Case Study Proposal:
Microlending via Kiva

What Is It

Kiva is a non-profit organization that extends "microloans", which loans as small as a few hundred dollars to impoverished borrowers, with the expectation that they will start a business and be able to repay the loan. While other microlending institutions, most notably Grameen Bank, are bigger and better known, what sets Kiva apart is the importance of the internet to its operations. Kiva borrowers are usually, but not always in developing countries.

Kiva funds much of its lending activity via crowdfunding. The rest comes from charitable contributions.

Note: This proposal focuses on specifically on microlending, otherwise known as microcredit. However, other banking services, such as checking accounts and direct deposit into them, are also rapidly becoming available to the same impoverished population.

Why This Matters

Microlending has been shown to aid extremely poor people in third world countries in starting small businesses. Any such success is hugely important, because over a billion people could benefit from microloans. Kiva, in particular, has lent over a billion dollars to over a million entrepreneurs. Unfortunately, the cost of administering such loans, i.e. deciding who is a good credit risk, figuring out how much to lend, disbursing funds, tracking repayments, etc., is so high that Kiva's average (non-US) interest rate of 35% does not cover costs. And with such high interest rates, borrowers can fall into a "debt trap", in which they can't even cover the interest payments. Because unpaid interest is always added to loan principal to determine the amount to be repaid, the amount owed keeps growing!

This is where fintech comes in. Kiva is in the process of setting up payments directly to borrowers via PayPal (so-called Direct Loans), rather than through local organizations (which provide so-called Partner Loans). At present, Direct Loans cost so much less to administer that Direct Loan borrowers pay no interest or fees, but Partner Loan borrowers pay the above rates.

Although Kiva and a number of other microlenders are non-profit, many for-profit microlenders also inhabit this space. They, too, hope to leverage the enormous cost savings provided by fintech.

Why This May Be Interesting

- One may have a strong desire to use fintech to promote the greater good.
- This case study would provide an example of how a labor-intensive process is in the process of being automated. It would also drive home the enormous cost savings available through financial technology.

- Kiva, in particular, is
    - looking at interesting technologies, such as big data and facial recognition, to speed up loan approvals. They are also advertising for a block chain engineer.
    - Reporting a programmer shortage.
- The microlending sector is growing rapidly, with many players investing heavily in machine learning and big data. One of the major for-profit microlenders, Lending Club, had the largest tech IPO in 2014.

Things to Keep in Mind for a Case Study

- An explanation of what microlending is, perhaps with both a success story and a story of someone who got stuck in a debt trap
    - How Kiva currently works and how technology helps
    - Partner Loans, as facilitated by local institutions and how Kiva vets these institutions
    - Direct Loans, as approved by "social underwriting"
    - Why Partner Loans are so much more expensive to administer o Crowdfunding the loans
    - Loan repayment
- What technologies Kiva might apply in the future

Resources:

- https://en.wikipedia.org/wiki/Microcredit (Wikipedia page on Microcredit)
- https://www.disruptordaily.com/microloans-9-platforms-changing-game-2018/ (Info on Kiva and other microlending providers)
- https://www.kiva.org/ (Kiva website)
- https://www.kiva.org/blog/technology-in-the-field-the-future-of-microfinance (blog posts that give an indication of what technologies Kiva uses)