Explaining Kiva.org’s Success and its Implications for the Third Sector

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Abstract: Kiva.org (Kiva), a 501(c)3 organization, has raised an unprecedented $160 million, but current research about Kiva fails to explain how and why it is successful. Kiva allows donors to loan money to business owners, usually in third-world countries. Kiva’s model, where individuals choose their philanthropic project, is proliferating with more than 10 organizations now using this same system. The Perceptual Determinants of Charity Giving Behavior Theory, created by Sargeant, West and Ford, focusing on marketing and communication explain why Kiva is successful. After explaining Kiva’s success, the role of Kiva in the third sector will be discussed. Kiva’s role is positive for the third sector because it focuses on transparency and accountability. However, its communication about third-world individuals, often very simplistic, and the threat it poses to society’s conception of generosity and infrastructure projects, need to be addressed.

Word Count: 138

Even a few years ago, to help someone in the third world required being in the geographic vicinity. Now an Afghani group of women are buying items for a store with money from Americans. Not Americans, who hope to create another Wal-Mart, but ordinary people giving small amounts of money to borrowers far removed from each other’s geographic and social location. Money has a new property because it is no longer restricted by geography or aid agency. Individuals now have the opportunity, and perhaps obligation, to discover what causes they can choose to support (Desai & Kharas, 2009, p. 2). This new circulation started by individuals allows them to “connect” with other people who need capital (Black, 2009; Flannery, 2008). Kiva.org (Kiva) is both in the currents of globalization and a cause of it; an organization “with the heart of a Silicon Valley web startup" (Flannery, 2008, p. 7).
How Kiva Works

Kiva’s business model is explained most succinctly by one of its founders Matt Flannery (2007):

Kiva is an online lending platform that allows individuals in the developed world to loan to small business people in the developing world. Kiva operates in the microfinance space and works with a growing network of microfinance institutions (MFIs) in more than thirty countries. Our MFI partners post the profiles of their loan applicants to the website. Internet users in the United States, Canada, Europe, and beyond make small loans via PayPal to these businesses. The businesses pay the lenders back over a period of about a year. p. 7.

Kiva’s website allows users to navigate through several loan opportunities. It has all the ambiance of Amazon.com or Target.com. Users choose the borrowers that most appeal to them with a series sorting mechanisms including gender, sector of the economy, or region of the world. The user can select women in Iraqis who fix televisions, weavers in Peru, or any other combination s/he would like. Once a person, who needs a loan, is selected, the user is presented with the person’s loan request. The borrower’s specific request presents sections of information about the user. From top to bottom the user is presented with a picture of the person. The “Make a Loan” box contains information about how much the individual is trying to raise in total and how much of the loan has been raised. The “About the Loan” section contains the sector of the economy and repayment plans for the loan. The “About the Field Partner” section shows various percentages and repayment statistics of the particular microcredit lender. There are three paragraphs of text about the borrower. The “More Loan partners” section indicates other people from the same microcredit institution that the borrower is using. The bottom of the request shows
a map of the location where the loan is distributed and some basic information about the county citizen’s average income. The request also shows other lenders and groups of lenders that supported this borrower. A repayment schedule for the borrower is listed in four blocks of text. Finally, various HTML codes are shown that allow a user to copy and paste Wilmer’s request on other websites throughout the Internet.

Applicants are come from 206 countries and 120 different MFIs; they request anywhere from $800-$3000 (Kiva.org, 2010c). Users generally give between $25-$50 dollars per loan that is funded through the user’s Kiva Account, which uses the same technology as PayPal. Over the course of a year, the loan is repaid to the lender without interest and the repayments go back into the lender’s Kiva account. Lenders then can use the repaid amount to fund other requests.

Borrowers featured on Kiva have a repayment rate of 98%; meaning that most of the money donated to Kiva will be repaid (Kiva.org, 2010c).

Kiva is a 501c3 nonprofit that was founded in 2005. Three people are responsible for its founding Matt and Jessica Flannery (married at the founding and since divorced), and Premal Shah. Matt, who worked at Tivo, and Jessica, who started working with MFIs in Africa, founded Kiva after being inspired by Muhammad Yunus, a key figure in microfinance who won the Nobel Peace Prize in 2006. Matt and Jessica worked on Kiva as a side project, before Matt quit his job to work on the Kiva full time (Flannery, 2007). Shah studied microfinance in college, and while working at Paypal, visited India inspiring him to work with MFIs. Shah back in America was introduced to the Flannerys, who recently had launched Kiva (Ewalt, 2009). Shah and Matt continue to work at Kiva, but Jessica left the organization to found Profounder that is a MFI targeting Americans.
The philosophy behind Kiva comes from three distinct arguments. First NPOs need to be aware of various business concepts like “Social Return on Investment” and “The Double BottomLine” (Flannery, 2007, p. 32). The founders of Kiva believe that business concepts would improve charities and make them more efficient. Second, they see the people that give to Kiva as lenders not donors which is an important distinction. Finally, they believe that microfinance is a more dignified approach to helping the poor because it does not give a handout to someone, but instead requires that the borrower earn and give back to the lender (Bloom, 2009; Brainard & Chollet, 2007; Kiva.org, 2010c). With these arguments, Kiva has become an unbelievably successful.

**Kiva’s Success**

Kiva has been enormously successful raising money and having its model of individually-funded-philanthropy projects copied. The number of NPOs that have grossed over $50 million dollars since 1970 is 144. The number of for-profit companies that have grossed $50 million since 1970 is 46,136 (Pallotta, 2009). Kiva has not only crossed the $50 million dollar mark but exceeded it three times. Since its founding it has raised $160 million dollars (as of September 18, 2010) (Schlesinger, 2010). Kiva is extremely unusual because most NPOs do not succeed. Even more startling is that Kiva raised so much money in such a short amount of time. Most NPOs usually attain this level of success after decades of growth (Foster & Perreault, 2007). Moreover, NPOs only attain a high level of success by focusing on specific groups: the government, foundations, or particular donors. Kiva raises funds through an Internet based donation system that is open to the general public. There are around 756,823 (as of September 18, 2010) users who have loaned money through Kiva (Kiva.org, 2010c). Kiva’s success is an
outlier in the nonprofit sector. Its unimaginable success requires careful study to figure out how it has become so successful.

Kiva’s success is not limited to its Web site a whole range of microfinance websites are appearing: Propser.com, LendingClub.com, Accion.org, Trickleup.org, Globalgiving.com, Grameenfoundation.org, Unithrive.org (Hartley, 2010). Also, the Kiva “model” of creating Web sites, where individuals fund projects, is becoming more popular. Websites like Eureka.com, targeting science funding, kickstart.org, funding technological projects to alleviate third world poverty, and Vittana.org that funds student loans in the third world are becoming more common (Hartley, 2010; Schlesinger, 2010).

Kiva’s success and model has not been studied extensively. The few researchers who have studied Kiva argue that the current state of understanding does not “directly and cogently [address] the question” about Kiva (Hartley, 2010, p. 7) Even this particular paper, did not fully address why Kiva was successful, but focused on how Kiva allows users to form groups. Moreover, other researchers have called for a focus on social entrepreneurship--the study of how NPOs are using business concepts to fight poverty: “social entrepreneurs are not finding much academic research to guide them . . . much more can be learned by drawing on thinking in other academic disciplines, particularly marketing” (Bloom, 2009, p. 133).

**PDT applied to Kiva**

Kiva’s success results from the perception it creates for its users. NPO perception literature is small, but Sargeant, Ford and West’s Perceptual Determinants of Charity Giving Behavior theory (PDT) explains NPOs’ success. Using marketing as the basis for their study, PDT states that donations increase as donations have more benefits, the NPO is efficacious and the fundraising is professional.
The first part of PDT is that donors perceive the benefits for the borrower and themselves. First, the borrowers on Kiva often describe the need for more capital to expand the services of their trade or profession. The benefits to the lender are clear because the borrower is now able to increase their business. The business will then help the borrower continue to make money (more capital for seeds creates a larger farm). Also, the basic necessity of the loan is emphasized because the economies of third-world countries usually have a large agricultural component. For example, with the loan, the farmer is able to grow food for their family and hopefully sell some of it. Helping the poor help themselves and giving to basic needs are two benefits the public favors. Two surveys by the Center of Philanthropy that asked collectively 18,000 individuals have demonstrated these values (Rooney et al., 2007) (Center on Philanthropy, 2009).

Second, the perception of Kiva as a results-driven approach to philanthropy is also crucial to its success. Donors often fear that their money will be misused or wasted (Gugerty, 2009; Wing, Gordon, Hager, Pollack, & Rooney, 2006). These constraints are especially true of international aid where up to 60% of aid may be used for administrative costs (Desai & Kharas, 2009). Kiva, which gives to international borrowers, should face similar vexing questions that confront other international aid foundations. However, the model that emphasizes specific projects and repayment counters the image of large bureaucracies “wasting” money. Kiva’s basic structure that has a lender loan money to a borrower, and then the loan is repaid. The repayment rate is a system that the lender sees that the business is making enough money to repay the loan and grow a business. This simple metric allows the lender to know their money is being used effectively.

Matt Flannery states Kiva’s accountability as critical: “Transparency in this next period will be our best weapon against the challenges of growth. This model thrives on information, not marketing” (Flannery, 2007, p. 56). The accountability built into Kiva allows donors to be
extremely comfortable giving to a cause that will produce some form of business that meets the poor’s needs and helps the poor help themselves. Moreover, the push toward metrics and accountability are part of the venture capitalist push into philanthropy that will be critical to NPOs fundraising activity in the future because donors want results (Sargeant & Kahler, 1999; Shaw & Allen, 2009; Tinkelman & Donabedian, 2007).

The final PDT determinant, the perception of fundraising, helps Kiva. First, Kiva’s performance is tied to its structure where all of the donated money goes to the recipient. Since there are no administrative or fundraising costs in the loan, the donor is comfortable giving to the organization. Second, brand recognition is high because of favorable media, celebrity and business support. The Daily Kos and Oprah featured Kiva significantly increasing its brand recognition (Black, 2009; Flannery, 2007, 2008). Third, Kiva has received celebrity endorsements from, again, Oprah and Maroon 5 increasing public awareness (Kiva.org, 2010a). Celebrity endorsements of NPOs are radically reshaping philanthropy: “the fight against global poverty has become one of the hottest tickets on the global agenda – with rock stars, world leaders, and newly minted billionaires calling attention to the plight of the poor at international confabs” (Bloom, 2009; Brainard & Chollet, 2007, 2008, p. 1). Using celebrities has given Kiva brand recognition it needs. Furthermore, microfinance has significant credibility because Muhammad Yunus, the 2006 Nobel Peace Prize winner, and Bill and Hillary Clinton are vocal supporters of microfinance (Yunus, 1998, pp. 176-177).

In line with recognition, many companies have supported Kiva that increase Kiva’s brand recognition and contribute to the perception that Kiva is a performance driven philanthropy. Service quality is the ability to continue to communicate with donors in a way that allows them know their donations are making a difference. This form of communication is what entices
donors to contribute again (Sargeant et al., 2004). The companies that support Kiva are a whose-who list of technology companies including Pay Pal, Google, Yahoo, Cisco, Intel, Youtube, Facebook, Microsoft and Lenovo (Kiva.org, 2010a). These technology companies, driven by venture capitalism, increase the perception that Kiva is not a just a philanthropy, but a philanthropy that is oriented towards results and supported by the new silicon engine of the economy. The second group of businesses that support Kiva also increase public awareness and focus on Kiva’s accountability. These companies include Ernst & Young, Moody’s, Fleishman Hillard, Oliver Wyman, Orrick, Fenwick & West LLP and Intiut (Kiva.org, 2010a). These companies show the most sophisticated companies that account for the world’s profits and protect them legally are major supporters of Kiva. These endorsements mean that Kiva can both show that major companies support their program and the critical performance factor of transparency and accountability is extended.

Implications

Society is affected by Kiva’s push toward venture capital philanthropy in a positive and negative way. There can be no doubt that the push toward accountability can counter threats to NPOs by being accused of being not transparent and likely waste donations. This problem is connected to the problem that NPOs have no product they sell to donors. Instead donors rely on the trust of the NPO to efficiently use their donations to help a needy recipient (Addy & Barclay, 2001). This trust undercuts the ability of NPOs to rely on a product as a means to legitimacy because consumers are able to stop using a product based on its performance (Barman, 2007). NPOs’ outputs are not always tangible and therefore sometimes suspect (Rothschild, 1979). Moreover, the market is based around the idea of competition between differing for-profit organizations. If one for-profit firms fails or does not meet expectations, then the consumer can
buy goods from another firm. Conversely, NPO donors have little choice to aid some needy recipient. The lack of perceived competition further reduces NPO legitimacy because there is no market heuristic for society to rely on. The venture capitalist push toward metrics and studies has reduced waste and created a mentality that does create improvements over systems in the past that did not use measurements. These measurements also mean that donors have a means to make their donations accountable; this standard can reduce waste: “less accountability often means a greater likelihood of wasteful and ineffective programs that might do more harm than good” (Brainard & Chollet, 2007, p. 12).

The negative impact on society is that the fundamental notion of generosity is changing. Generosity may critique the entire idea of NPO metrics as stated by Frank (2004):

Generosity begins in welcome: a hospitality that offers whatever the host has that would meet the need of the guest. The welcome of opening doors of one’s home signifies the opening the self to others, including guests who may disrupt and demand. To guests who suffer, the host’s welcome is an initial promise of consolation. If the cosmic creation of life is the founding act of generosity, the human gift of consolation has at least one analogous quality: no reciprocity is required, for indeed none may be possible. p. 2

The idealist definition that Frank gives for generosity seems counter to a “donation” that in essence requires the recipient to pay it back. What does this changing interpretation of donation do? How will its assumptions radiate into society? The beginnings of its effects can be seen in the puff piece that David Brooks wrote in the New York Times Opinion section saying that venture capital philanthropists “are not that interested in working for big, sluggish bureaucracies. They are not hostile to the alphabet-soup agencies that grew out of the New Deal and the Great
Society; they just aren’t inspired by them” (p. online). The attack on old styles of generosity means that critical government welfare programs are also implicated by society’s definition of generosity. The restrictions on welfare or other forms of the New Deal are implicated by the metrics-drive, Kiva inspired approaches. The question of how it functions within society is critical.
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