Kiva Zip

A Comparative Impact Analysis

Benson Tran
Fernando Enciso-Márquez
PA 699 - Social Impact Development
Professor Marco Tavanti
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UNIVERSITY OF SAN FRANCISCO
School of Management

Abstract

The field of microfinance has exploded in popularity in the past few decades, with proponents touting that low-income individuals are now able to access capital to lift themselves out of poverty. With the advent of technology, platforms like Kiva were created, allowing anyone with a cell phone or digital access an opportunity to obtain credit to start a small business. From this came Kiva Zip, a peer-to-peer lending platform that has pushed innovation even further, using crowdfunding and social underwriting principles to provide borrowers with 0% interest rate loans. This model is an attempt to solve many of the ethical considerations and criticisms aimed at the microfinance industry, where some borrowers end up saddled with debt and otherwise left in a worst economic position than before. Plentiful data is available for microfinance institutions, including information on repayment rates, jobs created, borrower demographics, and more. Yet, the data is still inconsistent between organizations, making fair, straightforward comparisons difficult. On many fronts, Kiva Zip seems successful at setting out what it proposes to do. Namely, it is providing more capital to those who need it, at significantly lower costs, and to create a platform for lending that facilitates a closer connection between borrowers and lenders. Its underlying mission however, is to alleviate poverty through lending. It is unclear whether Kiva Zip, or any microfinance institution for that matter, is achieving this goal. With its promising start,

Kiva Zip should continue to refine its model by strengthening external engagement with borrowers and partners and offering more services, with a continued eagerness to reflect, assess, and adapt to the needs of the American microfinance field.

Microfinance Institutions: Background and Context

The field of microfinance has expanded in growth over the last several decades, spreading on a global scale in developing countries in the 1980s. Present-day microfinance is largely attributed to the pioneering work of Dr. Mohammad Yunus and his pilot model in Bangladesh, which served as the inspiration for the launch of Grameen Bank in 1983. It was the impetus for the exponential growth of the microfinance sector. Yunus' Grameen Bank earned the Nobel Peace Prize in 2006 for its development and financial empowerment model and its impact in the field over several decades (S.L. McKinnon, et al). According to a World Bank estimate, over 160 million people globally are currently recipients of economic services from a microfinance model. The highest provision of microfinance services are located in India, Bangladesh, Latin American nations and African nations. Microfinance institutions (MFIs) offer a range of financial services for marginalized communities historically without access to traditional banking systems in the form of microcredit, microloans, and microsavings, among other offerings, programs, and services. An estimated 2.5 billion people globally do not have access to formal financial services (Schwittay, 2013). Microfinance seeks to engage individuals and communities which have been considered "unbankable", and locked out of traditional banking services and institutions due to lack of credit, savings, and formal employment, among other financial indicators and qualifying requirements (Ly and Mason, 2012).

While microfinance institutions are structured with varying goals, intentions, and outcomes by respective agencies, most MFIs strive to deliver financial services to support entrepreneurs with limited access to capital, alleviate and minimize poverty, and advance economic empowerment of local communities and borrowers.

Across MFI platforms, most share goals of combating the effects of poverty and socioeconomic disenfranchisement, promoting women empowerment, community development through innovative and diverse services through formal, cooperative, and community-based financial institutions (Tavanti, 2010). Some of the largest and most influential MFI initiatives globally include Grameen Bank, ACCION, Compartamos, among dozens of other microfinance agencies considered worldwide standard-bearers of the field.

The provision of microfinance services takes various forms, and it is important to note distinctions among microcredit, microsavings, and microloan offerings among the range of services offered by MFI initiatives. Microcredit and microloan offerings are intended to empower borrowers without formal credit lines, savings accounts, and access to financial collateral or banking services. Grameen is considered the first formal microcredit institution of its scale in modern times. As noted previously, microcredit models are also particularly structured for women's empowerment, implemented through "solidarity" and "community" borrowing circles for collective empowerment of a group of microcredit loan recipients, as well as to create communal accountability of credit repayment. Social pressure provides an effective "check" against repayment. Kiva and Kiva Zip offerings are categorized under the microlending platform of microfinance services.

Kiva - A Successful Ten Years

Kiva was founded in 2005, and is considered the first global person-to-person web-based platform to match individual and group lenders with those seeking financial support through loans. Over the last ten years, Kiva's vision has been celebrated in the field of microfinance as it aims to promote democratic and transnational connections between lenders and entrepreneurs, using the internet as a tool to address poverty and economic disparities globally (S.L McKinnon, et al). The global Kiva lending marketplace is structured in an innovative relationship-based platform to create a sense of "connected capital" between lenders and entrepreneurs (A.F. Schwittay, et al). Since 2005, Kiva has created a community of over 1.3 million lenders, and has led the provision of nearly $800 million US dollars in over 80 countries. Kiva has created a culture of global connectedness for individual entrepreneur and community empowerment in the administration of loans primarily in the developing world. The classic Kiva model is rooted in the concept of online peer-to-peer lending. It connects individual lenders with Kiva-screened field partner microfinance institutions in site countries through the administration and monitoring of loan use and repayments (Ly and Mason, 2012). Kiva field partner MFI agencies determine and charge interest to individual entrepreneurs. In a 2012 study of over 130,000 Kiva loan requests, across 150 field partners, in approximately 50 site countries, between 2006 and 2009, researchers identified that the average Kiva loan amount is $694 and the average loan term is about ten months. The study also identified primary lender motivations in contributing to a prospective Kiva project. Namely, they were altruistic goals of serving the "deserving poor" and contributing to entrepreneur "self-reliance" in funding Kiva causes. The data analysis of this study indicates health and education sector causes are the most frequently funded Kiva projects, and projects in which women are the primary stakeholders are funded in greater loan amounts, as well as much more rapidly.

Kiva Zip - A Promising Experiment

Kiva Zip is a domestic counterpart lending platform to the classic Kiva model, and is operationalized through a platform of crowdlending in which prospective lenders browse entrepreneur profiles, causes, and projects in considering loan possibilities to support. Kiva Zip operates through a peer-to-peer lending model in which there is no intermediary or facilitating MFI to serve in the provision of the loan. This is opposed to the classic Kiva model that uses in-country intermediary financial organizations. To date, Kiva Zip prides itself in both a 0% interest rate, and over 11,000 borrower-entrepreneurs through the backing of over 60,000 Kiva Zip lenders. Kiva Zip is driven to accomplish three primary goals, consistent with overlapping goals of similar MFI initiatives: *Expand financial opportunities and access for borrowers who otherwise lack them; Reduce the cost of capital for borrowers who need it; Enhance the connectedness between lenders and borrowers* (source: Kiva Zip). As with the classic Kiva model, Kiva Zip intends to support entrepreneurs and microenterprises with limited or no access to capital due to a lack of credit history or exclusion from traditional banking services. Kiva Zip's operationalization through a peer-to-peer lending model without the administration and oversight of a traditional MFI intermediary organization maximizes financial impact on the entrepreneur to realize the intended project vision through access to more of the capital loans.

As Premal Shah, Kiva's President stated: "It's a killer statistic: 7 out of 10 small businesses that apply for a bank loan in the United States get rejected" (SFGate, 2013). Shah also claims that Zip's unique platform fulfills a gap in American microfinance , which currently consists of about 400 MFI initiatives in the United States, but almost entirely administered through the nonprofit sector.

Snapshot of Kiva Zip – What makes it unique?

*What is it?

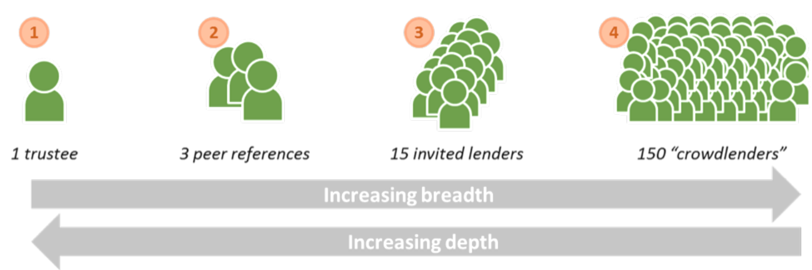
Kiva Zip is a project, launched by Kiva, to test a more direct lending model than that currently used by Kiva, focused on *Social Underwriting*.

*Social Underwriting

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

*Target Borrowers do not qualify for traditional loans

*0% Interest



Source: Kiva Zip

Crowdsourcing vs. Peer to Peer Funding

Kiva Zip is modeled through a peer-to-peer crowdfunding online platform which differs from other popular crowdsourcing formats which have generated significant widespread support through internet campaigns over recent years. A key distinction between the Kiva Zip crowdfunding format is that funds contributed to an entrepreneur's cause are not simply considered gifts which do not require future repayment by borrowers. Rather, they are temporary loans, and full repayment is required and expected of borrowers within the specified loan repayment timeframe. Kiva Zip borrowers are bound to repay each and every lender whom contributed to the funding of their respective Kiva Zip initiative through reimbursement of the full loan amount. Lenders give as little as $25 each.

In this way, the Kiva Zip platform differs from other current popular crowdfunding platforms such as GoFundMe and IndieGoGo. Those platforms are designed to generate financial support for a range of personal and business causes, life events, and challenging circumstances through donations based on the needs of the respective campaign owner, without the expectation of repayment from contributors. Crowdsourcing platforms such as IndieGoGo, GoFundMe, KickStarter, and other popular websites have generated considerable success in recent years in creating user and funder-friendly platforms to secure immediate-need funds in supporting access to capital.

Source: Images compiled from Grameen Foundation, Kiva, and Zopa, digitally edited.

Recently, crowdfunding has increased substantially through public exposure, particularly following the launch of an estimated 500 Internet crowdfunding platforms, most of which are based in the United States and United Kingdom (Macht and Weatherston, 2014). Crowdsourcing platforms allow small and young businesses to raise capital from a large number of unrelated individuals for seed funding, start-up, and early-stage project implementation.

Interestingly, it is important to note that despite the popularity of this funding model in empowering individuals through an online community of donors, there is little research available in assessing crowdsourcing and its impact on recipient parties. According to the 2014 research by Macht and Weatherston: "*There is much debate about crowdfunding in the media and amongst practitioners, but to date, academic literature in this emerging field is virtually non-existent, consisting of only a very small* *number of published articles and working papers. Owing to the newness of this funding source, little is known about it and entrepreneurs, who are thinking about using crowdfunding, have only a very limited amount of literature at their disposal on which to base their decisions. On the academic side, the newness of the field results in a plethora of potential research avenues, all of which require exploration and subsequent theorizing and explanation".*

The growth of Kiva Zip and popular crowdsourcing platforms in coming years will require thorough data collection, diligent analysis, and research of investors and investees motivations for participating in crowdsourcing campaigns. Additionally, the immediate and long-term impacts of funding models should be assessed and compared to Kiva Zip for both impact analysis comparisons and also to gauge where and how each platform is most successful. While Zip and other popular crowdsourcing models are distinct in vision, platform, and goals, it would be of substantial value to the field and stakeholders of these models to identify areas of greatest impact in supporting individual borrowers and recipients of funds, as well as strategically improving service delivery and platforms for maximized impact.

Cross-sector collaboration: Public Service and Social Justice Values

The Kiva Zip platform is aligned with integral elements of public service and social justice values which shape core principles in the field of public administration. Considering some of the Public Service Values (PSVs) in the public administration sector currently, there is considerable overlap with the vision of the Kiva Zip platform in empowering entrepreneurs in local communities through its funding model and network of stakeholders. Kiva Zip may be a model of interest to local government agencies and departments seeking to uplift local communities through financial empowerment, increased access to capital and resources for individual and community benefit, and maxiimum impact through community networks based on connectedness and collaborative investment.

Upon review of Kiva Zip's core principles, some of Zip's values are aligned with public service values driving contemporary practice of public administration. Molina and McKeown identify several primary values at the root of public administration today in their article "The Heart of the Profession: Understanding Public Service Values". Among them include four major categories of public service values which are linked and rooted in effective organizational practices: ethical values, professional values, democratic values, and human values (Molina and McKeown). Among a considerable range of fundamental public service values, it is important to note values which are consistent with the practice and goals of Kiva Zip: *accountability*, *efficiency*, *humaneness*, *inclusiveness*, *participative*, and *social justice*, among others. Kiva Zip is modeled in a community empowerment model of crowdsourcing in which these public service values also guide the vision of the platform to empower users and lenders alike. In drawing from the 1984 definition of public service values as "criteria for action" by Dwight Waldo, Kiva Zip provides a similar "call to action" in generating financial and community support for startup projects and causes for community empowerment.

Local and regional governing bodies and public agencies would benefit in the coming years by identifying area of collaboration in the planning, implementation, and assessment of Kiva Zip's impact on local communities, in considering the mutually shared vision of serving to uplift constituents and marginalized residents through core values of public service. As hybrid governance across sectors becomes more of a standard practice in the current context, it is imperative for the intersection of public service and public administration to consider similar values, goals, and visions driving social entrepreneurship and crowdfunding models like Kiva Zip and other platforms. By recognizing critical areas of shared visions and agendas between Kiva Zip and public agencies, increased collaboration and cross-sector partnerships can flourish to increase impact of community empowerment through the respective goals of stakeholder bodies.

Skepticism and Criticism of Kiva Zip

Kiva received some critique and skepticism from its network of stakeholders in launching its Kiva Zip model in 2010, as some even argued the model demonstrated "mission drift" of Kiva's central focus and priorities in providing financial services for global recipients of Kiva services in the developing world (Mittelman and Osland, 2014). In capturing the critical initial response, Mittelman and Osland reported: "A group of over 400 Kiva supporters protested the organization's "shift from making loans exclusively where the needs are greatest to where they are the least," calling it a "shameful, shameful deviation from Kiva's core mission". Microfinance in the United States has been historically perceived as unsuccessful due to high default rates, failure to meet program and community empowerment goals, and a lack of sustainability and self-sufficiency in comparing to the global microfinance arena. This is despite there being over 13 million microentrepreneurs in the US since the industry gained traction domestically in 1995 (Rubach et al, 2010). Kiva Zip, however, aims to meet an unmet need in providing services to American borrowers to empower our domestic communities the same way Kiva does internationally. While Kiva Zip did initially have a country focus in operationalizing the Zip model in Kenya in addition to the United States, the Kenya partnership was discontinued due to a range of administration, due diligence, and loan repayment rate issues.

Ethical considerations for Microfinance

While there are many admirable and praiseworthy elements of microfinance and its vision of uplifting vulnerable populations through access to financial resources, there are considerable ethical critiques of the field. A leading critique of the model includes identifying power imbalances between the socioeconomically privileged lenders and marginalized entrepreneurs in a global system of inequitable distribution of resources, which Kiva's platform aims to alleviate (A.F. Schwittay, et al, 2014). Additionally, lenders often engage in minimal examination of structural root causes of poverty in administering loans, which neglects critical learning of the complex nature of economic marginalization globally. Another critical consideration is that research shows local inequality income gaps can actually increase through the access to microloans as borrowers become dependent and even controlled by lending groups and MFI institutions seeking to capitalize on vulnerable borrower populations (Hudon and Sandberg, 2013).

One of the most voiced critiques of the microfinance field surrounds the high loan interest rates of many MFI models which contribute to the creation of a perpetual system of borrower debt and poverty (Hudon and Sandberg, 2013). In a 2013 article by Sandberg and Hudon of the Centre for European Research in Microfinance, the authors highlight ethical dilemmas and criticism of the microfinance model globally: *"MFIs* *have been accused of relying on exploitative lending techniques, using forceful loan recovery practices, and pushing borrowers into debt traps"*. Ironically, Muhammad Yunus himself, revered as one of the founders of modern microfinance movement through his leadership of Grameen Bank, was dismissed of his post for unethical lending practices in Bangladesh and India. Several MFIs in countries like India, Nicaragua, and Ecuador have been shut down by local and federal agencies due to unethical lending practices, community exploitation, and usurious practices, which further marginalize residents of developing countries seeking upward mobility through MFI services. Microfinance has also been criticized for the profit-driven trends which are perceived to go directly against the intended vision and purpose of alleviating poverty through the financial empowerment platforms (Tavanti, 2010). The Kiva Zip model is proactively addressing these critiques of the field through the 0% loan interest rate, the peer-to-peer administration of loans, and the entrepreneur-focused platform to fully utilize loans in impacting the Kiva entrepreneur community to reach its goals.

Uncertain Impact

David Roodman is his groundbreaking research in *Due Diligence: An Impertinent Inquiry into Microfinance* argues there are in fact inconclusive findings around the impact of MFI initiatives in alleviating poverty. In referencing two 2009 randomized studies over 18 months in assessing the impact of microcredit on poverty reduction (and the first of their kind), Roodman states neither of those studies found significant impact on lowering poverty for microcredit borrowers (Roodman, 2012). Roodman captures the strength of MFIs by stating: *"Its strength lies not in lifting people out of poverty- industrialization and jobs do that better. It lies, rather, in leveraging modest subsidies to build financial institutions and industries that give millions of poor families more control over their finances…instead of using it to put capital in the hands of as many poor people as possible on the hope of launching them all into entrepreneurship and out of poverty, focus on mass producing services to help people manage the uncertainties of being poor. To the extent practical, deemphasize pure credit, which amplifies risk, in favor of savings and insurance, which can be cushion in times of trouble."* Roodman identifies the challenges in accurately assessing impact of MFI services due to considerable varying elements: *"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."*

A 2010 report by the Stanford Social Innovation Report identified similar concerns in considering the social impact of microlending initiatives: *"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. In fact, there is increasing evidence that microloans—often given at high interest rates and with strict repayment terms—can further impoverish and indebt poor people"*. The report also captured year-end statistics for the year 2009: over 1,084 microfinance institutions served 74 million borrowers with over $38 million in loans, though there was agreement from premier experts in the field over the actual inconclusive impact in the field and on borrowers and their communities. Consensus was reached on one item by the practitioners and academicians who attended the conference, in identifying desperately needed further research areas on social impact and other MFI loan considerations: *"the psychology of decision-making by microfinance clients; the quality and flexibility of the loans; the need to provide financial assistance and coaching to loan recipients; and the degree to which easy access to loans are creating over-indebtedness—a phenomenon that needs no explanation to Americans. "Basically, we're flying blind," said Richard Rosenberg, a senior advisor at the Consultative Group to Assist the Poor."*

Data Analysis

Kiva Zip has three principle aims:

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

"Connecting people through lending to alleviate poverty" is at the crux of Zip's mission, as well as its parent organization Kiva. The goal of this project was to evaluate whether or not Kiva Zip was achieving its principle aims, and ultimately accomplishing its mission. Jonny Price, Kiva Zip's Senior Manager, identified five questions that the data should help answer:

1. How much more likely are they to stay in business?
2. Are borrowers creating jobs over time?
3. Is business increasing over time?
4. Is household income increasing?
5. Does money stay in the community?

As we conducted a comparison study of the most prominent MFIs in America, and compared models both globally and domestically, it became apparent that there is a wealth of data, reports, and tools available to assess the impact of these organizations. In addition to the annual finance reports published by the organizations, there are third party organizations such as FIELD of the Aspen Institute that gather and display data for MFIs, as well as online nonprofit guides such as Charity Navigator and GuideStar.

Nevertheless, some of the data is problematic. To start, the soundness of any data should always be a concern when it comes from organizations that benefit from self-promotion (which is universally applicable). While there was no reason for the authors to question the reliability of the data sets, a few issues became apparent. First, most organizations maintain and publish detailed reports, but do not track or measure the same data consistently, so it is difficult to do an exact comparison of corresponding data indicators. In addition, this makes one question why certain MFIs make it a point to highlight the business survival rate of their borrowers' businesses, while others fail to mention or disclose it. A cynical answer is that the available published data highlights the outcomes that these organizations want to show. Although it is possible that some of these organizations are simply forgetting to track key statistics (which is still concerning).

Independent Audits

This is not to say that there are not controls against exaggerated or misleading data. Microfinance institutions that are responsible, serious and viewed as such, use independent auditors to assess their financial position through audits of their financial statements and records of activities. The auditor's responsibility *"includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall* *presentation of the consolidated financial statements"* (Price WaterHouse Coopers, Grameen America_2014 and 2013 Audited Financials, 2015"). Auditors should adhere to generally accepted standards in the U.S. to *"plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement."*

To be clear, while auditors have discretion to make judgments about the financial statements of the MFI, generally it is up to the management of the MFI to gather and record the financial statements to their best ability without fraud or error (PricewaterhouseCoopers, Grameen America_2014 and 2013 Audited Financials.pdf"). Nonetheless, experienced and trusted independent auditing firms can speak volumes to the MFI's financial position.

The table below is a snapshot of compiled data comparing major MFIs that operate in America, along with Zip's parent organization Kiva.

*All figures are approximate averages	Business survival rate	Makeup of Borrowers	Median Loan Size	Repayment rate	Jobs created or retained per loan
Opportunity Fund working capital for working people	**95%,** Business revenue grew by 5%	Women: **30%** Minority: **90%** Low income: **83%**	**$15,000** 8.5-10% Interest Rate, 5% Closing Fee	**97%**	**2.7** Income increases by 30%
Grameen America	**?**	Women: **100%** Minority: **95%** Low income: **100%**	**$2,000** 15% Interest Rate	**99%**	**2.9** Income increases by $1,200
ACCION *USA	**97%,** Business revenue grew by 16%	Women: **43%** Minority: **76%** Low income: **75%**	**$7,205** 6.7%-36% Interest Rate, (for Peer-to-Peer Loans)	**95%**	**4.3** Income increases by 25%
KIVA	**98%**	83 countries	**$415** $800m Total lent, 35% Interest Rate	**99%**	**?**
Kiva Zip Beta	**?**	Women: **55%** Minority: **64%** Low income: **77%**	**$4,800** $10m Total lent, 150 Lenders per loan, 6 mos. Funding rate, 90% Funds recirculate, 0% Interest Rate	**89%**	**?**

*Figures based on 2014 Report of its largest division, Accion East

How much more likely are they to stay in business?

Analysis: Based on available data for the lenders below, borrowers have an impressively high business survival rate of over 95%. Consider that in the U.S., only about 50% of businesses stay open for five years or more (U.S. Small Business Administration, 2012). MFIs look at a much shorter-term window of business survival rate, often only through the borrowing/repayment phase, and rarely more than a year after. Part of the issue is that gathering follow-up data is resource intensive. In any case, these figures may not be comprehensive to use as a measure of sustainable impact. Repayment rates, however, are generally very high, and Kiva Zip has shown impressive increases of its repayment rate which is currently close to 90% after starting in the low 80's initially. The data also shows that Zip's model of crowdfunding works as planned: the more lenders that invest in a borrower, the higher the repayment rate. Borrowers with thirty or more lenders have repayment rates that hover near 100%. This makes sense as entrepreneurs/borrowers who have a sound business idea and plan are likely to attract more reliable lenders. Further, borrowers who are more active with the Zip platform (thus attracting more lenders) are more likely to have the "entrepreneurial spirit" and drive that so often translates into a greater likelihood of success.

Are borrowers creating jobs over time?

Analysis: Yes, most MFI borrowers create business that hire other employees; impact over the long-term is unclear.

Is business increasing over time?

Analysis: Reliable data is either not available or difficult to find.

Is household income increasing?

Analysis: In some instances, yes, but data is often only available in the very short term while the business is still operating, and during the repayment period. Data that shows whether people are actually saving money instead of reinvesting in the business or paying off debt is difficult to find. MFIs which mandate borrowers to establish savings accounts show low to modest results of saving.

Does money stay in the community?

Analysis: Uncertain. Anecdotally, many Kiva Zip borrowers share stories of how their local businesses are now hiring and reinvesting in their communities. Reliable data was difficult to find that shows successful businesses reinvest in their community.

Other takeaways:

- MFIs generally do an excellent job at increasing access to capital for women, minorities, and low-income individuals, though performance certainly varies by MFI, project, and entrepreneur case.
- Interest rates are very high since MFIs cater to borrowers who do not qualify for conventional borrowing. Kiva Zip's 0% interest rate model is as commendable as it is groundbreaking.
- If repayment remains lower than conventional MFIs like Accion and the Opportunity Fund (certainly not Kiva Zip's goal), the question begs: Is a lower repayment rate a worthwhile cost for providing access to capital to more individuals?

Analysis: A tradeoff in repayment rate is a more ethical approach than some of the high interest rates offered by other MFIs, including the parent organization Kiva.

Mission Accomplished?

Revisiting Kiva Zip's principal aims, it is clear that it is successful at:

1. Expanding financial opportunities and access for borrowers who lack them
2. Reducing the cost of capital for borrowers who need it
3. Enhancing the connectedness between lenders and borrowers

Kiva Zip's mission of alleviating poverty through lending is less understood however. Poverty consists of so many components and factors that it is very difficult to assess and tease out the impact of a single organization in this arena. The data is simply not available at this time.

Recommendations and promising practices

Kiva Zip has reached truly admirable and laudable milestones and achievements in its short time. It is a credit to the background and experience of Kiva Zip's team which has a detailed understanding of microfinance, and have successfully adapted their knowledge into their new model of lending. Importantly, it is apparent from different iterations of its model that Kiva Zip's team has a willingness to adjust its system when the results are failing to make an impact or be sustainable. This is hugely important for an organization in the still-evolving microfinance sector, particularly one that is built on the relatively untested concept of social-underwriting. Kiva Zip has also proven that they respect accountability, transparency, and reflection.

In fact, many of the following recommendations are activities that the Kiva Zip team is already aware of or currently engages in. In such instances, they are reiterated in order to emphasize their importance, or to suggest ways the activities should be expanded.

Lending is not enough.

Pinpointing data which proves Kiva Zip is reducing poverty remains elusive due to the complicating factors of measuring poverty cited earlier. Yet, it *is* clear that simply giving people access to capital is not a silver bullet to ending poverty. Sustainability and poverty alleviation requires a multi-tiered approach. Lending must be coupled with savings, business training, financial literacy resources and workshops, and other technical support services.

Through its online platform, Kiva Zip currently offers resource listings, training videos, marketing templates, and other related digital support. However, this is a much more passive approach compared to MFIs such as Grameen America which requires "mandatory weekly meetings at which borrowers learn money management skills from their banker and from one another and must make their payments in front of everyone else in the group" (Fairbanks, 2008).

It is true that Kiva Zip is different in that it revolves on online interaction more than other models so in person meetings are difficult. Additionally, Kiva Zip encourages borrowers to demonstrate the "entrepreneurial spirit." Those who take advantage of the access to an online library are likely better positioned for success, since it displays a self-starter mentality that less active borrowers may lack. Be that as it may, it benefits no one when borrowers fail because they are not taking advantage of the tutorials and resources available to them. Mandating borrowers regularly partake in training sessions (even if online only) would be a low-cost way to boost business competency for those who need it. This is particularly true of borrowers who lack the study and research skills acquired through education. Presumably, this is a significant portion of Zip borrowers.

In the same vein, some MFIs require borrowers open a savings account and make regular deposits. For example, Grameen America requires only a $2 weekly minimum deposit. The act of regularly depositing money into a savings account can be a powerful way to promote savings for people who have never had any (Robinson, 2004). Kiva Zip should mandate the creation of savings accounts for all the reasons that savings are important to individuals and businesses (emergency rainy-day funds, accessible liquid capital, repayments for business fluctuations, personal income, etc.).

Areas of impact: *Enhance the connectedness between lenders and borrowers*

Turn successful informal activity to formal strategies.

To that point, Kiva Zip should implement and create a formal strategy to leverage the existing resources at their disposal to bolster the support network for borrowers. Kiva Zip's model depends on the "wisdom of the crowd," and the informal relationships and interactions between borrowers, trustees, and lenders. So far, this model has produced thousands of strong, organic relationships between borrowers and lenders through online interaction. Lenders have a vested interest in helping borrowers succeed since they provided the initial investment, and ostensibly, want to see that their money makes an impact. Borrowers are highly encouraged to respond to lenders to build rapport, gain trust, and garner positive feedback (that is posted publicly). Sharing their stories to their lenders as their businesses progress makes borrowers feel that there is a community behind them. One of the biggest mental and emotional stresses of starting a new venture is the lack of support many feel as they set out on their own (source: Kiva.org). Kiva Zip's community interactions helps to alleviate that. This creates an environment of support and encouragement that is lacking in traditional finance models, where the closest interaction borrowers get from banks are monthly billing statements.

Kiva Zip can formalize some of what is already taking place in these interactions to provide further assistance to their borrowers. Fellows at Kiva Zip are already charged with facilitating lender-borrowing relationships. Kiva Zip should expand on their formal responsibilities to encompass:

- Needs assessment for current borrowers
- Resource assessment for that borrowers' lenders
    - Identify lenders who have access to networks, professional services (such

    - as accountants, contractors, marketing, etc.), and other resources via survey and electronic communication
    - Formal asks of lenders to connect borrowers with these resources, preferably pro-bono or at a reduced cost
- Borrower education and consultations
    - Include strategic advice on how to improve engagement of Zip's platform
    - Identify opportunities available and missed

Areas of impact: Expand financial opportunities and access for borrowers who otherwise lack them

Be (somewhat) Realistic.

While Kiva Zip seeks to innovate and operate under new paradigms in the context of American microfinance, it must also be pragmatic about how it scales its service as it grows. Many of the recommendations set forth will require an increase in service and its attendant costs, but Kiva Zip must continue to be mindful and incorporate new services at a pace that is appropriate to its capability. This means making sure that staffing and training is ready to carry out new functions, and that management has a sound plan for implementation at every level. More generally, growth cannot be pursued haphazardly, but rather through data-informed actions, applied lessons, and iterative problem-solving.

Yet, Kiva Zip has to be careful that it does not curb innovation in striving for pragmatism. After all, Kiva Zip was born out of a desire to innovate and test new direct lending models. It is this entrepreneurial spirit that is evident in its culture and driven by its Senior Director, Jonny Price. The Kiva Zip brand conveys a brave willingness to experiment and break new ground. Innovation and execution must go hand in hand and fortunately, Kiva Zip has done an excellent job of balancing both thus far. The organization has smartly limited its functions to lending, allowing Zip to refine and tinker with its primary model of social underwriting without stretching its resources thin. This likely would have been impossible if it pursued the "one stop shop" framework that larger organizations like Grameen America have used.

As an organization matures and hones in on what it does best, it is natural to see a tug-of-war between innovation and tried and true methods. However, if Kiva Zip's mission is truly to alleviate poverty, we expect additional features to be added to its core services to borrowers. This can be done responsibly without disrupting its current model with an iterative approach.

Gather and lead a consortium of peers.

Being realistic also means acknowledging that Kiva Zip's mission to alleviate poverty in America requires many partners. Individuals and organizations in both the private and public sector must be involved. Donors, finance organizations, and social nonprofits have obvious roles to play. Policymakers and many government agencies of their own volition shoulder a large responsibility to improve economic opportunity and conditions for our most vulnerable, and can wield an enormous amount of resources to do so. As such, efforts to engage them are highly important if meaningful poverty reduction is going to occur.

Kiva Zip should play a leadership role in building one of the many coalitions that are required to tackle this monumental challenge. This can consist of connecting its already robust, existing network of partners and relationships to others in the coalition. As mentioned earlier, many groups have similar or related missions to reduce poverty in America. Kiva Zip can also advise on what is making (and not making) an impact along with sharing assessments of its own activities. This will assist coalition members in their own poverty reduction work. Kiva Zip's team already has established relationships and partnerships with a litany of MFIs through Kiva, so outreach efforts would not be difficult.

Outside of helping achieve its mission, there are multiple direct benefits for Kiva Zip if it plays a prominent role in building this consortium:

First, it creates another pressure point for Kiva Zip to keep itself honest. The internal evaluations that Kiva Zip conducts are not meant to be mere exercises. They should guide its actions to improve. Sharing and debating this data externally among experts in the field will help Kiva Zip (and others) identify and refine best practices.

Further, if Kiva Zip is truly transparent with its peers, it will force the organization to be more rigorous in how it determines its own successes and failures. Organizations frequently fall into a trap of overemphasizing the former, while downplaying the latter. Often this is done unintentionally and is a result of groupthink. With an annual or biannual gathering of leaders in the field, Kiva Zip and others will have to seek data that can withstand the highest level of scrutiny. This will drive self-improvement, internal awareness, and an even more disciplined approach.

External awareness is another incentive for Kiva Zip to play a formal leadership role in a coalition. In trade associations, board and organization members garner attention and an elevated stature by displaying their leadership and expertise among their peers. Kiva Zip can do the same. While Kiva Zip is already well-known in the industry, it can do more in carving out a separate reputation from its parent organization and staking out its own accolades and success.

Opportunities to foster relationships with a network of peers and thought leaders is another powerful incentive to form such a coalition. Kiva Zip can bolster the relationships it already has with partner groups and peers, while making new connections, particularly with agencies, nonprofits, and government entities they invite to join. This can lead to access to more donors, resources, support, information, and other rewards that arise from meeting and working together. The value of networks is obviously something Kiva Zip understands innately. While organizations are typically territorial and protective of their work, the microfinance industry is unique in many ways because transparency is valued for accountability, with lending models and financial data shared openly. Largely because of Grameen and the work of Mohammad Yunus, MFIs encourage replication and even offer detailed manuals online to franchise for people interested in starting their own local chapter. Kiva Zip also sits in a unique space with its model of peer-to-peer, socially underwritten, 0% interest, crowdsourced lending. Like in trade associations, the microfinance industry as a whole will be elevated the more that best practices and new innovations are shared.

There are already convenings and conferences that are conducted for this purpose in different locations around the world, but Kiva Zip should allocate time and resources to expand its participation into a prominent leadership role. Senior management at Kiva and Kiva Zip have participated at noteworthy speaking engagements around the country, but a lead organizing role would allow Kiva Zip to be a facilitator and connector, rather than simply serve in a panelist capacity. There are many ways to do this at minimal expense. Appointing a Kiva Fellow (volunteers through their fellowship program) to be an event coordinator is an easy option. Collaborating with other MFIs to get staff help is another. Kiva Zip can also use its strong network to do outreach while other partners help with event logistics.

Due Diligence and Loan Oversight is essential.

Due diligence as a crucial element of MFI lending which must be monitored to capture effective loan administration. A 2009 report by the Consultative Group to Assist the Poor (CGAP) and the World Bank captures the role of due diligence process and oversight in managing risk in MFI models: *"due diligence is performed by or on behalf of investors who are primarily interested in verifying that performance is accurately reflected in the financial statements and company reports, and that management and operating systems are robust enough to sustain good performance into the future…The important point to make about due diligence methods in a commercial and regulated financial industry is that analysts typically rely heavily on the information provided by management and by the accounting and performance reporting systems".* CGAP warns about limitations and barriers in the MFI field in accurately capturing performance data: *"This assumption is not always valid in the microfinance industry, so conventional approaches to audits or rating appraisals can fail to capture peculiar weaknesses of MFIs"*. While CGAP does recognize the microfinance industry has placed great emphasis on attempting to adapt appraisal and evaluation tools to measure performance, it also alerts us to consider key considerations of due diligence in the MFI context: *"these appraisal tools may effectively assess an MFI's overall financial performance. But they typically do not test the veracity of the* *underlying information. The appraisals typically assume that the information reported is correct, and make that assumption based on the existence of an acceptable audit report…Due diligence in an MFI must go further than conventional methods to verify performance precisely in the areas that typically challenge MFIs."*

As Kiva Zip operationalizes loan administration without MFI intermediaries as with its classic Kiva model, we must consider how Zip will ensure due diligence is a primary priority to guide the success of the Zip model. Kiva Zip has partnered with Early IQ and its due diligence platform since 2013 to administer due diligence oversight and loan social underwriting process. *"The EarlyIQ solution helps us confidently support their efforts by providing a unique, easy to use diligence tool for our team,"* said Jonny Price, Senior Director of Kiva Zip in 2013. EarlyIQ provides professional insight into companies seeking funding, with a commitment to efficiency, data analytics, and information triangulation for a comprehensive assessment of partnership strengths and risks. The platform is driven by several key services and principles in delivering highest quality reporting and data to investors and crowdfunders: "*We're aggregating, deciphering, analyzing, and adding intelligence to nationwide data sources, social community information, and information self-reported by entrepreneurs. The result is unprecedented visibility and access to information that will help early stage investors make more informed investment decisions"* (source: EarlyIQ.com). Kiva Zip also proudly states a commitment to its due diligence processes by improving loan administration for enhanced risk management procedures, and by thoroughly leading background checks on prospective entrepreneurs and their social media and personal networks. It is promising that Kiva Zip has partnered with this leader in the field to monitor and analyze due diligence elements of the model in capturing areas of growth and further areas of consideration.

Kiva Zip trustees must also comply and ensure due diligence in funding Zip borrowers and their project proposals. For example, in browsing sample trustee profiles, we can consider the due diligence requirements of Microfinance at UC Berkeley (MFB), a UC Berkeley student group and Tier-1 Kiva Zip trustee which serves Bay Area entrepreneurs. As stated on MFB's website, the trustee requires a phone interview, a 45 minute in-person interview, credit report, a business plan, and submission of various financial documents (including references, pay stubs, bank statements, and other materials) before a loan can be accepted, and funding can begin. This due diligence practice and oversight will become especially crucial as ongoing monitoring and assessment must be incorporated to track the efficacy and accountability in administration of all loans in the coming years as the Kiva Zip model expands in reach and participation.

Conclusion

In less than five years, Kiva Zip has launched an impactful and promising start to potentially transform the field of microfinance domestically to support American entrepreneurs without traditional access to capital and formal financial institutions. In the years to come, Kiva Zip demonstrates substantial potential to continue its impact in serving the entrepreneur community seeking capital resources to fund a range of projects and causes for economic empowerment. The peer-to-peer connectedness created through the Kiva Zip social underwriting process brings together the lending and borrowing network. The character-based lending platform engages, celebrates, and uplifts entrepreneurs while they may have been disqualified from other financial support services. While there is a lack of comprehensive data available to measure impact of Kiva Zip thus far, this promising start can be scaled as the organization continues to grow and innovate in shaping the field of American microfinance. The recommendations provided in this paper are important considerations to advance the vision of Kiva Zip in realizing its timely goal of alleviating poverty through promoting connected capital through its internet-based community. Kiva Zip can holistically serve entrepreneurs to set them on a path of success by engaging in ongoing dialog, gathering entrepreneur feedback and needs, and providing a range of services and offerings to increase entrepreneur capacity to execute their respective project from vision to implementation. Kiva Zip can continue improving on its impact, reach, and growth of the lender-entrepreneur network in shaping the future of its organization as well as the American microfinance landscape.

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