

Harnessing the Fundraising Potential of Charitable Crowdfunding in Canada

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Is charitable crowdfunding a threat or an opportunity for leading Canadian charities? This paper will demonstrate that charitable crowdfunding represents a powerful new fundraising tool for both leading and start-up charities, with the potential to expand the donor base and subsequently the total revenues for all Canadian charities. After a brief summary of the charitable crowdfunding sector, part I of this paper will explore two trends in the Canadian charitable giving that support this conclusion: 1) the stagnant demographics of donors in the current Canadian charitable landscape and 2) increasing understanding of the behavioural motivations of donors and non-donors. Charitable crowdfunding will be found to have the potential to tap new demographics as well as capitalize on donor and non-donor motivations. The final half of this paper will advocate for regulatory changes which would help facilitate this aggregate increase in funding. In response to stagnated donor demographics, the stretch tax incentive system proposed by Imagine Canada should be adopted to attract new donors. In response to increasing understanding of behavioral motivations of donors and non-donors, Canada Revenue Agency should consider extending its Informant Leads program into an online crowdsourced model capable of harnessing the investigative power of the crowd towards ensuring efficient uses of funds by charities and individuals.

Crowdfunding is an (often online) initiative undertaken to raise money for a new project by collecting small to medium-size investments from several other people (i.e. a crowd).¹ Although crowdfunding has been applied to equity investments as well as in a pre-production consumer purchase model, the focus of this paper will be examining its application in and impact on the not-for-profit/charity sector. Dave Boyce, CEO of Fundly, one of the largest online crowdfunding platform for

¹ Andrea Ordanini, "Crowd funding: customers as investors", The Wall Street Journal (23 March 2009), p. r3.

not-for-profits and charities recently spoke on the subject, claiming that charitable crowdfunding has the “potential to harness the power of crowdfunding and social media to disrupt charitable giving and transform philanthropy as we know it.”² A week later he was quoted as claiming that “[crowdfunding] has changed the dynamic of funding forever. It is the new world of fundraising for nonprofits, for social good.”³ Echoing this warning to existing charities is Ken Wyman, fundraising and volunteer management professor at Humber College in Toronto. He agreed that since crowdfunding platforms directly connect donors with requestors, cutting out the intermediaries (charities), “clearly crowdfunding is very effective and to some degree it scares charities”.⁴ Whenever a successful start-up claims the ability to ‘disrupt’ or ‘change the dynamic’ of an entire sector of the economy, it is in the best interests of the existing actors in that sector to seriously analyse the strength of that claim and to (at least hypothetically) evaluate their position within those supposed ‘changed dynamics.’ Could charitable crowdfunding be for the current leading charities what digital file sharing was for the once-leading players in the music industry?

This paper will demonstrate that charitable crowdfunding is as much an opportunity for large charities as it is for small start-ups. Specifically, charitable crowdfunding represents a powerful new fundraising tool for both leading and start-up charities, with the potential to expand the donor base and subsequently the total revenues for all Canadian charities. After a brief summary of the charitable

² Jeanette Mulvey, “Crowdfunding executive living the dream through his job, Internet entrepreneur Dave Boyce shares how he landed his dream job at a crowdfunding site for social good”, *BusinessNewsDaily* (13 Mar 2013). Accessed online (21 Mar 2013) at:

<http://www.mnn.com/money/green-workplace/stories/crowdfunding-executive-living-the-dream-through-his-job>.

³ Zachary Stieber, “Crowdfunding: 5 Tips to Raising Money, Fundly CEO Dave Boyce explains how campaigns need time to build momentum”, *The Epoch Times* (18 Mar 2013), accessed online (21 Mar. 2013) at:

<http://www.theepochtimes.com/n2/united-states/crowdfunding-5-ways-for-fundraisers-to-not-freak-out-364591.html>

⁴ Melinda Maldonado, “Crowd-funding campaigns gaining popularity with Canadians”, (5 Aug 2012), accessed online (21 Mar 2013) at:

<http://www.nationalpost.com/m/wp/news/blog.html?b=news.nationalpost.com/2012/08/05/crowd-funding-campaigns-gaining-popularity-with-canadians>.

crowdfunding sector, part I of this paper will explore two trends in the sector which support this conclusion: 1) the stagnant demographics of donors in the current Canadian charitable landscape and 2) increasing understanding of the behavioural motivations of donors and non-donors. Having demonstrated that revenues for all sizes of charities will likely rise due to charitable crowdfunding, the final half of this paper will explore regulatory changes which would reflect these two trends and help facilitate this aggregate increase in funding. In response to stagnated donor demographics, the stretch tax incentive system proposed by Imagine Canada should be adopted to attract new donors. In response to increasing understanding of behavioral motivations of donors and non-donors, Canada Revenue Agency should consider extending its Informant Leads program into an online crowdsourced model capable of harnessing the investigative power of the crowd towards ensuring efficient uses of funds by all sizes of charities.

The Crowdfunding Phenomenon

Any person anywhere in the crowdfunding platform's designated operating territory can start a crowdfunding project by setting up a page to solicit donations. The initiator typically must provide a minimum of three basic requirements to the crowdfunding platform: a funding goal (i.e. the amount of money she wishes to raise), the runtime of the project (i.e. the number of days it is possible for the crowd to donate to the project), and a project pitch (i.e. a verbal and/or visual description of the project). Crowd-funding has been boosted by recent technological developments – Web 2.0 in particular – that allow users to can use, create and modify content and interact with other users through social networks.⁵ A prime example is U.S. President Obama's 2008 election campaign. According to

⁵ Andrea Ordanini, Lucia Miceli and Marta Pizzetti, "Crowd-funding: transforming customers into investors through innovative service platforms", *Journal of Service Management*, Vol. 22 No. 4, 2011 pp. 443-470 at p. 445.

the Campaign Finance Institute, 53% of the \$750 million Barack Obama raised in donations in the 2008 election came from small and mid-sized donors who gave less than \$1,000.⁶ In the last 5 years many crowdfunding platforms were launched across the globe; Kickstarter.com being one of the largest ones. In March 2013, Kickstarter.com reported 38,419 successful projects (i.e. the funding goal was reached), which in total raised approximately \$454 million worth of donations.⁷ Kickstarter solely services the United States and operates on a donate-for-reward model. Since the focus of this paper is charitable crowdfunding, the next two platforms are more illuminating of the phenomenon. Fundly is the largest online crowdfunding platform operating exclusively for not-for-profits and charities. Despite only supporting U.S fundraisers and donors, as of March 13, 2013, there were more than 30,000 campaigns that have collectively raised more than \$305 million on Fundly's platform — everyone from a 9-year-old fundraising to combat child slavery to local PTAs and run/walk/ride fundraising events to leading non-profits like Teach for America, Habitat for Humanity and Children's Miracle Network.⁸ Fees to set up a fundraising page are as follows: Fundly charges individuals 8%, small organizations 7% and offers large organizations unlimited pages for 6%.⁹ IndieGoGo is one of the largest crowdfunding platforms in the world, hosting both large and small, charitable and for profit campaigns from all over the world. IndieGoGo provides a category called "Verified Non Profit" to help identify the cause as reputable. IndieGoGo offers a 25% reduction on its 4% fee for fundraisers who are registered as a 501(c) 3) charity in the United States as well as the ability for donors to claim tax receipts for deductions.¹⁰ IndieGoGo has not released information on the total amount raised since its inception.

⁶ Mark Glaser, "Fundly + Facebook = Millions in Micro-Donations for Campaigns", *PBS* (30 Nov 2010), online: <<http://www.pbs.org/mediashift/2010/11/fundly-facebook-millions-in-micro-donations-for-campaigns334.html>.

⁷ Kickstarter, Accessed online (Mar. 28) at: <http://www.kickstarter.com/help/stats>.

⁸ *Supra* note 2.

⁹ Fundly, "Pricing", accessed online (21 Mar 2013) at: <http://fundly.com/pricing/>

¹⁰ Indigogo, "How to Raise Funds for a 501(c)(3) Nonprofit", accessed online (25 Mar 2013) at:

Finally, Canadian startup Giveffect is exclusively for charitable crowdfunding. Their model claims to reduce risk of fraud because the donations go directly to their partner charities, thus “there is no risk that the campaign launcher will pocket the money instead of giving it to the charity.”¹¹ This benefit along with tax receipt issuing and targeted analytics for charities is why Giveffect charges 6.2% plus 2.9% for paypal, compared to the 5% plus 2.9% for Paypal charged by Vancouver-based Fundrazr and by Kickstarter.¹²

Hurricane Sandy provided an interesting case study to examine the effectiveness of charitable crowdfunding as well as to contextualize it within existing charitable efforts. Within days of the disaster, reports began to surface of affected individuals collecting thousands in crowdfunded donations on sites like GoFundMe and IndieGoGo. For example, 32-year-old writer Jenny Adams posted a picture of her flooded Manhattan street along with a promise to use the funds to distribute cash and goods to her neighbours.¹³ To her surprise, she received \$10 000, much of which was from complete strangers. Adams has since been distributing it through cash and goods at her discretion. The American Red Cross, IndieGoGo partner since 2012, also set up crowdfunding campaigns. They set up one on IndieGoGo and one on CrowdRise, with the option of directly contributing or individuals creating campaigns to fundraise on their behalf. Both of those campaigns brought in about one million dollars each.¹⁴ The scope of charitable crowdfunding becomes clear when compared to the 178 million raised by the American Red Cross for Hurricane Sandy.¹⁵ Furthermore, Fundly’s (the largest charitable

<http://support.indiegogo.com/entries/20557666>.

¹¹Emily Chung, “Charity Crowdfunding Site Launched by Toronto Firm,” *CBC* (21 Jun 2013) at: <http://www.cbc.ca/news/technology/charity-crowdfunding-site-launched-by-toronto-firm-1.1337335>.

¹² *Ibid.*

¹³ Alex Goldmark, “Everyone chip in, please: Crowdfunding Sandy”, 10 Dec. 2012, online: NPR <<http://www.npr.org/2012/12/10/166742312/everyone-chip-in-please-crowdfunding-sandy>>.

¹⁴ *Ibid.*

¹⁵ American Red Cross, “Superstorm Sandy: One Month Update”, (2012), online: <http://www.redcross.ca/cmslib/general/int_news_sandy_update_monthon_e_2012.pdf>.

crowdfunding platform) total raised since inception is 305 million dollars, which pales in comparison to The American Red Cross' reported \$3.2 billion in revenues in 2012 alone.¹⁶ Figures like these draw doubt upon Fundly CEO Dave Boyce's warnings that the existing status quo of philanthropy will be disrupted by crowdfunding. However, it is still clear that the charitable crowdfunding platform offers a novel approach to fundraising and has garnered attention for its success despite still being in its infancy. The next two sections will explore the two trends in charitable giving which charitable crowdfunding is inherently poised to capitalize on: the stagnant demographics of donors in the current Canadian charitable landscape and the increasing understanding of behavioral motivations of donors and (importantly) non-donors. Exploring these trends will demonstrate that existing large-scale charities are at least equally, if not better positioned to benefit from charitable crowdfunding.

PART I: TRENDS IN CHARITABLE GIVING THAT BENEFIT CHARITABLE CROWDFUNDING

The Stagnant Demographics of Donors in the Current Canadian Charitable Landscape

Although most of the revenue received by Canadian charities is through government grants (65.5%), individual donors are still a sought after market for Canadian charities.¹⁷ According to Statistics Canada, for the 2010 taxation year, approximately one in five individual taxpayers reported making a charitable donation and there was a median donation of \$123 and an average donation of

¹⁶ American Red Cross, "American Red Cross FY12 Financial Results", (2012), online: <http://www.redcross.org/images/MEDIA_CustomProductCatalog/m16040150_2012_fiscal_year_auditedFinancialStatementDocs.pdf>.

¹⁷ Martin Turcotte, "Charitable Giving By Canadians", Statistics Canada, (2012), accessed online (22 Mar 2013) at: <http://www.statcan.gc.ca/pub/11-008-x/2012001/article/11637-eng.htm>

\$446.¹⁸ The total number of taxpayers claiming a charitable donations tax credit was stable between 1990 and 2010 while the total number of individual taxpayers increased from approximately 17 million to 24 million over the same period (appendix 1). Charitable donations by individuals decreased from 2007 to 2009 before rising from 2009 to 2010 (appendix 2). One half of the total charitable donations by individuals in the 2010 taxation year were made by donors with an annual income of at least \$80,000 (appendix 3), and 80% of charitable donations made by individuals in the 2010 taxation year were given by donors aged 45 years and older (appendix 4). Furthermore, the 25% who donated the largest amount (at least \$358 in 2010) comprised 83% of the total amount collected by all charitable and non-profit organizations, with the top 10% of people who made the largest donations alone contributed 63% of all donations (Appendix 5).¹⁹ This sizable contribution of the top donors was practically unchanged from 2007. Of the top quartile of donors, common characteristics included: people aged 75 and over (32% of whom were top donors in 2010), widowers and widows (32%), university graduates (33%) and people whose household income was \$120,000 or more (33%).²⁰

The general demographic trends that emerge from these statistics are clear; most of the contributions come from the same stagnant group of older and wealthy donors. This represents a problem for all sizes of charities because the donor base is not increasing with the influx of population and fundraising success is largely contingent on one demographic group. Charitable crowdfunding represents a unique solution to this stagnation. It is difficult to get an accurate picture of the demographics of crowdfunding donors because the crowdfunding platforms do not release the information. Despite this, there is a likelihood that the technologically sophisticated users of these platforms are not the same demographic cohort as the aging wealthy top donors described by Statistics

¹⁸ *Ibid.* at p. 13.

¹⁹ *Ibid.* at p. 26.

²⁰ *Ibid.*

Canada above. Calgary-based fundraising consultant Guy Mallabone, president and CEO of Global Philanthropic Inc. believes that “the millennials today are quite jaded when they take a look at some more traditional structures in society...(Crowd-funding) appears to be attracting newer donors, people who haven’t given philanthropically before, which is pretty exciting.”²¹ Despite this prediction, he echoed the consensus in admitting that “in the early days of crowdfunding, it’s not yet clear what demographics the fundraising method appeals to.”²² Despite not having a clear picture as to the age or wealth of the donors, one piece of information that is available is that in May 2012, IndieGoGo reported that the average contribution amount was \$76.00.²³ This is much lower than the average Canadian yearly-donation of \$446 in 2010 reported by Statistics Canada. Although this picture is still missing the average yearly contribution through IndieGoGo, and the number of individual donations the Canadian \$446 was spread over, it can be speculated that the nature of the narrow crowdfunding campaigns may encourage smaller donations from a wide base of donors. If this trend could be substantiated, it would signal the potential for charities of all sizes to tap into a wide range of online donors to give modest donations, many of which would never have been tapped through traditional means as reflected by Statistics Canada’s demographic portrait. Thus, established charities whose donors are represented in this traditional portrait could add another revenue stream by following American Red Cross’ lead and entering the charitable crowdfunding sector. Far from striking a death blow to traditional charities, charitable crowdfunding may be simply another fundraising tool, one which gains them access to a wider

²¹ *Supra.* note 4.

²² *Supra.* note 4.

²³ IndieGoGo, “Indiegogo Insight: Nearly 40% of Active Campaigns Receive Money From Multiple Countries”, (12 May 2012), online: <<http://blog.indiegogo.com/2012/05/indiegogo-insight-nearly-40-of-active-campaigns-receive-money-from-multiple-countries.html>>.

and potentially younger donor base.

Understanding Donor Behaviour

This section will explore how the emerging understanding of the motivations behind giving compliment the charitable crowdfunding model and also how both large and small charities are equally poised to benefit from charitable crowdfunding. A brief survey of donor motivation literature suggests that people who contribute to charitable causes are motivated by self-esteem, public recognition, satisfaction of expressing gratitude for one's own wellbeing, and relief from feelings of guilt and obligation.²⁴ As will be confirmed below, self-esteem and public recognition are two main drivers of giving which charitable crowdfunding is uniquely poised to harness. Self-esteem is best harnessed when the crowdfunded cause is narrow/specific and the funding goal is modest. Public recognition is best harnessed when crowdfunding links to Facebook or other social networking platforms.

Bendapudi et al. developed a theoretical framework to explain how people's helping behavior towards charities can be influenced.²⁵ Bendapudi et al's framework identifies multiple categories of drivers that explain helping behavior. Factors which the charity organization itself can shape in order to increase the frequency and volume of helping behavior are categorized as source, message, and request drivers. Source drivers comprise the overall image that the charity and the beneficiary convey when they solicit for help. Message drivers are elements within the message the potential donor is confronted with, in order to convince him to help. Request drivers determine how much help is solicited for. One recent

²⁴ Hibbert, S. and Horne, S. (1996), "Giving to charity: questioning the donor decision process", *Journal of Consumer Marketing*, Vol. 13 No. 2, pp. 4-13; White, K. and Peloza, J. (2009), "Self-benefit versus other-benefit marketing appeals: their effectiveness in generating charitable support", *Journal of Marketing*, Vol. 73 No. 4, pp. 109-24.

²⁵ Bendapudi, N., S.N. Singh and V. Bendapudi (1996), "Enhancing Helping Behavior: An Integrative Framework for Promotion Planning", *The Journal of Marketing*: 33-49.

study applied these drivers to empirically analyze data from IndieGoGo (www.indiegogo.com), one of the biggest and oldest crowdfunding platforms worldwide.²⁶ A customized computer script was developed that automatically and systematically scraped data of every eligible project, resulting in a usable dataset of 314,724 donations to 8,807 projects in total. The most important influencers of success were setting an achievable funding goal and the number of comments on the page. Project success is also directly associated with a short but positive project pitch accompanied by images. The study found that message drivers which praised potential donor's compassion and generosity increased donations. Having a large funding goal with many anchor points was found to be counter effective. The trend evident here is that donors want to feel like their contribution made a significant difference. This self-esteem motivation is reflected in findings from Statistics Canada that the number one motivation to give in 2010 was "feels compassion towards people in need" (Appendix 6). Charities that focus their pitches on a narrow cause will leverage donor's altruistic drive to feel good about themselves via helping a specific person. Existing charities such as World Vision's Adopt a Child program already employ this strategy; charitable crowdsourcing simply represents the logical next step.

Public recognition, the second main motivator besides self-esteem is harnessed by charitable crowdfunding via interconnectedness with Facebook and other social media platforms. This phenomenon was documented in a study which explored a dataset of more than 300,000 donations made on behalf of more than 10,000 individual fundraisers who were running in the 2010 London marathon (the largest annual, one-day fundraising event in the world).²⁷ These donations were made online through two websites – Justgiving and Virgin Money Giving. These websites work in broadly the

²⁶ Evers, Mart, *Main drivers of crowdfunding success: a conceptual framework and empirical analysis* (Marketing Management & Management of Innovation, Thesis, Rotterdam School of Management, Erasmus University, 2012) [unpublished].

²⁷ Sarah Smith, Frank Windmeijer and Edmund Wright (2012), "The effect of social information on charitable donations: Evidence from the (running) field", University of Bristol.

same way: individual runners set up a personal fundraising web page on behalf of a charity and then appeal to people through social media to make a donation to their chosen cause. The donor's identities and amount donated were publicly recorded and made visible to each donor who subsequently visited the website. The researchers exploited this format to determine whether individuals' donations are affected by how much others before them had given. They found that early donations crowd in later ones – meaning that a £10 increase in the mean of past donations leads to people giving £3.60 more, on average.²⁸ Although it has yet to be studied, this crowding-in is likely to occur in charitable crowdfunding due to the ability to link the platforms with social media so that a donor's network sees when they make a donation. Established charities like the International Red Cross and Red Crescent Movement are well positioned to capitalize on this. Indeed, at the time of writing, this organization has 129,343 'likes' on Facebook. This supporter base would likely elect to notify their Facebook 'friends' if and when they donate to a crowdfund campaign to benefit the organization. Social currency can quickly transform into charitable currency via crowdfunding. Smaller start-ups will have to build this social network over time and are thus at a disadvantage compared to established charities.

Understanding Non-Donor Behaviour

Statistics Canada asked donors to say whether they agreed with one or more statements which explained why they had not given more.²⁹ In 2010, as in previous years, the reason for not giving more that donors most often cited was that "they could not afford to give more" (71%, the same proportion as in 2007) (see appendix 7). The second most popular reason was that they were happy with what they had already given. The third most often cited reason was that they had given money directly to

²⁸ *Ibid.* at p. 2.

²⁹ *Supra.* note 16 at p. 33.

people in need rather than to organizations (39%). Charitable crowdfunding may appeal to this group because of its narrow and personalized fund recipients. Interestingly, donors' perceptions of how organizations were using their money seemed less positive than in previous years. In 2010, 37% of donors said they agreed with the statement, "you did not think the money would be used efficiently", compared with 33% in 2007. Contrary to the notion of the 'jaded younger donor', this perception tended to increase with age: more than one-half senior male donors, and particularly 56% of men aged 75 and over rationalized not giving more because they believed their money would not be used efficiently (see appendix 8). This concern over efficiency of fund use is particularly relevant to crowdfunding. Many people who set up crowdfund pages are not registered with the Canada Revenue Agency. Ken Wyman, fundraising and volunteer management professor at Humber College in Toronto warns that "if you're using crowd-funding, the moment the money is out of your bank account, you've lost all control of it...fraud is a possibility... because if a charity isn't registered, there is no way to guarantee where a donation is going." This is one aspect of crowdfunding that gives a definite advantage to established and well known charities over independent start-ups. People are more likely to trust a Red Cross recipient than a 32 year old writer from Manhattan to distribute aid to a disaster zone. Concerns over use of funds and trust-building will be explored further in the regulatory recommendation section dealing with crowdsourced investigations.

PART II - REGULATORY RECOMMENDATIONS

Imagine Canada's Stretch Tax Credit

The first regulatory change this paper will advocate for is in response to the first trend identified in part one: the stagnant demographics of donors in the current Canadian charitable landscape. Imagine

Canada's proposed 'stretch tax credit' would address this trend by encouraging new and less wealthy donors to become philanthropists. Imagine Canada is a charity for charities whose mission involves "advancing knowledge and relationships to foster effective and sustainable charitable and non-profit organizations."³⁰ The stretch tax credit would increase the federal charitable tax credit on giving that exceeds a donor's previous highest giving level. The tax credit would increase from 15% to 25% for eligible amounts below \$200, and from 29% to 39% for eligible amounts above \$200. Imagine Canada claims that this "would encourage donations from those who have not given in the past –particularly younger families and those just starting their careers, and help those who already give to give more."³¹ This proposal was endorsed by the House of Commons Standing Committee on Finance in its report "Tax Incentives for Charitable Giving in Canada" on February 12th 2013.³² It recommended the stretch tax credit as proposed by Imagine Canada for further consideration by the Finance Minister due to its potential to expand the donor base and the overwhelming support it had received from charities.

The 2013 Federal Budget has gone part way to implementing this via the proposed Super Credit which would add 25% to the Charitable Tax Credit for donations made by individuals who have not claimed (and whose spouse has not claimed) the Charitable Tax Credit since 2007. This would increase the 15 percent tax credit on donations below \$200 to 40 percent, and the 29 percent tax credit on donations above \$200 would increase to 54 percent. The Super Credit can be claimed once, and will apply to donations up to \$1000.³³ While this is an important olive branch for new donors, Imagine

³⁰ Imagine Canada, "Who We Are", accessed online (26 Mar 2013) at:<http://www.imaginecanada.ca/node/9>.

³¹ Imagine Canada, "STRETCH TAX CREDIT FOR CHARITABLE GIVING", (2012) http://www.imaginecanada.ca/files/www/en/publicaffairs/stretch_tax_credit_2012.pdf

³² Canada, House of Commons, *Tax Incentives for Charitable Giving in Canada*, 41st Leg, 1st Sess, No 15, (12 Feb 2013).

³³ Imagine Canada, "Imagine Canada Reacts to Budget 2013", (21 Mar 2013), online: <http://www.imaginecanada.ca/node/2372>.

Canada has noted that it would not encourage small donors to give more like the stretch tax credit would.³⁴ Offering this additional incentive to first time *and* small donors would assist crowdfunding's ability to shake up the stagnant donor base in Canada. While it is true that the tax incentive was ranked lowest on the Statistics Canada survey for reasons to donate (See appendix 6), it is instructive that the highest ranked (71%) reason not to give more was that donors "could not afford to give more." This, coupled with the second highest excuse of wanting to give more to people versus organizations demonstrates that charitable crowdfunding could significantly increase overall giving if donors felt it would not negatively impact their finances as much. Imagine Canada's stretch tax credit would facilitate this and therefore should be fully implemented.

Canada Revenue Agency Crowdsourced Investigation Platform

Legal scholars and policy makers believe that crowdfunding's irrational herding behavior increases the chances for fraud in crowdfunded projects.³⁵ Ken Wyman's warning of fraud stated earlier echo these concerns. Indeed, as Statistics Canada's survey indicate, in 2010, 37% of donors said they agreed with the statement, "you did give more because you did not think the money would be used efficiently", compared with 33% in 2007.³⁶ In order to address the threat (and perception of the threat) of fraudulent use of (crowdsourced and traditional) charitable funds, the final regulatory recommendation is for the CRA to consider expanding its Informant Leads program into an online, crowdsourced platform. In crowdsourcing, a job is outsourced in the form of an open call to a large but

³⁴ *Ibid.*

³⁵ Hazen, T. (2012), "Social Networks and the Law: Crowdfunding or Fraudfunding? Social Networks and the Securities Laws—Why the Specially Tailored Exemption Must be Conditioned on Meaningful Disclosure," *North Carolina Law Review*, 90, 1735-1807; Bradford, C. (2012), "Crowdfunding and the Federal Securities Laws," *Columbia Business Law Review*, 1, 1-150.

³⁶ *Supra.* note 16 at p. 33.

undefined group of people.³⁷ The Informant Leads program is a call-in line and online process to encourage citizens to report someone they suspect of income tax violations.³⁸ The next step that the CRA should employ is to explore creating a similar Informant Leads program for people to report charities or individuals who they suspect of fraudulently collecting funds via crowdfunding. The crowdsourced element would be that rather than simply waiting for informants to come forward, the CRA could broadcast ‘campaigns of interest’ to guide independent investigations conducted by online contributors or friends of the recipient who they suspect of fraudulent use of the funds. One recent study has described this phenomenon as ‘crowd-sourced policing’ and explored its successful use in identifying the 2011 Vancouver hockey riot perpetrators to local police through acquaintances on Facebook.³⁹ In that case the Vancouver Police Department utilized the Facebook page "Vancouver Riot Pics: Post Your Photos" to achieve an overwhelming response from the community. This approach would be particularly useful for ensuring the funds raised in response to one-time events such as disasters are administered properly. The CRA should consider extending their Informant Leads program into online crowdsourced investigation of charities in order to assure future donors that their funds will be used as promised.

PART III – CONCLUSION

Charitable crowdfunding will not do to the large organizations in the charitable giving sector what file sharing did for the leading players in the music industry. This is because the charitable sector of

³⁷ Howe, J. (2006), “The rise of crowdsourcing”, available at: www.wired.com/wired/archive/14.06/crowds_pr.html

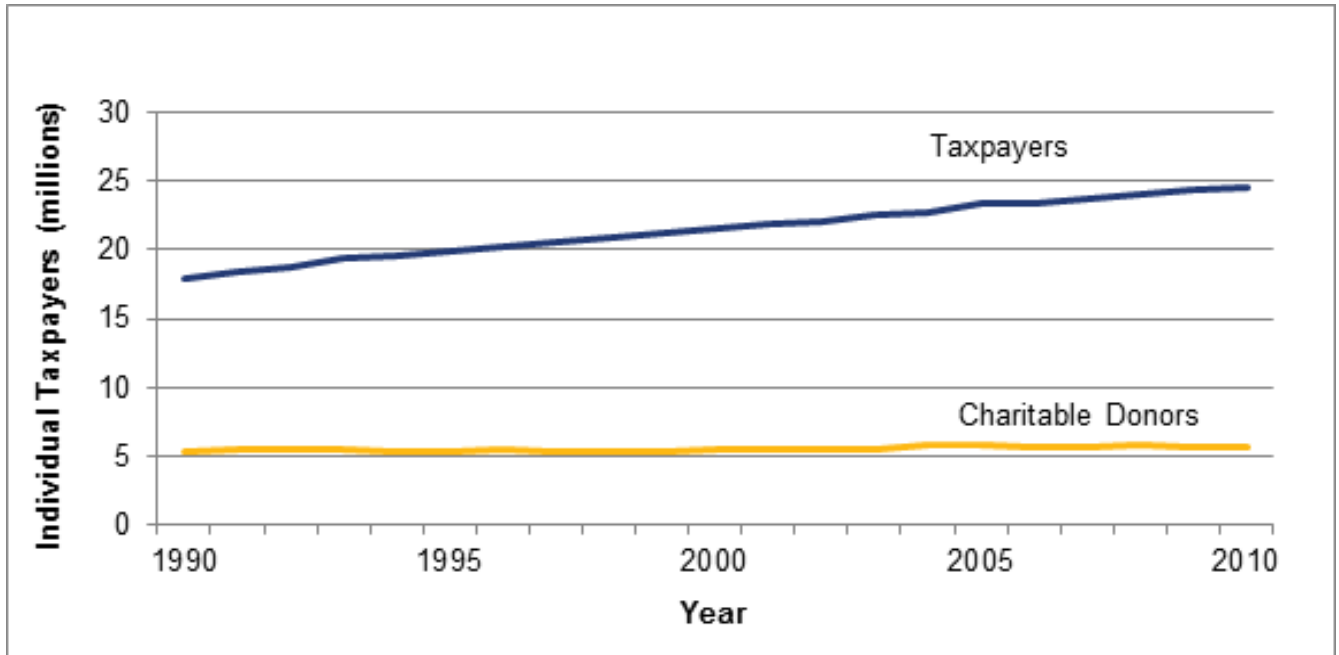
³⁸ Canada Revenue Agency, “Informant Leads Program”, online: <http://www.craarc.gc.ca/gncy/nvstgtns/lds/menu-eng.html>.

³⁹ Christopher J. Schneider, Dan Trotter (2012), “The 2011 Vancouver Riot and the Role of Facebook in Crowd-Sourced Policing” 175 BC Studies 57.

the economy exists to solve problems whereas the music business aims to attract sales from music consumers. While there can never be enough money to solve all the world's problems, the music consumer's demand was satiable via a technological solution. Established large-scale charities should not view the technological solution of online charitable crowdfunding as a threat. Rather, as part I of this paper has demonstrated, charitable crowdfunding represents an additional tool to expand revenues for both large and small charities. Indeed, charitable crowdfunding is inherently well positioned to address the stagnant demographics of donors in the current Canadian charitable landscape and capitalize on the increasing understanding of the behavioural motivations of donors and non-donors. Analysis of both of these trends has demonstrated that large-scale charities are at least equally if not better positioned to benefit from charitable crowdfunding. Finally, as called for in part II, crowdfunding would be better able to expand charitable giving in Canada if the following regulatory recommendations were followed: 1) implementation of Imagine Canada's stretch tax credit to incentivise new and small donors to give more and 2) serious consideration of the extension of Canada Revenue Agency's Informant Leads program into an on line crowdsourced investigation platform to empower citizens to report charities which they suspect of fraudulent use of crowdfunded or traditionally raised funds. These changes would help facilitate charitable crowdfunding's potential to expand the donor base and aggregate total of Canadian charitable giving.

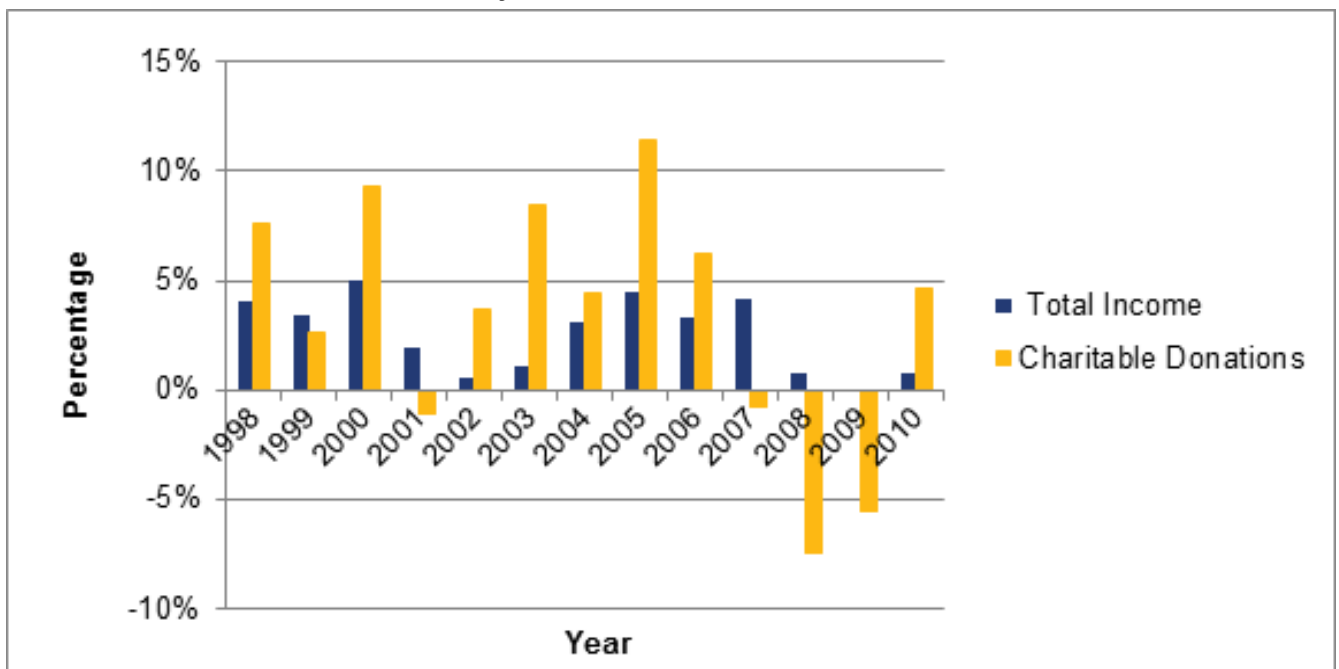
Appendix 1 — Total Number of Individual Taxpayers and the Total Number of Taxpayers Claiming a Charitable Donations Tax Credit, Canada,

1990–2010 Taxation Years



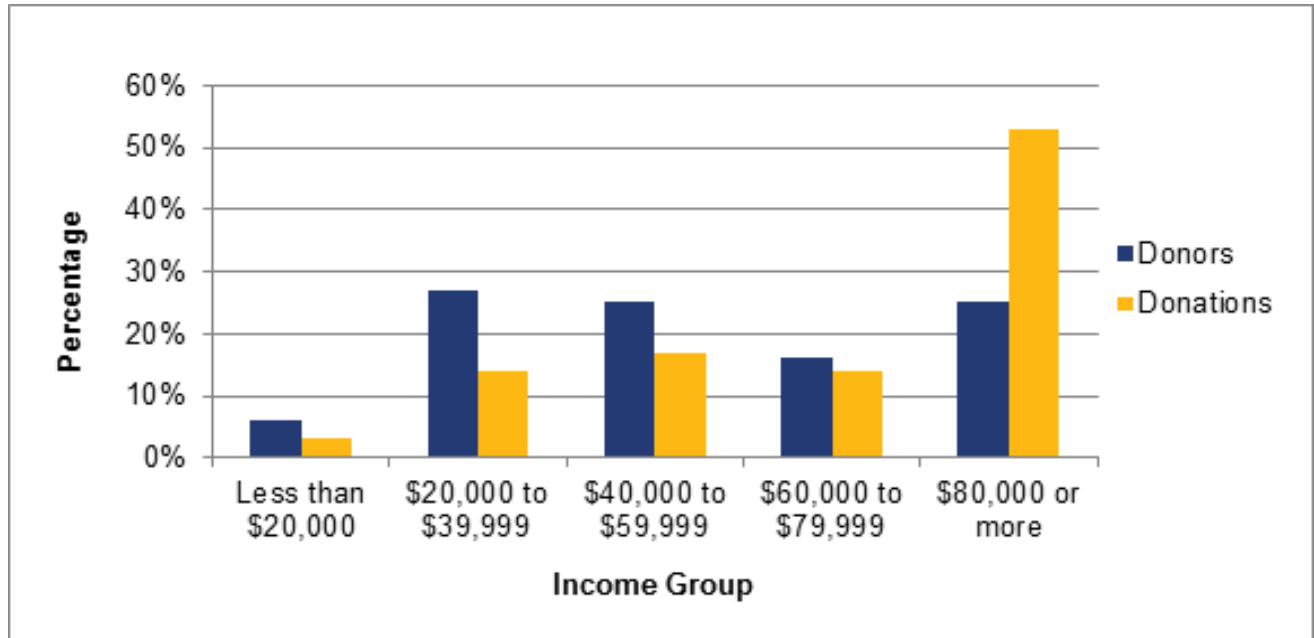
Source: Canada, House of Commons, *Tax Incentives for Charitable Giving in Canada*, 41st Leg, 1st Sess, No 15, (12 Feb 2013).

Appendix 2 — Inflation-Adjusted Annual Percentage Change in Total Income and in Charitable Donations by Individuals, Canada, 1998–2010 Taxation Years



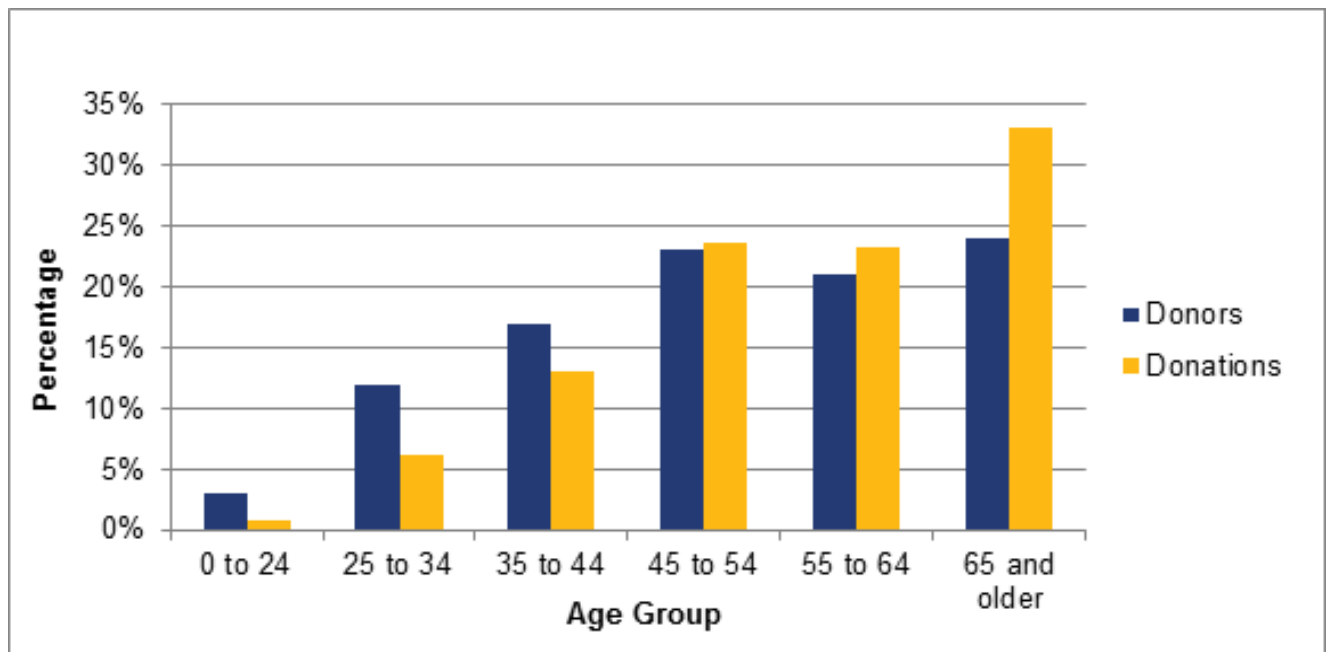
Source: Canada, House of Commons, *Tax Incentives for Charitable Giving in Canada*, 41st Leg, 1st Sess, No 15, (12 Feb 2013).

Appendix 3 — Percentage of Donors and Charitable Donations by Individuals, by Income Class, Canada, 2010 Taxation Year



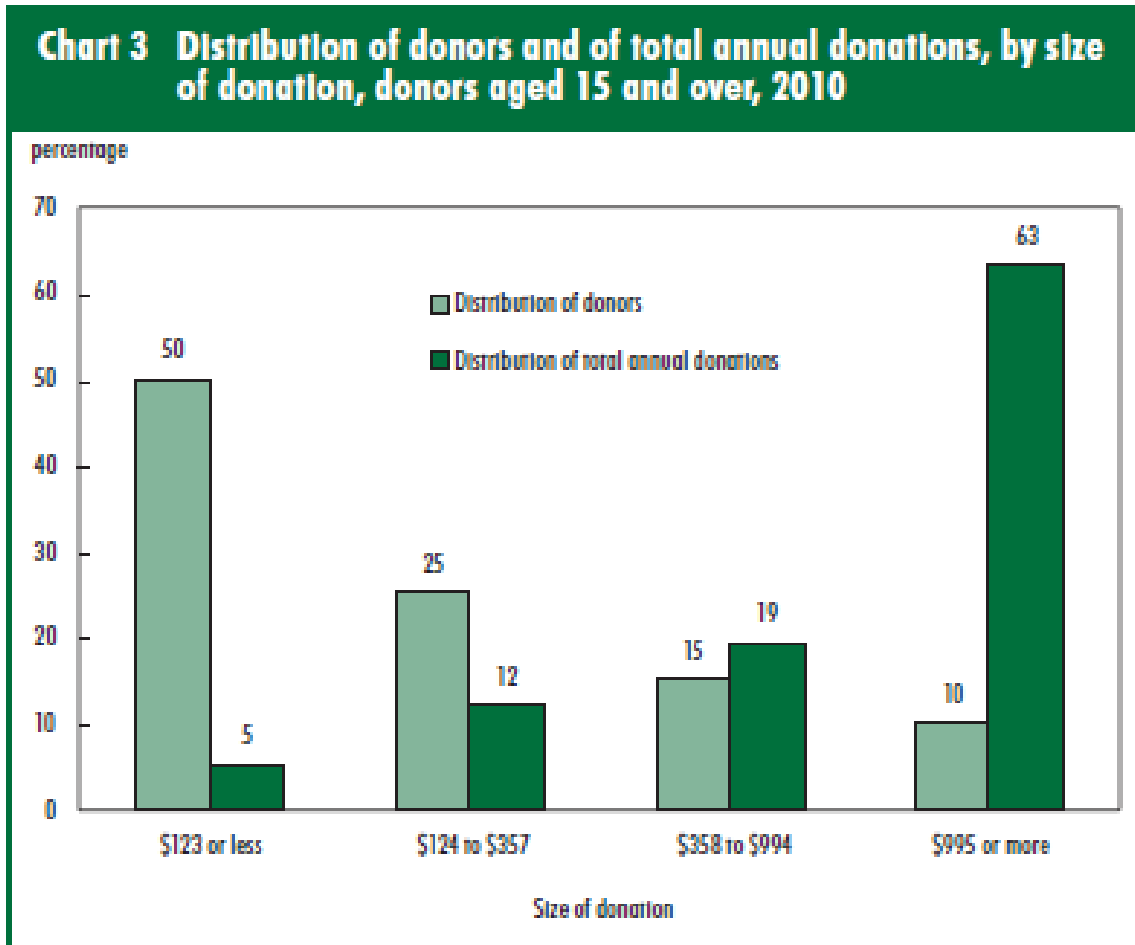
Source: Canada, House of Commons, *Tax Incentives for Charitable Giving in Canada*, 41st Leg, 1st Sess, No 15, (12 Feb 2013).

Appendix 4 — Percentage of Donors and Charitable Donations by Individuals, by Age of Donor, Canada, 2010 Taxation Year



Source: Canada, House of Commons, *Tax Incentives for Charitable Giving in Canada*, 41st Leg, 1st Sess, No 15, (12 Feb 2013).

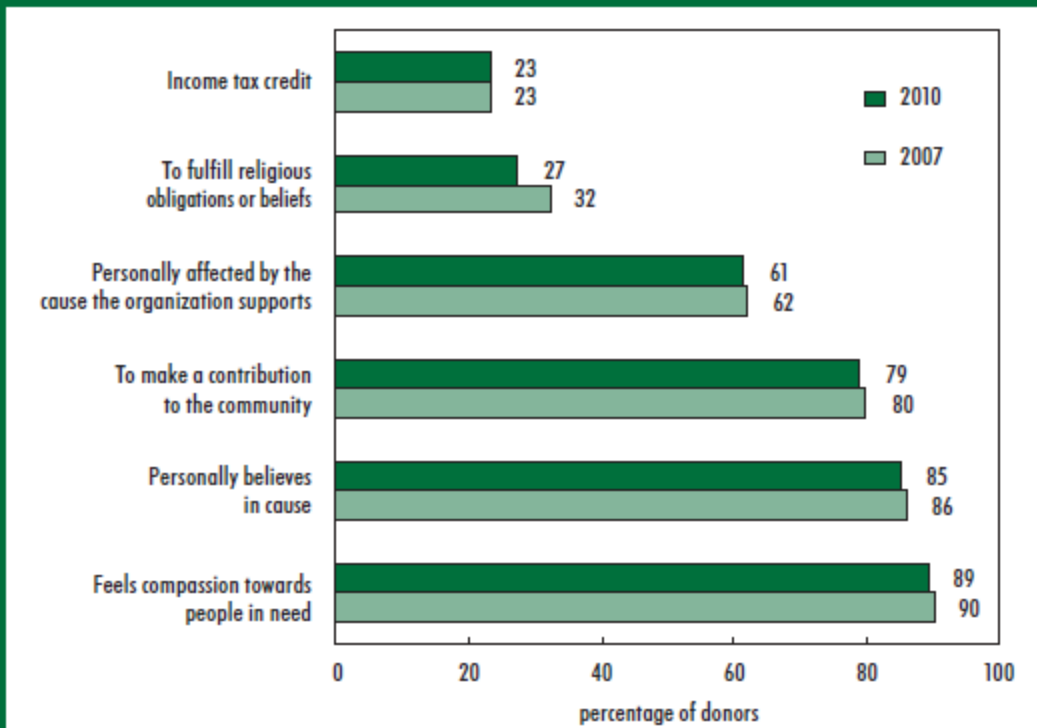
Appendix 5 — Distribution of donors and of total annual donations, by size of donation, donors aged 15 and over, 2010



Source: Martin Turcotte, "Charitable Giving By Canadians", Statistics Canada, (2012), accessed online (22 Mar 2013) at: <http://www.statcan.gc.ca/pub/11-008-x/2012001/article/11637-eng.htm>

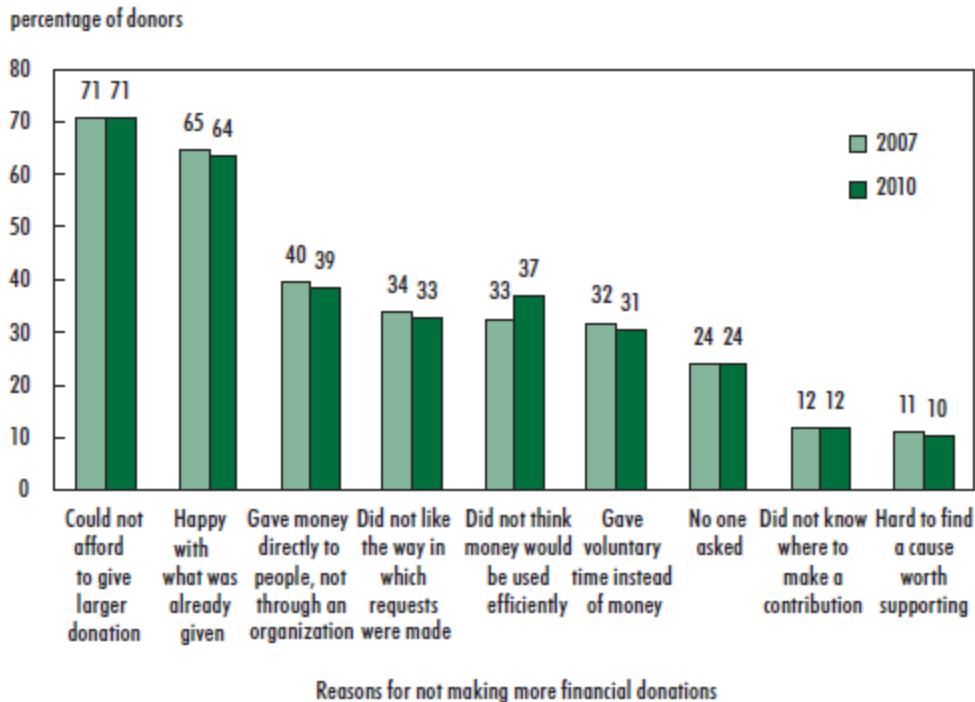
Appendix 6 — Reasons For Making Financial Donations, Canadian Donors Aged 15 and Over, 2007 2010

Chart 8 Reasons for making financial donations, donors aged 15 and over, 2007 and 2010



Source: Martin Turcotte, "Charitable Giving By Canadians", Statistics Canada, (2012), accessed online (22 Mar 2013) at: <http://www.statcan.gc.ca/pub/11-008-x/2012001/article/11637-eng.htm>

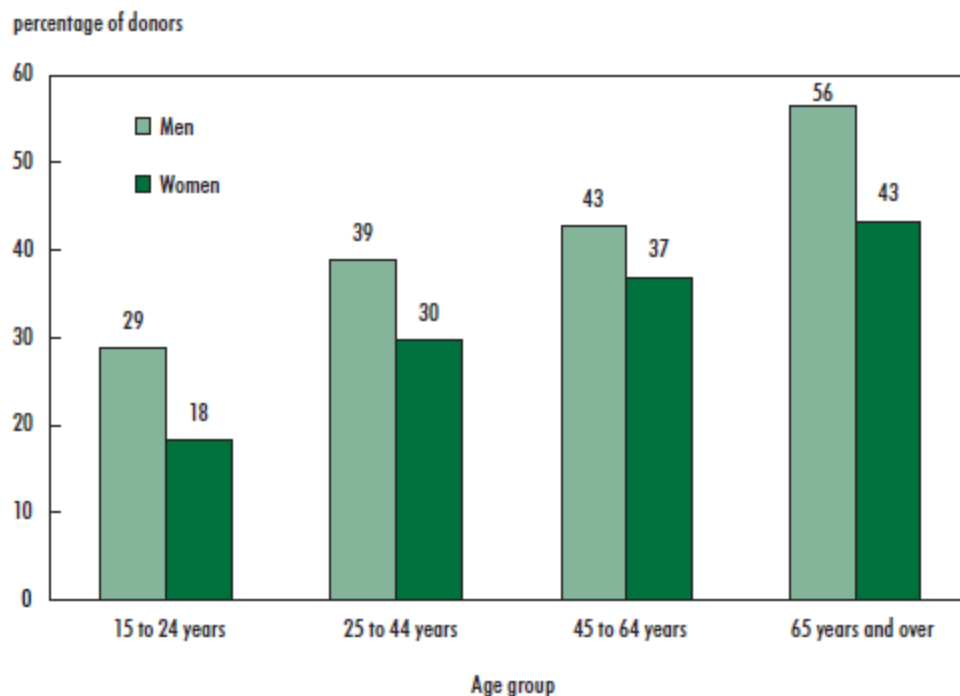
Chart 10 Reasons for not making more financial donations, donors aged 15 and over, 2007 and 2010



Source: Martin Turcotte, “Charitable Giving By Canadians”, Statistics Canada, (2012), accessed online (22 Mar 2013) at: <http://www.statcan.gc.ca/pub/11-008-x/2012001/article/11637-eng.htm>

Appendix 7—Percentage of who did not give more because they thought their money would not be used efficiently, by age group and sex, donors aged 15 and over, 2010

Chart 11 Percentage of donors who did not give more because they thought their money would not be used efficiently, by age group and sex, donors aged 15 and over, 2010



Source: Martin Turcotte, "Charitable Giving By Canadians", Statistics Canada, (2012), accessed online (22 Mar 2013) at: <http://www.statcan.gc.ca/pub/11-008-x/2012001/article/11637-eng.htm>

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