

APPENDIX B: CONTESTED MICROFINANCE

The following news article from New York Times describes a debate around the Kiva.org organisation and its microfinance model. Kiva represents an innovation within development aid, but has recently been subject to criticism for giving donors (lenders) false expectations. The news story includes the viewpoints of the Kiva leader and critics of the organisational model. The debate around the Kiva model can be approached in a variety of methodological ways.

Confusion on Where Money Lent via Kiva Goes

By **STEPHANIE STROM**
Published: November 8, 2009

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Left, Daniel Lemin; right, Heather Haines

[Oprah Winfrey](#) extolled Kiva on her TV show. Nicholas D. Kristof, a columnist for The New York Times, sang its praises. "I lent \$25 each to the owner of a TV repair shop in Afghanistan, a baker in Afghanistan, and a single mother running a clothing shop in the Dominican Republic," Mr. Kristof wrote in [a 2007 column](#).

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New York Times, November 9, 2009 • By [STEPHANIE STROM](#)

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[Oprah Winfrey](#) extolled Kiva on her TV show. Nicholas D. Kristof, a columnist for The New York Times, sang its praises. "I lent \$25 each to the owner of a TV repair shop in Afghanistan, a baker in Afghanistan, and a single mother running a clothing shop in the Dominican Republic," Mr. Kristof wrote in [a 2007 column](#).

Kiva, a nonprofit organization, promoted itself as a link between small individual lenders and small individual borrowers like Maryjane Cruz in the Philippines, who recently sought a \$625 loan to support her family's farm.

But Mr. Roodman's [blog post](#) said that lenders like Mr. Kristof were not making direct loans. Borrowers like Ms. Cruz already have loans from [microfinance](#) institutions by the time their pictures are posted on Kiva's Web site.

Thus, the direct person-to-person connection Kiva offered was in fact an illusion. Kiva's lenders were actually backstopping microfinance institutions, and since Kiva and other online giving and lending models pride themselves on their transparency, Mr. Roodman and others suggested it might better explain what its lenders' money — about \$100 million over four years — was really doing.

"The person-to-person donor-to-borrower connections created by Kiva are partly fictional," he wrote. "I suspect that most Kiva users do not realize this."

"Little did I realize what that click would unleash," he said in an interview, later adding that the post had attracted dozens of comments, more than 10,000 hits and thousands of [Twitter](#) postings.

Much of his long post is complimentary to Kiva — after all, the information he used to write it is largely tucked away on Kiva's site — but it has brought scrutiny of the organization. It goes beyond complaints about its transparency to questioning whether the model it relies on is viable and, indeed, whether any organization can fulfill the promise it was making to directly connect people to people.

"There's a whole new generation of socially connected nonprofits that use the Internet to make the illusion of person-to-person contact much more believable," said Timothy Ogden, editor in chief of [Philanthropy Action](#), an online journal for donors. "The problem is that they are no more connecting donors to people than the child sponsorship organizations of the past did."

In the late 1990s, several child sponsorship organizations amended their disclosures after a series of articles in The Chicago Tribune revealed that while they were soliciting money to sponsor a specific needy child, that child was not necessarily receiving the money directly.

More recently, charities that ask donors for money to buy a farm animal have added disclaimers to their pitches, stating that money might not buy a cow or a duck but finance broader programs.

Now Kiva is the latest nonprofit group to have to overhaul its explanation of how it works. Where its home page once promised, "Kiva lets you lend to a specific entrepreneur, empowering them to lift themselves out of poverty," it now simply states, after Mr. Roodman's post: "Kiva connects people through lending to alleviate poverty."

Kiva is not the only site with transparency problems. [GlobalGiving](#), whose Web site allows donors to choose among various projects to support, has raised money for philanthropic projects of three or four profit-making companies, according to Dennis Whittle, its co-founder and chief executive. It did not, however, tell donors that their money would support a company's philanthropic projects rather than one proposed by a nonprofit.

For instance, it raised \$975 for SunNight Solar Enterprises, a small start-up that develops solar-powered consumer products, so it could distribute 500 free solar-powered lights to refugees in camps. After The New York Times raised questions about the issue, Mr. Whittle said in a [blog post](#) on The [Huffington Post](#) that GlobalGiving was considering whether to tell potential donors when it was raising money for a business rather than a nonprofit.

Premal Shah, Kiva's president, said he could foresee a day when Kiva really did provide person-to-person connection, once some legal hurdles are cleared and when people in the developing world began using their mobile phones to use credit and make payments.

"That's the future of Kiva," he said, "when through that disintermediation process you can bring down the costs of these transactions and put them directly in the hands of people."

For now, however, analysts are raising questions about Kiva's model, which relies in part on its own data, offers lenders no recourse against default and deploys volunteers to do most of its auditing.

Mr. Ogden goes so far as to question Kiva's role in the lending process. "Kiva's new documentation explains, if you read it, that Kiva is a connector not of individual lenders to individual donors, but of individual lenders to microfinance institutions," he said. "If Kiva's users want to be connected to an individual borrower, Kiva doesn't do that, and so the big question is, do Kiva's users want to be connected to a microfinance institution — in which case, why do they need Kiva?"

Indeed, individual lenders can support microfinance institutions directly through, for example, [Microplace](#), or make donations to support nonprofit groups like the [Grameen Foundation](#) and [Acción](#) that support microfinance.

Mr. Shah said he thought Kiva's distinct advantage was in making it easier for small lenders to support microfinance than the other programs.

The difficulty is in engaging the person who wants to lend \$25, a mother of three in Des Moines, for instance, "and create a simple way for her to participate in microfinance, which is what we do," Mr. Shah said.

The question is, does the lender understand that his money may not be supporting the loan he picked on Kiva's Web site?

The uproar has proven beneficial in an unexpected way. "If anything, it has drawn more people into the nuance and beauty of this model of microfinance," said Mr. Shah, who joined Kiva from [eBay](#). "It's highly imperfect, but it's like a 3 1/2-year-old child: it has a lot of potential."

He said he had so far seen no impact on Kiva's business, which set a record with \$293,000 lent on the day he was interviewed and celebrated its fourth anniversary last month by announcing it had lent more than \$100 million all told.

Facts from Wikipedia

Kiva Microfunds (commonly known by its domain name, [Kiva.org](#)) is a 501(c) non-profit organization that allows people to lend money via the Internet to low-income / underserved entrepreneurs and students in over 70 countries. Kiva's mission is "to connect people through lending to alleviate poverty."

Since 2005, Kiva has crowd-funded more than 1 million loans, totalling more than a half a billion dollars, at a repayment rate of 99 percent. As of Nov. 2013, Kiva was raising about \$1 million every three days. The Kiva platform has attracted a community of more than 1 million lenders from around the world.