

Online Crowdfunding an Alternative for Nonprofits

By Annie M. Kelley

FIVE YEARS AGO, CROWDFUNDING WAS virtually unknown. Today, chances are that someone you know is running a Kickstarter campaign.

Panelists Michael Adler, managing partner of the Law Office of Michael E. Adler; Al Migliaccio, CEO and founder of JAMIS Sales Success; and Kevin Provost, founder/CEO of CrowdCampuses and coPhilly, discussed crowdfunding, including the practical applications, the importance of the technology platform, and some legal pitfalls at a June 30 Live, Lunch and Learn program presented by the Young Lawyers Division. The panel focused mainly on donation-based crowdfunding, and especially how crowdfunding can be used by nonprofit organizations.

There are two basic kinds of crowdfunding: “Donation-based” or “rewards-based” crowdfunding, where an individual or company asks for money from the public and in return offers a baseball cap, or a sample product or something

else with minimal financial value; and “equity-based” crowdfunding, where a company raises money in exchange for stock or a debt instrument.

Donation-based crowdfunding has always been legal, and while Internet platforms are a new trend within the last four years, crowdfunding in America dates back to 1884. When the American Committee for the Statue of Liberty ran out of funds for the statue’s pedestal in 1884, the *New York World* newspaper urged the public to donate money toward the pedestal, and raised more than \$100,000 in six months, a huge amount in those days. Today, donation-based crowdfunding is run through Internet sites like Kickstarter and Indiegogo. Kickstarter campaigns have raised more than \$1.2 billion.

While some forms of equity-based crowdfunding have been legal for many years, the equity-based market exploded with enactment of the JOBS Act in 2012. Today there are hundreds of Internet sites where companies raise money for stock or debt, including Fundrise (real estate), Patch of Land (real estate debt), and

OurCrowd (technology).

Migliaccio explained that crowdfunding allows nonprofits to close the gap between the money they need and the traditional sources of money, such as grants and donations from members. The Internet and social media allow a nonprofit to find both general and niche audiences, and nonprofits with a particular cause in a local community can now reach a global audience commonly motivated by any cause. As technology costs have fallen, new audiences online and opportunities to reach non-traditional donors are flourishing.

While most crowdfunding campaigns raise less than \$10,000 and the average campaign raises \$15,000, the trend is “going straight up,” and six-figure campaigns are growing. Migliaccio explained that because businesses and nonprofits need to raise funds that are not being met by traditional sources, there is a wide gap between the needed resources and traditional lending intuitions, grant makers, and friends and family donations. Online tools are the solution to supplement the

lack of traditional funding. The Internet and use of social media allow a group to find both general and niche audiences, and nonprofits with a particular cause in a local community can now reach a global audience commonly motivated by any cause.

From the perspective of a board member or nonprofit organization, Provost noted three important steps to gain new donors, which are attract, engage and retain donors. Typically, a nonprofit’s narrative is put in a short video to engage a donor why at this moment in time their donation is important to help a cause.

Effective crowdfunding for a nonprofit takes time, resources and money, but the opportunities are enormous. As a starting point, the panelists suggested that a nonprofit review the information provided by Kickstarter and Indiegogo. YouTube also just began a crowdfunding capability.

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