benefits, financial as well as non-financial.

As we demonstrated when running the pioneering Innovation in Giving fund with the Cabinet Office, there is a significant opportunity for the charity and voluntary sector, when innovation in giving money, time and expertise is taken seriously, and given the opportunity to grow.

We are delighted to be working with NCVO on this report and hope its insights on opportunities and challenges in crowdfunding will be used as a guide to help more charities, voluntary organisations and social enterprises experiment with crowdfunding, and unlock its potential.

Louise Marston,
Director of Innovation Policy and Futures, Nesta

Amidst talk of falling trust in charities, public disquiet over some fundraising methods and a wider environment of continued austerity, there nevertheless remains evidence that the philanthropic impulse is alive and well in Britain. There is a proud tradition of giving and volunteering in this country and it would seem foolish to forecast any substantial decline.

This is, however, not to say that the giving of time or money is immune from broader social and economic trends. A millennial generation in particular that is sector agnostic, more impact-focused and investment-minded is arguably one of the factors driving the brave new world. Add a dash of digital, the rise of social networks and a frustration with models of marketing centred upon interruption, and we can begin to see that the future of doing good is starting to look a little different.

Crowdfunding is at the leading edge of this new world. What is clear from this report is that the term now encompasses a broad range of activities that are characteristic of a rapidly-maturing space, albeit one that is relatively small in comparison to more traditional approaches to raising funds for doing good. As such, the insights put forward in this report are important: the social sector is awash with its fair share of the 'next big thing' and it could reasonably be argued that crowdfunding is near the peak of the hype cycle. The trough of disillusionment may well follow; if so, it will be important for social organisations to reflect on the insights contained within this report once the irrational exuberance of some crowdfunding ideas has dissipated.

This is a real and important challenge: faced by the demographic impact of a declining but generous baby boomer generation and a visible end-point for currently successful 'industrial fundraising' methods, many charities in particular will be facing their own Kodak moment. I hope that this report will help them decide on where next.

Many of us believe that the future of social sector organisations will be as the hubs for social networks, empowering supporters to change the world around them. Crowdfunding absolutely fits this model. This report helps us understand that future better.

Karl Wilding,
Karl Wilding, Director of Public Policy and Volunteering, NCVO

EXECUTIVE SUMMARY

This report explores crowdfunding for charities, community groups and social entrepreneurs.

Chapter 2 describes what crowdfunding is and how it can be used to fund good causes. This includes descriptions of the crowdfunding models, the amounts they can help you raise and the type of projects they can help raise funds for.

Chapter 3 discusses the main opportunities and challenges in crowdfunding. In addition to helping raise funds for projects that would otherwise struggle to access finance, crowdfunding has many potential non-financial benefits. These include opportunities to boost volunteering, transparency, more experimentation and new ways of combining campaigning and fundraising to increase awareness of social issues and needs. The main challenges: are a potential negative impact on equality and participation in projects, too much focus on short-term initiatives rather than long-term projects, that crowdfunding is hard and that there are significant limits to what can be raised.

Chapter 4 discusses insights from a survey of more than 450 community and voluntary organisations' perception, usage and awareness of crowdfunding. The survey found that:

- A high proportion of organisations were aware of crowdfunding but relatively few had used it.
- A lack of crowdfunding skills and knowledge within organisations was the biggest barrier to using crowdfunding.
- Opportunities to fund core cost and access to crowdfunding training would influence organisations to try crowdfunding. A positive impact on volunteering, fundraising and campaigning were also seen as very influential factors.
- Donation-based crowdfunding was the most well-known model and was also seen as most suitable to organisations' needs. Community shares was the least well-known model, but was perceived to be the third most suitable model (after donations and rewards).
- Those that had used crowdfunding thought that it was better than other sources of funding for its possibility to fund innovative projects and that it provided more freedom to define projects.
- 43 per cent of organisations were likely to use crowdfunding in the next 12 months.

Chapter 5 presents a number of recommendations for what practitioners and funders can do to support more crowdfunding to happen.

Charities, community groups and social entrepreneurs should...	Grant funders, social investors and other supporters should...
• Try and set up at least one crowdfunding campaign.	• Invest in crowdfunding skills and capacity building.
• Join up fundraising and campaign teams to run their crowdfunding campaigns.	• Integrate crowdfunding into existing funding schemes and programmes through match funding.
• Curate a group of projects on a pre-existing platform or develop a customised crowdfunding platform. (Particularly relevant for larger organisations or networks.)	• Support transition from crowdfunding projects to developing sustainable organisations.
	• Set up referral schemes from grant funders and social investors to crowdfunding platforms.
	• Test and measure effect of crowdfunding.

1. INTRODUCTION

Crowdfunding is rapidly changing how everything from personal loans to startup investment is financed. It also presents a great opportunity to disrupt how we get involved in good causes, from increasing giving, to boosting volunteering and raising awareness. In spite of this, charities, community groups and social entrepreneurs are yet to make the most of this opportunity.

This new form of finance, where projects are funded through many small donations or investments from a large group of people ('the crowd') – rather than a few large donations or investments from one or a few traditional funders – is growing fast. In 2015 alone, more than one million people took part in crowdfunding, totalling £3.2 billion of loans, investments and donations in the UK.[1]

However, while there has been a rapid growth in crowdfunding in the rest of the economy – for example, making up 12 per cent of new loans to small businesses and 15 per cent of the market for seed and venture-stage equity investment – we estimate that crowdfunding for good causes makes up less than 0.5 per cent of giving in the UK.[2]

This is in spite of the potential benefits of crowdfunding for the sector. Studies have shown how three in four of those who have used crowdfunding to support a social project said that the money they spent was in addition to what they what would normally give to charity, and one in four had offered to volunteer for the project they supported, indicating an opportunity to use crowdfunding to boost volunteering.[3]

Alongside this, the community and voluntary sector faces significant challenges. Reductions in public spending have created a funding gap within smaller community and voluntary sector organisations. While larger charities' incomes have been continually increasing in recent years, smaller charities have seen reductions in government grants and contracts which increases in individual giving have been insufficient to offset.[4] Decreases in income are particularly detrimental to smaller organisations for which single funding awards can be the difference between survival and closure.[5] In addition, parts of the sector have received increased criticism for their fundraising practices,[6] adding further incentives to explore new ways of getting people involved in supporting good causes.

While crowdfunding is not a panacea for the challenges the sector is facing, it could play a much bigger role in how people and organisations with a social mission fundraise and campaign.

In this report we explore how to better exploit this potential. We have done this through a combination of methods. We reviewed existing literature on crowdfunding for these types of projects and interviewed eight[7] of the leading UK crowdfunding platforms that work with charities, community groups and social entrepreneurs to understand the key characteristics as well as opportunities and challenges in crowdfunding for good causes. To further understand the barriers to the increased usage of crowdfunding, we surveyed more than 450 charities, community groups and social entrepreneurs on their perceptions, awareness and usage of crowdfunding.

The report is split into two parts:

PART ONE

Part one explores what crowdfunding is, the different crowdfunding models and how they can be used to fundraise for good causes. It also explores the opportunities and challenges in using crowdfunding that those thinking about crowdfunding should be aware of.

Read if you want to understand what crowdfunding is and/or if you are interested in setting up your own campaign.

PART TWO

Part two discusses insights from the survey, highlighting what charities, social enterprises and community organisations see as the main barriers to using crowdfunding and what would make them consider this form of fundraising. It also presents recommendations of how practitioners, policymakers and funders can support the growth of crowdfunding for good causes.

Read if you want to understand what the main barriers to the increased usage of crowdfunding are and what can be done to support more organisations and people to use crowdfunding.

2. WHAT IS CROWDFUNDING AND HOW CAN IT HELP FUND GOOD CAUSES?

Crowdfunding is in some respects a very old form of finance, used to fund numerous public works, monuments, statues, churches and mosques in the past. It's a simple idea: if many people contribute small amounts, even costly projects can happen. One of the most cited historical examples of this is how the plinth for the Statue of Liberty was crowdfunded through public subscription in 1885.[8]

What's new is the role played by the internet in mobilising people quickly and easily around common causes, often across large geographical distances and in numbers that were not previously possible.[9] This has enabled people, projects and organisations not only to find new sources of much needed finance, but also to build online communities of supporters who can help them design and promote their crowdfunding projects.

The creative sector is often hailed as the pioneer of modern crowdfunding. British rock group Marillion is recognised by many as the first to prove how a loyal and engaged crowd can be used as a powerful source of online finance. In 1997, the band tapped fans through their website to fund a £39,000 US tour and subsequent albums. In a similar vein, the world's first dedicated reward-based crowdfunding website, ArtistShare, focused on 'fan funding' for musicians. Fast forward to today, and crowdfunding is a £3.2 billion market which has spread to covering most parts of the economy and society, funding more than £1 billion worth of SME loans through P2P lending and £245 million of investments in startups.

Although it is still a relatively small market,[10] crowdfunding for good causes, which we characterise as campaigns by charities, community groups, social enterprises and individuals crowdfunding for projects with a social aim, is also growing fast. An estimated £81 million[11] was raised for good causes through crowdfunding in 2015, with £61 million alone coming from community shares.

This has provided much needed finance for a range of projects with a social purpose, from very small donation-based campaigns, such as the £362 raised by the Riding for the Disabled Association to fund transport costs for student volunteers from the University of Nottingham,[12] to larger campaigns like the £103,395 worth of community shares sold by Portpatrick Harbour Community Benefit Society[13] to save and secure the community ownership of the harbour.

In the following section, we explore some of the key characteristics of crowdfunding and the models used to fund good causes.

The Pup-Mobile Appeal campaign by the Hearing Dogs for Deaf People charity is an example of a rewards-based crowdfunding campaign. By offering a variety of rewards, from a bespoke pub quiz to an away day at the charity's HQ in Buckinghamshire, the charity managed to raise £16,155 to buy a new van for transporting dogs, trainers and deaf people.[14]

THE CROWDFUNDING PLATFORM

Crowdfunding is in most cases enabled by crowdfunding platforms. At its simplest, a crowdfunding platform is a website which works as an online marketplace where those interested in crowdfunding can pitch their project to a crowd of potential funders. Fundraisers use the platform to outline what their project is about, the timescales involved, how much money is needed and what funders get in return. The platforms themselves are operated by third-parties who manage transactions and vet projects before presenting them to the public. The platform provides a single place that isn't limited by geography or its capacity to engage a limited amount of people at a time, where fundraisers can send people interested in funding their project.

While the platform provides the marketplace where fundraisers can list and pitch their project, it is the fundraiser's responsibility to drive potential funders to their campaign. Fundraisers typically promote their campaign by asking friends, family and colleagues, reaching out to interested communities and community groups, sending out direct mail, marketing on social media and (for larger campaigns) media mentions. Social media in particular plays a strong role in this as it provides efficient and low-cost methods for reaching large, often very niche and geographically distributed communities and connecting them through crowdfunding campaigns.[15]

Most platforms offer free guides and support on how to set up and run a crowdfunding campaign on their website. Nesta has also developed free guides and toolkits such as *10½ Crowdfunding Tips*[16] and *Working the Crowd*[17] for anyone considering setting up a crowdfunding campaign.

THE DIFFERENT CROWDFUNDING MODELS AND WHAT THEY CAN HELP YOU FUND

Crowdfunding is used as the catchall term to describe the process of mobilising large crowds to finance projects through small donations and investments. However, it covers a range of different models which target different markets and offer different financial products. This means the different models help projects raise very different amounts of money, depending on what they can offer their supporters in return for finance.

The first challenge most organisations encounter is selecting a platform and crowdfunding model that suits their project. The main crowdfunding models and their key features are listed in the table on the following page. Community shares, donation and rewards-based crowdfunding are best suited to funding projects by charities, community groups and social entrepreneurs, and these will be the main focus of this paper. However, lending-based and equity-based crowdfunding are also included in the table to illustrate the differences between the models.[18]

While lending-based models make up the majority of the UK crowdfunding market, it is important to note that there currently aren't any lending models aimed specifically at facilitating social loans for UK-based charities and voluntary sector organisations.

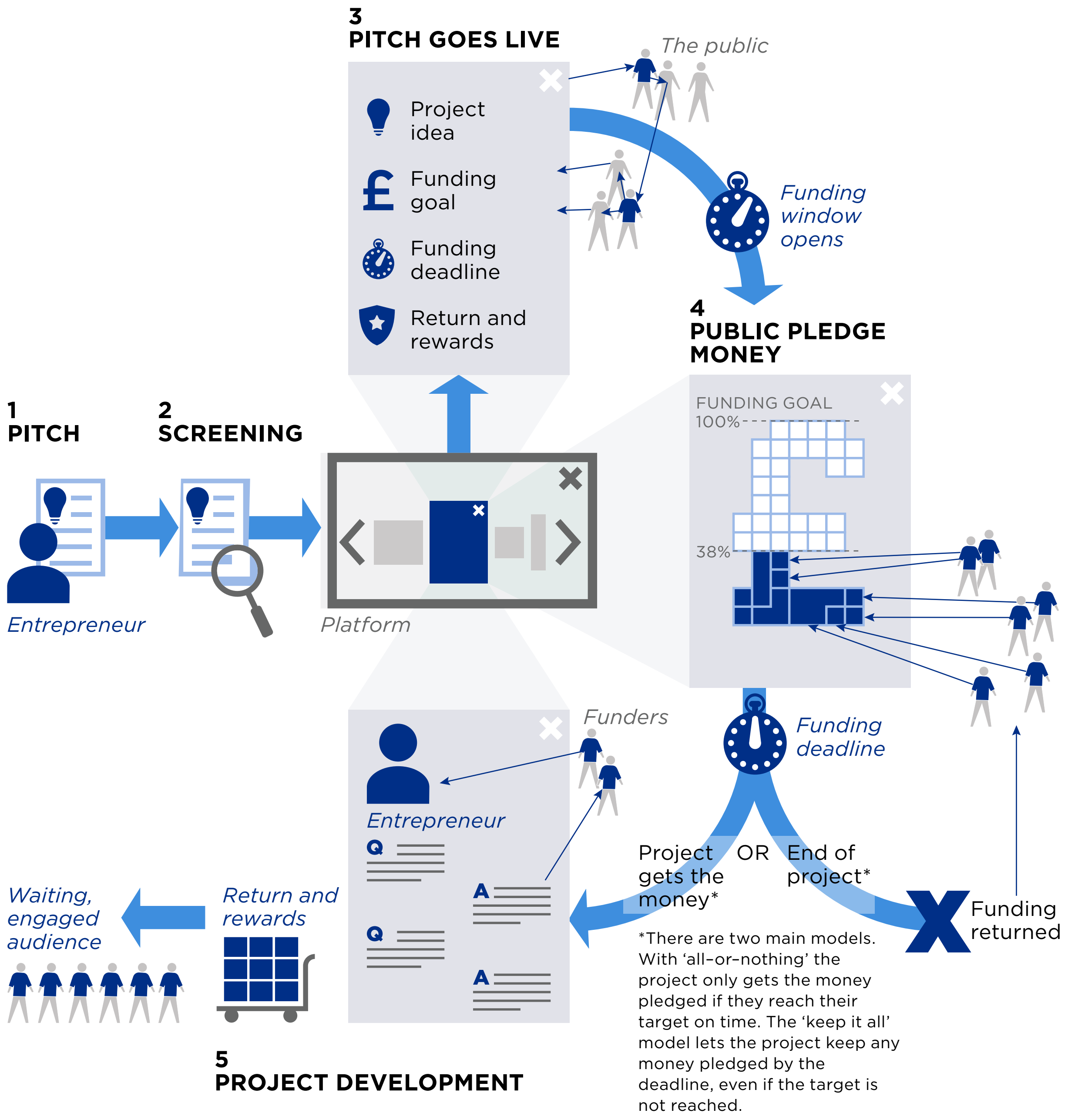
The nature of the project and type of rewards that fundraisers are willing to give the crowd in return for their investment will dictate which crowdfunding options will be available. Nesta has setup crowdingin.com, a free directory of platforms operating in the UK, where those considering crowdfunding can filter platforms by the model and type of projects they support.

Keep Streets Live UK - a grassroots campaign to keep the streets and shared public spaces of the UK open to informal art and music performances, used reward-based crowdfunding to raise £3,285 from 133 backers to go towards paying legal and campaigning costs when they challenged anti-busking laws in the Court of Appeal. Rewards included badges, T shirts and private music performances.[19]

Model name and description	Examples of platforms in the UK operating this model	Key Stats	Most funded sectors from this model	Consider if
Donation-based crowdfunding Individuals donate small amounts to meet the larger funding aim of a specific project while receiving no tangible benefits.	Spacehive Global Giving Just Giving Crowdfunding	**Volume in 2015** - £12 million **Average campaign size** - £714 (However, the average campaign size varies from tens of thousands to a few hundred depending on the platform.) **Average number of backers per campaign** - 41	1. Charity and philanthropy 2. Health and social work 3. Community and social enterprise	You have a small to medium-sized project that needs finance, and won't be able to offer backers anything in return beyond the good feeling of having supported their project.
Rewards-based crowdfunding Individuals contribute towards a specific project with the expectation of receiving a tangible (but non-financial) reward or product at a later date (sometimes referred to as pre-purchasing).	Indiegogo Kickstarter Startsomegood	**Volume in 2015** - £42 million (An estimated £8 million of which went to good causes) **Average campaign size** - £6,326 **Average number of backers per campaign** - 326	1. Film 2. Technology, media and publishing 3. Community and social enterprises	You have a small to medium-sized project that needs finance and you can offer backers some form of non-financial reward.
Equity-based crowdfunding Individuals invest in equity or profit/revenue sharing in businesses or project in the hope of making a financial return.	Crowdcube Seedrs SyndicateRoom	**Volume in 2015** - £332 million **Average campaign size** - £523,978 **Average number of backers per campaign** - 77	1. Technology, media and publishing 2. Internet and e-commerce 3. Real estate and housing	1. You are a startup, early-stage or growth business. 2. You need a large amount of cash to grow your business. 3. The legal structure of your organisation allows you to issue shares. 4. You are happy to have shareholders in return for investment.
Community Shares A sub-type of the investment model which offers a unique form of share capital that can only be issued by co-operative societies, community benefit societies and charitable community benefit societies. Investors in community shares have a democratic say in the project's social aims and can be paid interest on their shares if the society's trading performance allows it. Investors may also cash-in their shares with the society at some point in the future. However, unlike company shares, they cannot go up in value — though they can go down in value.	Microgenius Ethex Crowdfunder	**Volume in 2015** - £61 million **Average campaign size** - £309,342 **Average number of backers per campaign** - 458	1. Energy 2. Leisure and hospitality 3. Retail and wholesale	1. You need to raise funding for something that will have a long-term benefit (e.g. a building, new equipment or a renovation) but that will cost more than you could raise through donation or rewards-based crowdfunding. 2. You are a co-operative society, community benefit society or a charitable community benefit society or are prepared to go through the process of becoming one. 3. You are prepared to share control of your organisation with your community of investors with governance on a one member one vote basis.
Lending-based crowdfunding (P2P lending) Individuals or businesses seeking debt apply through the platform, with members of the crowd taking small chunks of the overall loan. There aren't any lending-based platforms specialising in loans to charities, however, there are examples of lending to projects with a social mission. The UK platform Abundance allows people to invest in debt-based securities in renewable energy projects for a share in the profits from the energy generated.	Thin Cats Ratesetter Funding Circle	**Volume in 2015** - £42 million (An estimated £8 million of which went to good causes) **Average campaign size** - £6,326 **Average number of backers per campaign** - 326	1. Manufacturing and engineering 2. Transport and utilities 3. Finance and retail	1. You need funding but would be unable to raise money through donation or rewards-based crowdfunding. 2. You do not want to give a share of your organisation away to investors. 3. You have a good credit score and are sure that you will be able to pay back your loan, with interest, on time.

The Crowdfunding Process

While there is significant variation in the process of crowdfunding between the different models and the type and size of campaign, the general process of crowdfunding can be broken down into five main phases:



1. **Pitch**: Entrepreneurs and organisations seeking funding pitch their projects to a platform. Most successful fundraisers will have done substantial planning and preparation for their campaign in advance of pitching.
2. **Screening**: The platform screens projects to ensure they meet the platform's criteria. The strictness of the screening process varies greatly between platforms and the type of model they operate. Some rewards-based platforms such as Indiegogo[20] and Kickstarter apply very few restrictions apart from prohibiting projects that are illegal, heavily regulated, or potentially dangerous for backers, effectively leaving it to the crowd to screen projects. Others only allow certain types of projects (e.g. video games,[21] fashion,[22] or food[23]) or projects which reach a quality threshold. The proportion of projects that successfully reach their funding target is typically higher for platforms that screen out unfeasible projects or low-quality pitches.[24]
3. **Pitch goes live**: The project is made visible to the public online via the platform. The public are presented with a description of the project (typically accompanied by a video or image), the funding target, the time frame to reach this target, the amount of funding the project has already received and what, if anything, backers get in return for their money.
4. **People pledge**: For a limited time the public can pledge money to the project. The time frame which the public has to fund a project depends partly on the platform but can also often be specified by the fundraiser. On Kickstarter for example, fundraisers can choose a funding time frame of anywhere from one to 60 days. If the project reaches its target in this time, the project receives the money it raised and moves onto the project development stage; if it does not reach its target the project receives no funding (except under the 'keep-it-all' model offered by some platforms, where the project receives the money it raised regardless of whether or not it reaches its target).
5. **Project development**: Fundraisers use the money they have raised to complete the project. When the project is complete, the fundraiser then returns the promised rewards to their backers.

Supporting a broad range of social projects and initiatives

One of the characteristics of crowdfunding is that the fundraiser defines the exact focus of the project and how much funding is needed. In many cases this is different from traditional grant funding and philanthropy, where there will be some limitations on what can be funded and how much (or how little) funding projects can apply for. Funders set the themes and parameters of projects and even when there is discretionary funding, there will still be rules about who can apply, on what basis and how much for.

On crowdfunding platforms, however, fundraisers are constantly pushing the boundaries of the types of projects and activities that can be funded and how.

With this in mind an overview of the types of projects with a social purpose typically funded through crowdfunding include:

- **Events and activities**: Campaigns that focus on raising money for one-off events or activities. UK examples include the Park and Slide campaign that raised £5,650 to temporarily transform a street in Bristol into a giant public water slide,[25] the £1,846 raised to set up a Street Art festival in Cardiff[26] and the £630 raised to send a football squad for students with learning difficulties to a national championship.[27]
- **Campaigns and movements**: As digital platforms become one of the primary ways activists and organisations campaign, such groups are also increasingly turning to online channels for funding. Recent of examples of this include how Full Fact — a project aiming to factcheck the EU referendum[28] – raised £30,000 through crowdfunding, the £1,827 raised for an independent inquiry into food poverty by Church Action on Poverty,[29] or raising £3,285 for a grassroots campaign to keep the streets and shared public spaces of the UK open to informal performances of art and music.[30]

- **Buildings, restorations and infrastructure**: Projects seeking funding to develop or restore buildings or other types of infrastructure have used crowdfunding. One example is the £33,310 raised to convert a former church in Glasgow into a local theatre and community hall.[31] On a much larger scale, community shares are often used to restore entire properties. This was the case with the Save the Duke campaign, which raised £175,000 in just under a month to save a pub that was facing closure.[32] However, the most funded projects by community shares are sustainable energy initiatives such as Bath & West Community Energy, a Community Benefit Society set up to deliver community-owned renewable energy, energy effciency and energy supply projects, which aims to raise £630,000.[33]
- **Equipment and tools**: Campaigns seeking funding for equipment or tools for individuals, groups or projects. Examples include a campaign which raised £2,500 raised to provide a lady with a new wheelchair[34] and the £300 raised by Frome Town Youth Football Club for a kit.[35]
- **Gardens, playgrounds and greenspaces**: Projects which aim to create or develop outdoor public spaces. Examples include the Global Garden Kitchen campaign which aims to raised over £10,000 to transform unused space into a new community food garden and kitchen for local people, the campaign by Three Bees Coop, which raised £3,308 to keep bees in secluded areas of South Manchester's parks and open gardens,[36] and the £565 raised to create an outdoor learning space for pre-schoolers in a deprived area of Manchester.[37]

The Supporting Siblings Of Terminally Ill Children - campaign run by The Rainbow Trust Children's Charity aims to raise £18,286 through a donation-based crowdfunding campaign. The money will be used to provide emotional and practical support, including support workers and arts and crafts sessions, to siblings who have a terminally ill brother or sister.[38]

SOCIAL INVESTMENT TAX RELIEF AND GIFT AID

Those considering crowdfunding a project with a social purpose currently have two tax relief opportunities; Social Investment Tax Relief (SITR) and Gift Aid.

Social Investment Tax Relief

SITR was introduced by the government to encourage investment into charities and social enterprises by helping them access new sources of finance. Investors in SITR eligible organisations can deduct 30 per cent of the cost of their investment from their income tax.[39] Organisations need to apply to HMRC to confirm that both they and the investment they have received meet the conditions of the scheme.

Investee organisations are eligible if:

- They are a registered charity, Community Benefit Society or Community Interest Company.
- They have less than 500 employees and less than £15 million of assets.
- They do not undertake 'excluded activities' including, for example, electricity generation, property development and personal lending.[40, 41]

Organisations can raise a maximum of £290,000 using SITR over three years.[42] In addition to the above, money raised using SITR must be spent within 28 months of receipt.

Funding raised through equity-based crowdfunding, community shares or lending-based crowdfunding may be eligible for SITR.[43]

Flip Finance and Freedom Bakery have produced a helpful guide on how charities and social enterprises can create their own social investment and raise finance from individuals using the tax break.[44]

GIFT AID

Gift Aid is an income tax relief designed to benefit charities and Community Amateur Sports Clubs (CASC) by allowing them to claim back 25p for every £1 donated by UK taxpayers. Eligible organisations can also claim Gift Aid as part of a crowdfunding campaign. To be eligible, organisations must be recognised by HMRC as a charity or CASC and need to ask donors to make a Gift Aid declaration.

Payments made to organisations which are not strictly gifts may be treated as donations for Gift Aid purposes, if the value of the reward is minimal. This means that under certain circumstances organisations can claim Gift Aid from rewards-based as well donation-based crowdfunding campaigns. Gift Aid can be claimed if the value of the reward doesn't exceed: 25 per cent of the donation for contributions up to £100, £25 for donations of between £101 and £1,000 and 5 per cent of the donation (up to £2,500) for donations of £1,001 and over.[45, 46]

In July 2015, the Portpatrick Harbour Community Benefit Society was formed to save the harbour. To secure full community ownership of the harbour, the campaign sold £103,395 worth of community shares to 363 investors. The minimum investment was £25 and the maximum investment £10,000 per person.

CROWDFUNDING OPPORTUNITIES BEYOND RUNNING A 'SIMPLE' CAMPAIGN

Beyond finding a platform and setting up a campaign, there are a number of additional solutions available to those interested in crowdfunding. These will be particularly interesting for larger organisations or networks of organisations. We explore these in more detail below.

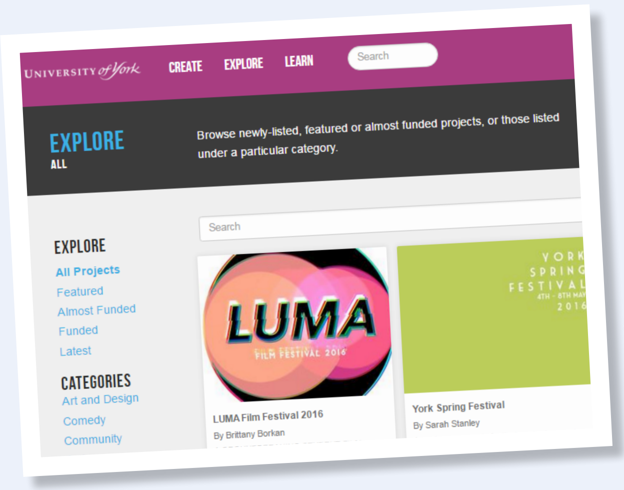
Curating a community of themed projects

For organisations interested in launching and crowdfunding multiple projects, many platforms now offer the opportunity to curate a community of projects that share a common theme (such as a similar geographical and/or social focus). By grouping like-minded projects in the same place, organisations can help connect donors to other projects which they might also be interested in funding. Crowdfund Plymouth, for example, is a group of projects facilitated by Plymouth Council and Plymouth University on the Crowdfunder platform for projects seeking funding in Plymouth.[47] Similarly, Spacehive allows organisations to set up 'Hives' of projects they would like to raise funding for. One example of this is how the Prince's Regeneration Trust aggregated 19 projects into the People-Powered Heritage Regeneration Hive.[48] Curation of a community will be more relevant to medium-to-large organisations and institutions, or networks of organisations which have multiple projects that could be crowdfunded.

Setting up your own platform

For larger organisations that want to raise funds for a large number of different projects simultaneously, there is also the option of setting up a crowdfunding platform dedicated just to their projects, or projects they are interested in supporting. Cancer Research UK was one of the first organisations to explore this when they launched their MyProjects platform in 2008;[49] this allowed donors to specify which cancer research projects they would like to support. Other successful attempts include Lendwithcare,[50] which was setup by CARE International UK in 2012 to facilitate microfinance loans to entrepreneurs in developing countries.

While creating and maintaining your own platform carries significant costs, and should only be considered by larger organisations, with a large portfolio of potential projects, having their own platform means that they do not have to pay another platform a percentage fee for the money they raise. Moreover, the platform can be customised to the organisation's specific funding and marketing needs and provides full access to the data generated, which can be used to help plan future fundraising.



The University of York Alumni created its own rewards-based crowdfunding platform, **YuStart**, using a white label service. YuStart allows students, alumni and staff to raise money for projects which benefit students, the University, or the wider community. Successful past campaigns include: £466 raised for a contemporary music festival, £743 raised for a PhD student to run an economics experiment, and £11,370 to fund summer research placements for Chemistry students.

White labelling

An alternative to developing an entirely bespoke platform is using a so-called 'white label' crowdfunding platform. At its simplest, this can be described as a pre-made crowdfunding platform without any projects or branding, that the organisation can buy, customise and brand to make it look and feel like their own. Many existing platforms such as Buzzbank and Trillion Fund[51] also sell a white label version that others can buy and customise. Another example of white labelling is the Hubhub platform,[52] which specialises in helping UK universities, such as York[53] and Southampton,[54] set up their own platforms.

While white labelling is cheaper than developing a new platform, in most cases it will still only be relevant to medium sized and larger organisations or networks, as it requires capacity to curate and manage.

Involvement of institutional funders through match funding

While crowdfunding is first and foremost about involving the crowd in funding projects, institutional funders such as foundations and government bodies are also beginning to explore how they can use it to work with the crowd on identifying and funding promising projects through crowdfunding. This is typically done in match funding schemes where a part of the total funding for a project is provided by an institutional funder, if the campaign can raise the remaining amount from the crowd. Examples of funders experimenting with matched funds include Crowdfund Plymouth by Plymouth City Council,[55] The London Mayor's crowdfunding programme[56] and the culture and heritage match fund programme set up by Arts Council England, the Heritage Lottery Fund, the Department for Culture Media and Sport and Nesta.[57]

From a funder's perspective, such schemes attempt to not only make public money go further, but also use the crowd to test demand and help direct funds to causes which they know receive considerable public support.[58]

One example of donation-based crowdfunding is the **Help a Heart** campaign which aimed to raise awareness of lifesaving first aid skills, alongside fundraising for public access defibrillators that can be placed in the community. The project raised £1,808 and £1,107 in two successive crowdfunding campaigns. This funded two defibrillators, a storage cabinet, signage and posters, installation and running costs, as well as CPR and defibrillator training.[59, 60]

HOW IS CROWDFUNDING DIFFERENT FROM TRADITIONAL FORMS OF ONLINE FUNDRAISING?

Online channels and platforms are becoming an increasingly important method of fundraising,[61] with one study showing that in 2014, 15 per cent of UK donors contributed to charities over the internet.[62]

The majority of charities allow donors to make donations directly through their websites or through independent online platforms such as JustGiving,[63] BT MyDonate[64] and Virgin Money Giving.[65] For donations made through independent online platforms, this often involves sponsoring someone (or a group of people) to complete a challenge like running a marathon or a skydive.

There are many similarities between crowdfunding and other forms of online fundraising. Firstly, both are performed through online platforms and therefore eliminate the need for what can be intrusive face-to-face, direct mail or telephone fundraising which has attracted criticism by politicians and the media.[66] Second, both types of fundraising utilise the 'crowd'. Like crowdfunding platforms, traditional online fundraising platforms such as JustGiving typically collect relatively small amounts of money from a large numbers of donors, both report the names of donors on campaign webpages and rely heavily on social media and networks.

> *"[Crowdfunding] is about having a specific piece of work that you want to do, that's very tangible and easy to understand by everybody, that you can say 'hey if we get enough money together for this we can make it happen'."*
> **Phil Geraghty, Crowdfunder**

Despite these similarities, there are two main things that distinguish crowdfunding from more traditional forms of online fundraising.

Crowdfunding focuses on projects

Crowdfunding involves raising funds for a specific project rather than for an organisation more generally, with fundraisers clearly defining how much funding is needed for a project and how the money will be spent. This means that funders have a clear sense of what their money will be used for. This is different from more traditional online fundraising, and funds raised are often for charities as a whole, either as one-off or repeat donations, where the charity then decides how and what to spend the money on. The aims of charities are generally much broader and flexible than one specific project. Therefore, with traditional online fundraising, donors are often less clear on how their money will be used or who and when people will benefit from it.

Crowdfunding campaigns have targets

Crowdfunding platforms require fundraisers to set targets based on how much money is required to complete the project. Most platforms are set up so that fundraisers only receive the funding if this threshold is met within a fixed period of time, typically 30 days, (i.e. the funding is 'all-or-nothing'). However, some platforms (e.g. Indiegogo, GlobalGiving and Justgiving Crowdfunding) also allow the option for 'keep-it-all' campaigns. As an example, if an all-or-nothing project seeking to raise £5,000 only manages to raise £4,990, the project doesn't receive anything and the funding is returned to backers. As a result, 'failure' rates on most crowdfunding platforms are quite high, with some of the most popular platforms reporting that 64 per cent of all projects fail to meet their targets.[67]

Although all-or-nothing crowdfunding campaigns carry the risk that the fundraiser will receive nothing if they fail to reach their target, they are successful more often than keep-it-all campaigns. One research project of more than 47,000 campaigns on Indiegogo, a platform that offers both models, found that 34 per cent of all-or-nothing campaigns were successful, while only 17 per cent of keep-it-all campaigns achieved their funding goals.[68] Platform data has also shown that success rates of all-or-nothing campaigns lead to higher average donations per backer. Data from the Crowdfunder platform, which offers both models, show that the average donation on an all-or-nothing campaign is £50; whereas on a keep-it-all campaign it is only £11.[69]

While traditional online fundraising also sometimes has a target — particularly when fundraising is based on sponsoring someone to complete a challenge — whether a particular activity goes ahead is not generally dependent on these targets being met and charities typically receive all the money raised in either case.[70]

3. OPPORTUNITIES AND CHALLENGES IN CROWDFUNDING FOR GOOD CAUSES

Moving beyond the fundamentals of crowdfunding and how the different models operate, there are a number of opportunities as well as challenges that anyone thinking about setting up a campaign should take into account before trying crowdfunding.

OPPORTUNITIES – INCREASING FINANCIAL AS WELL AS NON-FINANCIAL CONTRIBUTIONS FROM THE CROWD

Crowdfunding can be a powerful tool for raising funds for projects with a social purpose, bringing with it a number of financial as well non-financial benefits from boosting support to increasing volunteering. Below we discuss these opportunities in more detail.

HELPING FUND PROJECTS THAT WOULD OTHERWISE NOT GET FUNDED AND ATTRACTING NEW SUPPORTERS

One of the main benefits of crowdfunding is that it can help projects that would otherwise struggle to access funding. Previous studies of donation-based crowdfunding have shown that 64 per cent of those who had raised funds via donation-based crowdfunding were unlikely or very unlikely to have received finance elsewhere.[71] Indicating that the crowd were willing to fund projects that traditional funders either weren't willing, or didn't have the capacity to fund.[72]

Many of the characteristics of crowdfunding have the potential to motivate potential donors who might not give otherwise. An important feature of crowdfunding platforms is that they make donors aware of who else is giving, by listing their names and/or by directly interfacing with donors' social media accounts, thus enabling them to see which of their friends has already given to a project. This awareness of who else has given, increases the incentive to give by reminding donors that they are not acting alone, gives donors a sense of belonging and increases social pressure to act.[73, 74]

Following on from this, one of the main features of crowdfunding is that it allows the crowd to decide what it considers to be a worthy project. This gives those using crowdfunding the ability to raise funding for niche projects otherwise neglected by large institutional or other traditional funders; by reaching a specific target audience or by attracting interest from a more general audience.

While this is a feature of all platforms, the funding of niche projects has been supported by the growing trend for more specialised platforms which cater to particular types of project in order to differentiate themselves from the leading generalist platforms.[75, 76] Examples of this include Digventures, a platform setup to fund archaeology projects,[77] and CrowdJustice, a platform dedicated to providing legal funding for public interest cases, ranging from human rights issues to challenging planning permission decisions.[78]

TRANSPARENCY ON WHO AND WHAT GETS FUNDED AND TAPPING INTO PEOPLE'S SOCIAL AS WELL AS FINANCIAL MOTIVATIONS TO GET PROJECTS FUNDED

Since crowdfunding raises money for specific projects, rather than organisations as a whole, it can be argued that it provides more transparency around what donations and investments will be used for and how, giving donors a better idea of how their donation will benefit others. Similarly, when funding is being sought for a specific project, potential donors are more likely to identify and therefore empathise with those who will benefit from the project.[79, 80] This is something more traditional methods have been criticised for lacking.[81]

> *"Being able to see where your money goes and the tangible difference it makes is what donors want, and this is why crowdfunding is so exciting for charities"*
> **Jonathan Waddingham, JustGiving Crowdfunding**

These factors are important because feeling like they are making a difference is one of the primary reasons why people donate to charity, or other good causes. Studies have shown that this is also a motivating factor for users of crowdfunding models such as community shares, where people can make an investment into a project with a social mission rather than a donation.[82]

One study found that more than 90 per cent of those who had invested in community shares reported that 'doing social or environmental good' was key in their decision to invest. The same study found that the prospect of a financial return was less important, with only 24 per cent seeing this as important or very important,[83] highlighting the importance of social impact when making an investment.[84]

Following on from this, some studies of rewards-based crowdfunding have shown that community-based or social projects are more likely to succeed than other types of crowdfunded projects. For instance, one US-based study found that projects tagged with the word 'civic' on the rewards-based platform Kickstarter succeeded to reach their funding targets 81 per cent of the time[85] compared to a 36 per cent success rate for all projects.[86] With the study concluding that if 'civic' was a separate category, it would be Kickstarter's most successful.

IMPROVING MARKETING AND AWARENESS RAISING

The benefits of crowdfunding go beyond just the funding that can be raised. Running a crowdfunding campaign can be instrumental in promoting a cause, building communities of support and can even be a political tool, used to put pressure on local authorities and other decision-makers. One example of this is how the 'dignity in dying' campaign to legalise assisted dying, raised over £30,000 to fund ten billboards across London while also raising awareness for their cause through the crowdfunding campaign itself.[87]

Surveys of those who had used crowdfunding to donate to or invest in a project, show that financial support is often followed up with support on marketing and awareness raising. For example, a survey of those who had used donation-based crowdfunding to support a project, showed that 90 per cent subsequently promoted it to their social network; the same was the case for rewards-based crowdfunding (70 per cent) and community shares (57 per cent).

This in turn can not only help raise awareness about the cause, but also help reach new potential funders with social media and networks being one of the most common ways investors find out about the project they supported.

This benefit is also evident to those raising funding. The same study for example found that 71 per cent of those who had run a rewards-based campaign in the UK reported that the non-financial benefits such as press and marketing were important or very important factors in their decision to use crowdfunding. This corresponds with the crowdfunding platforms we interviewed for this study, who suggested that it is the non-financial benefits of crowdfunding, such as its impact on campaigning and awareness-raising, that will ultimately drive its growth in this sector.

However, crowdfunding platforms also highlighted that one of the main challenges, when helping organisations make the most of crowdfunding, is the lack of understanding within organisations of the non-financial benefits. Too often, crowdfunding is seen purely as a fundraising tool, rather than a combination of fundraising and campaigning. As a result it often becomes the responsibility of the fundraising team, leading to the organisation failing to make the most of the wider opportunities in crowdfunding.

> *"[Charities] currently don't have the setup to combine the teams that they have to do campaigning with the teams that do fundraising. They are currently distinct teams and until they pull those things together they're going to find it very hard to leverage crowdfunding."*
> **Jonathan May, Hubhub**

Building on this, platforms also described that for most organisations crowdfunding will never be the main route to fundraising, as they will use major gift programmes, legacy programmes etc., for this. Instead, crowdfunding rather than a pure fundraising tool, should be seen as a way of 'widening the funnel' and stimulating a large number of first time donors to get involved with the organisation, with the opportunity to turn these into supporters and potential repeat donors.[88]

SPEED AND FLEXIBILITY

A further benefit of crowdfunding is the speed at which funding can be raised, which is typically considerably faster and potentially cheaper than undergoing a lengthy grant application process or more traditional fundraising methods. Research released by the donation and reward-based platform Indiegogo has shown the optimal length for a crowdfunding campaign is around 30-40 days.[89] The NCVO crowdfunding challenge is one example of how this can be utilised for social purpose. The challenge pitted nine organisations that had never used crowdfunding before against each other to raise as much money as possible within a 60 day time frame. The winners Same Sky raised £4,170 to produce a lantern and bonfire display to celebrate the Winter solstice in Brighton.[90] Same Sky went on to crowdfund the same event again in 2013, 2014 and 2015.

MOBILISING SUPPORTERS AND SOURCING OTHER NON-FINANCIAL CONTRIBUTIONS

Although crowdfunding can increase the number of people who engage with a cause, one frequent critique is that the resulting engagement is typically weak and transactional because it reduces participation to a binary choice between approving and rejecting a single idea — rather than encouraging discussion and consensus-building.[91]

However, one recent study challenges the idea that crowdfunding reduces the quality of participation. It found that 27 per cent of respondents who had used donation-based crowdfunding platforms had also offered to volunteer with the projects they had supported and 7 per cent also offering things such as hardware or the use of space. Similarly, 32 per cent of people who had invested in community shares had offered to volunteer with the project and 39 per cent of them had participated in shareholder meetings.[92]

> *"The engagement which crowdfunding brings is particularly beneficial to smaller charities that have more trouble finding volunteers."*
> **Bartolomeo Guarienti, Kriticalmass**

The level of involvement of volunteers found through crowdfunding can vary from one organisation receiving a few hours helping with the harvest at a pop up saffron farm,[93] to finding and appointing a new non-executive director from amongst its backers, which was the case for the Made in Hackney community kitchen campaign.[94] While in most cases engagement between backers and project organisers takes place informally through feedback left in comment fields, some platforms have attempted to incorporate this into their platform design, allowing projects to quantify the number of volunteering hours they would need to raise from the crowd, or specify the items or skills they need for the project.[95, 96, 97]

One platform suggested that the opportunity to source volunteers through crowdfunding could be particularly beneficial to smaller organisations.

INCREASED EXPERIMENTATION AND REDUCING THE COST OF FAILURE

A key feature of crowdfunding is the 'pre-sell' nature of campaigns, where organisations behind the campaigns don't have to commit any money to developing the project (beyond the resources they put into the fundraising campaign) until they hit their funding target.

This has the potential to reduce the cost of failure for fundraisers. If there isn't support from the crowd, the project won't go ahead and there will be little financial loss. If the crowd thinks it is a worthy idea they will commit funding and the organisation behind the project can try and make it a reality.

The opportunity to test public demand can also increase the appetite for experimentation and reduce the risk for fundraisers in taking on new and more unfamiliar projects.

> *"We used Kickstarter to raise the funds to pay for a pilot project as proof of concept that we have now taken to established funding bodies to continue. The crowdfunding approach allowed us to take the risk on the pilot"*
> **Small-sized charitable trust, London**

While concept testing is a feature of any crowdfunding campaign, some platforms have developed features that allow those considering setting up a campaign to test the idea with potential backers before launching it. One example of this is how the platform Spacehive allows projects to be posted as 'concepts', where they can be discussed and refined before entering the fundraising process.

Linked to this, attracting backers and successfully funding a project through crowdfunding can give validation to an idea, proving that people think that a new project or charity is needed and that they are willing to pay to support it. Studies of successful crowdfunders show that crowdfunding serves to validate demand and build communities of support.[98] This validation can in turn be used as proof of concept when seeking to engage more traditional funders to commit larger funds to scale-up or sustain the project that was crowdfunded.

> *"Project creators don't just receive the initial seed funding needed to run their project. Their crowdfunding campaign also raises awareness within the local community and beyond, endorsing their idea, and evidencing the group's passion, organisation and commitment towards the cause, potentially helpful in attaining larger and more sustainable chunks of funding in the future."*
> **Harriet Gridley, Spacehive**

Once projects are funded, an additional argument is that the direct connection between backer and fundraiser also contributes to reducing risk. One study of rewards-based crowdfunding in the US (including both those with a social purpose and creative projects), found that only around 9 per cent of funded projects fail to deliver, in part for this reason.[99]

These non-financial benefits may be particularly advantageous to new organisations for which validation of their idea, promotion of their cause and the building of a strong base of supporters and volunteers is a priority. Such priorities are supported by the transparency and engagement that crowdfunding campaigns can offer. One example of this is how AH20 — a new charity set up to bring filtration equipment to families in remote areas of Northern Nicaragua — used crowdfunding to bring in money and support to get established.[100, 101]

The financial and non-financial benefits offered by crowdfunding may also be advantageous to more established charities using crowdfunding alongside other fundraising methods. For instance, *Positive News*, a quarterly newspaper launched in 1992 focusing on news stories about positive social change, turned to crowdfunding in response to a funding crisis following the death of its founder. The newspaper initially secured £30,000 through donation crowdfunding which allowed them to go through the process of setting up a community share offer from which they raised a further £265,822.[102]

> “*We decided to run an initial, small crowdfunding campaign to test the market and scope for our organisation to raise funds this way and were overwhelmed by the response, and we learned a lot of what makes a successful campaign. So we have subsequently run much bigger campaigns successfully”*
>
> **Medium-sized charitable incorporated organisation, London**

Linked to this, interviews with crowdfunding platforms also highlighted a more general opportunity to use smaller rewards or donation-based campaigns to get projects and organisations ready to take on larger investments through more complex crowdfunding models, such as community shares.

One platform suggested that the costs involved in setting up a community share offer can be paid for using an initial donation-based campaign. This initial campaign is also a great way to test whether there is support for the wider idea. After all, it’s better to discover early on if public support is lacking before resources are committed to a project that will be at high risk of failing.

> “*A lot of community enterprises will start with donations because they need money to actually plan their community share offer. Doing this also tests the water because if you can raise £5,000 from a 100 people through donations, it will give you the sense that you could raise larger sums from more people through community shares.”*
>
> **Simon Borkin, Community Shares Unit**

CHALLENGES – AVOIDING NEGATIVE IMPACT ON DIVERSITY, LONG-TERM PLANNING AND BEING CLEAR ON THE LIMITS TO CROWDFUNDING

As crowdfunding continues to grow and become a more integrated part of how organisations and people fund projects and make spending decisions, those considering it need to overcome or be aware of a number of challenges.

NEGATIVE IMPACT ON DIVERSITY, EQUALITY AND PARTICIPATION

Crowdfunding is based on the idea that people 'vote with their wallets'; where projects and campaigns that can attract enough donations or investment from the crowd go ahead and those which can't, don't.

Participants on crowdfunding platforms, from the people who pitch ideas to those who donate money, will in most cases be those who are online and understand how crowdfunding works. One potential challenge, as a result of this is that people and communities that are wealthier, and more adept at running successful crowdfunding campaigns and have larger social networks are in a position to benefit the most from crowdfunding. This results in crowdfunding successes being concentrated in better-off areas of a city or country, and on issues which are more relevant or interesting to wealthier people, due to the larger number of individuals or businesses who are able to pledge.[103]

This has led some studies to argue that unless it increases its reach, crowdfunding won't grow as a universal model for funding projects with a social purpose and the model will risk creating a funding infrastructure where those who are able to participate have much more control of how money is used.[104]

There are indications that this is happening in other fields. One study of crowdfunding for science projects found that while the crowd was willing to fund a wide variety of often very niche projects, it is researchers with a large fan base (Facebook, Twitter, and YouTube) who are more likely to raise money.[105, 106]

Other research has dispelled some of this critique. One study looking at gender, geography and participation in donation, community shares and rewards-based models found that these models tend to involve equal numbers of men and women in funding and fundraising, and include people from a diverse mix of geographical and income backgrounds.[107] Similarly, an evaluation of the Crowdfund Plymouth match funding scheme, which sought to get people from across the city involved in setting up and funding projects, found that a higher proportion of backers came from Devenport, the most deprived ward, than any other ward in the city, demonstrating the inclusivity of the scheme.[108]

However, this is still a very nascent field and understanding the impact of crowdfunding on diversity and participation, positive as well as negative, is one of the areas which needs further research for us to fully recognise the opportunities and challenges in crowdfunding.

BALANCING ONE-OFF SUPPORT THROUGH CROWDFUNDING AGAINST THE NEED FOR LONG-TERM FINANCE

As discussed earlier in this report, one of the main benefits of crowdfunding is the direct connection between backers and projects and the speed at which it can mobilise people and their money to get a project off the ground. However, there can also be challenges associated with this, particularly around sustaining the projects.

Crowdfunding works really well for one-off projects, such as an event, making a product, a construction, or setting up a community garden, where one-off-funding is needed. The challenge arises when crowdfunded projects, such as a playground, will need to be maintained long after the one-off funding via crowdfunding has finished. Because crowdfunding focuses on one-off donations (particularly in the case of donation and rewards-based crowdfunding) there is also the risk that it could reduce the number of people taking up subscriptions and repeat monthly donations to charities.

Linked to this, the nature of crowdfunding brings with it a risk of putting too much of an emphasis towards projects that have a visible short-term impact but create very little lasting social value, in the form of long-term projects or new local community and voluntary institutions and networks. Critique of how crowdfunding for public projects, run by charitable organisations has developed in the US argue that crowdfunding 'moves government away from coherent efforts to solve public problems and toward treating them as fragmented matters subject to people's passing fancy. It makes it profoundly more difficult for government—and charities—to adequately support and advance the broad-based and continuing efforts necessary to improve our social, political, and economic institutions'.[109]

The challenge for organisations in mitigating this risk, will be to either keep the crowd engaged beyond short funding windows to fund the ongoing maintenance of services or to get an institutional funder (private or public) to take on the baton.[110] An alternative approach taken by some crowdfunded projects is to use the first round of funding to develop revenue-generating schemes.[111]

REPLACING GOVERNMENT FUNDING

One of the most frequent areas of criticism of crowdfunding for good causes is that it risks encouraging public sector funders to withdraw from funding services that should be paid for by the taxpayer.[112] This is a complex discussion which relates to age-old, and often deeply ideological debate about the role of the state versus civil society. With regards to crowdfunding, this debate has been particularly vocal in the US, where there have been a number of examples of crowdfunding platforms such as Citizinvestor[113] being used to subsidise activities that used to be publicly funded, such as recycling facilities, public art displays or a park clean-up.[114, 115]

Much of this debate has focussed on the argument, discussed in the previous section, that crowdfunding produces outcomes that are too short term to substitute for public funding. However, others have argued that the rise of crowdfunded activities that were traditionally funded by the public sector is a symptom of a weakening of local government. This idea is backed up by the finding that crowdfunding campaigns often refer to the financial weakness of government, with one in eight civic crowdfunding projects making direct reference to reductions in government spending or budget shortfalls.[116] An example of a crowdfunded project taking over a space which was previously funded by local authorities is the Loop de Loop project, which raised over £10,000 to convert an abandoned public toilet in the town of Frome into an art gallery.[117]

One counter-argument to this is that crowdfunding platforms are not themselves the force behind a retrenchment of state funding, which is being driven by numerous other factors. A second argument is that crowdfunding is additional to funds raised via taxation, and is typically applied to social issues and challenges not funded and/or dealt with by the state. Studies of US-based crowdfunding platforms have pointed out that while some projects, such as playgrounds, could be considered as things that should be funded by public institutions, the vast majority of projects 'are far from the core of public service provision'.[118]

A second argument is that rather than causing governments to divest, crowdfunding can be used by communities to push governments to attempt more ambitious projects. In addition, notwithstanding the debate above about equality of participation in crowdfunding, it could be argued that crowdfunding is a much more democratic means of transferring funds from the public to socially-beneficial projects, in the sense of giving communities direct control over what projects they want to support, without the need for state intermediation. This may both enrich communities while also allowing local government to focus on developing infrastructure and core public services.[119]

POTENTIAL CONFLICT BETWEEN THE CROWD'S AND THE ORGANISATION'S PRIORITIES

Tapping into the crowd to get projects off the ground can bring with it lots of financial as well as non-financial benefits. However, bringing the crowd together with established organisations can also bring with it a number of potential issues related to the new ways of sharing power and making spending decisions that comes with crowdfunding.

The crowd won't always fund projects and activities that the organisation would like to support

Turning to the crowd for finance puts the decision on which of the organisations projects and activities should go ahead in the hands of the crowd.

Charities and community organisations will initiate and seek funding for projects based on their expertise and knowledge of a challenge or social need in a particular area or community, whereas the crowd of potential backers in many cases will have little or no detailed expertise on the area they are funding.

This could create a potential conflict between what the organisation considers a project worthy of getting funded and the opinion of the crowd, because how it is pitched doesn't manage to appeal to the crowd's interest. When interviewed, some platforms highlighted that a negative result of this is that some types of campaigns, such as those supporting old people or people with disabilities, have anecdotally proven hard to crowdfund. Some comments from survey respondents mirrored this concern.

> *"It is hard to attract funding to help homeless people, people with addictions or mental health problems because stigmas are attached."*
> **Small-sized charitable incorporated organisation, North West**

Linked to this, crowdfunding puts very clear restrictions on what the raised funds can and can't be spent on, with fundraisers always being 'tied' to deliver the project they pitched to the crowd, even if they think it has become irrelevant since raising finance and they would like to spend the money raised on other activities.

Loss of control over the organisation or project

Particularly relevant to community shares is the issue of giving up power and ownership over the project. With the purchase of community shares comes the right to have a say in major decisions regarding the project. These changes in governance may be a concern for those currently in control of the organisation (e.g. charity trustees) if they are reluctant to share this power.

> *"There's a fundamental sharing of power, which I think is a deal breaker for quite a lot of traditionally-minded charities"*
> **Dave Boyle, Community Shares Company**

Platforms that facilitate the sale of community shares, described how people who invest in community shares are typically either going to personally use the service or facility that they are generating or have a personal association with the project, even if they are not going to be a direct beneficiary. Accordingly, those that raise funds through community shares typically embrace the shared ownership aspect of the offer on the grounds that 'who is better at making decisions on behalf of a project than those who are set to benefit from it'. Moreover, unlike company shares, community share investors have equal voting rights regardless of the size of their investment and cannot sell their shares on to third parties. This means that the organisation can't later be controlled by a small group of people who don't share the values that motivated the initial investors.[120, 121]

RUNNING A CROWDFUNDING CAMPAIGN IS HARD AND THERE ARE LIMITS ON THE SIZE OF WHAT CAN BE FUNDED

In spite of the many benefits of crowdfunding, it isn't easy money, and a successful campaign, just as any other fundraising campaign, requires hard work.

Successful campaigns require dedicated teams and careful planning, often months in advance of going live. Alongside this teams need to have the skills to campaign and fundraise online and use social media to mobilise a crowd of backers and supporters as well as respond to their feedback, comments and questions once the campaign is live. One organisation that had used crowdfunding commented that "there was a lot of effort for not much gain". This combined with the high failure rates in crowdfunding, mean organisations should consider crowdfunding only if they are willing to commit adequate resources to the campaign, and if they are interested in achieving benefits (such as those discussed in the previous chapter) alongside raising finance.

In addition to this many organisations won't be attracted to crowdfunding since the amounts that can be raised are relatively small, and won't meet their funding need.

While donation-based crowdfunding can be used to fund large projects — Peckham Coal Line Park, for example raised more than £70,000[122] — most campaigns are relatively small. The average size of crowdfunding campaigns is £714 for donations and £6,326 for rewards-based crowdfunding, similar amounts to those available to charities and community and voluntary sector organisations through small grants programmes.[123]

Should larger projects want to raise finance through crowdfunding, they would need to either to put substantial efforts in to mobilising a larger crowd to raise funds above the average campaign size or split projects up into several ~£5,000 - £10,000 campaigns. The latter would only be feasible in instances where each project would be able to go ahead on its own and is not reliant on other projects also reaching their funding target.

> *"It's about understanding that crowdfunding is part of a funding cocktail with different bits of funding coming from different places."*
> **Phil Geraghty, Crowdfunder**

However, interviews with donation and rewards-based platforms highlighted that while crowdfunding may not meet all fundraising needs, it really pays dividends when viewed as an integrated part of an organisations giving programme – making up a part of a larger fundraising campaign (such as funding a launch event or the restoration of part of a community building) and leveraging donors to give again to other projects or more centrally to unrestricted organisational funds in the future.

Opportunities to raise larger sums via community shares, but you need to become a co-operative or community benefit society

With the average amount raised via community shares being £309,342 it provides the opportunity to raise substantially larger amounts of money than donation and rewards-based crowdfunding. However, while just about anyone can try to run a donation-based or reward-based crowdfunding campaign, and the hard work in these models primarily relates to the team skills and resources the organisation can commit, there are an additional set of important challenges those considering community shares should consider.

Community shares can only be offered by co-operative or community benefit societies – (including charitable community benefit societies). Therefore, in order to issue community shares, organisations that do not have this legal status must go through a process of creating or converting to this, which can be both time-consuming and expensive. In addition, registered charities must cease their registration with The Charity Commission and instead apply to HMRC to be recognised as an exempt charity.[124] One implication of this is that these organisations will no longer be eligible for certain grants which are only open to registered charities.

Despite the hard work associated with setting up a community share offer, doing so carries several benefits over other crowdfunding models. Unlike lending-based crowdfunding, community shares don't leave organisations in debt to lenders, who must be repaid whether or not they can afford to pay them, which not only lessens the pressure on finances for often-nascent enterprises, but also leaves a healthy balance sheet. In addition, since investors have a financial stake in the success of the project they are more likely to also provide non-financial support such as volunteering, and since the only route for them to see their money again requires the enterprise to be successful, become loyal customers and active marketers.

As highlighted throughout this chapter there are a number of significant opportunities and challenges in crowdfunding that anyone thinking about this form finance should consider before trying it.

While many of the challenges and limits to what can be crowdfunded means that there will be a significant proportion of charities, community groups and social entrepreneurs for whom crowdfunding won't be relevant. The opportunities in crowdfunding, in particular the non-financial benefit also demonstrate a significant untapped potential that more organisations could and should try and make the most of.

The challenge remains to understand why more organisations aren't doing this — what do charities, community groups and social entrepreneurs see as the main barriers to using crowdfunding and what can be done to address these.

In the following chapter we explore this in more detail.

4. COMMUNITY AND VOLUNTARY SECTOR ORGANISATIONS' PERCEPTION, AWARENESS AND USAGE OF CROWDFUNDING

To date, the few studies of crowdfunding for charities, community groups and social entrepreneurs have looked at charting the growth of the different crowdfunding models and benefits reported by those individuals and organisations that have already used crowdfunding. While this has helped develop an understanding of the motivations of those who have used crowdfunding, and the benefits they experienced, market studies also highlighted that while models such as community shares, donation and reward-based crowdfunding are growing fast, they make up a very small part of the overall market of fundraising for good causes. What these studies haven't done is identify the reasons for this, and why, in spite of its potential financial and non-financial benefits, there has been such a slow uptake of crowdfunding amongst those fundraising for good causes such as charities, community groups and social entrepreneurs.

To understand the reasons for this, we surveyed 452 social enterprises, community and voluntary sector organisations in the UK to gauge their awareness, perception and usage of the different crowdfunding models.[125] In addition to understanding the extent to which respondents have used or are aware of crowdfunding, it also identifies what they see as the main barriers are to using crowdfunding, and which factors would make them consider trying it.

WHAT WE DID

Based on their usage and knowledge of crowdfunding, respondents were split into three separate survey groups:

1. Those that were previously unaware of any crowdfunding model. This group will be referred to as '**unaware**'.[126]
2. Those who were aware of at least one crowdfunding model but whose organisation had not used any crowdfunding model to raise funds. This group will be referred to as '**aware**'.
3. Those whose organisations had used at least one crowdfunding model to raise funds. This group will be referred to as '**had used**'.

It is important to stress that the survey was open to any community and voluntary sector organisations interested in participating (i.e. we did not select a random sample of respondents). Therefore, while the results of this survey are indicative, they may not be representative of the community and voluntary sector as a whole.

Respondents came from a wide range of organisations with regards to location, type, and age. Organisations were headquartered throughout the UK but were concentrated in London (21 per cent), South East (15 per cent), North West (13 per cent) and Yorkshire and Humber (13 per cent).[127] The median turnover of organisations taking part was £100,001 up to £500,000; this was also the most commonly reported turnover (27 per cent). While we had organisations of all ages participate in the survey the majority (51 per cent) were from established organisations which had been in existence for more than 20 years.[128]

INSIGHTS FROM OUR SURVEY OF CHARITIES, COMMUNITY GROUPS AND SOCIAL ENTERPRISES

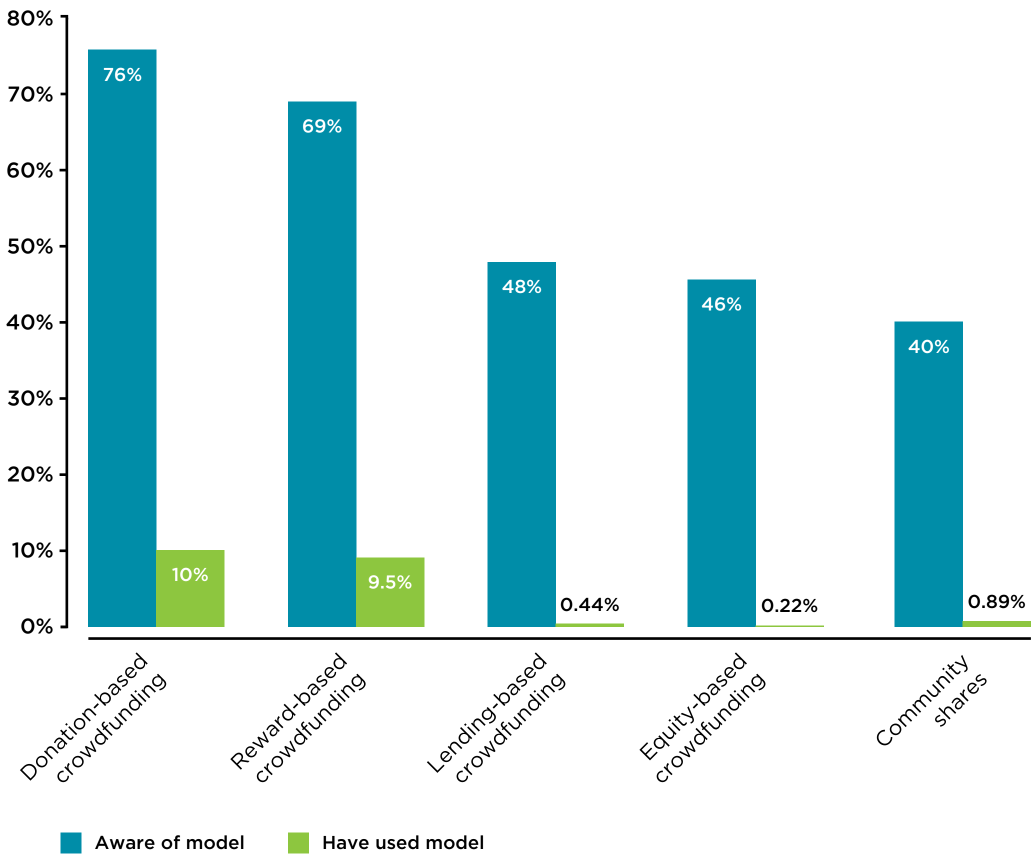
HIGH AWARENESS BUT LITTLE USE OF CROWDFUNDING

Firstly, we were interested in understanding the usage and awareness of crowdfunding amongst the surveyed organisations. Of those who were surveyed, 11 per cent had never heard of or used any crowdfunding model ('unaware'), 74 per cent were aware but hadn't used it ('aware') and 15 per cent had used crowdfunding ('had used') .

Almost nine in ten (89 per cent) of respondents had either used or were aware of at least one form of crowdfunding. Within this group, a breakdown by the different crowdfunding models shows that donation-based crowdfunding and reward-based crowdfunding were the most well-known models with 76 per cent and 69 per cent respectively, reporting that they were aware of these models (Figure 1). Less well known were lending-based crowdfunding (48 per cent), equity-based crowdfunding (46 per cent) and community shares (40 per cent; Figure 1).

Fifteen per cent of all respondents reported that their organisation had tried to raise funds using at least one of the crowdfunding models, with some (5 per cent) reporting that they had used more than one model. Ten per cent of all respondents reported that they had used donation-based crowdfunding and 9.5 per cent had used reward-based crowdfunding (Figure 1). Use of the other crowdfunding models was much rarer, with less than 0.5 per cent of all respondents having used lending-based crowdfunding, equity-based crowdfunding or community shares (Figure 1).

FIGURE 1. **Organisations' awareness and usage of crowdfunding models**

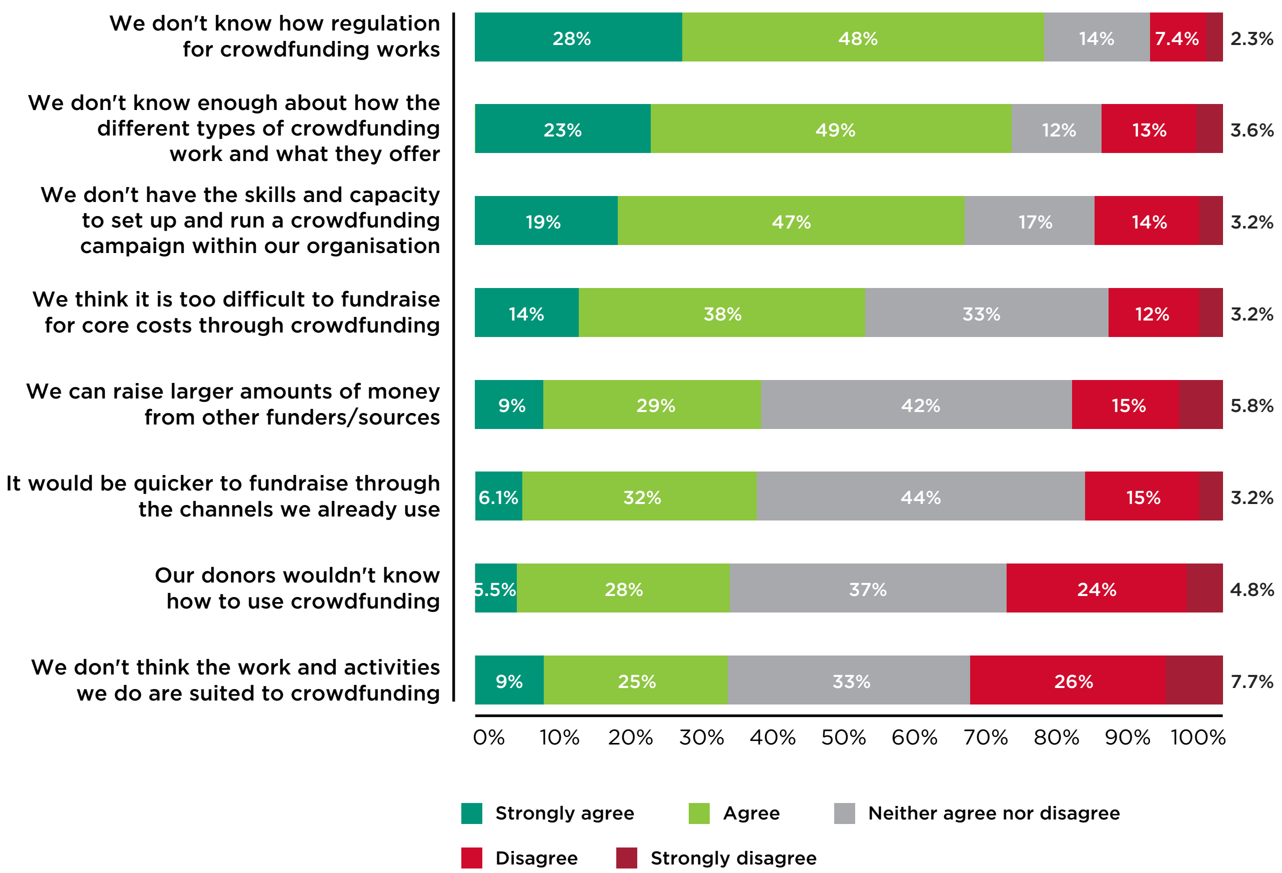


THE BIGGEST BARRIERS TO USING CROWDFUNDING ARE SKILLS, KNOWLEDGE AND CAPACITY

When asked what they saw as the most important factors keeping them from using crowdfunding, organisations highlighted a number of issues relating to not knowing enough about what the different models have to offer and not having the right skills, knowledge or capacity to set up a crowdfunding campaign.

'Aware' organisations identified that in spite of having some knowledge of crowdfunding, the primary reasons that they were yet to use crowdfunding related to lacking the skills, capacity or training to run a crowdfunding campaign. Not knowing enough about regulation of crowdfunding, how the different types of crowdfunding work and what they offer were seen as some of the most important reasons by more than 70 per cent of organisations (Figure 2). Two in three organisations reported not having the skills and capacity to set up and run a crowdfunding campaign within their organisation. Just over half (52 per cent) also highlighted the fact that they thought it would be too difficult to fundraise for core costs through crowdfunding as a barrier.

FIGURE 2. **Which factors are keeping 'aware' organisations from trying crowdfunding?**



The crowdfunding platforms that we interviewed also highlighted that skills and capacity were a major challenge for organisations wanting to use crowdfunding. In particular, platforms experienced organisations struggling with storytelling, building campaign momentum, using social media and managing supporters. It was suggested that while these skills are often abundant in an organisation's campaigning team, they are typically less well developed among fundraising teams. For this reason, some platforms described how they encourage organisations to involve at least one person from their campaigning team in the crowdfunding campaign.

The issues concerning crowdfunding skills relate to the wider issue regarding the lack of digital skills more general within the community and voluntary sector and challenges around building the sector's capacity to develop and use digital solutions.[129, 130]

In addition to the factors listed above, several survey respondents described their organisation as having risk averse management, a fear of public failure, a lack of trust in the crowdfunding process and that they did not think their projects were suited to crowdfunding. Related to these issues, the platforms interviewed suggested that organisations often have a very fixed way of doing things and are reluctant to change.

While the responses indicate a general gap in knowledge and skills within the sector, they perhaps also highlight the challenge of getting existing knowledge and support distributed within the sector and connecting interested organisations with the right platforms. The majority of crowdfunding platforms, as well as a number of public and third sector organisations and networks have already developed tools and guides on how organisations such as social enterprises, charities and community groups, can do crowdfunding.[131, 132, 133, 134, 135, 136] The challenge is connecting these resources with the right audiences within the community and voluntary sector.[137]

PERCEIVED SUITABILITY AND INTEREST IN USING THE DIFFERENT CROWDFUNDING MODELS

To understand the potential for future use of crowdfunding amongst organisations, we asked respondents about the extent to which they thought the different models were suitable for their fundraising needs and to what extent they were expecting to use the different crowdfunding models over the next year.

Donation-based crowdfunding is seen as the most suitable model

Donation and to some extent rewards-based crowdfunding were the models most organisations thought were suitable and were planning on using in the future. Significantly fewer organisations thought that community shares, equity or lending-based crowdfunding were suitable (Figure 3) and few thought their organisation would use these models in the coming 12 months.[138]

Given that it is the model that most resembles traditional fundraising and charitable giving, it is unsurprising that donation-based crowdfunding is the model that most organisations consider most suitable for their needs and the most likely to be used by their organisation (Figure 4). However, this also indicates a significant opportunity for donation-based crowdfunding platforms to better market their offer to organisations which are yet to try crowdfunding, but think they could potentially use this model.

For rewards-based crowdfunding, it is interesting that almost as many organisations were aware of rewards as donation-based crowdfunding (76 per cent vs 69 per cent) and of those who had used crowdfunding there was equal usage of reward and donation-based models. However, a considerably lower proportion of organisations thought that rewards-based crowdfunding would be suitable for their organisation (Figure 3) or likely to be used by their organisation in the next 12 months (Figure 4). The primary reason for this is likely to be that many organisations will feel unfamiliar with the types of rewards that they can offer supporters or don't (or think they don't) have the capacity to deliver them.

In the interviews platforms described how there can at times be a misconception around the costs of offering rewards and perks and how offering these does not have to be expensive. As one platform put it, *"if you get a bit imaginative you can find something that doesn't really cost anything but is of value to the donor"*.[139] A good example of this is the £720 raised by the Cooking for the Homeless – Manchester campaign who sent those that pledged £20 or more a photo of the ingredients bought with their donation and a picture of the final meal, showing donors the good their money is doing.[140] Even a simple social media 'thank you' can work as a reward to donors.

It is unsurprising that fewer organisations were aware of or had used equity and lending-based crowdfunding as there are very few platforms offering loan or equity-based products with products specifically tailored to social enterprises, charities and community groups, and these products are generally seen as being less suitable to the sector (Figure 3).

There is little knowledge of community shares

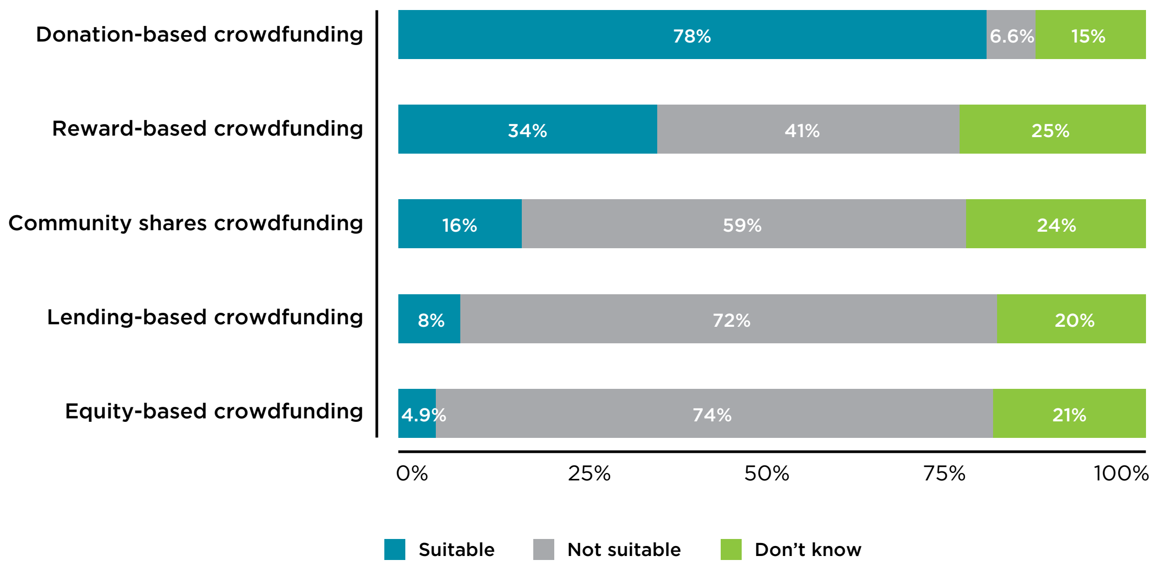
While the perceived suitability of community shares was relatively low compared to donations and rewards-based crowdfunding, the platforms offering community shares products indicated that this was based on a lack of understanding of what activities community shares can help finance and how; with education on this being one of their main challenges.[141]

> *"There's still a lot of people in charities that don't understand what community shares are, let alone how it applies to them."*
> **Phil Geraghty, Crowdfunder**

It is also noteworthy that while community shares was the least well known model, beyond donation and rewards-based crowdfunding it was perceived to be the most suitable to organisations' needs (Figure 3). This suggests that while few organisations know about community shares, there are significant opportunities to increase the usage of this model if awareness is raised.

It is however important to mention that respondents were only given a short description of the community shares model and thus, may not have been aware of all the constraints that apply to the model; for example, that they can only be issued by certain types of organisations (i.e. co-operatives and community benefit societies).

FIGURE 3. **'Unaware' and 'aware' respondents' perception of the suitability of each crowdfunding model for their organisations needs**



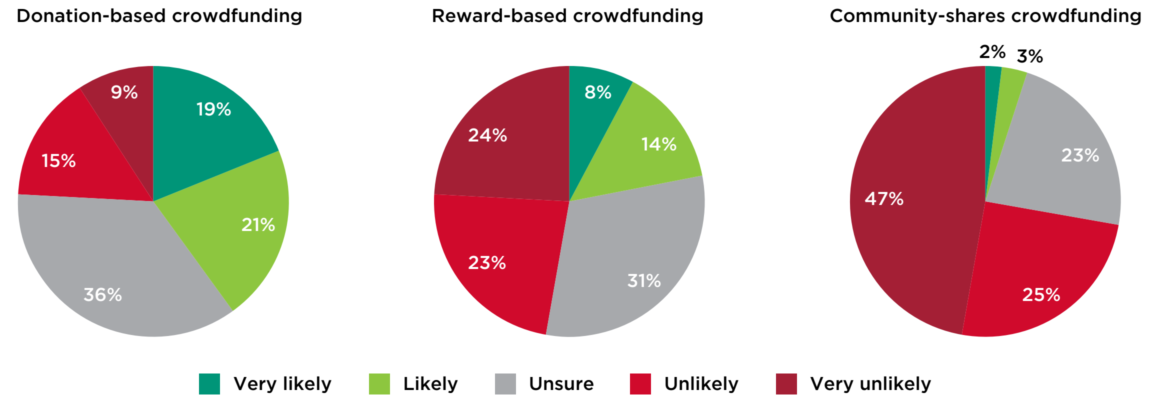
There is a large appetite for crowdfunding amongst surveyed organisations

Looking ahead, it is interesting to observe that in addition to their perception of the suitability of the different models, a large proportion of organisations all reported that they are planning on using crowdfunding in the future. Forty-three per cent of all respondents said that they were likely or very likely to use at least one of the crowdfunding models in the next 12 months. Looking at the different models, respondents were most likely to say that they were likely or very likely to use donation-based crowdfunding (40 per cent) in the next 12 months followed by reward-based crowdfunding (22 per cent), community shares (5 per cent), lending-based crowdfunding (4 per cent) and equity-based crowdfunding (3 per cent).

Failed campaigns do not put organisations off crowdfunding

Only 36 per cent of those who had used crowdfunding said that their campaign successfully reached its fundraising goals.[142] In spite of this, 82 per cent said that they would recommend crowdfunding to other organisations. Comments by those that were unsuccessful but who recommended others to try crowdfunding, centred on either the fact that they had received bad advice on how to run a crowdfunding campaign or that it works for many projects so is worth trying. The fact that several respondents reported receiving bad advice provides further evidence of the need for more and better crowdfunding advice and capacity building.

FIGURE 4. **Likelyhood of respondents using the different crowdfunding models in the coming 12 months**



FACTORS THAT WOULD MAKE ORGANISATIONS USE CROWDFUNDING

In addition to barriers to usage, the survey sought to explore what would influence organisations' decisions to use crowdfunding in the future.

Organisations would use crowdfunding if they could fund core costs

'Aware' organisations reported 'if we could use crowdfunding to fundraise for core costs' as the most important thing that would influence them to use crowdfunding, with 76 per cent reporting this as very important or extremely important (Figure 5). This presents a significant challenge for the uptake of crowdfunding by these organisations, as crowdfunding is generally geared towards funding specific projects and activities rather than core costs.

However, crowdfunding an organisation's core costs is not impossible. One platform described that it is acceptable to make these part of your crowdfunding campaign as long as it is clearly explained where the money is going. One possible way of doing this would be to say on the campaign page that a certain percentage of the money raised would go towards paying the organisation's overheads. Alternatively, where possible core costs should be paid for from existing grants or major philanthropists and this stated in the campaign page.[143]

Organisations would use crowdfunding if there was evidence and examples of its benefits

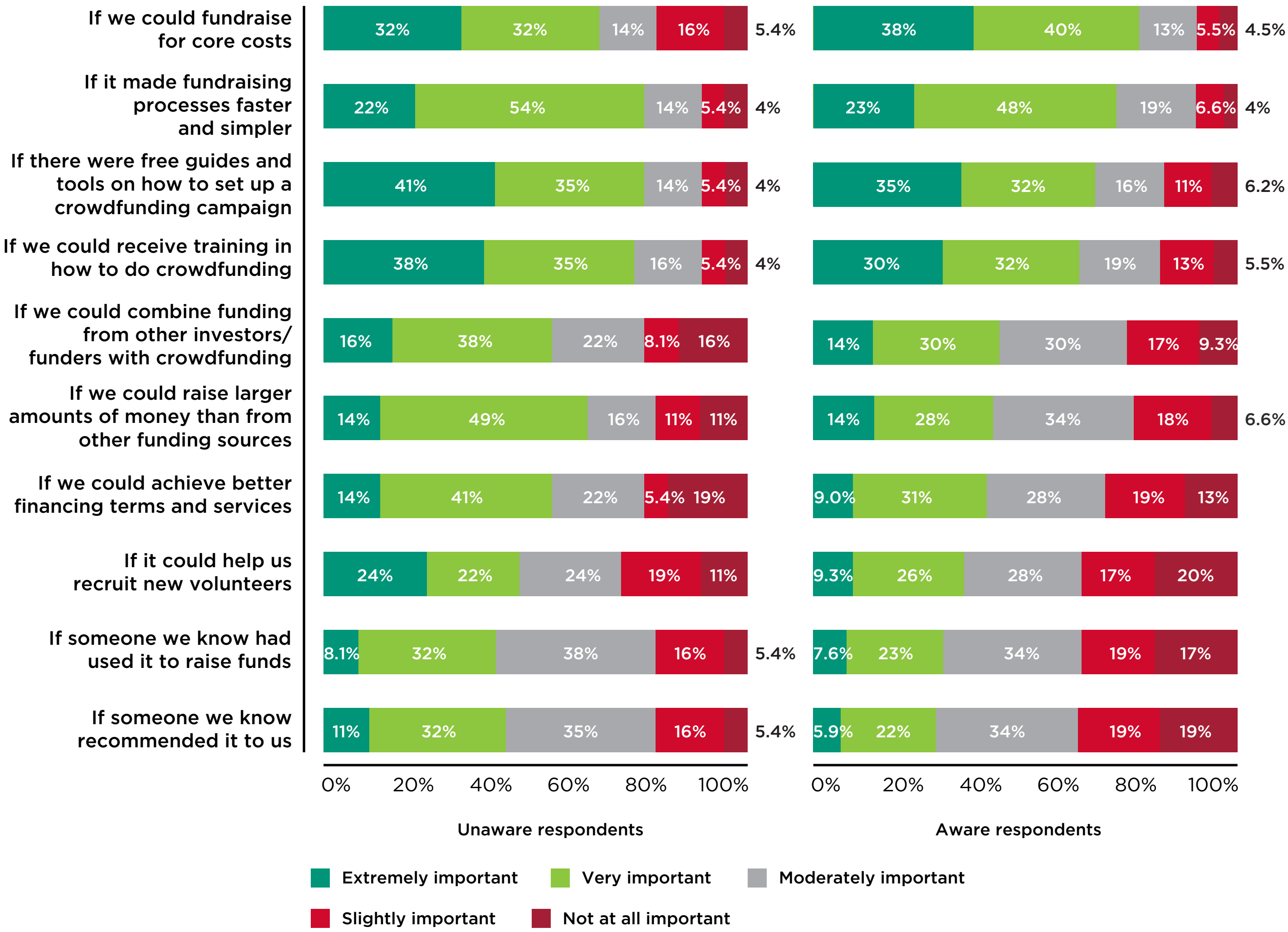
Another significant factor that would make organisations consider crowdfunding is if it could help them raise more money, improve their marketing and mobilise new volunteers.

As discussed in Chapter 3 these are some of the main opportunities in crowdfunding. This again highlights the need to better communicate these potential benefits to those who could use crowdfunding. A high proportion of organisations also reported that if crowdfunding could make fundraising processes faster and simpler, it would be an important factor in influencing them to use crowdfunding (Figure 5).

Moreover, access to free guides and tools, if they could receive training on how to do crowdfunding and if they could combine it with institutional funding were seen as important factors in influencing the decision of both 'unaware' and 'aware' organisations' decisions to use crowdfunding (Figure 5).

In addition to the factors listed in the survey, several respondents' comments highlighted that more evidence on crowdfunding and case studies of successful campaigns would also influence their decision to use crowdfunding.

FIGURE 5. **Which factors would influence respondents to use crowdfunding?**



Reported benefits of crowdfunding were similar to the factors that would influence organisations to use crowdfunding

The survey also examined what had motivated organisations to use crowdfunding. The most important factor indicated by respondents was that 'crowdfunding allowed them to raise money from individuals rather than institutions', which 51 per cent of respondents saw as important or very important.

Respondents also cited project control and independence as key factors in their decision. Just around half of those who had used crowdfunding saw the fact that crowdfunding gave them the opportunity to raise funds on their own terms and more control over their project/ organisation as either important or very important (Figure 6).

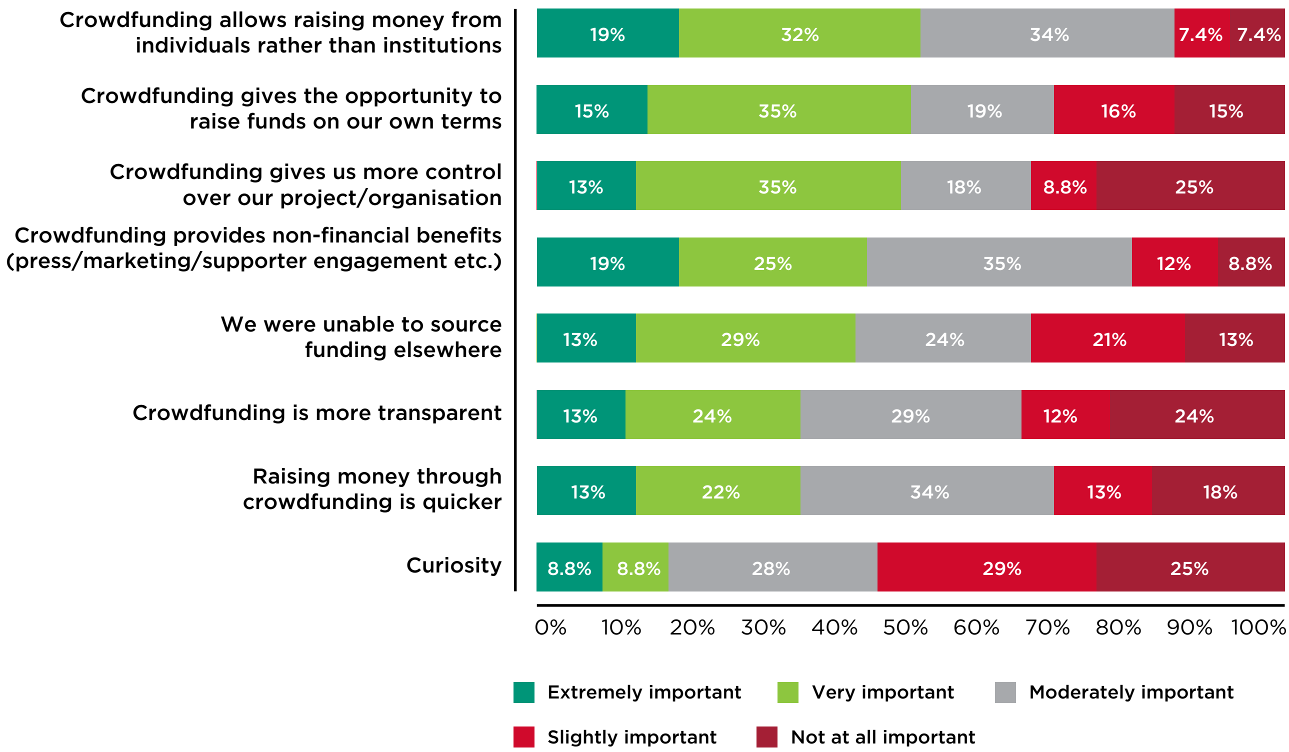
They also highlighted a number of additional reasons for why they decided to use crowdfunding, including that they saw it as a cheaper way of fundraising, that it allows access to new funders and that it is a good proof of concept before taking an idea to established funding bodies.[144]

Interestingly, there are strong similarities between many of the factors that organisations that haven't used crowdfunding report would make them more likely to try it, and the benefits and motivations listed by organisations that have used crowdfunding. Platforms and other organisations and networks involved in building the sector should make efforts to advertise these benefits.

REPORTED CHALLENGES IN CROWDFUNDING

Alongside the benefits, respondents also reported a number of challenges in crowdfunding. When asked how difficult they found various aspects of the crowdfunding process, 'getting institutional endorsement and corporate funding' and 'community outreach and supporter engagement' were seen as the most difficult aspects, with 62 per cent and 56 per cent, of respondents saying these aspects were very difficult or difficult. Several respondents also reported difficulties with 'fulfilment and project delivery' (47 per cent),'developing campaign material' (41 per cent), 'developing a fundraising pitch' (32 per cent) and 'communicating with prospective funders' (31 per cent).[145] These reported difficulties give us some indication of the areas in which training and educational resources should focus.

FIGURE 6. **How important 'had used' respondents reported different factors were in their decision to use crowdfunding**



HOW ORGANISATIONS BECOME AWARE OF CROWDFUNDING – THE IMPORTANCE OF PEER NETWORKS AND SOCIAL MEDIA

To better understand how to make more organisations aware of crowdfunding, we asked ‘unaware’ respondents how they usually find out about fundraising opportunities and, for those who were aware or had used crowdfunding, how they first found out about it.

While ‘unaware’ organisations find out about new fundraising opportunities through a wide range of sources, ‘other community and voluntary organisations’ were by far the most popular source of fundraising information for these organisations with ‘social media’ and ‘sector infrastructure organisations’ also being notable sources of information (Figure 7).[146] Conversely, those organisations that were aware of, or had used crowdfunding, reported social media as the primary channel by which they found out about crowdfunding, followed by ‘other community and voluntary organisations’ and ‘press’ (Figure 8).[147]

The difference in how ‘unaware’ organisations normally find out about new fundraising opportunities and how those who had heard of crowdfunding became aware of it indicates a dual challenge where platforms and others focusing on raising awareness need to try and reach those who are unaware through other non-social media channels. Just as the sector in general needs to be better equipped at using social media to, amongst other things, find out about new funding opportunities.

FIGURE 7. **How ‘unaware’ respondents normally find out about new fundraising opportunities**

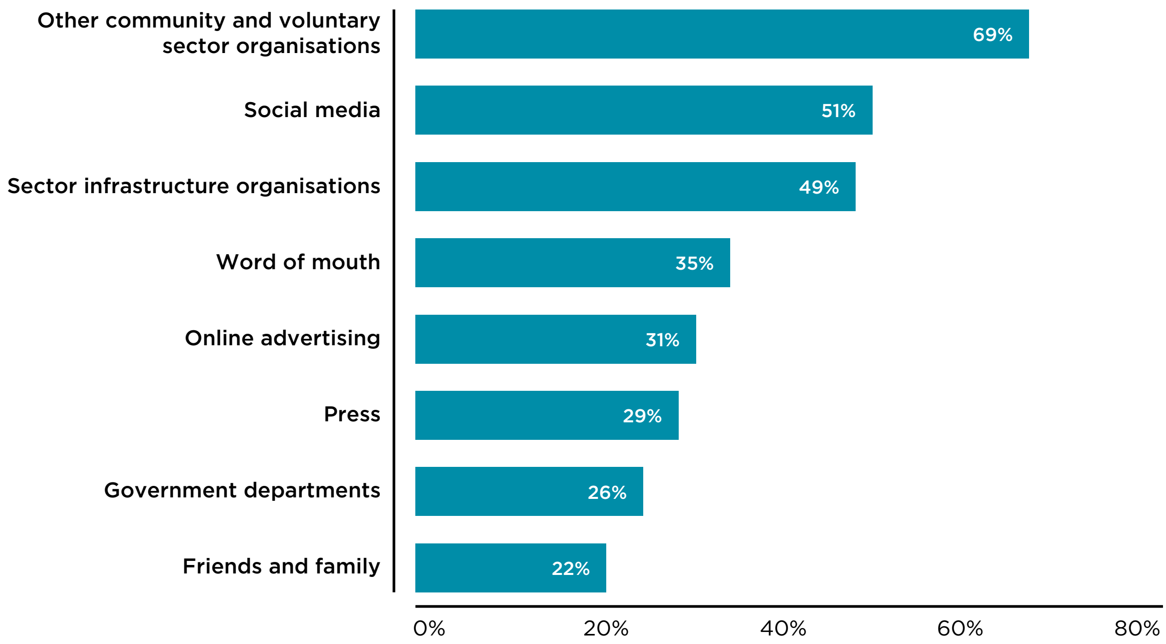
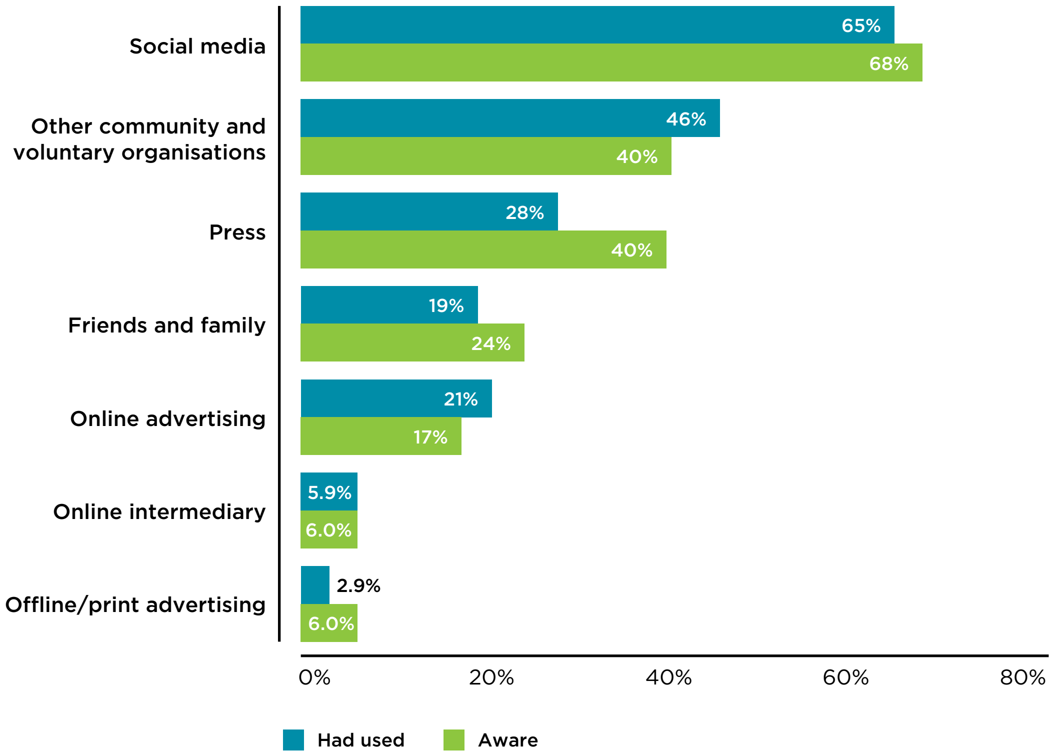


FIGURE 8. **How 'aware' and 'had used' respondents became aware of crowdfunding**



PERCEIVED BENEFITS OF CROWDFUNDING COMPARED TO OTHER FORMS OF FUNDING

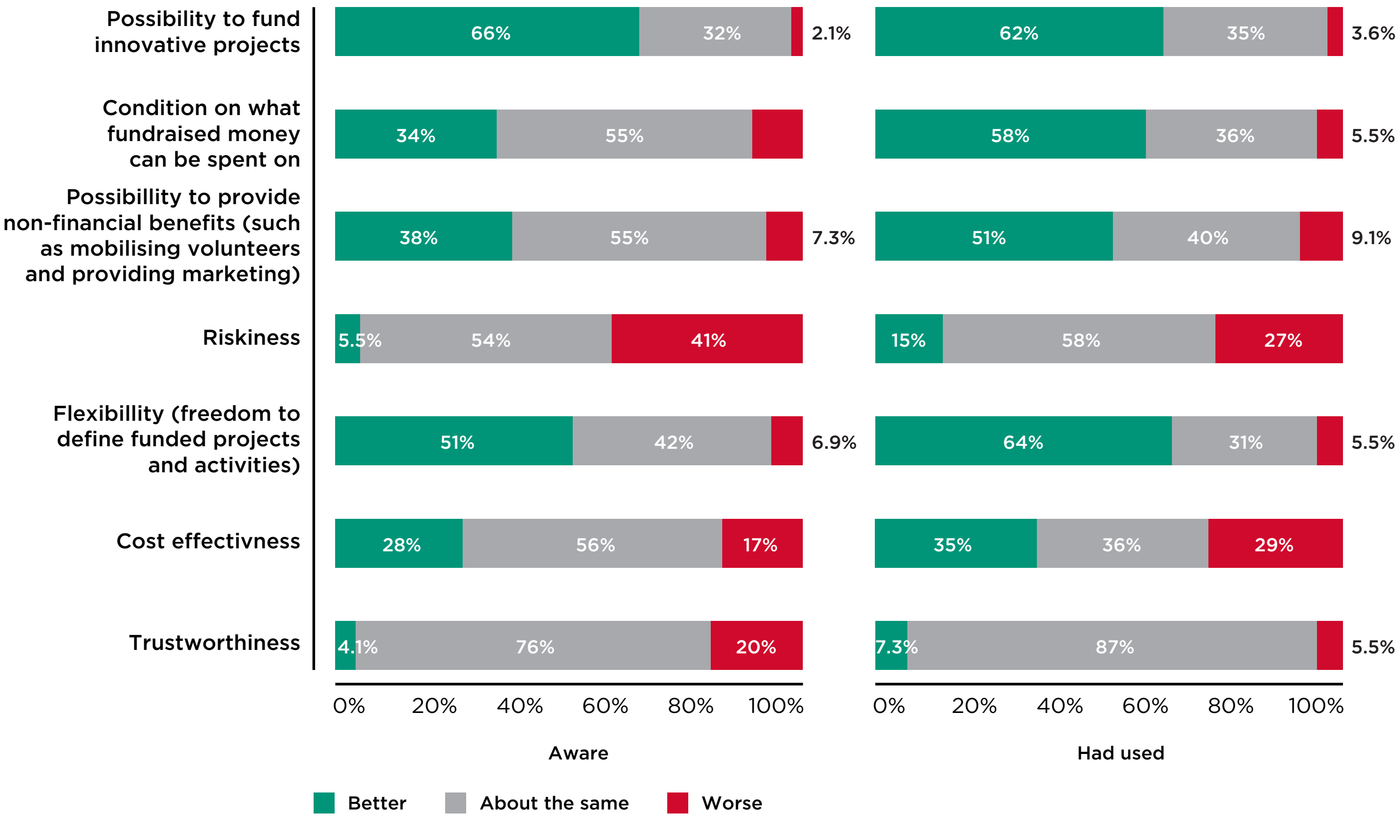
Crowdfunding exists within a very diverse funding landscape for community and voluntary sector activities. For this reason, the survey sought to explore how organisations thought crowdfunding compared to other fundraising methods.

While on most measures respondents thought that crowdfunding was 'about the same' as other fundraising methods, around two-thirds of 'aware' respondents thought that crowdfunding was better for its 'possibility to fund innovative methods' and around half thought it was better for its 'flexibility (freedom to define funded projects and activities)'.

On the more negative side, 41 per cent of 'aware' respondents thought that crowdfunding was more risky than other fundraising methods (Figure 9). While there is some evidence[148] that the success rates for crowdfunding campaigns are higher than for grant applications, it is likely that respondents are referring to the risk associated with the public nature of a failed crowdfunding campaign.

Respondents whose organisations had used crowdfunding typically thought that crowdfunding was better than other funding methods for its 'possibility to fund innovative projects', 'conditions on what fundraised money can be spent on', 'possibility to provide non-financial benefits' and 'flexibility'. For the other options given in the survey, the majority of respondents thought that crowdfunding was 'about the same' as other fundraising methods (Figure 9).

FIGURE 9. **How 'aware' and 'had used' respondents compare crowdfunding to other fundraising methods**



5. CONCLUSIONS AND RECOMMENDATIONS

THE STATE OF CROWDFUNDING FOR GOOD CAUSES

Crowdfunding presents a significant untapped potential for charities, social enterprises and community and voluntary organisations to raise more money, increase transparency and get more people involved in campaigning and volunteering.

IT HAS TO BE ABOUT MORE THAN JUST THE MONEY

While crowdfunding can help projects that are struggling for funding get off the ground, the real benefits in crowdfunding arise when it is being used to tap in to more than just money. In addition to tapping in to people's wallets to get projects funded, crowdfunding should also be seen as a way of engaging new people in your cause, turning them in to campaigners, potential volunteers or shareholders in your community project and hopefully repeat donors to your cause. If you consider crowdfunding as just another fundraising campaign or as an alternative to a grant application you won't make the most of what it has to offer.

Crowdfunding could also help drive more experimentation and innovation within the sector. The ability to pre-sell ideas and projects to the crowd, will hopefully make it easier and less risky for those with new ideas for how to address social challenges to see if they can make them a reality. Should there be backing from the crowd, crowdfunding can also be used as the seed funding and evidence that can convince larger, more traditional funders to get behind a project and scale it up.

However, while crowdfunding has proven to be an important source of finance, for projects that would otherwise struggle for funding, it is not a panacea. There are many projects and activities that crowdfunding won't be relevant for, or where the challenges in crowdfunding will outweigh the benefits.

Those considering crowdfunding should be clear on some of the challenges that turning to the crowd can bring. First and foremost, crowdfunding means giving up power and influence over your project to 'the crowd'. Community shares bring with them voting rights that owners can use to exercise influence over your project, and while you can use crowdfunding to pitch for funding for a project you care about, the crowd can be brutal, and in many cases won't fund your project. While this can be a helpful mechanism for testing whether or not your idea is good and has public backing, crowd selection won't always be a good barometer for what is a good project. Unlike organisations that spend years specialising in understanding and addressing a specific social need, the crowd will rarely hold in depth expertise on issues such as homelessness or mental health, and their funding decisions will instead be driven by who they know, where projects are based and the extent to which they can tell a compelling story.

HIGH AWARENESS, LITTLE USAGE.

In spite of the opportunities in crowdfunding, there is still very little usage of it as a method for funding good causes. Less than 0.5 per cent of all giving to good causes in the UK happens via crowdfunding, and while there is relatively high awareness of crowdfunding, relatively few have actually tried using it. Our survey of more than 450 community and voluntary sector organisations identified the main challenges to organisations using crowdfunding as not knowing enough about how the different models work and not having the skills to set up and run a crowdfunding campaign. Awareness was particularly low concerning community shares, whereas there was a better understanding of donation-based crowdfunding and to some extent rewards-based crowdfunding. Linked to this, access to training was seen as one of the main factors that would make organisations try crowdfunding.

There were strong similarities between many of the factors that organisations that haven't used crowdfunding report would make them more likely to try it, and the benefits and motivations listed by organisations that have used it. Moreover, those that hadn't used crowdfunding highlighted that evidence and insights of the benefits of crowdfunding would make them more likely to use it, knowledge that in many cases already exists, but is evidently poorly disseminated. This presents a clear opportunity for crowdfunding platforms if they can evidence and communicate their impact to the sector.

It is also interesting to observe that opportunities to combine institutional funding with crowdfunding would make a high proportion of organisations consider crowdfunding, which presents an opportunity for more traditional funders

The organisations we surveyed saw a number of opportunities from crowdfunding.

First, when asked to compare crowdfunding to other sources of funding, respondents thought that it was better for its possibility to fund innovative projects and provided more freedom to define projects.

Second, when introduced to the models a relatively high proportion of respondents thought they were suitable for their fundraising needs, with more than two in three seeing donation-based crowdfunding as suitable, and around a third seeing rewards-based crowdfunding as suitable. Around 16 per cent of respondents thought that community shares were suitable, which can be considered fairly high given the relatively niche nature of what can be funded through this model.

Third, 43 per cent of organisations reported that they were planning on using one form of crowdfunding in the next 12 months, primarily through donation-based crowdfunding.

WHAT CAN BE DONE TO SUPPORT MORE CROWDFUNDING TO HAPPEN?

CHARITIES, COMMUNITY AND VOLUNTARY SECTOR ORGANISATIONS SHOULD...

Try crowdfunding: While it won't work for every organisation, all community and voluntary organisations should explore how they can make the most of the non-financial as well as the financial benefits of crowdfunding and where possible, try to set up at least one crowdfunding campaign. Setting up a (small) donation or rewards-based crowdfunding campaign can be on your terms, on a project you care about, and at relatively low cost. Should the campaign fail, the main thing you risk losing is the time put in to trying to set up and run the campaign, so risk aversion should not be a reason not to give it a go. Even if you fail, the process will give you valuable lessons on how crowdfunding works. Before trying crowdfunding, organisations should tap into one of the many free crowdfunding resources, go to a crowdfunding event and learn from other organisations and entrepreneurs who have tried crowdfunding.

To increase the opportunity of what can be crowdfunded, organisations should explore if and which parts of larger projects can be isolated into smaller independent activities that are suited to crowdfunding. Organisations should be open to giving away more control and ownership of funding and governance decisions to 'the crowd', particularly when considering community shares.

...and join up fundraising and campaigning teams to run your crowdfunding campaigns. Crowdfunding platforms consistently highlighted that from their perspective one of the main reasons why organisations struggled with making the most of crowdfunding was that it was seen as a fundraising task, and not a joint task between campaign and fundraising teams. This is something that can be addressed by joining up these two teams when setting up crowdfunding campaigns.

Curate a community of projects close to your cause: Beyond setting up and running individual campaigns, larger organisations or networks of organisations should explore different ways they can utilise crowdfunding. For example, partnering with a crowdfunding platform on curating a themed community of projects with a similar mission or geographical focus that you or the members in your community would like to crowdfund, or using white label solutions to develop customised crowdfunding platforms that fit their organisation's or networks' brand and fundraising needs.

Funders, investors and other supporters of social enterprises charities, community and voluntary sector organisations should...

Invest in crowdfunding skills and capacity building: The biggest challenge to using crowdfunding is having the right skills and knowledge. Funders and sector associations should invest in crowdfunding training — as well as more general digital and social media training — and capacity building programmes for fundraising and campaigning teams. These initiatives should also focus on the development of practice guides and toolkits tailored to social enterprises, charities, community and voluntary sector organisations and the dissemination of existing evidence on the opportunities and challenges in crowdfunding.

As demonstrated in the survey on how organisations find out about crowdfunding and other new fundraising opportunities, an emphasis should be placed on spreading knowledge and building skills through social media and networks of peers.

There appears to be a particular discrepancy between the low levels of awareness around community shares and its potential for the sector which this should be addressed.

Integrate crowdfunding into existing funding schemes and programmes through match funding: By setting up match funding programmes, which combine social investment or grants with funds raised from the crowd, funders could encourage more of the organisations and activities they normally support to try crowdfunding. This could also help funders develop new ways of identifying and funding projects. In addition, a high proportion of surveyed organisations reported that they would consider using crowdfunding if they could combine institutional funding with crowdfunding, suggesting that there would be an appetite for match funding schemes among those seeking funding. Future programmes should build on the existing experiments with match funding mentioned in this report.

Support transition from crowdfunding projects to sustainable organisations: Many crowdfunding campaigns are set up to address one particular local issue or develop a specific project. As illustrated in the interviews with platforms, young and smaller informal groups or organisations often see crowdfunding as a way of raising seed funding for a project and developing a proof of concept, typically through donation and rewards-based crowdfunding. Where possible, funders could stimulate these early-stage initiatives to scale up and become more sustainable by investing in schemes that provide funding and skills to help them transition towards being able to apply for larger grants, contracts, social investment or setting up a community shares offer. Similarly, when making funding decisions grant-makers and social investors should take into account previous crowdfunding campaigns which have been run by a project and what this indicates about the extent to which the community supports that project.

Set up referral schemes from grant funders and social investors to crowdfunding platforms: Grant funders and social investors should consider setting up a referral scheme, where all applications for funding they won't be able to support, which fit with the type and size of what can be crowdfunded, such as small grant applications, are directed to a crowdfunding platform, or a third-party directory of platforms. This could help direct more organisations towards the platforms and increase the general awareness of crowdfunding as a potential alternative route to funding.[149]

Test and measure effect of crowdfunding: To date, the majority of crowdfunding research has focused on SME lending, startup investment and funding for the creative sectors with little focus on what this means for charities, community groups and social entrepreneurs. Similarly, existing research into the community and voluntary sector has given little dedicated focus to crowdfunding (studies on giving in the UK for example, don't include crowdfunding).

While this paper has hopefully gone some way in analysing opportunities and challenges in crowdfunding for good causes, it remains a field where there is a growing amount of interesting practice and anecdotal stories of impact, but little in depth research. For community and voluntary sector organisations to truly embrace crowdfunding, we need a better understanding of the wider impact (positive as well as negative) it is having on key issues such as cost of fundraising, volunteering, equality, diversity and participation, sustainability of projects and organisations, and how this compares to other forms of fundraising and campaigning.

Platforms could support this research agenda by opening up non-sensitive campaign data to researchers. Similarly, studies of fundraising, giving, philanthropy, social investment and volunteering in the UK could include crowdfunding as a specific metric when collecting data on these markets and sectors.

ENDNOTES

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126. This means that the information about the different forms of crowdfunding given in the survey was the first that these respondents had heard about crowdfunding.
127. Apart from Scottish organisations which were underrepresented in our sample, the geographical distribution of organisations in our sample was broadly consistent with the general population (NCVO 2016; see endnote 2).
128. This is broadly consistent with the general population where 49 per cent of charities were formed over 20 years ago ('Registered charities in England and Wales.' The Charity Commission. See: http://data.charitycommission.gov.uk/)
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137. Respondents also agreed or strongly agreed that the following reasons were why they were not using crowdfunding: 'We are concerned that crowdfunding would make our existing funders believe our organisation is struggling' (7.1 per cent), 'We don't want our competitors to get hold of any of the information we share with other providers of finance' (8 per cent), 'We are concerned that crowdfunding would make our users believe our organisation is struggling' (10 per cent), 'We don't like to raise the organisation's finances online' (10 per cent), 'We're worried that raising funds through crowdfunding would make it difficult to raise follow-on rounds of funding' (19 per cent), 'Registering on a crowdfunding platform seems too complicated for us to do' (19 per cent).
138. For both lending-based and equity-based crowdfunding, less than 4 per cent of respondents reported that their organisation was likely or very likely to use that model in the coming 12 months.
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141. The Community Shares Unit (http://www.communityshares.org.uk/) was established in 2012 with government funding and the aims of raising awareness and promoting good practice in community shares. Since 2012, the community shares market has grown considerably from less than £300,000 to £61 million in 2015. Nevertheless, the low awareness and apparent lack of understanding of the model suggests more can be done in this area.
142. This is the same success rate as for all project types on Kickstarter (see endnote 84).
143. Experimental research on giving has demonstrated that informing donors that overhead costs will be covered by an initial donation increased the donation rate by 94 per cent. (Gneezy, U., Keenan,E. and Gneezy, A. (2014) Avoiding overhead aversion in charity. 'Science.' See: http://science.sciencemag.org/content/346/6209/632).
144. 'Proof of principle' was also bought up by platforms when interviewed.
145. Other less frequently reported difficulties include: 'setting up the crowdfunding campaign page' (18 per cent), 'the application process' (16 per cent) and 'finding the right crowdfunding platform' (20 per cent).
146. Other than those shown in Figure 3, 'unaware' respondents reported that they normally find out about new fundraising opportunities through: Online intermediary (3.9 per cent), Professional advisors (7.8 per cent), Offline/print advertising (14 per cent) and Other (9.8 per cent).
147. Other than those shown in Figure 4, 'aware' and 'had used' respondents reported that they became aware of crowdfunding through: Government departments (aware = 2.7 per cent, had used = 0 per cent), Professional advisors (aware = 3.9 per cent, had used = 13 per cent), Offline/Print advertising (aware = 6.0 per cent, had used = 2.9 per cent), Online intermediary (aware = 6.0 per cent, had used = 5.9 per cent), Other (aware = 8.7 per cent, had used = 8.8 per cent).
148. According to a 2012 survey the average grant success rate for charity grants was 24.9 per cent, compared to the 36 per cent average success rate for crowdfunding reported in our survey (Saxton, J. and Lindstrom, E. (2012) 'Taking nothing for Granted.' The John Ellerman Foundation and nfpSynergy. See: http://ellerman.org.uk/documents/policies/2_Taking_nothing_for_granted_-_executive_summary.pdf).
149. This could build on the referral scheme introduced by HM Treasury which will make it mandatory for banks to refer SME's whose loan application they reject to an alternative finance provider and the voluntary referral schemes set up between banks and alternative finance providers, such as the partnership between RBS and P2P lender Funding Circle.
    - British Business Bank (2016), 'Budget 2016 Announces Increased Support for British Business Bank Programmes to Enable up to an Additional £1Bn of Funding for Smaller Businesses.' See: http://british-business-bank.co.uk/budget-2016-announces-increased-support-for-british-business-bank-programmes-to-enable-up-to-an-additional-1bn-of-funding-for-smaller-businesses/
    - HM Treasury and Department for Business, Innovation & Skills (2014)'SME finance: help to match SMEs rejected for finance with alternative lenders.' See: https://www.gov.uk/government/consultations/sme-finance-help-to-match-smes-rejected-for-finance-with-alternative-lenders
    - Funding Circle (2015) 'RBS partners with Funding Circle to support thousands of UK businesses.' See: https://www.fundingcircle.com/blog/press-release/rbs-partners-funding-circle-support-thousands-uk-businesses/

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