Strategies for Efficiently Expanding the Operations of Kiva.org

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Chapter 1

Introduction

1.1 Overview of Kiva's Operations

Kiva Microfunds is a 501(c)(3) U.S. non-profit organization (since 2006) that allows people to lend small amounts of money via the internet to microfinance institutions (MFIs) in developing countries, which in turn lend the money to small business and entrepreneurs [13]. Specifically, Kiva allows their MFI partners around the world, called "Field Partners," to post profiles of qualified local entrepreneurs on the Kiva website. Lenders then have the access to browse and choose entrepreneurs they wish to fund. Once the lenders have made their selection, Kiva aggregates the loan capital from individual lenders and appropriates the sum to the corresponding Field Partner in charge of disbursing the money in the area of the entrepreneur chosen by individual lenders. As the entrepreneurs repay the loan, the Field Partners wire the funds back to Kiva. This completes the lending cycle, and at this point, the individual lenders on Kiva can decide to either withdraw their principal, or to find a new entrepreneur to lend it to. The process is illustrated in Figure 1.1.

1.2 Costs of Operations

The cost of capital in the microfinance industry is typically around 12% [1]. MFIs receive bulk loans from commercial banks and pay roughly 12% of the debt. Kiva, on the other hand, offers its MFI partners 0% cost of capital, as Kiva's users do not receive interest on their investments. Kiva boasts low administrative costs that are less than 1% as a factor of capital raised [13]. According to Kiva's statistics, the cost of staff time to post and maintain each client profile on the Kiva website is between 1 to 10 USD and the average Kiva loan raised per client profile is 500 USD. There are currently 463 staff and volunteers working for Kiva [14]. Kiva also has a Kiva Fellows Program where externally funded (via universities, grants, etc) volunteers are assigned to work with loan officers at MFIs (or "Field Partners") and a portfolio of 15 entrepreneurs each week [12]. The Kiva Fellowship lasts for some time between 10 weeks and a year. The Fellows are required to blog about their Kiva experiences and to serve the needs of the Field Partners they are assigned to.

Figure 1.1: (1) Lenders browse profiles of entrepreneurs (2) Kiva's microfinance partners distribute the loan funds to the selected entrepreneurs (3) The entrepreneurs repay the loans; the repayments are posted on Kiva and emailed to the lenders (4) When lenders receive their money, they can re-lend to someone else or donate to Kiva

Chapter 2

Common Methods of Financing the Poor

Large financial institutions generally do not provide loans, savings and basic financial serves to the poor. The small size of the poor entrepreneur's ventures and their lack of collateral make it very difficult for the financial institutions to properly assess the risks of these ventures and to cover the proportionally large fixed costs associated with the loans. Only about 20% of the families across Africa have a formal bank account according to a Wolrd Bank Survey. The percentages in Taznia, Liberia and Kenya are respectively 5%, 15% and 10% [10]. Without such banking services the poor cannot keep their savings anywhere secure besides under the mattress or transfer their money without physically delivering the money to their destination. In our paper we investigate the commonly used means of financing for the poor.

2.1 Microfinancing Institution

A microfinance institution (MFI) refers to an organization that provides microfinance services to either non-profit organizations or large commercial banks. The current supply of microfinance does not meet the demand. There are around 3,300 MFIs that reach 100 million borrowers, which is only an estimated 20% of the demand. Most of these MFIs are small-90% have less than 10,000 borrowers. Expansion to meeting more borrowers would require access to capital, which is a major growth constraint [3]. However, the average return on assets for 62 self-sufficient MFIs is 5.5%, which is comparable to commercial-bank returns [11].

For the scope of this report, we will be focusing on MFIs that operate according to Kiva's objectives, which are to further the development of entrepreneurs in developing countries [19]. Kiva has certain criteria that its MFIs (or Field Partners) must meet: serve at least 1,000 borrowers, a history of lending to poor, excluded and/or vulnerable people for the purpose of alleviating poverty or reducing vulnerability, be registered as a legal entity in its country of operation, possess at least a year of financial audits [13]. For most MFIs, Kiva represents the cheapest U.S. dollar debt capital source available [13].

2.2 Mobile Banking

Mobile banking refers to performing balance checks, account transactions, payments via a mobile device [21]. Mobile banking services are growing in areas where the mobile infrastructure is better than the fixed-line infrastructure (such as Asian countries like India, China, Bangladesh, Indonesia and Philippines) and in areas where mobile phone penetration if very high (such as Europe where 80% of the consumers use a mobile phone). According to a study by Celent, a financial consultancy, 35% of online banking households will be using mobile banking by 2010, a significant increase from the 1% we see today [21].

Even though mobile banking is at an early stage in most developing contries, because it exploits the rapidly expanding mobile phone infrastructure, it has great potential to be deloyed rapidly and affordably to expand the access to financial services by the unbanked people [17]. One in nine Africans have access to a cell phone, a significant increase from fewer than 8 million Africans owning cell phones in 2000 to the 100 million now [16]. Now people with access to cell phones have a place to keep and manage their savings without a formal banking institution. Mobile banking is not only more easily accessible to the poor compared to traditional banking, it is also much more affordable. Transaction cost for mobile banking is also significantly lower-South Africans often pay couriers (for carrying cash) $30-$50 for delivering cash to relatives, with mobile banking the transaction cost if only $0.50 [10].

Telecom companies offer mobile banking as a way to attract new customers by leveraging their existing expertise in processing millions of small transactions, which banks are not interested in [16]. There is much enthusiasm in entering the mobile banking industry. The Philippines currenly has 3.5 million users split between two competing mobile banking providers, G-cash and SMARTmoney. Mobile banking providers G-cash and competitor Wizzit are entering their second year of operations. Mobile banking surpassed Internet banking in a mere 5 years. SafariCom, which is partially owned by Vodafone, the largest mobile telecommunications network company in the world, is expanding its M-Pesa pilot to all of Kenya [16].

2.3 Rotating Savings and Credit Association (ROSCA)

ROSCAs are another commonly used and fairly successful method of obtaining capital for the poor. A ROSCA is comprised of a group of individuals that agreed to meet periodically to save and borrow together [22]. Each member of the community contributes the same amount at each meeting and each member takes turns to borrow the entire sum.

ROSCAs have a few unique advantages over traditional loans given by formal institutions. ROSCAs' personal model makes use of "naturally occurring social capital", which is low cost compared to the due diligences required of MFIs for lending. Studies have shown that ROSCAs had successfully helped small businesses develop for the Chinese, Japanese and to some extent West Indian black immigrants. The most essential element of success for ROSCAs is a set of members who are sufficiently solidarity with one another and work very hard to avoid defaulting on their obligations in order to contribute regularly [18].

Some formal institutions have copied the structure of ROSCAs and created institutions called “peer lending” or “mirco-lending”, where the loans are collateralized by a set of other individuals chosen by the borrowers, who also take corporate responsibility for the loan and cannot receive loans until the books are partially cleared. ROSCAs often work best in countries where there is strong local kinship and friendship networks. Those chosen to organize the loans must also have sufficient and accurate information on the borrowers. The Grameen Bank of Bangladesh has made the largest number of such loans [18].

2.4 Grants & Handouts

Grants and handouts are another common form of financing for the poor. However, this does not fall under the scope of our project as Kiva’s objective is development.

Chapter 3

SWOT Analysis of Kiva's Current Strategy

3.1 Strengths

- By allowing individual investors to directly connect with entrepreneurs in developing countries, Kiva provides an unprecedented level of transparency. Individual investors can choose exactly what projects and which entrepreneurs they wish to fund. In addition, the system is capable of showing how money flows through the entire cycle, and what effect it has on the people and institution lending and receiving the loans. This transparency of operation instills a considerable amount of trust for Kiva's operations in its investors, and greatly enhances Kiva's effort in eliminating global poverty.

- By loaning money to individual entrepreneurs instead of merely donating to charity, Kiva helps the entrepreneurs to become self-sufficient on a long-term basis. This makes the money a much greater utility in comparison to being a temporary handout.

- By serving as a secondary source for funds, Kiva frees entrepreneurs from monopolies of local money lenders, who can charge unreasonable rates of interest of up to 300% per year.

- Kiva has developed its marketing strategy with some of the most prominent online advertising and social networking websites, including Google, Yahoo!, YoutTube, Facebook and MySpace [2]. Through these portals, Kiva has been able to raise awareness and spread its message and brand image to countries all over the world.

3.2 Weaknesses

- Kiva only supplies loans to individual entrepreneurs, and does not help generate new jobs in developing countries. Thus, the individual entrepreneurs may be better off after the help of Kiva, but not the entire countries.

- By having the microfinance institution Field Partners as an intermediary between the lenders and the entrepreneurs, Kiva gives these Field Partners all the bargaining power. The Field Partners charge an average of 21% interest rate to the entrepreneurs.

- Kiva believes that the Field Partners are necessary as they help to manage and administer the loans and provide support to entrepreneurs to ensure business success. However, most entrepreneurs have a good business sense, and simply need the credit. Thus, Field Partners may not be essential.

- Kiva bears the risk of having fraudulent Field Partners. Staff members at a Field Partner may embezzle the funds, or create false entrepreneur profiles to receive more funding from Kiva.

3.3 Opportunities

- Kiva targets small institutions and entrepreneurs who are more philanthropically minded and not demanding on the returns of investment

- Because Kiva's main operations are internet based-it is relatively scalable and flexible

- There has been a lot of media attention (such as Oprah's show aired during Thanksgiving 2008) and for a while Kiva did not have enough entrepreneurs (from the Field Partners) to meet the demand of users who want to lend money (see Figure 3.3)

- Kiva's growth in amount of loans and lenders is depicted in the figure below

3.4 Threats

- The risk of scams from MFIs and entrepreneurs may increase with the expansion of operations-there may not be enough reliable MFIs, Kiva may also not have enough resources to perform all the due diligence required

- The lenders currently bear the full cost of liability-the supply of lenders and their re-lending are essential to Kiva's operations.

- Long term threats: change of developmental philosophy. Professor Ensminger mentioned that the current murmur in academia regarding aid for developing countries is to cut off aid (at least specifically in Kenya) due to problems with donations and funding going to corrupt governments.

- Kiva's competition in the development industry (i.e. similar internet based companies)

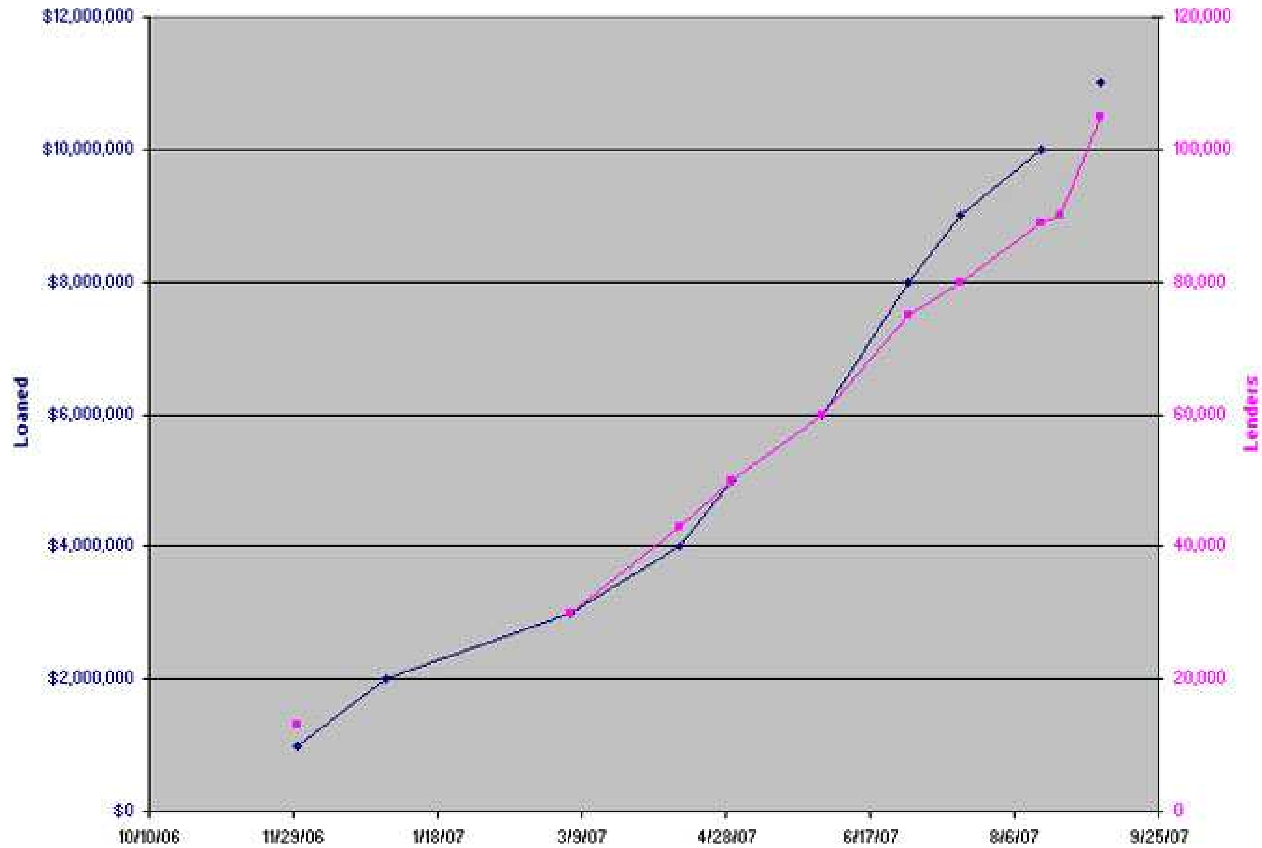

Figure 3.1: This graph illustartes the growth of Kiva's Loaned amount and the number of Kiva Lenders.

Chapter 4

Proposed Strategy

4.1 Strategy 1: Improving Upon the Current Infrastructure

We propose that Kiva first loans each entrepreneur a cell phone prior to loaning the requested amount for the business venture. In the trial period Kiva will begin providing a fixed amount of free phone service. If during the trial period the entrepreneur successfully repays a designated portion of the loan on the cell phone, Kiva will proceed to sanction the requested loan. For the duration of the loan the entrepreneur will periodically report the status of the loan and business venture to the Kiva Fellow in charge via SMS messaging. The Kiva Fellow can easily compile and upload the SMS messages to make them accessible to the lenders. Kiva will also provide relevant information via SMS, such as weather forecast and merchandise pricing information. If the entrepreneur fails to report or repay the loan in a timely manner the Kiva Fellow can easily investigate via the cell phone or send the Field Partners to find out personally while threatening to cut off the cell phone service. The entrepreneurs that successfully repay the loans will have the opportunity to apply for a second loan or to keep the cell phone and pay for their own cell phone usages.

4.2 Strategy 2: Replacing Field Partners with Mobile Banking

Under this framework Kiva would collaborate with the Mobile Money for the Unbanked (MMU) program [6], which aims to encourage the expansion of reliable and affordable mobile financial services to the unbanked in developing areas. Like the previous strategy, Kiva first loans each entrepreneur a cell phone prior to loaning the requested amount of business venture. The entrepreneur would have to fulfill the same obligations during the trial period such as repaying the loan on the cell phone in a timely manner. If all obligations are met, the entrepreneur would be given the requested funding. The Kiva Fellows would still be required to meet with the qualified entrepreneurs to take pictures of them and summarize their business for the Kiva website. However, unlike the previous strategy, Kiva can bypass the Field Partners in providing and regulating the repayment of the loans. The entrepreneurs would receive and deposit money with a registered agent or phone vendor and transfer money from their accounts through SMS messaging [10]. In addition to being able to cut off the entrepreneurs' cell phone access, Kiva can also easily freeze the mobile accounts of the entrepreneurs. The entrepreneurs that successfully repay the loans will be given the mobile banking account and cell phone and the opportunity to apply for a second loan, given they pay for their own usage charges.

Chapter 5

SWOT Analysis of Strategies

5.1 Strengths

Our strategies will greatly improve the transparency between the different parties within Kiva. Kiva can now easily check on its Field Partners by having the Kiva Fellows directly inquire the entrepreneurs about the amount of money they had received from the Field Partners. This will ensure that all the money allocated to the Field Partners have transferred completely to the entrepreneurs. The lenders now also have a way of receiving personal progress updates from the entrepreneurs instead of receiving updates only after the loan has been repaid.

In addition to improving transparency, these strategies help allocate the Kiva Fellows more efficiently. Instead of just working with a single Field Partner and taking charge of a portfolio of 15 entrepreneurs [12], the Kiva Fellows can now play a more supervisory role over multiple Field Partners with the aid of the cell phone. Rather than visiting all the entrepreneurs personally and shadowing the Field Partners, the Kiva Fellow can peruse the SMS updates and focus on ensuring the Field Partners are allocating funds properly and alerting the Field Partners to work with entrepreneurs that may be troubled and take preventative measures against defaults. By forcing the entrepreneurs to communicate regularly with Kiva, Kiva can respond more quickly to problems the entrepreneurs may face and help prevent the failure of their business ventures.

Not only would the automated reporting system reduce the manpower required for monitoring the entrepreneurs and improve the scalability of Kiva's operations, it also provides Kiva with a centralized data base. Kiva can more easily organize and aggregate information on each entrepreneur and use the statistics to provide more informed advice to entrepreneurs in similar regions or businesses. Moreover, Kiva can better allocate its resources because as the reports would provide a clearer idea of the scale and success of business ventures in a given region of operation.

Perhaps most importantly, there is a lot of synergy between the business of providing mobile phones and mobile banking services to the poor and Kiva's operations. Growing evidence shows that cell phones do boost the overall economic performance of developing nations. Studies from the Financial Times show that a 1% increase in mobile diffusion "increases GDP per capital from 124 USD to 164 USD in the developing world" [8] .

The information that can be transferred to the entrepreneurs can greatly benefit their business ventures [7]. Instead of having to depend on a middleman to determine the price of their goods, farmers can now receive SMS from the market or place calls to find out the fair price. Oraganizations such as TradeNet, which operates in 17 countries, provides basic information about agriculture goods via cell phones for free [7]. Cell phones also improve consumers' bargaining power as they have easy access to the fair price of goods. Cell phones can also help improve public health and help vulnerable populatins deal with natural diseases by providing basic health services such as reminders to take booster shots, and warning about impending storms [7]. This is particularly important as some of the business defaults Kiva dealt with were due to such unanticipated events befalling the family.

Moreover, distributing cell phones to the poor could mutually expand Kiva's and the cell phone providers' reach into these developing areas.

5.2 Opportunities

5.2.1 Cell Phone Technology in Developing Countries

There is tremendous growth in the cell phone usage over the past six years, particularly in the developing world. According to the most recent report by the International Telecommunication Union (ITU) six in ten people around the world now have cell phone subscriptions, implying cell phones are the communications technology of choice, especially in poor countries. Compared to the estimated 1 billion users in 2002, as of last year there were an estimated 4.1 billion subscriptions globally. On the other hand, fixed line subscriptions increased from 1 billion to a mere 1.27 billion in the same amount of time [9].

Though building a complete cell phone infrastructure for a developing country is not cheap, it is relatively less costly compared to building land line connections to every residence. Hence, many developing countries have diverted their focus to building wireless infrastructure as a primary means of communication. One of such example is Africa, where the cell phone penetration rates are approximately 21%, much higher compared to 9% of land lines [20]. The African governments and many others have made the goal of constructing adequate cell phone infrastructure a priority and several of them have partnerships with the major carriers to facilitate the development of this infrastructure [5].

One such carrier is Vodafone, the second largest cell phone service provider in the world. While most wireless carriers choose not to do business with developing nations due to inherently low margins, Vodafone has made significant contribution and investments in the African and India sector. The average revenue per user (monthly charge) is $50 in developed countries while it is only $3-$7 in these developing countries [4]. It is very affordable and can be adopted by Kiva to further development and tighten due diligence.

Additionally, the ITU report states that despite the significant improvements in the developing world, the gap between the Information and Communications Technology (ICT) measurement [9] between the haves and have-nots remained about the same between 2002 and 2007. Hence the UN has recently launched initiatives to close the gap, e.g. the Connecting Villages program. There are also non-profits such as Kiwanja, that provide free consultancy on integrating cell phone technology into grass root non-profit organizations.

Organizations that promote mobile banking to the poor are also receiving increasing attention. For example, Mobile MOney for the Unbanked (MMU) program recently received as 12.5 million USD grant from the Bill & Melinda Gates Foundation to work with mobile operators, banks, microfinance institutions, government and development organizations to encourage the expansion of reliable, affordable mobile financial services to the unbanked [6].

5.3 Weaknesses

The main weakness in our strategy is that by collaborating with cell phone providers and/or mobile banking providers, Kiva's success becomes increasingly dependent on the success of these organizations. However, this is a risk that comes with any partnership and the upside is that the evident rising success of these organizations will help promote Kiva. Another weakness inherent in our strategies is the dependence on Kiva Fellows to fulfill their new roles are the direct supervisors over the Field Partners (in Strategy 1) or as the direct supervisors over the entrepreneurs. The problem is that the current program only stipulates that Kiva Fellows stay for a minimum of 10 weeks. We can easily fix this by extending the duration of the program or by providing funding for the fellows from the money we potentially save from bypassing the Field Partners.

5.4 Threats

The main threat is from competing non-profit organizations that would copy our strategies. However, our first mover advantage is significant. Not only would we be able to sign exclusive distribution rights with the primary cell-phone carriers, we would also have established longer standing relationships with partners such as MMU, Kiwanja and local governmental organizations looking to promote cell phone usage.

Chapter 6

Conclusion

Kiva currently faces higher demand for its services than it can supply. We proposed two strategies that will help Kiva expand its operations effectively while improving transparency among all facets of its operations. Our strategies will leverage the tremendous increase in cell phone penetration in the developing countries Kiva currently operates in or could potentially operate in. Cell phone technologies have also shown to boost the overall economic performance of developing countries. By incorporating cell phones into the loans it provides to the entrepreneurs, Kiva would force the entrepreneurs to communicate regularly with Kiva, reduce the risk of having fraudulent Field Partners, allocate the Kiva Fellows and its resources much more effectively, improve the efficiency of its operations, and better organize and centralize information on entrepreneurs, and subsequently better advise entrepreneurs.

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