

The Role of Charitable Crowdfunding Platforms on Poverty Alleviation

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Abstract—IT-enabled crowdfunding is an emerging model used by either individuals or charity organizations to solicit funds from the public. Academia and industry have studied how and why these crowdfunding platforms work from commercial and marketing perspectives. However, charitable crowdfunding is usually neglected by previous literature, particularly, how effective of charitable crowdfunding projects in alleviating poverty. In this study, we discuss the advantages of charitable crowdfunding platforms compared to traditional charity. Besides, our data analysis indicates that charitable crowdfunding faces concerns with regard to imbalanced resources allocation, low success rate and internet fraud, indicating the relatively poor performance on overall poverty alleviation. This study will help industry practitioners understand the present situation of charitable crowdfunding platforms and how they could implement charitable crowdfunding.

Index Terms—charitable crowdfunding, IT-enabled crowdfunding platforms, poverty alleviation

I. INTRODUCTION

Crowdfunding has attracted substantial attention from scholars and practitioners over the past five years. Crowdfunding is the financing of the project or a venture by a group of individuals instead of professional parties such as banks, venture capitalists and so forth [1]. It happens over the Internet without any intermediary. Previous researchers agreed that the development of Web 2.0 is prerequisite to develop crowdfunding platforms which use web technologies and online payment systems to facilitate transactions between fundraisers and donors [2]. In this study, we adopt the term Information Technology (IT)-enabled crowdfunding to stress the Internet-based characteristic and distinguish it from traditional crowdfunding.

Crowdfunding platforms have experienced an exponential growth. By May 2018, there were 253 crowdfunding platforms including 14 charitable crowdfunding platforms in China [3]. Nevertheless, literature and practices in crowdfunding mainly focus on commercial crowdfunding. Few scholars have investigated the charitable crowdfunding, particularly, how to use charitable crowdfunding projects to alleviate poverty. In fact, microfinance has already been considered as an effective tool for entrepreneurship of the

poor, mainly feminine [4]. Therefore, deep understanding of charitable crowdfunding in the context of poverty alleviation has considerable implications. For a more practical purpose, China particularly need charitable crowdfunding as supplementary measure to alleviate poverty. Currently, impoverished areas are scattered throughout the remote rural areas. With the help of crowdfunding platforms, Individuals and charities can use these platforms to raise money directly despite of their geographical locations. Seemingly, IT-enabled charitable crowdfunding can contribute to poverty alleviation significantly. Our research question is how effective of online charitable crowdfunding projects in alleviating poverty. We explore our question by analyzing data from Leijuan, one of the most popular charitable crowdfunding platforms in China. Total 947 projects information had been collected by May 2016.

The remainder of this paper is organized as follows. We first review related researches on charitable crowdfunding. In section 3, 4 we discuss the strengths and weakness of online charitable crowdfunding compared with traditional charity. Section 5, 6 analyses the opportunity and threat that charitable crowdfunding platforms are facing. Finally, practical suggestions are given in the end.

II. RELATED BACKGROUND ON CHARITABLE CROWDFUNDING

Charitable crowdfunding can be framed as a type of philanthropy [5]. [6] defined it as a burgeoning online micro charity where fund seekers request micro donations from a large group of potential funders. Unlike reward-based crowdfunding or equity-based crowdfunding, donation-based crowdfunding don't provide material benefits. Researchers thus use the term altruistic giving to describe the donation that donors give on charitable crowdfunding platforms. The primary strand of previous literature has examined the charity giving behavior. Rob suggested that the explanation for giving come down to a sense of personal satisfaction and concern for the greater good [7]. Similarly, Liu argued that empathy and perceived credibility of charitable crowdfunding jointly determine a funder's donation intention. Specifically, Kim studied the factors associated with perceived credibility in the context of medical crowdfunding, of which were the presence of personal comments, the appropriate level of emotion, and the lower expectations

of professionalism [8]. It can be observed that emotional motivations are important reasons of charity giving.

We use SWOT analysis to illustrate internal advantages, disadvantages, external opportunities and threats of IT-enabled charitable crowdfunding.

The strengths of IT-enabled charitable crowdfunding comes to the distinctive features of charitable crowdfunding platforms and the advantages of using it.

The weakness of IT-enabled charitable crowdfunding refers to the shortcomings of the negative characteristics and methods on charitable crowdfunding platforms.

The opportunity of IT-enabled charitable crowdfunding represents the available environmental attributes of it, which is an external reason.

Threat refers to the challenge that comes from unfavorable development trend in the industry.

III. STRENGTHS OF CHARITABLE CROWDFUNDING FOR POVERTY ALLEVIATION

Micro-finance programs have played a significant role in the rural financial systems of developing countries [9]. It has been suggested that the positive performance of micro-finance were sustainable tool to help lift the poor out of poverty [9]. We suggest that the advantages of using charitable crowdfunding for poverty alleviation in terms of diversity, transparency, and efficiency.

A. Diversity

Bhatt expanded the concept of poverty, he suggested that poverty could be financial poor, or it could also related to vulnerability, defenselessness, and dependency [10]. On charitable platforms, charitable donations for educational purpose, or medical purpose can be easily found. Projects on donation-based crowdfunding platforms show great diversity. For example, projects raised funds to improve lunch nutrition for the oldest who lives alone. Another case was raising funds to make a documentary about teachers ‘lives in rural area. Various charitable projects can get funding if they are well-planned.

B. Transparency

In most cases, donors give money to charity organizations and know very little about how their money are used and whether their donation are allocated efficiently. This might lead to public’s lack of enthusiasm for donating gradually. On donation-based crowdfunding platforms, conversely, fundraisers are obliged to update their project information so that supporters can trace what actions have been taken. The transparency of crowdfunding can raise public awareness of charitable activities and encourage enthusiasm for donation meanwhile.

C. Efficiency

The time duration of fundraising for charitable crowdfunding projects is mostly less than a month. Some projects can even reach goals within one or two days. For instance, one project that raise money for a child with congenital heart disease were successfully funded in one day. The efficiency of IT-enabled crowdfunding makes it

attractive to donors because most people prefer to see the results of their donation in time.

IV. WEAKNESS OF CHARITABLE CROWDFUNDING PLATFORMS FOR POVERTY ALLEVIATION

A. Imbalanced Resources Allocation

On Lejuan, around 50 percent of projects were used for poverty alleviation. Some donation projects also aimed for health services and education aid, as illustrated in Fig. 1. This proved that poverty alleviation was the predominant purpose of charitable crowdfunding. It has also been found that projects were mainly distributed in North China (25.77%), Central China (21.65%), and East China (19.43%), as shown in Fig. 2. However, the poor population is spread mainly throughout the Southwest and Northwest of China. The completed donation projects on platforms didn’t cover the geographical districts with high poor population precisely. We assume that under-developed IT infrastructure and less computer literacy are two causes of these phenomena. Obviously, people in poverty-stricken areas do not have the basic hardware, such as computers and network connections, to initiate crowdfunding projects. Also, they have limited knowledge about crowdfunding and lack the skills to initiate a project online. We calculated the number of failed and successful projects respectively by different geographical districts. Charitable projects in central area, north area and east area had relatively high success rates which were 39%, 32% and 30% respectively, as shown in Table I.

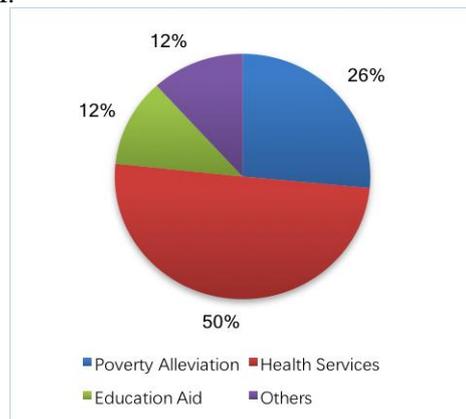


Figure 1. Project distribution

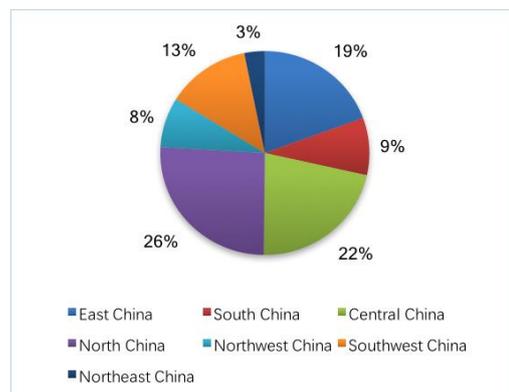


Figure 2. Regional distribution.

TABLE I. PROJECTS SUCCESS RATIO BY GEOGRAPHICAL DISTRICTS

Regions	No. of Failed Projects	No. of Successful Projects	Total	Ratio of Areas	Ratio of Success
East China	129	55	184	19.43%	29.89%
South China	66	20	86	9.08%	23.26%
Central China	125	80	205	21.65%	39.02%
North China	167	77	244	25.77%	31.56%
Northwest China	57	18	75	7.92%	24.00%
Southwest China	93	30	123	12.99%	24.39%
Northeast China	23	7	30	3.17%	23.33%

To tackle this problem, government and donation-based crowdfunding platforms are supposed to work together to help more people in remote poverty-stricken areas could initiate crowdfunding projects online. The necessity and urgency of the donation need to be presented as well.

B. Poor Success Rates for Projects with High Financial Targets

Data in this study proved previous argument that project success rates (raising 100% or more of the funding goal) were negatively related to the goal amount [11], [12]. Project with high target amount was less likely to be reach their goal. The relationship between target amount and average success ratio are shown in Fig. 3. When the target amount is high, donors possibly feel their donations are less important because their donations only take up small portions of the final target. In contrast, small-scale projects with lower target amounts showed higher success rates. Interestingly, we also found that donation for poverty alleviation usually requires small amounts of money, while donation for health services such as serious diseases treatments solicit large donations. Fig. 4 presents this phenomenon.

Based on the analysis, our advice for donation-based crowdfunding project initiators is to launch small-scale projects. For a large project, the fundraiser could split it into several small projects. For example, a project raising funding to support education for one rural area can be separated into one project for obtaining books, one for obtaining stationary, one for improving school facilities, one to financially support the teachers there, and so forth.

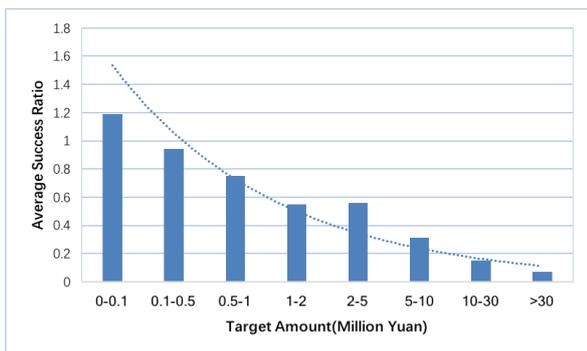


Figure 3. Relationship between average success ratio and target amount.

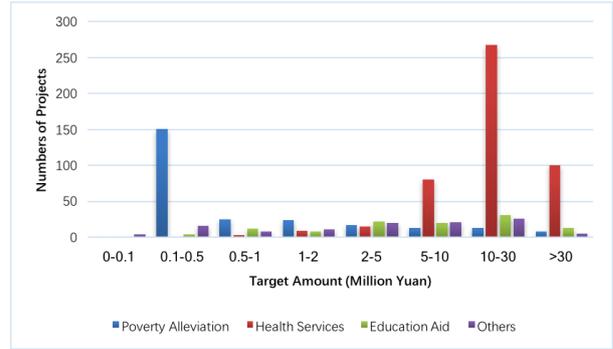


Figure 4. Target amount distribution.

C. Internet Fraud

Internet environment exacerbates the information asymmetry problem [1]. Donors make donation decisions based merely on the information provided on the Internet. Agents could use IT-enabled crowdfunding for fraudulent purposes. We found that many agents had established a large number of projects. As shown in Table II, 12 agents had set up more than 800 projects on the platform. More than 100 agents had set up more than 400 projects. On the one hand, this phenomenon indicated that many charities had adopted the donation-based crowdfunding platform to help with poverty alleviation. On the other hand, there may be a problem. Once these charities use platform to cheat people out of money, the IT-enabled charitable crowdfunding will be providing an opportunity for fraud. Internet fraud is not the unique problem that charitable crowdfunding platforms have. Commercial crowdfunding platforms also need to be aware of this problem. We suggest that regulations and censorship are prerequisites for the long-term development of IT-enabled charitable crowdfunding.

TABLE II. RELATIONSHIP BETWEEN NUMBERS OF AGENTS AND NUMBERS OF PROJECTS INITIATED

No. of Projects Initiated	No. of Agents
100-200	52
201-300	37
301-400	159
401-500	69
501-600	51
601-700	1
701-800	7
801-900	12

V. THE OPPORTUNITY OF CHARITABLE CROWDFUNDING PLATFORMS FOR POVERTY ALLEVIATION

At present, China's poverty alleviation has achieved excellent goals. However, there are still 50 million poor people in rural areas of China. In order to achieve the goal of getting the rural poor out of poverty by 2020, China has always emphasized on poverty alleviation projects and has issued relevant policies. In the traditional way of poverty alleviation, most of the funds come from the government's finances, resulting that China's financial

burden is too large to meet the requirements of all the poor population. While charitable crowdfunding platforms, which conforms to China's poverty alleviation trend, provides a community for funders who want to support the poor but cannot find recipients, introducing more opportunities for poverty alleviation practices in China.

VI. THE THREAT OF CHARITABLE CROWDFUNDING PLATFORMS FOR POVERTY ALLEVIATION

The threshold of charitable crowdfunding platforms is very low. Organizations or individuals without official approval can launch charitable projects on platform, which attracts a large number of donors and fundraisers. However, it also increases the difficulty for supervision. And at present, the law that mainly applies to charitable crowdfunding platforms is based on the "Charity Law", which defines the scope of charitable fundraising. Limited regulation makes this threat even more severe. Some platforms use the loopholes in laws and regulations, which leads to the emergence of fraudulent donations. The truth is relevant law of charitable crowdfunding platforms need to be improved.

Table III summarizes the strengths, weaknesses, opportunities and threats of charitable crowdfunding platforms in poverty alleviation.

TABLE III. NOTE HOW THE CAPTION IS CENTERED IN THE COLUMN

STRENGTHS	WEAKNESS
Diversity	Imbalanced Resources Allocation
Transparency	Poor Success Rates for Projects with High Financial Targets
Efficiency	Internet fraud
OPPORTUNITY	THREAT
Conform to the policy trend of poverty alleviation.	Lack of laws and regulations

VII. CONCLUSION

IT-enabled charitable crowdfunding can serve as an alternative to traditional charitable crowdfunding to raise funds, particularly for poverty alleviation. We concluded that diversity, transparency and efficiency are three advantages of charitable crowd-funding platforms. Based on the data we collected from Lejuan, we observed some challenges that charitable crowdfunding has faced, such as imbalanced rate, poor success rate for projects with high target amounts, and Internet fraud. The findings from our results are in line with prior literature. [4] proposed that investors have a consistent fear that comes from the risk of fraud and of misuse of their money. Although charitable crowdfunding can benefit a variety of people who are in need, many challenges have threatened the health development of charitable crowdfunding platforms. From the perspective of poverty alleviation, simply through crowd-funding projects to reduce impoverished population seems not enough. A wide range of measures will need to be undertaken.

There are two main contributions. First of all, this work extends the understanding of charitable crowdfunding platforms. Our discussions can also throw light on further practices in the charity space. Moreover, we analyzed the crowdfunding projects from the perspective of poverty alleviation. To the best our knowledge, few literature has studied the role of charitable crowdfunding on poverty alleviation based on evidence from China. Our work has practical implications, given the fact that Chinese charities mainly receive donations from companies rather than government grants. We suggest that offline charities and online charitable crowdfunding platforms could work together to help alleviate poverty challenges as well as steer the direction of online platforms.

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