Kiva Zip: An Impact Analysis

What makes Kiva Zip different?

* What is it?
Kiva Zip is a project, launched by Kiva, to test a more direct lending model than that currently used by Kiva, focused on Social Underwriting.

* Social Underwriting
The principal difference between Kiva Zip and other Microfinance organizations is that crowdfunded payments go directly to Borrowers. The Trustees overseeing the transactions never directly handle the payments.

* Target Borrowers are non-traditional

* 0% Interest

Goal - Determine Effectiveness

Mission Accomplished?
Is Kiva Zip fulfilling its goals to:

- Connect people through lending to alleviate poverty?
- Expand financial opportunities and access for borrowers who lack them?
- Enhance the connectedness between lenders and borrowers?
- Connect people through lending to alleviate poverty?

How can we analyze impact?

* Conduct a comparison study and impact analysis of microfinance model elements that are similar and dissimilar to Kiva Zip.
* Examine theory, operationalization, and impact through lenders, borrowers, and the field of microfinance through an ethical framework.
* Assess how public service values align with current and emerging practices in the microfinance industry.
* Identify a set of standard metrics that allows Kiva Zip to measure and compare their performance, effectiveness, and outcomes.

Kiva Zip - Snapshot

How does it work?

1. Got funded by global community of lenders
2. Funding is channeled directly from donor to borrower
3. Borrower repays loan, which is loaned to another borrower
4. Borrowers and lenders interact to create communities

Benefits of Crowdfunding

More Lenders = Higher Repayment

Key Metrics

1. How much more likely are they to stay in business?
2. More likely to create jobs over time?
3. Business increasing over time?
4. Household income increasing?
5. Does money stay in the community?

Comparing Models and Data

* All figures are approximate averages

Limitations and Uncertainty

"Basically none of the 250 plus academic researchers, practitioners, and investors at the Microfinance Impact & Innovation Conference in New York City seemed to know whether microfinance generally works—whether the 30 year experiment in giving small loans to the poor has a positive impact on their livelihood."

"Microfinance groups have commissioned hundreds of assessments over the years, few convincingly rule out these other explanations for any positive association between borrowing and betterment."

-- David Roodman, 2009

Recommendations

* Methods for timely, transparent, and inexpensive social impact evaluations need to be developed, and issues surrounding cost-effectiveness have to be confronted regularly and openly."

"Lending is not enough. Sustainability and poverty alleviation for borrowers requires a multi-tiered approach, including help with savings, business training, financial literacy, and other technical support services."

"Turn the informal to formal. Create a formal strategy to leverage the existing resources, support network and relationships between borrowers and trustees/lenders."

"Be wary of 'mission drift.' Continue to question and assess the alignment of activities and outcomes with mission and principles."

"Due Diligence. Evaluation of trustees must be rigorous and involve in-person review of operations, staff, and activities in order to identify potential issues before they arise. Financial data and accounting reports must be scrutinized externally and independently to ensure stated portfolio performance is accurate, and the metrics used are not misleading."

"Continue to innovate. The tiered model for trustees and borrowers has been refined substantially since Kiva Zip launched. Similarly, a better process to determine the riskiness of borrowers beyond credit scores and collateral value has led to higher repayment rates."

"Beyond Data"

The Private fundraising period spurs success

* Creates automatic support network
* Increases lender base for Kiva
* The concept of "Character over credit" allows trustworthy small business owners to borrow even when conventional underwriting disqualifies them

Stories and Conversations - Social Underwriting

"Kiva Zip's platform requires borrowers and lenders to share stories and interact. This constant dialogue can document successes and impactful changes of the borrowers throughout their journey, but is often difficult to translate into data."

From Alpha to Beta to main Kiva

* New organizations, that use new platforms, and "disrupt" traditional models expectedly have gaps or incomplete data. If the Kiva Zip project continues to make strides, the long-term plan is to integrate this sub-domain into the main Kiva organization. Paradigm shifts can work when short-term achievements continue to build and trend in a positive direction."

"Microfinance is a general term to describe financial services to low-income individuals or to those who do not have access to typical banking services. Microfinance is also the idea that low-income individuals are capable of lifting themselves out of poverty if given access to financial services."

-- Kiva.org