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Bitcoin and More: The New World of Donations

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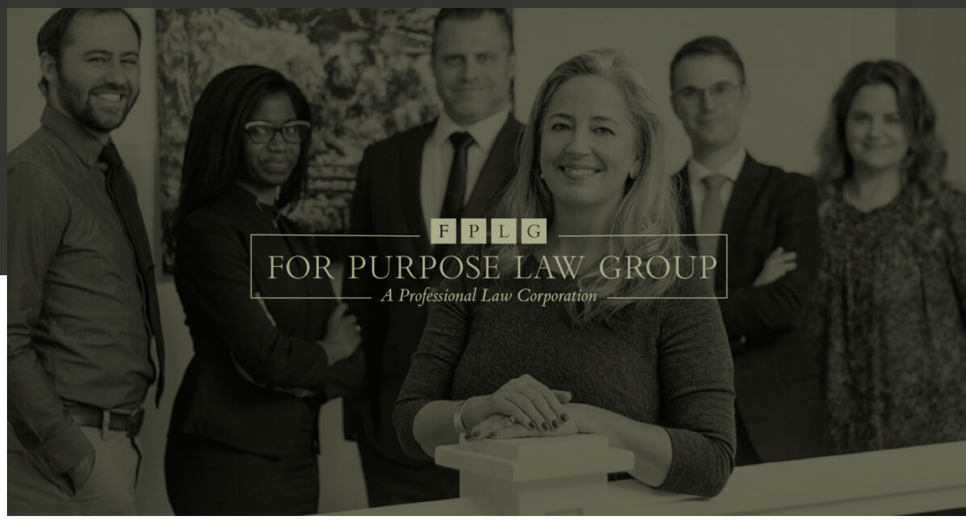

"There's no denying 2017 was the year for cryptocurrencies," writes a company that trades in one such product called "Stellar":

> *So many of these innovative assets, which were previously completely unknown, have now been written about and debated everywhere. While much of the attention directed at cryptocurrencies was due to their meteoric rise over the past year, it was also due to the fact that they present something new from a financial and technological standpoint.*

"Bitcoin" is the most familiar of the new cryptocurrencies, but few people know much about it beyond simple name-recognition. It was created in about 2008, and has grown spectacularly, particularly in the last year or so.

What does any of this have to do with nonprofits? Simply put, certain donors want to use their Bitcoin assets as the manner of giving to charity. Organizations want to understand and embrace this new concept. "In June 2017, … , NPQ [Nonprofit Quarterly] asked if it was time for the nonprofit sector to adapt to the rise of cryptocurrency use in philanthropy."

During the calendar year 2017, powerhouse Fidelity Charity received $8.5 billion in donations; some $69 million of that total was from cryptocurrency donations (specifically Bitcoin and Ethereum) from 169 donors. For purposes of comparison, in 2016, just $7 million was given to Fidelity Charity in this manner.

Bitcoin: The Basics

"If you find the concept of Bitcoin confusing, you are not alone," wrote New York Times tech reporter Nathaniel Popper last October in *What is Bitcoin, and How Does it Work?* First things first, he explains: A Bitcoin is *not* the novelty coin you see in media photographs. It's a "digital token – with no physical backing – that can be sent electronically from one user to another, anywhere in the world."

A single Bitcoin can be "divided out to eight decimal places. The smallest portion – "the penny of the Bitcoin world," is called a Satoshi, in honor of the inventor of this idea, one Satoshi Nakamoto, who created the original rules in 2008, released the rights to them in 2009, and then vanished into thin air in about 2011. No one has ever been identified as the real Satoshi Nakamoto. All communications had been by email and social messaging; never in person. Over the years of looking for the real Satoshi, a few people have been tagged as possibles, but the search goes on.

This cryptocurrency "first took off in 2011" when certain criminal elements including the infamous Silk Road cartel used it for drug-dealing and ransom payments. But "[o]nly a small percentage of all transactions on the Bitcoin network are explicitly illegal."

The Nature of the Bitcoin Network

The hallmark of cryptocurrency is that it's run by a "decentralized network of computers" around the world that keep track of all Bitcoin transactions…." A useful analogy is Wikipedia: an online network run by a "decentralized network of writers and editors." In this way, it is entirely different than traditional payment networks like the world's major credit card companies.

"Anyone can download and use the software, and Satoshi now has no more control over the network than anyone else using the software." By late 2017, there were an estimated 9,500 computers in the system. The network records, "including all balances and transactions, are stored on *every* computer helping to maintain the network." This updated transaction record is called the "blockchain."

A common question is about security: If someone helps to maintain this blockchain, what stops that person from changing the records to add more money to his or her own account? The answer: There is a built-in check because other users "would see the discrepancy, and the changes would be ignored." Time will tell if this theoretical safeguard works out in practice.

"Bitcoin mining" is a term that describes the "process through which new Bitcoins are created and given to computers helping to maintain the network." It is a "computational race to process new transactions coming onto the network… and the winner … gets a [big] chunk of new Bitcoins."

Conclusion

There is no apparent end in sight to the cryptocurrency frenzy. Bitcoin is exploding and competitors are popping up.

There are several reasons for this phenomenon. International users take advantage of the speed and ease of making money transfers across borders; regular transfers can take weeks, while "millions of dollars of Bitcoin can be moved in minutes." These digital networks also appeal to people in nations with high inflation; they invest "as a safety precaution."

The key attraction, though, is the "open-market bidding." It's similar to how stock and gold prices are determined by bidding on exchanges. A "whole world of high-frequency traders has sprung up around Bitcoin." While prices fluctuate wildly, there have been dramatic gains.

Philanthropy leaders have taken notice and given (at least preliminary) approval. "[P]eer-to-peer systems utilizing blockchain technology continue to make inroads into respectable society, especially nonprofits." They urge the sector to learn about this important new technology, consider its uses, and follow developments including possible negative events and government intervention.