

innovations

TECHNOLOGY | GOVERNANCE | GLOBALIZATION

Resilience in a Turbulent World

Lead Essays

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Reginald Van Lee et al. Megacommunities

Cases Authored by Innovators

Amazon Conservation Team: Changing the Landscape of Power

Mark J. Plotkin

commentary by Norka Ruiz Bravo

Kiva at Four

Matt Flannery

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Steven Horwitz Best Responders

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Organization of the Journal

Each issue of *Innovations* consists of four sections:

1. **Lead essay.** An authoritative figure addresses an issue relating to innovation, emphasizing interactions between technology and governance in a global context.
2. **Cases authored by innovators.** Case narratives of innovations are authored either by, or in collaboration with, the innovators themselves. Each includes discussion of motivations, challenges, strategies, outcomes, and unintended consequences. Following each case narrative, we present commentary by an academic discussant. The discussant highlights the aspects of the innovation that are analytically most interesting, have the most significant implications for policy, and/or best illustrate reciprocal relationships between technology and governance.
3. **Analysis.** Accessible, policy-relevant research articles emphasize links between practice and policy—alternately, micro and macro scales of analysis. The development of meaningful indicators of the impact of innovations is an area of editorial emphasis.
4. **Perspectives on policy.** Analyses of innovations by large scale public actors—national governments and transnational organizations—address both success and failure of policy, informed by both empirical evidence and the experience of policy innovators. The development of improved modes of governance to facilitate and support innovations is an area of editorial focus.

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Building on Kiva's Success

Can Kiva Lenders Influence U.S. Foreign Aid Policy?

Innovations Case Discussion:
Kiva

I first met Premal Shah, President of Kiva, at a microfinance conference at the University of Southern California (USC) in May of 2006. Premal had moved from PayPal to Kiva four months earlier and was attending the conference with Matt Flannery, Kiva's co-founder and author of "Kiva at Four." My conversations from then until now have primarily been with Premal. A year before we met, Kiva had only funded 13 loans. I had been advocating on behalf of microfinance for 20 years, both as founder of RESULTS, a citizen advocacy organization focused on creating the political will to end poverty, and as founder of the Microcredit Summit Campaign.

Premal and Matt had come to the USC conference to generate partnerships with some of the experts who were speaking. I knew about Kiva and knew there was some skepticism about their work. At first I wanted to discern whether the skepticism had more to do with a breakthrough they had created that others couldn't yet understand or whether it was due to some real problems with Kiva's structure or methodology. During my time in the field of microfinance, I'd been trained by people like Nobel Peace Prize winner Muhammad Yunus to actively look for the rule-breakers. He hadn't said that in so many words, it was just that whenever some aspect of his work took my breath away, it always had something to do with defying conventional wisdom—doing what others saw as impossible.

I remember being with Yunus at lectures 15 years earlier when he would be asked what his strategy was in starting Grameen Bank. His response was stunning in its clarity about the revolution in banking that had been promulgated:

I didn't have a strategy, I just kept doing what was next. But when I look back, my strategy was, whatever banks did, I did the opposite. If banks

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lent to the rich, I lent to the poor. If banks lent to men, I lent to women. If banks made large loans, I made small ones. If banks required collateral, my loans were collateral free. If banks required a lot of paperwork, my loans were illiterate friendly. If you had to go to the bank, my bank went to the village. Yes, that was my strategy. Whatever banks did, I did the opposite.

Even though rule-breakers like Yunus gave birth to microfinance, the field soon built its own set of rules and often questioned or ignored its greatest innovators. So I felt this awe about the pioneers that kept me from dismissing something new like Kiva, which I quickly came to see as a rule-breaker in its own right. At the USC conference, Premal invited me to join Kiva's Microfinance Advisory Board, an unofficial group intended to bring more credibility to this young organization. I was asked to lend my name and that of my institution and to offer some coaching from time to time. Because I wanted to understand what the skepticism was all about, I told Premal that I would need a little time to think about his invitation.

Aside from some unspoken jealousy about this young organization getting so much early attention, the two serious issues I uncovered were these: (1) it is too costly and time-consuming for a microfinance institution (MFI) to write up all of the client stories, take the photographs, and get them up on Kiva's website, and (2) if Kiva lends in U.S. dollars and the client gets their loan in the local currency, who covers any shortfalls due to currency fluctuations when Kiva is repaid in U.S. dollars?

Premal and Kiva had ready answers that satisfied me enough to convince me to join their informal group of advisors. He told me that young bank workers laboring in remote areas around the globe were enthusiastic about sharing their work on the Internet and, as a result, felt more satisfaction than burden about writing and posting the client stories. Premal also reminded me that Kiva charged the MFIs two percent interest on the loan funds and that this low interest rate more than made up for any currency fluctuation. It should be noted that commercial rates to MFIs in India, for example, can be 9 to 11 percent or, in the current environment, even higher than that.

It is interesting to see in Matt's latest paper that currency fluctuations in 2008 have brought this issue up for further review.

There are a number of things that Kiva has done first and/or done right:

- Kiva was the first microfinance-related institution to use the Internet to reach increasingly large numbers of the general public and truly engage them. While the first Microcredit Summit in 1997, the Year of Microcredit in 2005, and Muhammad Yunus's receipt of the Nobel Peace Prize in 2006 did a great deal to inform the general public about microfinance, none of these initiatives found a way to truly engage increasingly large numbers of the general public directly and to do so on an ongoing basis.
- Because of its innovative engagement mechanism, Kiva has been able to tap and excite members of the media on a regular basis in a way that can eventually bring

the kind of saturation coverage to the field that makes the biggest difference. Normally, if there is an important article in a major newspaper, readers pay attention momentarily, but there is little for the reader to do and little or no support for staying connected. Kiva has begun to powerfully bridge that gap.

- Kiva has been able to provide tens of millions of dollars to MFIs that are not yet able to attract loan funds from banks and other commercial investors. As a result, it is filling an important gap.
- Kiva has been able to make the human connection that child sponsorship programs provide, but does so in the form of self-help, dignity-producing microloans. People really get the importance of this empowering intervention and want to invest and then re-invest.
- Kiva has been able to speak clearly and honestly with its lenders about the small amount of corruption among its MFI partners. At the 1997 Microcredit Summit, one of the 35 workshops focused on preventing corruption, and the session was featured in an early campaign newsletter that was distributed globally. But the field has been too hesitant when it comes to discussing corruption or discussing interest rates with the public in general and with donors in particular.

That said, there is still a bit of deception in the notion that the moment that a loan is funded, the client in Kenya or Cambodia receives his or her microloan with those particular dollars. Indeed, there are real people receiving real loans to start or grow real enterprises, but if a client in a remote village qualifies for a loan, the MFI will not likely make that client wait for the Kiva lenders to put up that last \$25. Said another way, loan funds are fungible, and a larger MFI on Kiva's website will use Kiva's loans as one important source of their lending pool, but it's not actually those precise dollars going to that precise client.

There is no question, however, that Kiva's work has made a profound contribution to the field of microfinance and international development. But I cannot comment on their work and Matt's paper without discussing two challenges I have laid out to Kiva in my conversations with Premal.

It is easy for someone like me, sitting on the outside, to say Kiva should do this or Kiva should do that. But the way I look at it is, if Kiva had made a small impact I would make some small suggestions. But I see their impact as large and potentially immense, so my suggestions will be just as bold.

From the beginning I have urged Premal to find a way for Kiva to be more proactive about exposing its lenders to some of the poorest microfinance clients in the world. It's true that while one person might need a loan of \$25 and another a

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loan of \$2,500, both deserve a chance to build a better life for themselves and their families. But poverty won't be eradicated when the ultra-poor are left out—as they have been in other forms of international development, including microfinance. The children of the very poor are the ones who die at the rate of 25,000 a day. The children of the very poor who are the 75 million primary school aged children who are not in school. And, of course, the very poor are the more than one billion around the world who live on less than \$1.25 a day.

There are many microfinance specialists who say that the very poor cannot use a microloan. But that is an ancient myth—one that dies hard. Whether you look at the first 42 borrowers at Grameen Bank 33 years ago, whose first loans averaged less than \$1 each, and propelled one borrower to skyrocket from a profit of two cents a day to \$1.25 a day, or you marvel at the loans Jamii Bora is successfully making 33 years later to former beggars, thieves, and prostitutes in Kenya, one sees clearly that microfinance can empower the very poor.

Can you imagine the Kiva website telling potential lenders that Joyce Wairimu is a beggar in Mathari Valley Slum in Nairobi and needs a loan of \$20 to start a small business, and then ten years later reporting that Joyce has six businesses and 62 employees? That's exactly what has happened. Can you imagine the Kiva website announcing that Wilson Maina, one of the most wanted criminals in the Mathari Valley slum in Nairobi, has saved \$10 (none of it from stealing) and now qualifies for a \$20 loan, and then reporting years later that Wilson has four businesses and has convinced hundreds of youth to get out of crime?

That is the kind of eye-popping transformation that is going on, and Kiva's lenders should be made aware of it and be given an opportunity to breathe more life into this critical and unsung segment of the microfinance movement. Remember, these two clients needed a first loan of \$20, which is less than the minimum allowed on the Kiva website.

When I briefly scanned the blog of a Kiva Fellow who had just completed her service, I was caught by the phrase, "I worry that perhaps we still aren't reaching the poorest of the poor..." I guess you could say that I worry about that too.

I know it is difficult. The MFIs reaching the ultra-poor have to want to play ball with Kiva, so it's not solely Kiva's fault that this segment is not well-represented on their website. But given Kiva's vision and its growing reach, this is an area where the difference they have already made could become even more profound.

The issue of connecting Kiva lenders with those successfully reaching the very poor is directly linked to the other issue that I have begun to discuss with Premal. Here's how Matt raised it in his piece:

Lastly, Kiva may one day find itself wading into advocacy, as many non-profits do. With a large list of highly-engaged, socially-conscious users, we will have the ability to rally support behind certain causes. For instance, can Kiva help impact the way aid is dispersed in this world? Can we raise awareness for poverty alleviation as a national priority? I believe we can.

I also believe Kiva can and I believe that it should. Let me give several recent examples of how advocacy from Kiva lenders could have made a profound difference. In December 2008, 114 members of the U.S. Congress, at the urging of volunteers in RESULTS, wrote letters to World Bank President Robert Zoellick asking him to create a \$200 million annual grant facility to be used for microfinance only for the very poor. The World Bank has a dismal record in getting microfinance to the very poor and it will take more pressure to get it to make the required policy shift at the Bank. If Kiva's lenders had gotten involved, could it have been 214 or 314 members of Congress who wrote Zoellick? That change would be an answer to Matt's question, "Can Kiva help impact the way aid is dispersed in this world?" Remember, the World Bank's website leads with this phrase: "Working for a world free of poverty." Kiva's lenders could help get the World Bank to live up to its own words.

Here's another example of where Kiva lenders could have lent not only their money but also their voices as citizens. In early 2009, 47 members of the U.S. House of Representatives wrote the two top foreign aid appropriators in the House, asking them to provide \$500 million in 2010 for microfinance, mostly for the very poor. You see, Kiva won't provide \$500 million in 2010, and even if it did, it wouldn't be going to the very poor around the world.

And then there is this statement of Matt's: "Can we raise awareness for poverty alleviation as a national priority? I believe we can."

I believe we can too and that Kiva should be doing it now. For example, in May 2009, nine years after the Millennium Development Goals (MDGs) were endorsed by more than 180 heads of state and government, Howard Berman, the chairman of the House Foreign Affairs Committee, introduced the Initiating Foreign Assistance Reform Act and never once mentioned the MDGs, or how U.S. foreign assistance should measurably contribute to achieving them. The MDGs call for cutting poverty and hunger in half and getting all kids in primary school by 2015, among other goals. And why were they left out? Because the foreign assistance act hasn't been passed since 1961 and there isn't sufficient public support for the MDGs to overcome those in Congress who oppose them solely because they came out of a UN summit. So the UN haters win, the poor around the world lose, and we are faced with the fact that poverty alleviation clearly is not a national priority.

As Matt said:

[O]ur experience in just four years says something. If nothing else, it speaks to the power of individuals to make a difference and to create a dent in the biggest problem of all: inactivity. Not only have the world's poor long been excluded from the financial system, but the world's privileged have not felt empowered to affect the situation. The Kiva community now includes thousands of individuals who have stepped up for the first time to make a small difference. The potential for big change from the aggregate tiny actions of many is now more enormous than ever.

I agree, and congratulate Kiva on its amazing success thus far and for the territory it can take in the future.