Kiva Zip: An Impact Analysis

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Introduction – What makes Kiva Zip unique?

This analysis will be used to advise Kiva Zip on the current landscape, best practices, and available data on MFIs in the US. The intention is to create an internal document that Kiva Zip can use to inform its practices. With skepticism about the impact and efficacy of MFIs in alleviating poverty, the authors seek to determine if Kiva Zip accomplishes its intended mission and vision for program borrowers through its unique model of microfinancing.

• **What is Kiva Zip?**
  Kiva Zip is a project, launched by Kiva, to test a more direct lending model than that currently used by Kiva, using **Social Underwriting** to assess risk.

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

• **Target Borrowers are non-traditional**

• **0% Interest**
Objectives

Kiva’s mission: “Connect people through lending to alleviate poverty”

Our objective is to assess whether their pilot program – Kiva Zip – is a successful model to achieve this mission.

We also seek to answer if Kiva Zip is fulfilling its 3 principle aims to:

1. Expand financial opportunities and access for borrowers who lack them
2. Reduce the cost of capital for borrowers who need it
3. Enhance the connectedness between lenders and borrowers
Methods

How can we determine effectiveness and 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.
Data - More Lenders = Higher Repayment

Repayment rate – by # of lenders
Bubble size represents $ of repayments due

These loans had over 30 invited lenders, and 100% repayment rates

These loans had few invited lenders, and low repayment rates
## Data - Comparing Models

<table>
<thead>
<tr>
<th></th>
<th>Business survival rate</th>
<th>Makeup of Borrowers</th>
<th>Median Loan Size</th>
<th>Repayment rate</th>
<th>Jobs created or retained per loan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunity Fund</strong></td>
<td>95%, Business revenue grew by 5%</td>
<td>Women: 30% Minority: 90% Low income: 83%</td>
<td>$15,000 Income increased by 30%</td>
<td>97%</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>ACCIÓN USA</strong></td>
<td>97%, Business revenue grew by 16%</td>
<td>Women: 43% Minority: 76% Low income: 75%</td>
<td>$7,205 Income increased by 25%</td>
<td>95%</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Kiva</strong></td>
<td>?</td>
<td>83 countries</td>
<td>$415 $787m Total lent, 132% Avg. Loan Size to Per Capita Income</td>
<td>99%</td>
<td>?</td>
</tr>
<tr>
<td><strong>Kiva Zip</strong></td>
<td>?</td>
<td>Women: 55% Minority: 64% Low income: 77%</td>
<td>$4,800 $10m Total lent, 150 Lenders per loan, 6 mos. Funding rate, 90% Funds recirculate, 66,000 Lenders</td>
<td>89%</td>
<td>?</td>
</tr>
</tbody>
</table>

*Figures based on 2014 Report of Acción East division*
Analysis - **Key Metrics for Borrowers**

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?
Results - Kiva Zip has reasons for optimism

“The academic literature on [microlending] impact remains inconclusive, even after the introduction of randomized control trials to provide more scientific assessment methods” — Anke F. Schwittay, University of Sussex, World Bank consultant

For MFIs in general, detailed data exists BUT:
• May contain overly optimistic projections, misleading numbers, or difficult-to-compare metrics
• Complexity of measuring “poverty alleviation” makes capturing success elusive and difficult

Results for Kiva Zip’s Model

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
• Demonstrates “entrepreneurial spirit” of borrowers

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.
Recommendations

**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.”** Continually question and assess whether the activities and outcomes align with Kiva Zip’s core 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.

**Kiva Zip is fulfilling its chief aims to:**
1. Expand financial opportunities and access for borrowers who lack them ✔
2. Reduce the cost of capital for borrowers who need it ✔
3. Enhance the connectedness between lenders and borrowers ✔

**Connect people through lending to alleviate poverty?**
References


Hulme, David (2010). Impact Assessment Methodologies for Microfinance: Theory, Experience, and Better Practice. Institute for Development Policy and Management, University of Manchester
