Nonprofits: The New Kids on the Blockchain

By Sanjay Marwaha

Nonprofit organizations constantly strive to appease many constituencies. From board members to donors to program participants, stakeholders are wide-ranging and, in healthy organizations, information is constantly flowing between them and the organization itself. But how can organizations ensure that this information is complete and accurate, measure the efficacy of their programs, convey impact metrics to donors and keep costs low?

That's where blockchain comes in.

According to Harvard Business School professors Marco Iansiti and Karim Lakhani, blockchain is essentially "an open, distributed ledger that can record transactions between two parties efficiently and in a verifiable and permanent way." The best-known use of blockchain to date is to support the transaction of cryptocurrencies such as bitcoin and, while the two are often conjoined — and confused — bitcoin is just one of many potential blockchain applications. Bitcoin is, in essence, a new form of currency; blockchain is the database that enables its secure transaction. While it has certainly enabled the meteoric rise of cryptocurrencies, blockchain has implications far outside of the financial sector.

The primary appeal of blockchain is the unprecedented level of trust it offers. Every transaction must be verified through a process known as "consensus," requiring multiple-system participants to independently verify authenticity. Once a new entry has been made in the blockchain, it is "locked" or time-stamped, meaning it cannot be modified; it can only be updated by adding a new entry as an addendum. All entries can be viewed by the public.

Offering increased levels of accuracy and accessibility for sharing any asset of value, blockchain supports many different uses, from transacting cryptocurrencies, to verifying information and contractual processes between a nonprofit organization and a corporate partner or government agency. It also reduces transaction costs, meaning participants can avoid using expensive third-party services to facilitate transactions.

For nonprofits, the potential applications are far-ranging, and could help address a number of issues that have long plagued the sector.

Increased Trust Across the Giving Chain

First, let's start with the very beginning of the giving process — the donor.

The profile of the average donor is changing. Millennials now make up the largest portion of the overall population, and have begun to take on a key role in philanthropy around the globe. These donors differ significantly from their predecessors: Most expect that nonprofits will be transparent and able to back up the impact of their donations with concrete proof. As the role of millennials in the nonprofit world grows, so too will the demand for increased visibility and reporting around impact and outcomes.

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Along with the shifting demographics of donors, public trust in nonprofits is shaky. According to the 2015 Money for Good study, 49 percent of donors don't know how nonprofits use their money, while 20 percent are unsure who benefits from the work they're funding. This is a clear breakdown in communication, and one that will continue to erode donor confidence and willingness to give.

Blockchain technology can record in detail how funds from donors are used, and the transparency and traceability it provides could drastically improve trust between an organization and its funders. This could also be a significant advantage for organizations that receive funds from governments or government agencies, cutting down on time spent monitoring and reporting by demonstrating in real time that funds have made it to their intended recipients.

Blockchain also offers insight into how employees, grantees, “boots on the ground” subcontractors or partner organizations are using funds — a boon in fighting fraudulent activity. Not only are all transactions auditable in real time, falsifying entries in the blockchain is nearly impossible. By allowing nonprofit management, be it the board, the executive director or another professional to easily confirm if funds are being used both correctly and efficiently, the opportunity for fraud to occur decreases greatly and any instances of financial mismanagement can quickly be identified.

For the nonprofit sector to function effectively, there needs to be an established level of trust between the donors/funders, the organization itself and the recipients of those funds or program participants. Blockchain technology can take this trust to the next level — preventing fraudulent payments and validating that donations are being used as intended from the donor’s initial gift all the way through to the end beneficiary.

These qualities are already being demonstrated in pilot programs across the nonprofit sector. Bitgive, for example, maintains a blockchain donation tracking platform that lets donors “trace nonprofit transactions on a public platform in real time to see how funds are spent, ensure they reach their final destination and track the results generated from contributions.” The World Food Programme (WFP) also tested its “Building Blocks” blockchain in Pakistan by giving vulnerable families WFP food and cash assistance, and recording and authenticating the transactions on a blockchain ledger through smartphones. Program managers used these reports to double-check that distributions were occurring properly. The Grant Hero Foundation even created its own crypto-asset for philanthropic endeavors, called GIVE Coins, that allow users to create and award personal grants, and hopes to raise $25 million this fall for future grantmaking.

Reduce the “Cost Of Doing Business”

Another way blockchain could positively disrupt the sector is by enabling nonprofits to cut down on overhead and administrative costs.

Nonprofits rely heavily on intermediaries to help support their activities, ranging from credit card companies to process donations to financial institutions, to execute cross-border transactions and foreign exchange services. By eliminating these middlemen, organizations can execute transactions directly, increasing both efficiency and cost savings.

Reporting, a critical element of the trust equation, is another nonprofit expense that could be significantly streamlined by blockchain technology. Our recent benchmarking survey found that over a third of nonprofits struggle with not having enough human resources to gather data for reporting and an inability to compile statistics on the impact of programs. With blockchain, data is recorded in real time and easily accessed, reducing the time and manpower needed to compile comprehensive reports.

Blockchain could also improve several aspects of audit and compliance processes, both of which can be resource-intensive. These processes can trigger rounds of manual reconciliations, involve data that requires significant sampling or full testing, and demand hours of often-duplicative data analysis due to a lack of systems integration.

A blockchain transaction can be validated when it occurs and can be reviewed for completeness and accuracy using entities that exchange transactions through a common platform. The auditor should be able to more quickly and efficiently reconcile data, amounts, assets, ownership, transactions and other detailed information across the distributed general ledger. Compliance activities and filing with various agencies can also be automated. When facing different audit requirements across all 50 states, using blockchain to cut down on audit inefficiencies and limit their invasiveness can lead to significant savings for nonprofit organizations.

What’s Next? The Future Of Blockchain Philanthropy

The potential for blockchain to increase nonprofits’ transparency and reduce overhead costs could disrupt the sector in the short term, and there are multiple ways that blockchain could truly revolutionize the future of giving as we know it:

- Blockchain has the capacity to help monitor and identify issues that need philanthropic assistance. For example, a foundation interested in reducing child labor can use the blockchain ledger to monitor supply chains to detect suspicious activity, and identify where resources should be deployed.
- Blockchains can also transact any type of asset, meaning there could be the potential for an explosion of new forms of donations like microdonations and transfers of physical or even intellectual property.

- Smart contracts are self-executing contracts stored in the blockchain system and monitored by the network of computers that run the blockchain. Essentially, these contracts are immediately triggered when a set of agreed-upon conditions are met. Smart contracts can allow organizations to quickly open up new funding to program managers and subcontractors if key metrics are demonstrated, resulting in faster response times when dealing with unexpected events like natural disasters. A smart contract could also be set up to automatically redirect excess funds to another project if they're not needed or if needs shift.
- Initial Coin Offerings (ICOs) could be the next big thing when it comes to innovative fundraising. In an ICO, investors purchase tokens (similar to shares in a traditional initial public offering) to help crowdfund a project. While this has yet to be explored for philanthropic purposes, ICOs have been known to raise millions in just a few hours, which could be a game changer for philanthropic organizations.

Blockchain technology is still relatively new to the philanthropic world, but that's likely to change in short order. While the impact of blockchain on nonprofit regulation, governance and management is unclear, this technology has the potential to forever alter the way people and organizations work for the greater good.

For more information, contact Sanjay Marwaha, managing director, Risk Advisory Services, at smarwaha@bdo.com or email CapinCrouse at info@capincrouse.com.

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