Demystifying Cryptocurrency Donations:

A Guide for Nonprofit Leaders

Key Considerations

NONPROFIT FINANCIAL COMMONS

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As with any form of giving, the decision to pursue cryptocurrency donations is a strategic one that should be evaluated on a risk-reward and cost-benefit basis. Here we will summarize several factors that nonprofit leaders should be aware of as they consider cryptocurrency fundraising. Refer to the **Engaging with Stakeholders** slide deck to facilitate conversations around the key considerations.

Reputational Considerations

- Environmental Impact
- Source of Funds
- Donor Demographics

Financial Considerations

- Volatility
- Finance Operations
- Fundraising Potential

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Potential Reputational Considerations

The decision to associate your organization, however indirectly, with the cryptocurrency industry carries with it potential risks to the organization's image and reputation, which may be more pronounced depending on your mission area and key stakeholders (including other donors, staff, constituents, beneficiaries of services, etc.).

In this section we will detail several of those considerations and ways to think about and potentially mitigate them in your decision-making process:

- Environmental Impact
- Source of Funds
- Donor Demographic

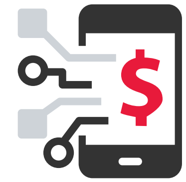
Environmental Impact

The process of creating (or "mining") some cryptocurrency such as Bitcoin is an energy-intensive one, requiring a substantial amount of electricity-powered computer processing. One estimate of the annual electricity consumption of the Bitcoin mining process equates it to the annual consumption of the Philippines;[1] another study found that on a dollar-for-dollar basis the environmental impact of Bitcoin is comparable to that of the beef or gasoline industries.[2]

For nonprofits with a focus on environmental sustainability, a decision to accept cryptocurrency donations may appear incongruous with the mission goals of the organization. For some, this may indeed be enough of a flashpoint for stakeholders to rule out soliciting or even accepting cryptocurrency donations — or at least donations of Bitcoin, which is considered the most environmentally problematic of the currencies. Some cryptocurrencies make an effort to prioritize environmental sustainability in their production — Ethereum (the second largest cryptocurrency), for example, recently completed a process intended to substantially reduce the carbon footprint of creating tokens.

That said, all nonprofits use resources — electricity to power computers, oil and gas to heat buildings, gasoline to travel to communities — that can cause pollution and other negative externalities. Accepting donations of cryptocurrency is likely to be far down the list of factors in an organization's carbon footprint, and an indirect one at that (assuming the organization isn't itself mining crypto). So leaders may decide that the good they are able to do with the proceeds of cryptocurrency donations outweighs a possible connection between those donations and the process of creating the original asset.

Source of Funds



One key feature of cryptocurrency is its anonymity[3]; unlike with traditional banking transactions, transferring cryptocurrency funds from one account to another can be done anonymously since account ownership is not identified (accounts are accessed by their owners only with a digital "key"). This feature creates the possibility of cryptocurrency being used for illegal activities such as money laundering, drug trafficking and tax evasion; indeed, one 2019 study estimates that nearly half of all Bitcoin transactions (by value) are associated with illegal activity.[4] Such high estimates of illicit cryptocurrency usage are disputed by other sources, and given the opacity (by design) of cryptocurrency ownership there is no way to know for sure how many or which transactions are illicit. On the other hand, the anonymity of cryptocurrency can also provide a means of supplying resources to organizations and movements at risk of government suppression, such as political dissidents and reproductive rights organizations, among others.

The anonymity inherent in cryptocurrency may give some nonprofit leaders pause in considering associating their organizations with the technology, particularly organizations focused on financial transparency or anti-trafficking. That said, practically any medium of exchange can be used for illicit purposes, and looking deeply into the origins of fortunes that now drive philanthropic giving around the world may turn up some objectionable practices and associations.[5] The best defense against this type of reputational risk is knowing your donors and rejecting donations — whatever their form — that could jeopardize your organization's image or integrity.[6]

1 ccaf.io/cbeci/index/comparisons
2 www.nature.com/articles/s41598-022-18686-8
3 Or technically *pseudonymity*—blockchain transactions (including sender and receiver) are public, though account holders real names need not be publicly disclosed.
4 academic.oup.com/rfs/article-abstract/32/5/1798/5427781
5 "Behind every great fortune there is a crime." – Balzac
6 Some cryptocurrency solutions may conduct blockchain analysis to help verify the source and legitimacy of funds being donated. Also note that cryptocurrency wallet addresses known to be associated with illicit/illegal activities are published in the Specially Designated National and Blocked Persons ("SDN List") published by the Office of Foreign Assets Control ("OFAC") of the US Department of the Treasury. Donation addresses should be checked against this list: home.treasury.gov/policy-issues/financial-sanctions/specially-designated-nationals-and-blocked-persons-list-sdn-human-readable-lists.Organizations may also choose to require donors to complete a form with identifying information as part of the donation process.

Donor Demographics

Communication with donors, like any of the communication you do, tells your audience something about who you believe shares your commitment to your organization and its mission. Future donors may also become advocates, employees, and even board members. So, it is wise, when developing new audiences or pursuing new kinds of donors, to understand their demographics and any cultural representations about them that you and your existing stakeholders may encounter. A recent survey of 1,000 Americans indicates that a majority of cryptocurrency investors are men under 55 and that 39% of investors identify as people of color. Politically, cryptocurrency investors are spread widely across the spectrum.[7] Nevertheless, cryptocurrency has, whether accurately or not, come to have cultural associations that you may encounter in conversations with your stakeholders, board and other donors. Should you choose to actively solicit donations of cryptocurrency, you should also take some time to learn about the cultural associations that have built up around cryptocurrency so you are prepared to discuss them with your community of stakeholders.

7 https://navigatorresearch.org/demographic-and-political-profiling-of-cryptocurrency-investors/

Financial Considerations

With all of those considerations in mind, nonprofit leaders should consider the extent to which soliciting and receiving donations of cryptocurrency may be viewed negatively by organizational stakeholders, and whether those negative viewpoints can be addressed or mitigated. In addition to reputational considerations, nonprofit leaders should also consider the financial impacts on their organizations of a cryptocurrency fundraising strategy.

The following will be addressed in this section:

- Volatility
- Financial Operations
- Fundraising Potential

Volatility

People who know nothing else about digital coins or blockchain technology, whose only exposure to cryptocurrency comes from news reports or friends on social media, are likely aware of the inherent volatility of the asset class. Since its inception, the value of one bitcoin in US dollars has ranged from pennies to more than $60,000, with many peaks and valleys in between. Over the past year (as of this writing), the currency has lost more than 70% of its value, with likely more booms and busts in store for the future. Other cryptocurrencies — particularly smaller and less established ones — can be even more volatile.

Moreover, patchy regulation and questionable actors in the cryptocurrency space can make this asset even riskier for users and investors. As we write this guide, the industry is still feeling the impact of a recent crypto exchange collapse, which wiped out potentially billions of dollars of customer holdings amid dubious management and accounting practices (if not outright fraud). In addition to shaking confidence in the infrastructure of the industry, this event triggered yet another "cryptocurrency crash" in the price of many of the currencies.

Owning cryptocurrency, then, exposes individuals and organizations to the volatility of an uncertain and sometimes unstable market. Fortunately, this volatility need not be a concern for nonprofit organizations seeking cryptocurrency donations provided they follow this best practice: immediately liquidate any donated cryptocurrency for US dollars.[8] Holding cryptocurrency donations exposes nonprofits to the volatility of the market, which could result in significant decreases in the value of those donations and threaten the organization's financial health. Apart from the financial loss, this could indicate to other potential donors and stakeholders that the organization is not being a good steward of its resources.

Note that the best practice of immediate liquidation applies not only to cryptocurrencies but to donations of any type of potentially volatile financial assets that an organization may receive: stocks, bonds, precious metals, investment properties, etc. Nonprofits receiving such donations should convert them to cash to be deployed or invested in accordance with the organization's mission and any applicable policies.[9]

Finance Operations

Given that cryptocurrency is a relatively new technology — and, from an accounting perspective, a new type of asset — organizations will likely need to make certain investments in their infrastructure in order to receive, process, manage and account for cryptocurrency donations.

First, cryptocurrency is not cash, so receiving a cryptocurrency donation isn't as simple as cashing a check or receiving a bank transfer. Cryptocurrency is held and circulated via digital "wallets" which exist outside the regular banking system and can require some degree of technical and theoretical understanding to effectively manage. As we will cover in more detail in the ***Solutions Companion,*** resources do exist to assist users with managing their cryptocurrency wallets, or even to fully handle donations of cryptocurrency and simply pass the cash on to the recipient, but nonprofit leaders will need to decide which solution works best for their organization and set up and maintain those systems and processes accordingly.

Additionally, doing business in the cryptocurrency world will require nonprofits to keep up to date on accounting rules as well as legal regulations and requirements related to this technology. The ***Policies and Procedures*** section of this guide details current accounting and reporting guidance on cryptocurrency, though these could change over time and leaders of organizations who receive cryptocurrency donations should keep a close eye on any updates to the applicable rules.

8 The volatility of cryptocurrency may, of course, impact the net worth of potential donors and so indirectly affect the financial position of organizations with a cryptocurrency fundraising program.

9 This is not to say that no nonprofit should ever own (for example) stocks and bonds—indeed, many organizations hold an investment portfolio to generate a financial return from endowments, reserves or other excess cash. But these investment decisions should be in accordance with a board-approved investment policy that balances risk and return, rather than being based on whatever assortment of stocks have been given by donors over time. It's even conceivable that a nonprofit may—intentionally—include cryptocurrency in an appropriately diversified investment portfolio, although this should be left to only the most risk-tolerant organizations pursuing a specific investment strategy.

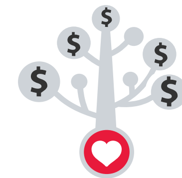
Fundraising Potential

Finally, perhaps the most practical consideration that nonprofit leaders should include in their evaluation of cryptocurrency donations is whether their own organization has a robust enough base of donors (or potential donors) holding this asset — and interested in giving it away — to make investments in cryptocurrency fundraising worthwhile.

Those investments need not necessarily be large ones. As later sections of this resource will detail, a nonprofit organization can set up the capacity to accept donations of cryptocurrency with very little cost or effort through certain third-party vendors, who may even pass the donations to the nonprofit in cash (thus avoiding the step of having to liquidate). For nonprofits who have little reason to expect significant amounts of cryptocurrency to roll in but would like to have the option in case a donor makes an unexpected offer, this may be all that's necessary. Minimal investment may result in minimal return.

Some vendors combine cryptocurrency processing with donor cultivation and marketing support, to varying degrees. For the organization with limited exposure to fundraising activities, these services may be of particular interest, though organizations using these services will still need to invest in how that support is leveraged — "set it and forget it" is unlikely to result in significant or sustained contributions.

A proactive, concerted fundraising strategy is required to actually see a significant amount of cryptocurrency donations, just as a planned/legacy giving or capital campaign would. Leaders need to ask themselves whether investment in such a strategy would be worth it, i.e., likely to generate a similar return as their other fundraising activities.



Questions for leaders considering a cryptocurrency fundraising strategy should include:

- What is our current approach to individual donor and/or major gifts fundraising? Do we have the time, skills and tools to prospect and cultivate donors, process and acknowledge gifts? What existing capacity can we leverage? If our existing capacity is limited, what resources can we invest to grow?
- Do current donors hold cryptocurrencies? Have we been approached about receiving cryptocurrency donations?
- Do we have prospects or potential donors who are likely to be cryptocurrency investors? Would the ability to offer cryptocurrency donations be appealing to them? Could it be an opportunity to engage with new donors?
- Do we understand and have access to networks of cryptocurrency owners and investors? Is the mission or other characteristics of our organization likely to appeal to them?
- Are there reasons that our (current and potential) donors would be particularly interested in donating cryptocurrency rather than just cash?[10]

Simply signing up for an account on a cryptocurrency donation portal and putting a "cryptocurrency accepted here" button on your website is unlikely to open the floodgates for donations. "If you build it, they will come" is not a cryptocurrency fundraising strategy, though it may enable the odd contribution here and there. Truly engaging in cryptocurrency fundraising requires investments of time, energy and resources, and nonprofit leaders should thoughtfully evaluate these investments against their likely return to make the appropriate decision about the extent of their organizations' involvement in this area.

10 For example, a cryptocurrency donation may enable a donor to avoid capital gains taxes on the appreciated value of cryptocurrency holdings yet still receive a tax deduction for the full value of the currency by donating. See www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions, esp. Qs 34 and 35.

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