

Giving Thought discussion paper no. 3

Giving a Bit(coin):

Cryptocurrency and philanthropy

May 2015

1) Background

In recent years we have seen the birth and subsequent rapid rise to maturity of a new form of money: cryptocurrency. In basic terms, a cryptocurrency is means of exchange that exists purely online, underpinned by the mathematics of cryptography, and is not localised in one country or controlled by any central authority. By far the best-known example of a cryptocurrency is Bitcoin, but there are in fact more than 500 cryptocurrencies now in circulation and more are being developed all the time.¹

There has been a steady trickle of stories in the media about Bitcoin since its launch in 2009 (mostly, it has to be said, concerning its use in the shadowy corners of the internet² and examples of people who became overnight millionaires as a result of its occasional massive spikes in value)³. However, 2014 was arguably the year that cryptocurrency really came of age. It is still unclear whether it heralds a true revolution in the way money works, but it has certainly started being taken seriously by mainstream commentators and policymakers. The UK Government issued a “call for information” regarding cryptocurrencies in November 2014 and it was announced that there would be a session on digital currencies at the 2015 World Economic Forum annual meeting.

The question I want to address in this discussion paper is “what does all of this mean for charitable giving and philanthropy?” I’m not in a position to delve deeply into the technical side of cryptocurrencies themselves, so I will concentrate merely on some of their key features and what they might imply for the future of giving. The added benefit of doing this is that even if Bitcoin and its contemporaries fall by the wayside (as the critics claim they will), many of the innovative features they display are ones that will almost certainly be replicated by future forms of digital currency, so considering their implications now will stand us in good stead.

2) A Bit about Bitcoin

As stated above, I am not going to get into the underlying mathematics or computer science of cryptocurrencies. However, in order to consider the implications for charitable giving, we do need to understand some of their basic features.

De-centralised

¹ www.coinmarketcap.com listed 559 cryptocurrencies with a total market cap of \$3.7bn as of 9th February 2014.

² E.g. “[Online drugs marketplace shut down after £3.5 million bitcoin hack](#)”, *The Guardian*, 3rd December 2013

³ E.g. “[\\$22 Bitcoin investment brings Norwegian man fortune](#)”, BBC News, 29th October 2013

One of the defining characteristics of cryptocurrencies is that they are decentralised. This means that they are not like traditional “fiat” currencies, which are issued and controlled by central government authorities, and whose value derives from the laws and regulations governing them and the balance of supply and demand (rather than from the inherent value of some commodity that forms the basis of the currency, as would be the case for something like gold coins).

In the case of cryptocurrencies there is no central controlling authority; and their value derives solely from their utility as a form of payment to those who use them. This lack of central control is a key selling point for many cryptocurrency advocates and also means that many of the early adopters have been those with an existing commitment to libertarian ideas about freedom and individuality.

The Blockchain

Bitcoin and other cryptocurrencies all have at their core a “ledger”, which records the transactions between users of the currency. But unlike traditional currencies, where electronic records of transactions can (in most circumstances) be compared against physical evidence in order to identify and overcome any discrepancies, the entries on cryptocurrency ledgers *literally define the currency itself*. Whatever the ledger says everybody owns is what they own. It doesn’t even really make sense to ask whether it is “correct” or not; it is simply definitional.

Given the central role of this ledger, it is obviously important for it to be as robust and trustworthy as possible. That is why a large part of the infrastructure of cryptocurrencies is dedicated to updating the ledger and ensuring its security. In the case of Bitcoin, all the transactions occurring in a set interval are counted as one “block” which is then cryptographically “stamped” to validate it. New blocks are added sequentially to form a chain, known as the “blockchain”. The validity of each new block is dependent on the validity of all those that have gone before it and underpins the validity of all that follow it. This means that a transaction becomes more secure over time, as the probability of anyone being able to artificially alter the entry for that transaction in the blockchain without causing major discrepancies elsewhere decreases as the number of other transactions that are linked to it increases.

“Mining” – users control the means of production

In the case of fiat currencies, any new money that is required is simply printed by the central authority. In the case of cryptocurrencies, however, new money is produced by those using the system, through a process known as “mining”. This involves users offering processing time and power on their own computer to become part of a distributed network that carries out the essential tasks of

updating and validating the blockchain described above. The system then rewards these “miners” with new coins.

One peculiarity of Bitcoin, and the other cryptocurrencies based on it, is that the total number of bitcoins there can ever be is limited (at 21 million). At the same time, the rate at which new bitcoins are created automatically halves each year until this limit is reached. This means that as new coins become increasingly scarce, mining becomes more competitive, and eventually there will be no new coins to issue as a reward for processing the mining algorithms. At this point a different model of mining based on transaction fees rather than issuing currency may have to be found.

Bitcoin mining has already reached the point where it is incredibly competitive: there are now professional miners who operate dedicated networks of high-spec processing machines, so it is no longer feasible for individuals to mine bitcoins on their home computers. However, other cryptocurrencies such as Litecoin are designed to be “easier to mine” and it is still possible to do so using a home system.

Mining is obviously an activity for the technologically-adept at the moment. However, it has been suggested that in the future, mining could be built into the everyday fabric of the internet so that anyone using a browser could become part of the cryptocurrency community. An article in *Technology Review* highlighted the fact that “cryptocurrency-mining software, written in Java-Script, has been demonstrated running in a Web browser; you can break up the task of mining and parallelize it. So an advertiser could treat ads as executable software, creating a multimillion-node supercomputer cluster.”⁴ If this sort of thing took off, it could make cryptocurrency open to anyone who is able to use a computer to search the internet.⁵

Limited number of Coins

As highlighted above, Bitcoin and all other cryptocurrencies are subject to a maximum number of coins determined by the mathematics used to create them. So one might ask “what happens when there are no new bitcoins?” Critics argue that the limitation on the number of bitcoins is a design flaw that will doom Bitcoin to fall into a deflationary spiral at some point,⁶ as everyone is forced to lower their prices in order to stay within the finite Bitcoin economy.

⁴ [“Marginally Useful: Bitcoin itself may fail as a currency, but the underlying technology is beginning to suggest valuable new applications”](#), *MIT Technology Review*, 18th February 2014

⁵ Of course, the flipside is that unscrupulous developers can produce software that is designed to take advantage of other people’s processing capacity in order to mine bitcoins for themselves. There have already been a number of cases of apps being removed from Google’s Android Play store because they were found to contain such “mining malware”. See e.g. [“Google Pulls Five Mobile Wallpaper Apps Due to Bitcoin Mining Malware”](#), *Coindesk*, 24th April 2014.

⁶ https://en.bitcoin.it/wiki/Deflationary_spiral

Advocates counter this argument by pointing out that each individual bitcoin can be divided into far smaller subunits (up to at least eight decimal places), so it is unlikely that the economy will ever “run out” of money. While there will inevitably be deflation from the first few heady years of Bitcoin’s existence, this will stabilise into an economy based on transactions of increasingly small subunits rather than whole coins. This actually throws up some intriguing possibilities, particularly in the area of micropayments. There are already many initiatives harnessing the power of technology to enable people to make numerous, low-value micro payments, including initiatives which enable “micro-donations” to charity.⁷ But since bitcoins can be subdivided to a far greater degree than any traditional currency, they could be used to make payments of smaller size than any existing micropayment- perhaps “nano-payments” or even “pico-payments”?

Volatility

One of the things that has made critics most uneasy about the idea of cryptocurrencies as a mainstream form of finance is their volatility. As well as acting as a means of exchange, one of the other main functions of any form of money is to provide a way of storing value. Unsurprisingly, the idea of a currency whose exchange rate fluctuates wildly on a daily basis is therefore not that appealing to many.

And it is clear that cryptocurrencies are volatile: a lot of the attention given to Bitcoin so far has been on account of its occasional huge spikes or drops in value. For example, if you bought a bitcoin at the start of 2011, it would have been worth \$0.31. That same bitcoin would have risen slowly in value to around \$150 by October 2013, before rocketing to nearly \$1000 in November 2013, and then going through a series of falls and rises to reach a price of \$250 in January 2015.

What is clear from this is that despite the obvious volatility, a bitcoin purchased in 2011 (or better still, earlier) still represents an incredible investment, as it has increased in value by more than 80,000 times. The Bitcoin folklore is thus littered with tales of people who came into possession of a handful of bitcoins in the early days of its existence, only to find themselves millionaires a few years later. For example, in 2013 it was reported that a Norwegian man who had bought \$27 worth of bitcoins in 2009 as an experiment when writing a thesis on encryption was shocked to find that they were now worth \$886,000.⁸ Slightly less happily, there was a story in the same year about a man in South Wales who realised that he had inadvertently thrown away a computer hard drive containing bitcoins that at

⁷ E.g. [Pennies](#) or [Penny for London](#)

⁸ [“Man buys \\$27 of bitcoin, forgets about them, finds they’re now worth \\$886k”](#), *The Guardian*, 29th October 2013

one point were worth over £4 million, but was unable to retrieve the hard-drive as it was buried in a landfill site.⁹

Unique and identifiable

One of the consequences of the fact that each unit of any cryptocurrency is essentially a mathematical object created by a cryptographic algorithm is that each such “coin” is unique and can be uniquely identified. This has potentially enormous implications for transparency in financial transactions, as we shall see shortly.

Non-geographic

As cryptocurrencies are decentralised and exist on the web, they are not tied to any specific geographic location. This could have major implications for international money transfers. For instance, in Ukraine there are now nearly 5,000 Bitcoin ATMs, which allow people to pay in cash in exchange for bitcoins which can then be used for online transactions.¹⁰ There is significant demand for this service among younger Ukrainians, who purchase many of their goods from online marketplaces in other countries (such as China), and previously would have to have paid expensive bank charges each time they made an overseas payment. With Bitcoin there is no such charge, only a much lower transaction fee.

Anonymous

In one sense cryptocurrencies are highly transparent, as they rely on a central public ledger that details the ownership of every unit of currency in the system at a given point in time. However, in another sense they lend themselves to anonymity because it is only the online profile of the bitcoin owner that is visible. And as with any other area of the internet, this can enable people to hide their true identity if they so wish.

This has led to a lot of concerns about cryptocurrencies making it easier for people to trade in illegal commodities within the “dark economy” that exists on the internet. It also means that it is potentially very difficult to assess the legitimacy of a source of cryptocurrency.

⁹ [“James Howells searches for hard drive with £4m-worth of bitcoins stored”](#), *BBC News*, 28th November 2013

¹⁰ [“5,000 Terminals Across Ukraine Now Offer Bitcoin for Cash”](#), *CoinDesk*, 8th July 2014

Unique “flavours”- adding special characteristics

The plethora of cryptocurrency alternatives to Bitcoin are often referred to as “altcoins”. Among these altcoins there are many that have been designed with specific purposes in mind. That purpose may be simply to overcome a perceived flaw with Bitcoin: for example Darkcoin was designed to ensure anonymity for its users in a way that Bitcoin does not,¹¹ while Litecoin was designed to offer a more accessible alternative to Bitcoin, where mining can still be done on a home computer.¹² But an altcoin may also be designed with a broader purpose in mind. This could be something laudable – for example, Faircoin, aims to “promote equality and a fair economy”¹³ – or it could just be something ridiculous – for instance “Robot Sex Nickels” apparently have the “primary purpose of providing slick lubrication for frisky robot jiggy-jiggy.”¹⁴

Some critics argue that the proliferation of so many altcoins, including many that are clearly not intended to be serious, undermines the credibility of cryptocurrencies, and that rather than new niche currencies being invented every week, what is actually needed is for a handful of the existing ones to consolidate their track records.

3) The Current State of Crypto-philanthropy

Before we consider the future of “crypto-philanthropy”, we should assess the current impact of cryptocurrencies on charitable giving.

There are examples of charities that are already accepting Bitcoin donations.¹⁵ Some of these are organisations that have been set up specifically to accept bitcoins and then make onward grants to other charities, such as The BitGive Foundation¹⁶ or Bitcoin 100¹⁷. Others are individual operating charities. These tend to be divided into tech-savvy nonprofit organisations for which Bitcoin is a natural extension of their work because their main cause is something to do with digital liberty, such as the Wikimedia Foundation or the Mozilla Foundation, and more traditional charitable organisations who have decided to experiment with Bitcoin as part of their fundraising strategy. For

¹¹ “Darkcoin, the Shadowy Cousin of Bitcoin, Is Booming”, *Wired*, 21st May 2014

¹² <https://litecoin.org/>

¹³ <http://fair-coin.org/>

¹⁴ <http://robotsexnickels.com/>

¹⁵ The most comprehensive current list of these can be found in Bitcoin Foundation Canada’s publication *The Bitcoin Handbook for Non-profit Organisations*, (2015)

¹⁶ <http://bitgivefoundation.org/>

¹⁷ <http://bitcoin100.org/>

example, the RNLI raised eyebrows when it announced last year that it would become the first UK charity to start taking Bitcoin donations.¹⁸

It is safe to say, however, that none of these initiatives has yet proved transformative in a financial sense. After six months, the RNLI had received only 250 Bitcoin donations, totalling just over £2,000.¹⁹ A little more encouragingly, The Water Project, a US non-profit working on provision of clean water in remote parts of Africa, has raised more than \$30,000 in Bitcoin donations.²⁰ It is a clear outlier in having achieved this, however. A 2014 article on the cryptocurrency website CoinDesk argued that *“The potential exists for a mighty river of bitcoins to flow directly to those in need, all over the world, but right now the flow is more of a trickle.”*²¹

The story of crypto-philanthropy is still one of promise and opportunity at this point, rather than reality on the ground. So what exactly is this promise?

4) Potential opportunities for crypto-philanthropy

New money

Perhaps the most obvious way in which cryptocurrency can affect philanthropy is simply as a source of new wealth. As detailed above, the volatility of Bitcoin et al to date has made it a risky but potentially incredibly lucrative investment. The number of overnight millionaire will inevitably decline as the currencies settle down and become more stable, but there are still many early adopters who now find themselves sitting on unexpected fortunes.

Given that those who have created wealth tend to be more open to the idea of giving it away than those who are born into it, and that the best time to convince people to give it away is before they have got used to it (or even, ideally, before they actually have it), there is clearly a pool of potential philanthropists among the Bitcoin community.

But cryptocurrency does not only offer opportunities for new income as a result of making fortunes for investors. The fact that money can be generated through mining also offers possibilities. For

¹⁸ [“RNLI now accepts donations in digital currency”](#), RNLI press release, 30th July 2014

¹⁹ [“Analysis: Is bitcoin the ideal charity currency or a cause for concern?”](#), *Third Sector*, 13th January 2015

²⁰ [“Banking on Bitcoin: Nonprofit Success Stories Start to Emerge”](#), *The Chronicle of Philanthropy*, 8th July 2014

²¹ [“Bitcoin Holds Big Promise for Charity but Hasn't Delivered Many Big Gifts”](#), *CoinDesk*, 24th May 2014

instance, initiatives such as “Do a Bit of Good”²² aim to offer cryptocurrency users opportunities to “mine for charity”, by running mining software on their computers where at least a portion of any revenue generated goes to charity. This is a version of the sort of “cost-free giving” that can be seen in other areas of technology such as internet search or online shopping, where initiatives like Everyclick²³ and Give As You Live²⁴ aim to generate philanthropic funds by enabling users to choose to donate money generated through advertising to charity rather than it going into the provider’s profits.

Cost-free giving may well be an important source of philanthropy in an increasingly online world, as transactions that would otherwise be monetised for profit are put to use in raising charitable funds. By reducing the “friction” of giving to virtually zero, the idea is that people are able to give without even really thinking about it and thus millions of micro-donations are made almost unconsciously. The jury is still out, however, on how cost-free giving sits alongside traditional philanthropy: is it truly additional money, or is there a danger that people feel as though they have “done their bit for charity” if they make cost-free donations and thus decrease their more traditional giving?²⁵

Transparency/Accountability

Traditional currencies are fungible - i.e. any one unit can be replaced by another with no resulting effect. However, this is not true for cryptocurrencies: here each unit is unique and identifiable, so it would make a difference if you were to replace it with another coin. This means that bitcoins and their ilk are traceable even through complex supply chains, to a degree that would be impossible for traditional currencies. This could have major advantages and disadvantages for philanthropy.

One advantage from the donor’s point of view is that they would be able to see exactly where their bitcoin donation ended up being used. Currently, when someone gives to charity to fund a specific project or to buy a specific item (e.g. the many “Your £3 can buy a mosquito net to combat malaria”-type appeals) the reality is that unless they are major donor making a restricted grant, their donation will go into a big pot to fund the work of the charity in question, which will include the purchase of mosquito nets etc. If they gave a bitcoin, however, the donor would be able to track precisely how the charity spent *their specific donation*.

There would be upsides to this situation, in terms of far greater transparency, which might give donors greater confidence and thus encourage them to give more. For charities operating in contexts such as

²² <https://doabitofgood.com/>

²³ <http://www.everyclick.com/>

²⁴ <https://www.giveasyoulive.com/>

²⁵ For more see <http://givingthought.org/2011/08/22/how-do-you-get-something-for-nothing-the-myth-of-cost-free-giving/>

international development, where concerns about corruption and poor governance are often cited by individuals as a reason not to give, the ability to evidence that money is being effectively spent could prove highly valuable. However, there are some fairly obvious downsides to the situation as well.

The biggest concern would be that donors started to make unreasonable demands about how their donations were used, which made it difficult for charities to operate. Most donors generally want their donation to go to the “the frontline”, and do not particularly like the idea of funding a charity’s core operating costs. This means that charities can often struggle to cover the core costs such as administration or staff salaries that actually make it possible to deliver benefits to those in need. This situation would almost certainly become far more acute if donors were able to track the passage of their own specific donation through the charity. Transparency taken to this extreme might end up having an unhealthy stifling effect on the work of charities.

The uniqueness and traceability of cryptocurrencies might even make it feasible to build restrictions into the fabric of a currency and thus create an entirely “social” currency, which could only be used to purchase products and services that deliver social benefits. As highlighted above, altcoins can be given their own unique “flavour” to distinguish them from other cryptocurrencies. So far, attempts to create “charitable” altcoins have been limited to models where all or some of the proceeds from mining are given to charity, such as Clean Water Coin.²⁶ However, a more radical possibility can be envisaged in which limitations are placed on a coin so that it can only be used to purchase goods or services that deliver a social benefit. This is clearly unfeasible for traditional currencies, but because each cryptocurrency coin can be located within a supply chain at any point in time via the relevant entry in the blockchain ledger, it might be possible for cryptocurrencies. This could mean the creation of a purely “social economy”, which exists as a subset of the wider economy.

International Giving

Many charities, particularly those working in development, operate across international borders and have to move money accordingly. The cost of doing this in traditional currencies, where banks levy high charges for foreign exchange and money transfers, can be exorbitant and can end up adding significant costs to the work of charities.

Cryptocurrencies, however, are non-geographic and operate the same in any jurisdiction in the world. This means that there are no transfer or FX fees beyond the standard transaction costs of making

²⁶ <http://www.cleanwatercoin.org/>

payments, which are far lower than international money transfer costs. Charities might therefore be able to use cryptocurrencies to transfer money internationally far more cost-effectively.

Another benefit of the non-geographic nature of cryptocurrencies is that they can enable one to get round limitations and restrictions placed on currencies and banking services in some countries. For instance, some development charities operating in conflict zones struggle to fund operations on the ground because banking services in that country are subject to international sanctions but the government of the country itself forbids foreign currencies being used. The charity thus find itself caught between two stools, and may even have to resort to bringing large quantities of cash into the country to fund its operations, which is far from ideal.

If a charity was operating in Bitcoin (assuming that there were not restrictions on cryptocurrencies in the country in question), then it would be able to use the money just as easy in a conflict zone as it could anywhere else. We can already see examples of cryptocurrencies being used to overcome the limitations of traditional currencies in an international context in places like the Ukraine, where, as mentioned earlier, nearly 5,000 Bitcoin ATMs have been installed to allow Ukrainian citizens to make purchases abroad. Social entrepreneurs are also starting to explore ways of using cryptocurrencies to offer more affordable money transfer services to those making remittance payments to their home countries,²⁷ which has already begun to have an impact in places like Kyrgyzstan.²⁸ And since there is only a short step from remittance payments to charitable donations, it seems as though there is clear potential here too.

Direct Giving

The history of charitable giving shows a clear trend of increasing intermediation, as people moved away from the traditional model of person-to-person gifts that typified mediaeval alms-giving towards giving to specialised (and latterly professionalised) organisations that existed to take donations from multiple donors and put them to good use in the service of beneficiaries. In recent years, however, there have been intriguing indications that this trend is coming full circle, and that person-to-person giving may once again be on the rise.

Organisations like [givedirectly.org](https://www.givedirectly.org/)²⁹ seek to challenge the model of massive NGO-led development funding by enabling individuals in the US to give money directly to individuals and families in the developing world. The idea is that rather than deciding what would be best for these people and

²⁷ [“Bitcoin shakes up remittances as poorer people offered digital deals”](#), *The Guardian*, 18th August 2014

²⁸ [“Bitcoin Fan Hopes to Help Kyrgyzstan’s Migrant Workers”](#), *Eurasianet.org*, 3rd July 2014

²⁹ <https://www.givedirectly.org/>

delivering it to them through aid programmes, it is actually more effective to simply give them the money and let them decide how best to spend it. And although this approach flies in the face of many years of received wisdom, there is some economic evidence that it is an effective way to meet needs, at least at a small scale (although it seems unlikely to work as a way of funding development at a systemic level).

Again, the benefit of cryptocurrencies is that they could make person-to-person international payments far easier and more cost effective. The possibilities for placing restrictions on the use of currency discussed above would also apply, as one might want to impose some criteria rather than leaving it entirely up to the recipient to use the money however they wished (although one would have to be extremely careful about this kind of approach, as there is a real risk of undermining the very thing that makes the direct giving model work in the first place).

5) *Challenges presented by crypto-philanthropy*

Cryptocurrencies will clearly offer some opportunities for charities and their donors. However, they will also present some significant challenges. We have touched on some of these already, such as the ramifications of increased transparency on charities' ability to raise money for core costs, but we will consider them more broadly here.

Early adopter challenge

Cryptocurrencies are not yet part of the mainstream, so their use is still limited largely to technologically-savvy early adopters. This presents two problems for charities: the first is that they themselves have to become early adopters if they want to participate in the cryptocurrency economy, and this requires a level of expertise and risk tolerance that very few charities are likely to have. The second problem is that the demographics of the potential crypto-philanthropy donor base are heavily skewed towards younger white men. For instance, a 2014 report from PWC found that 96% of mentions of Bitcoin on social media in 2013 came from men, while an article in *The Atlantic* entitled "Why are so few black people using Bitcoin?" cited research showing that levels of awareness of Bitcoin were far lower in the African American community in the US than in the white community.³⁰

³⁰ ["Why Are So Few Black People Using Bitcoin?"](#), *The Atlantic*, 7th January 2015

This is potentially problematic, as young men are not the demographic group that is most likely to give to charity. Of course, the flipside of this is that using cryptocurrencies may actually end up being an opportunity to engage with a demographic that traditional fundraising often struggles to reach.

Volatility

As outlined above, one of the criticisms most often levelled at cryptocurrencies is that they are extremely volatile and their value fluctuates significantly. This makes them high risk as investments, and limits their usefulness as stores of value. This doesn't automatically mean that charities should stay away from cryptocurrencies, but it does suggest that they need to be clear about the capacity in which they are using them. They can be useful as a means of exchange in situations where traditional currencies encounter barriers (such as international payments, as outlined above). They can also have value in their own right, but at this stage they need to be viewed as risky investment assets, on a par with shares, rather than as currency.

The UK Charity Commission has made it clear that its view is that donations of bitcoins should be treated in line with the rules for other intangible assets such as property or listed shares, where mechanisms for assessing Fair Market Value are required in order to quantify donations for accounting purposes.³¹

Money Laundering and Counter-terrorism

Charities, like any entities which handle money, are subject to strict rules designed to prevent them being used for money laundering purposes and to prevent any money donated to them passing into the hands of terrorist organisations. As a result, they need to be able to account for the provenance of donations, and demonstrate an acceptable level of due diligence in their financial dealings.

Cryptocurrency donations present a potential difficulty, in that the identity of the donor may be unknown and the source of their money unclear. Whilst every coin is technically traceable via the blockchain, and law enforcement agencies would be able to trace users via their wallet ISPs, there is no way that charities would have either the technological know-how or the legal power to uncover the identity of crypto-donors. This would make life very difficult in terms of meeting due diligence requirements.

There have already been examples of the sort of challenge that cryptocurrency donations might present. It was reported in 2014 that the Bitcoin charity Bitcoin100 admitted that its largest ever

³¹ [“Analysis: Is bitcoin the ideal charity currency or a cause for concern?”](#), *Third Sector*, 13th January 2015

donation (worth about \$150K) was probably stolen money that came from a raid on a cryptocurrency exchange.³² The head of Bitcoin100 was quoted as saying, “since there was nothing I could do to figure out where the money came from, we ended up keeping it.” Few charities, however, would be quite so sanguine in the same situation.

Morally dubious donations

Even when donations do not come from sources that fall foul of the law, there may still be questions about their moral status that present a challenge for charities. There have long been examples of individuals or companies wanting to make donations to charities despite the fact that their lines of business, political views or public pronouncements run contrary to the ethos and mission of that charity. The charity is then faced with the dilemma of whether it is better to try and “do good with bad money” or to turn down the donation in order to protect its own credibility.

The anonymity that cryptocurrency affords individuals would either, depending on your point of view, overcome this problem or massively exacerbate it. One could argue that not knowing where a donation originated removes the responsibility from charities for making a decision about the suitability of donors. However, the majority of people would probably argue that the same responsibilities apply and that the additional difficulties of verifying cryptocurrency donors count as a reason to be cautious about embracing these kinds of donations.

6) Conclusion

Cryptocurrencies clearly do not represent a game-changing development for the nonprofit sector at this point. In a world where most charities and their donors still struggle to come to terms with the far more mundane realities of charitable giving in an online environment, the idea of getting involved with an entirely new form of money which demands both a high tolerance of financial risk and a high degree of technical expertise seems fanciful. And the fact that the overall value of crypto-donations has so far been very small bears this out.

However, this does not mean that we should simply discount Bitcoin as irrelevant to philanthropy. Charities should think through the implications of cryptocurrencies becoming part of the mainstream for their work and the way that they relate to donors. Even if the current crop of cryptocurrencies does

³² [“Bitcoin Charity Admits Its Biggest-Ever Donation Was Likely Stolen Money”](#), *Forbes*, 2nd February 2014

not last the distance, there are features of the way they work that are very likely to be replicated in other technologies in the future and which have potentially significant ramifications for charities.

With that in mind, here are some questions for charities to consider:

- 1) Is it possible for charities to be **early adopters** of new technologies when it comes to accepting donations, whilst maintaining an acceptable level of risk?
- 2) How would you treat donations of intangible assets that may function well as a means of exchange but are **too volatile** to act as effective stores of value?
- 3) What would **radical transparency** (i.e. the ability to uniquely track individual donations) mean for the work of charities?
- 4) Does the creation of wealth within a **community of largely young, middle-class men** offer opportunities for engaging with this often hard-to-reach demographic? If so, how can this best be achieved?
- 5) How do you meet **AML and CTF requirements** in a situation where donations are (to all intents and purposes) anonymous?
- 6) What are the **ethical implications of total donor anonymity** in terms of maintaining credibility by not accepting “tainted” donations?

Having clear answers to these questions will place charities in a good position to benefit, either when Bitcoin does become a truly mainstream proposition, or when the next big technological disruption to the way we use money comes round the corner.

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