Innovations for Poverty Action

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Kiva Lenders Have Needs, Too

Meet Jacques. He's the Kiva Coordinator at WAGES, a microfinance institution (MFI) based in Togo, West Africa. Every day, a loan officer hand-delivers a stack of borrower information forms and a USB chip full of photos. Jacques has trained the officers how to fill out the forms, use digital cameras, and get borrowers to smile and display their merchandise proudly for pictures.

Jacques formats the pictures, writes the information into paragraphs, and uploads everything to Kiva's website. Then, during the loan cycle, he reports repayments manually and visits borrowers to collect a progress update and take yet another picture.

The work is inefficient, tedious, and time-consuming.

But it's worth it.

It's worth it because, at 0% interest, the funds from Kiva are cheaper than many other sources of funding – despite the significant expense of coordinating the relationship and producing the borrower profiles.   WAGES accepts this administrative work as a necessary cost of using Kiva funds. Essentially, it's the cost of marketing.

However, in a much-discussed blog post called "Kiva Is Not Quite What It Seems," David Roodman offered a critique of Kiva's model, writing:

Surely it would be better for us to give in a way that allows the microfinance institutions to put more of their limited energies into helping poor people manage their difficult lot and less into making us feel good.

Working as a Kiva Fellow in Togo and witnessing Jacques' tremendous workload, I was tempted to agree with Roodman. How selfish of us, the lenders, to demand such wasteful expenditures of time and money just so we can feel we've made a difference!

Since then, I've come to realize that having a cost associated with attracting lenders is not wasteful or irrational. It's simply a reflection of a universal principle: Nothing in life is free, not even charity. Every non-profit organization marks a portion of its donations for fundraising and marketing. Sure, cutting back on these expenses would allow them to funnel a higher percentage of donated funds directly to their cause – but would the donations still come in? There's clearly an optimal balance to be struck – the one at which a non-profit gets the most bang for its marketing/fundraising buck.

In the case of Kiva, the lenders want a rewarding experience, even at a cost to the MFIs.

Roodman calls this desire an “irrationality” of private philanthropy. I consider it a rational phenomenon that’s emerging in the new gray area between capitalism and charity. Like many things in this uncharted territory – including microfinance – its implications are not yet fully understood. Kiva, however, seems to be harnessing this phenomenon successfully, thanks to a built-in gauge: If the administrative cost of providing the Kiva “marketing” content was too high for MFIs, more of them would seek alternative sources of capital. And if the warm and fuzzy return on investment provided to Kiva lenders wasn’t engaging enough, lenders would seek other, more rewarding causes to support.

Roodman’s article also criticized Kiva for not adequately communicating that 95% of loans seeking funding on the site have already been disbursed (a system that is actually more efficient than “true” peer-to-peer lending). Matt Flannery, Kiva’s CEO and Co-Founder responded, reiterating Kiva’s dedication to openness and promising to make things clearer on the website.

How will this improved transparency affect Kiva’s funding supply? Casual Kiva users probably won’t notice or care, and will continue to lend. Die-hard Kiva users (they call themselves “Kiva Friends”) already knew and kept lending too. The conscientious, newly educated user, however, might start to question whom they are really helping when they click “Lend $25.” The answer to this important question depends on how an MFI uses the savings gained from accessing Kiva’s cheap capital. Are the savings used to cover financial literacy training? Are they passed on to clients through lowered interest rates? Or, are they being used to pay a high salary for the MFI Director?

Once lenders start thinking about questions like these, they might start paying more attention to Kiva’s field partner profile pages, perhaps asking for more disclosure. Roodman points out that Kiva may fear that complete honesty would undermine growth. Flannery refutes this. Only time will tell. What is clear, however, is that Kiva will constantly evolve, thanks to its dedication to self-improvement and transparency – and with the help of conscientious critics like Roodman.

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