



Crowd Funding and its Challenges

The concept of crowd funding isn't a new one. People have long pooled money together to help a neighbor in need, participated in a shared business investment, or contributed money towards a larger cause. The introduction of online crowd funding platforms such as Kiva.org offers a new spin on this established practice.

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SYSTEMS LIKE KIVA allow like-minded people to pool their funds through formalized web platforms rather than through informal family connections or community associations. While these platforms create valuable efficiency gains around the collection and transfer of funds from one set of people to another, they also raise questions about the role of the platform. In particular, what – if anything – is the role of the platform in managing the crowd which it serves?

This is a question that affects the core of Kiva, the world's first personal microlending website. Kiva's mission is to connect people through lending to alleviate poverty. In six years of operation, Kiva has facilitated close to \$300 million in microloans from lenders in 218 countries to borrowers in 60 countries. The scale of such an accomplishment is made more remarkable by the fact that Kiva has consistently maintained an internal staff of less than one hundred employees. This very scale and diversity of Kiva's reach, combined with its relatively small staff, poses unique challenges. Because it is impractical for Kiva to be intimately familiar with each end-recipient of Kiva financing, it is neither possible nor appropriate for Kiva to attempt online promotion of borrowers' who may seem most in need or most worthy of financing. Kiva lacks the deep knowledge of local contexts

and borrowers circumstances necessary to make such judgments. Instead, Kiva positions itself as an open marketplace where all parties can act autonomously according to their own values. By being an open marketplace, Kiva tries to let lenders, field partners, and potential recipients make the value judgments of making and taking loans.

A more detailed understanding of Kiva's workings helps to illuminate this position. The Kiva ecosystem consists of multiple types of crowds, rather than just one. There are the obvious crowds: the over 650,000 lenders who have banded together to make loans and the 750,000 borrowers who have received loans and made repayments. But there are also the smaller crowds. One-hundred and forty-three Microfinance Institutions (referred to as "Field Partners") from around the world choose the local borrowers that they post on Kiva's website. These partners raise funds, administer the loans to those borrowers, and aid in the transfer of funds. More than two-hundred Kiva volunteers edit and translate loans entered by Field Partner staff. Another four hundred volunteers have served as Kiva Fellows, working directly with Field Partners to help increase the ecosystem's impact where loans are managed and dispersed. Managing this number of indi-

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Lorenda Millamena wears a hat, one of the many bamboo products she sells, in her sales shed in Sibalom, Antique Province, the Philippines. Lorenda, a 55-year-old mother of ten, has used microloans from Kiva partner Ahon Sa Hiras, Inc. as working capital for her business selling charcoal and raw and finished bamboo products. PHOTO: HODAG.

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Lucinda Alonzo at her market stall in Bugasong, Antique Province, the Philippines. Lucinda has used microloans from Kiva partner Ahon Sa Hiras, Inc. to start her business selling dried saltfish and shrimp paste. PHOTO: HODAG.

viduals becomes increasingly difficult when you consider that each distinct type of crowd has unique needs of the Kiva platform – needs that are sometimes in tension.

Field Partners, for example, would like to optimize the amount of zero-capital financing they receive from Kiva for their borrowers while minimizing the amount of work done to receive these funds. As organizations striving towards sustainability, this is a logical cost-benefit approach for them to take. It follows that Field Partners have an incentive to post those borrowers whom they believe are most likely to quickly attract funding on Kiva. They determine who these borrowers are by process of trial and error. For instance, if a butcher funded more quickly than a beekeeper in the past, the Field Partner would more likely post butchers than beekeepers in the future.

Borrowers, by contrast, need to receive financing via Kiva's site while still maintaining personal dignity and privacy. To respect this need, Kiva must strike a balance between providing enough information about a borrower so that lenders can make funding decisions, but not so much that the Kiva website intrudes on borrowers' personal lives. To enable lenders to make funding decisions, Kiva represents each borrower on its website with a photo (often taken at the borrower's place of business), a location, and a description of the borrower's life circumstances. To ensure that borrower privacy and safety is prioritized, Kiva offers Field Partners the option of abstracting certain details about the borrowers' lives. For example, the Field Partner can choose to disclose only a borrower's country of residence rather than their specific town.

Where borrowers might seek privacy, Kiva lenders often want to feel that they are making as much of a difference as the platform permits. When borrowers and Field Partners have abstracted their descriptions, some lenders have taken issue, claiming that abstractions limit their ability to fully imagine the living circumstances of borrowers. In a crowd funding platform, the funding crowd determines who

is most deserving of funding; these lenders often push Kiva to offer information they feel enables greater loan impact. These platforms are marketplaces of fixed resources in which the lending community is empowered to vote on who should and should not receive funding through their individual lending decisions, as well as collective mobilizations through the platform.

Kiva's lending community recognizes this power and has wielded it to create change on and through the platform. Cockfighting loans became one example of values in tension, negotiated between Field Partners and lenders through the platform. Cockfighting is legal in Peru and Field Partners have posted loan requests for cockfighting businesses on Kiva in the past. Some Kiva lenders who saw these requests understandably objected to this practice on the grounds of animal cruelty. Kiva's policy, however, is to permit fundraising for activities that are legal in the borrower's country and are consistent with major UN conventions. Kiva relies on law and codified convention to avoid the blurry lines that could come to delineate which borrowers could raise funds on its platform – lines that could become subject to the whims of Kiva's staff members. The argument for preventing animal cruelty, for example, could be stretched to prohibit fishermen from appearing on Kiva's platform.

Because Kiva's stance aligns with major UN conventions and local Peruvian law, Kiva permitted the cockfighting loans to raise funds on Kiva's website despite their moral challenges. Somewhat unexpectedly, the lending community's negative reaction ultimately had an impact on the Field Partners posting the loans. Recently, Field Partners have backed away from posting cockfighting loans. Their explanation has been that it was never their intention to culturally offend.

Kiva's role in balancing all of these differing needs is to provide as much information as possible to its crowds to inform their decisions. By showing Field Partners that demand for funding loans is greatest in December, Kiva encourages them to maximize their loan postings to

Kiva for December. Similarly, providing lenders with information about borrowers and Field Partners enables lenders to find borrowers that align with their personal social and philanthropic interests. Kiva's newest attempt to inform lenders is the Social Performance Center on Kiva's website, which calls out the social performance strengths of Kiva's Field Partners. These strengths include, for example, "Client Voice," "Anti-Poverty Focus," and "Entrepreneurial Support." Through these designations, lenders can focus their lending towards Field Partners who emphasize support borrowers in particular ways.

There are limits, however, to the guidance that Kiva will provide. The open marketplace philosophy that Kiva continues to embrace is sometimes criticized for its failure to mobilize lenders around particular borrowers. Some perceive it as an obstinate refusal to provide guidance about which borrowers are most deserving of funding. But given the many differing parties and interests involved – most of which are only touched on here – treating borrowers equally is the best available option. To prescribe solutions around which individuals are most deserving of our community's resources is to flirt with the idea that Kiva possesses the "correct" worldview. This is an impossible idea for a platform that – due to the varied crowds that comprise it – actually brings different worldviews into exchange. □

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