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CROWDFUNDING FOR EMERGENCIES

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CONTENTS

CROWDFUNDING FOR EMERGENCIES

KEY MESSAGES	02
WHAT IS CROWDFUNDING?	03
HOW CAN CROWDFUNDING BE USED IN THE HUMANITARIAN SPHERE?	04
EXISTING CROWDFUNDING MODELS	04
Types of crowdfunding models	04
What crowdfunding model should humanitarians use?	05
ANALYSIS OF CROWDFUNDING PLATFORMS	05
Crowdfunding platform fees	06
TRUST	07
Addressing the risks	07
How to establish trust in the crowdfunding platform	07
Existing platform analysis	08
RECOMMENDATIONS AND CONCLUSION	08
Platforms	08
Framework	09
Ensuring trust and reducing risk	09
CONCLUSION	10
WORKS CITED	11

CROWDFUNDING FOR EMERGENCIES

KEY MESSAGES

- Crowdfunding is distributed small-scale fundraising often facilitated by technology.
- Crowdfunding could send money directly and immediately to the disaster area, which could complement established, but slower, traditional funding systems.
- The use of crowdfunding to support the 2015 Nepal earthquake response is one example of the potential financial support local NGOs may receive following a disaster. For example, during six days, over US\$100,000 was raised through Indiegogo to support local NGO development in Nepal¹.
- Crowdfunding models highlight how people interact and donate to a project. Specific models include donation-based, reward-based, debt-based and equity-based models.
- Crowdfunding frameworks describe the financial structure. They include single-goal, multi-staged goals and distributed-goals frameworks.
- Crowdfunding is built off trust. Humanitarian actors should be cognizant of potential risks at the individual, community and systems levels in order to strengthen donor trust.
- In partnership with an existing crowdfunding platform, OCHA could serve as a trusted agent, verifying projects and NGOs within the affected community.

WHAT IS CROWDFUNDING?

Fundraising for humanitarian response is an ongoing challenge. Government contributions are increasing, but so is the gap between requirements and resources.

Donors have been generous in providing assistance, nearly doubling their contributions for inter-agency appeals from US\$5.6 billion in 2011 to \$10.4 billion in 2014. However, financial need still outpaces incoming support. In 2011, the funding gap was 37 per cent (\$3.3 billion), and in 2014 this increased to a record 40 per cent (\$6.9 billion).²

As a result of this funding gap, donation seekers are examining crowdfunding, or “the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet” as a potential supplement.³ Figure 1 shows the variation in Government funding versus private funding to support humanitarian activities.

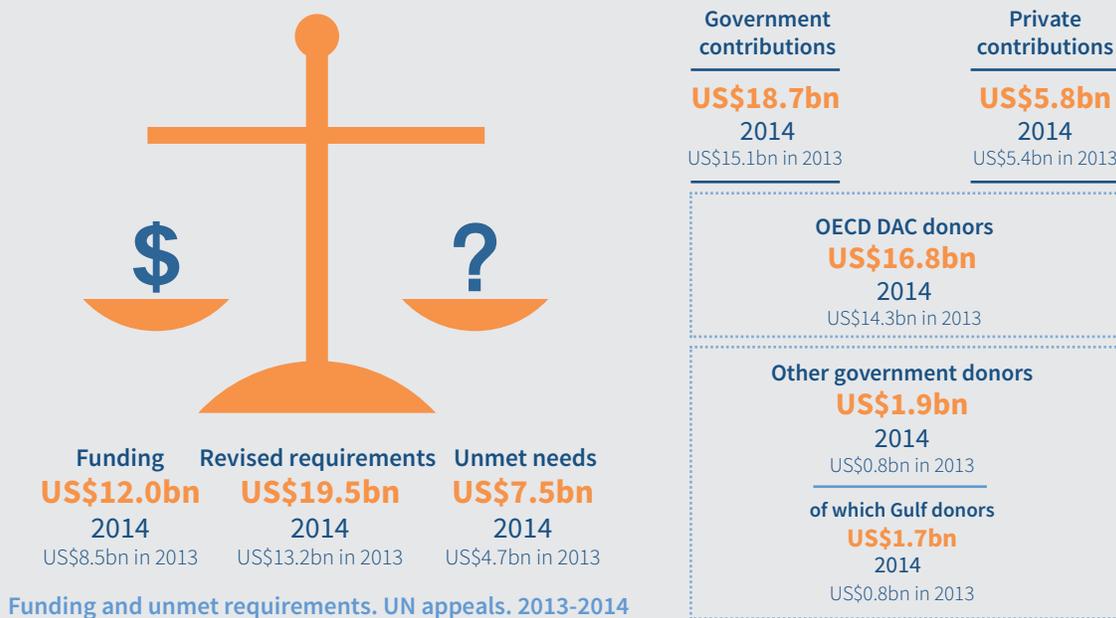


Figure 1: Annual funding contributions from Government agencies compared with private voluntary contributions.⁴

HOW CAN CROWDFUNDING BE USED IN THE HUMANITARIAN SPHERE?

There are three types of actors supporting a crowdfunding platform: the project initiator who proposes the idea and/or project to be funded; individuals (or groups) who financially support the idea; and a moderating organization (usually the “platform” owner) that brings the parties together.

Crowdfunding enables people to donate directly to another person or project. This removes intermediary organization funding and moves one step closer to direct assistance. This effort brings funding closer to the affected people, but it also raises challenges in ensuring effective distribution of funds, as well as ensuring trust in the distribution system.⁵ Additional challenges include private-contribution spikes in response to natural disasters as compared with protected or conflict-driven crises,⁶ as well as the non-reliability and fundraising cost associated with private contributions.⁷ This paper will examine some of the challenges and potential solutions to developing a humanitarian crowdfunding platform.

EXISTING CROWDFUNDING MODELS

Crowdfunding platforms are highly diverse despite their common purpose. This diversity is translated into four models and several funding frameworks. A crowdfunding model relates to how people interact with and donate to projects. A funding framework (see page 5) relates to the financial structure within the platform. A crowdfunding platform refers to the technological tool enabling monetary exchange.

Types of crowdfunding models

To determine the best approach to crowdfunding for emergencies, we first examine four types of crowdfunding models.

- **Donation-based crowdfunding** is the most straightforward funding model. Money is provided to an organization or project with no further expectation on the receiving agency. For example, a youth baseball team raising travel funds could request donations from the local community.
- **Reward-based crowdfunding**, also known as “perks-based” crowdfunding, occurs when donors receive a thank-you reward or “perk” in exchange for support.⁸ In entrepreneurial ventures, the perk is often the future product resulting in a pre-sale or proof-of-consumer interest. In the service industry, many companies use reward-based crowdfunding to secure customers at a discounted rate. For example, Kickstarter or Indiegogo campaigns provide various perks based on the donation. This perk could be a simple thank you, the finished product or a special-guest appearance.
- **Debt-based crowdfunding** is used when the crowd lends money to the project initiator and expects repayment over time with some fixed rate of interest. For example, Kiva uses this model to attract donors to social entrepreneurial causes. Project owners leveraging debt-based crowdfunding generally borrow money rather than create and sell items. Therefore, debt-based platforms attract a very different type of funder as compared with reward-based platforms.⁹

- **Equity-based crowdfunding** involves using the crowd for microinvestments. Until recently, due to long-standing US Securities and Exchange Commission regulations, financial backers could not receive an “ownership interest”¹⁰ or a portion of profits via crowdfunding. Now, equity-based crowdfunding allows businesses seeking capital to sell ownership stakes via crowdfunding platforms, thereby creating crowd shareholders.¹¹

What crowdfunding model should humanitarians use?

Hybrid reward-based and donation-based crowdfunding models.

Based on the four models described above, debt-based and equity-based crowdfunding may be limited for disaster response.¹² Since emergency crowdfunding does not yield a traditional return on investment, these two models are eliminated as potential immediate funding avenues. Nonetheless, these approaches may work effectively in the recovery and reconstruction phases. As a result, reward-based and donation-based crowdfunding models are further reviewed.

Given a funder’s psychological attachment to specific projects, the reward-based model has proven successful with small gifts. However, the cost of a gift affects total funding allocation. A pure donation-based approach is free of gift requirements, but often results in the funder losing personal responsibility towards the project.¹³ By finding a way to reduce rewards cost, such as public recognition, it is likely that a hybrid solution between reward-based and donation-based crowdfunding approaches could be suitable for disaster response.

Rewards do not have to be physical. Within gamified environments, users freely collaborate and contribute for recognition from the community.¹⁴ This means that physical rewards are powerful, but so are online badges, leaderboards, community connections and public recognition. Rewarding is a powerful tool for a product owner, but the potential time, logistics and financial cost mean that project initiators should carefully consider its use within their specific context. Managers need to find the right reward level to ensure funder attachment, yet maximize funding dedicated to the affected people.

ANALYSIS OF EXISTING CROWDFUNDING PLATFORMS

Funding framework

Determining the appropriate platform model for an emergency context is important, but developing a strong implementation and financial distribution framework is also critical. Traditional crowdfunding frameworks are often structured around a single financial objective: raise enough funds to provide one product or service. Below we examine the traditional crowdfunding framework in addition to two new frameworks.

Single-goal framework

Existing crowdfunding campaigns are built around achieving a single fundraising goal. There are two main types of fundraising goals: “all or nothing” (e.g., Kickstarter) or “get what you reach” (e.g., Indiegogo).¹⁵ The “all or nothing” model is too restrictive for disaster response, as any amount of funding should be encouraged and released to the affected community. Figure 2 demonstrates a single-goal framework.



Figure 2: Single-goal framework

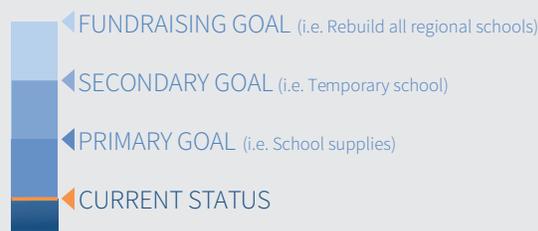


Figure 3: Multistage goals framework

Multistage goals framework

This framework expands on the single-goal framework, allowing the fundraiser to specify several financial goals along with their respective activities.¹⁶ This framework could help donors understand how various levels of funding would affect a response. For example, reaching the first goal could buy school materials for every child in a region, reaching the second goal could build a temporary school, and reaching the third goal could reconstruct all schools in an affected area (figure 3). For more information regarding the creation of meaningful comparisons, please see *Appropriate & Impactful Comparisons in Humanitarian Crisis (Guidance)*.¹⁷

Distributed-goals framework

This is a variation of the goals framework. It assigns projects directly to implementing organizations, and a moderating organization manages the campaign overall (figure 4). An added benefit of this approach is that the moderating organization can raise awareness of critical yet underfunded projects. This model works best with specific small and achievable projects, thereby supporting a major fundraising campaign through small steps.

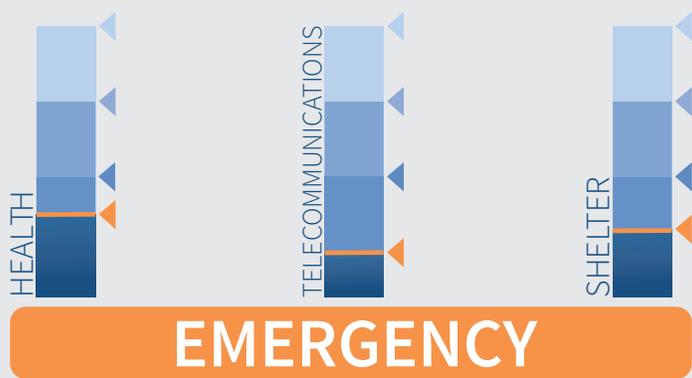


Figure 4: Distributed-goals framework

Crowdfunding platform fees

Funding frameworks are essential for understanding how funds are distributed for a given project. However, moderating organizations also need to consider how the platform itself will be financially supported. Existing moderating organizations often establish user fees or support advertisements to sustain the platform economically. For example, Kiva uses an optional donation approach, whereas

Indiegogo requires a non-refundable fee. Most reward-based platforms charge fees to support administrative costs. If the funding campaign is successful, the platform generally charges 5 per cent to the project owner. However, depending on the platform it may charge 8-9 per cent if a pre-set goal is not reached.¹⁸ In the end, an optional donation system tends to secure more funding as it appears less aggressive to potential financial contributors.

TRUST

Addressing the risks

Risk is analysed at the individual, community and systems levels. Individual-level risk relates to the risk of not acting. Platforms should be designed with the user in mind. In the case of emergency crowdfunding, the end users are the affected people.¹⁹ The project initiators, moderating organizations, platform owners and donors can transparently engage with the affected people by developing open-source platforms, engaging the affected people in conversations regarding economic development, and clearly informing all parties about the benefits and limitations of crowdfunding.

At the community level, project initiators need to be mindful of the “do no harm” principle. Financially supporting a few crowdfunded projects at the potential expense of the community-at-large is a substantial risk, as crowdfunding platforms tend to target individuals as compared to agencies. Additional issues of project sustainability, local ownership and equal representation of all relevant parties also need to be considered.

Lastly, at the system level, project initiators and moderating organizations need to be held accountable for funding distribution and demonstrating impact. Intuitively, potential donors are more likely to support a funding system if they can understand the added value and believe in the purpose. It is up to project initiators and moderators to enable trust in the funding system by supporting humanitarian principles and ensuring no conflict of interest.

How to establish trust in the crowdfunding platform

Crowdfunding audits are concerned with each project initiator accomplishing its fundraising goals, or at least informing the public why a goal could not be reached. In this manner, agencies could receive a “badge” of trustworthiness similar to Charity Navigator. Alternatively, a formal agency, such as the Crowdfunding Accreditation for Platform Standards (CAPS), could serve as a guide for independent agency accreditation. CAPS is an initiative led by Crowdsourcing.org to promote the adoption of best practices in the operation of crowdfunding platforms globally.²⁰

Alternatively, trust may be built into the platform through the funding framework. “All or nothing” models, such as Kickstarter, retain relatively high levels of trust because donations are returned to potential donors if the fundraising goal is not met.²¹ This type of funding framework is ultimately discouraged for disaster response, as any funds are beneficial even when the goal is unreachable. Nonetheless, if the goal is unreachable, project managers could propose alternative project goals and still maintain a high level of trust.

Lastly, increasing transparency, accountability and reporting among donors, project initiators and funding recipients increases trust in the project and ensures continued donor engagement.^{22,23} This

increased discussion between donors and project initiators improves project effectiveness and enables donors to gain understanding about the project purpose. For example, GlobalGiving offers a donor satisfaction guarantee. If the donor is not satisfied with the use of funds, GlobalGiving will provide a voucher covering the donation cost (up to \$10,000) that can be redirected to a project better aligning with donor interest.²⁵

Existing platform analysis

An ideal option would be a gamified, certified donation-based/reward-based hybrid crowdfunding model using a distributed-goal framework with get-what-you-reach fundraising goals and low moderating owner charges (approximately 5 per cent). The challenge is identifying an existing crowdfunding platform that supports all of these requests. To better understand the existing crowdfunding platforms for use in emergency response, 25 websites across a variety of sectors were reviewed. A short analysis of these platforms is provided below:

- 12 of 25 platforms have humanitarian-related elements.
- 18 of 25 platforms can receive donations at an international level.
- 16 of 25 existing crowdfunding platforms use a donation-based crowdfunding model.
- 3 of 25 platforms use a reward-based crowdfunding model.
- No platforms use a distributed-goal framework.
- 11 of 25 platforms are “great” or higher in Search Engine Optimization (SEO),²⁶ thereby more likely to reach their desired audience (annex 1).

In conclusion, there are currently no platforms fulfilling all interested criteria. In response to the Nepal earthquake in April 2015, Indiegogo was used to support local and international fundraising. Two weeks after the earthquake, 135 campaigns were active on the platform.²⁷ The sheer number of campaigns makes it difficult for potential funders to independently evaluate the validity of requests. Ideally, the humanitarian community would partner with an existing crowdfunding platform to validate emergency campaigns. This partnership could bring new users to the platform and encourage prospective donor trust through use of a known platform moderator. Indiegogo is referenced for its work in the Nepal response. However, numerous other platforms, such as Causes, Kiva, Crowdrise, Razoo and Rally, also work in similar areas of humanitarian affairs, accept funds internationally and will likely reach their desired audience.

RECOMMENDATIONS

Platforms

There are several platforms in place to support humanitarian fundraising. However, these platforms tend to focus on country and corporate donations with limited individual-to-individual or individual-to-group funding considerations. By allowing a formal humanitarian agency to partner with a crowdfunding platform, personal donations may be used to supplement humanitarian response funding. Funding initiators can post projects on behalf of their organizations or community, or individually. The moderating organization—the United Nations Office for the Coordination of Humanitarian Affairs (OCHA)—could support the verification of in-country requests.

Framework

In terms of a crowdfunding framework, the specific type of funding goal is dependent on the project initiator. However, a distributed-goal framework is encouraged. This would allow potential donors to understand how changes in the funding amount would lead to expanded projects. Additionally, it would allow donors to better understand specific projects, regions, thematic areas or the response in entirety. OCHA could then advocate donations towards underfunded projects and support these projects through “general funds”. OCHA would require an operational budget, but it could be financially sustained through opt-in coordination donations.

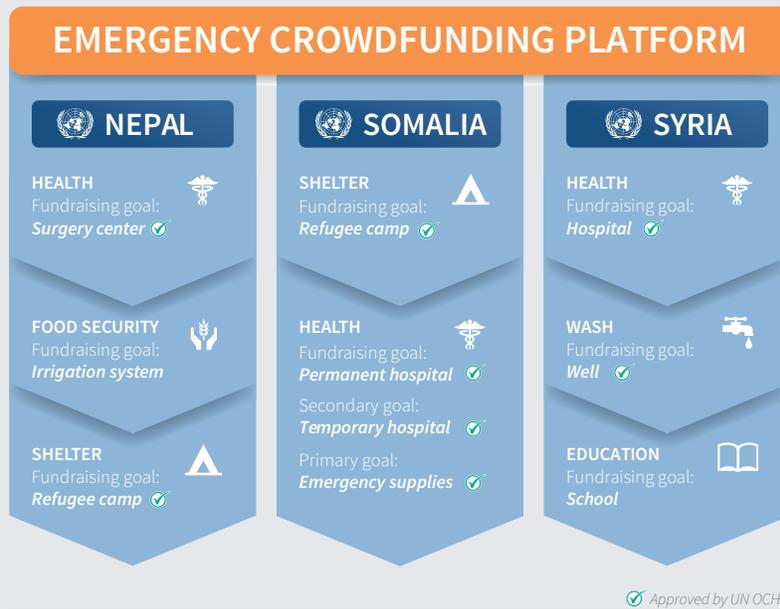


Figure 5: Example Humanitarian Crowdfunding platform using a distributed goals framework and OCHA approved verification process

Ensuring trust and reducing risk

Country-Based Pooled Funds (CBPF), managed by OCHA,²⁸ could serve as a trusted network of local organizations. By partnering with an existing crowdfunding platform and allowing trusted organizations to post projects, OCHA is well placed to lead the implementation of disaster crowdfunding. To ensure that OCHA is never a bottleneck or that the community has to rely exclusively on OCHA's presence, the platform could also be managed by other global organizations in non-OCHA emergencies. Additionally, unverified organizations could post projects, but they would do so without an “OCHA Trusted” stamp on their project page (figure 5). In partnership with the crowdfunding initiative, a change to private funding reporting standards could require automatic reporting to the Financial Tracking Service (FTS) regarding private contributions, thereby improving transparency, accountability and the understanding of private donations.

Determining the overall success of a crowdfunding platform in a disaster may prove difficult. Analysis of issues such as the amount given, where it was given and how many donors fund a second time in an emergency will need to be calculated. However, its impact on a disaster would likely be seen through individual success stories and failures. As a supplemental source of funding during a disaster, its overall impact would need to be analysed together with traditional funding mechanisms.

CONCLUSION

In today's emergencies, international funds are often released in the days and months following a sudden onset disaster, as compared to minutes. This delay in distribution means that the affected people may not receive the immediate support they need. This delay does not imply that no money reaches affected people, but rather that the release of international funds takes time when time is critical. Crowdfunding and humanitarian donations depend on trust. Establishing systems that further transparency and accountability, and which allow for greater donor data collection, will allow humanitarian actors to better identify gaps in current coverages and areas requiring greater advocacy.

In addition to crowdfunding, other innovative funding techniques should be explored. Mobile money and digital transfers provide a great opportunity for humanitarian funding following a humanitarian emergency. This paper examines partnering with crowdfunding platforms to facilitate individual and community fundraising, but other alternative approaches should also be considered, such as partnering with peer-to-peer payment groups (PayPal, Venmo, Facebook money²⁹ or Square \$Cashtags³⁰) or partnering with third-party small-business loan groups (Kabbage, Kikka³¹).

ANNEX 1

Crowdfunding platforms analysis (Crowdfunding analysis data)

Focused on humanitarians affairs?	Platforms
YES	Youcaring.com, Causes, Kiva, GiveForward, Crowdrise, FundRazr, DonorsChoose, Razoo, GoGetFunding, Rally.org, StartSomeGood, HandUp.
NO	angellist, appbackr, Crowdfunder, DonationTo, FundAnything, GoFundMe HoneyFund, Indiegogo, invested.in, Kickstarter, Patreon, RocketHub, tilt.

Crowdfunding type	Friendly description	Platforms
Donation	<i>This takes place when an individual, company or organization accepts charitable donations.</i>	Youcaring.com, Causes, GiveForward, Crowdrise, GoFundMe, FundRazr, DonorsChoose, HoneyFund, Razoo, GoGetFunding, Rally.org, RocketHub, StartSomeGood, HandUp, FundAnything*, Tilt*
Reward	<i>Contributions are exchanged for current or future goods or services.</i>	Indiegogo, Kickstarter, Patreon
Equity	<i>Crowdfunding through which the exchange is company equity or ownership, not goods or services.</i>	angellist, appbackr, Crowdfunder
Debt/Lending	<i>When a crowd lends money to an individual or company with the understanding that the loan will be repaid with interest.</i>	Kiva
Pages System	<i>A related system for creating crowdfunding microsites.</i>	DonationTo, invested.in

*Also has a reward system

Accepting international givers?

Platforms

YES	Youcaring.com, Causes, Kiva, FundAnything, GiveForward, Crowdrise, GoFundMe, FundRazr, Indiegogo, Kickstarter, Razoo, Patreon, GoGetFunding, Rally.org, RocketHub, StartSomeGood, tilt, HandUp
Not specified	angellist, appbackr, Crowdfunder, DonationTo, DonorsChoose, HoneyFund, invested.in

Page rank

Friendly description

Platforms

3	<i>Average on the web. Most sites you see on the web have a PR3.</i>	DonationTo, tilt
4	<i>Above average. You've likely been conscious about getting your site out there a bit.</i>	FundAnything, HoneyFund, invested.in, HandUp
5	<i>Good. A PR5 may land you on the first page of some search results. Pat yourself on the back.</i>	appbackr, Youcaring.com, Crowdfunder, GiveForward, FundRazr, Patreon, GoGetFunding, StartSomeGood
6	<i>Great. You've obviously done some work on your SEO. You'll be able to contend for some top positions.</i>	angellist, Causes, Crowdrise, GoFundMe, Razoo, Rally.org, RocketHub
7	<i>You're getting noticed! If you've got a PR7, consider yourself a top site. Most medium-size businesses would do well to dream of a PR7.</i>	Kiva, DonorsChoose, IndieGogo, Kickstarter

Platforms

Top 10 Forbes list (#)

Kickstarter	1
Indiegogo	2
Crowdfunder	3
RocketHub	4
Crowdrise	5
appbackr	7
angellist	8
invested.in	9

Compete's rank	Platform	Relative position	Platform	Alexa's rank
563	GoFundMe	1	Kickstarter	544
641	Kickstarter	2	Indiegogo	1,483
1,345	Indiegogo	3	GoFundMe	1,550
2,967	Youcaring.com	4	angellist	2,805
3,954	Causes	5	Patreon	6,160
4,906	angellist	6	Kiva	10,289
5,342	GiveForward	7	Youcaring.com	12,378
8,237	Patreon	8	Causes	12,837
8,888	Crowdrise	9	GiveForward	19,334
12,987	HoneyFund	10	Crowdrise	22,279
13,213	Kiva	11	Crowdfunder	36,159
14,318	DonorsChoose	12	FundRazr	37,349
14,704	FundRazr	13	RocketHub	54,471
17,817	Razoo	14	DonorsChoose	57,160
33,012	RocketHub	15	tilt	61,077
49,164	Crowdfunder	16	HoneyFund	66,302
55,203	Rally.org	17	Razoo	78,801
62,406	FundAnything	18	GoGetFunding	116,450
66,802	tilt	19	FundAnything	124,375
73,988	GoGetFunding	20	Rally.org	148,852
132,195	DonationTo	21	StartSomeGood	150,196
157,770	StartSomeGood	22	appbackr	184,607
441,403	appbackr	23	invested.in	354,163
501,753	HandUp	24	HandUp	507,180
547,831	invested.in	25	DonationTo	531,737

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