International Labour Organization | Enterprise Formalization

CASE STUDY
9/2021

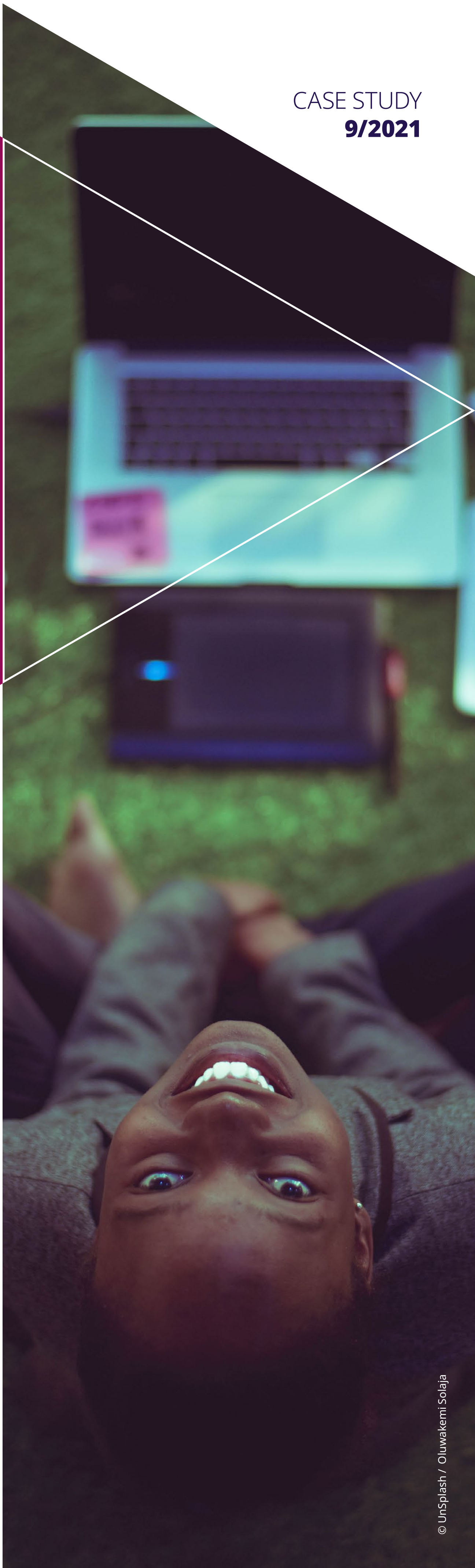
The Kiva online platform

This document is part of a series of case studies by the Enterprises Department of the ILO. Each case study presents one or several approaches that contribute to enterprise formalization across the world. The case studies provide a snapshot on a particular initiative and may not be exhaustive.

AT A GLANCE

Name:	Kiva
Short description:	Kiva is a non-profit organization that facilitates access to micro-credit through its online platform to individuals, for personal life projects and economic activities. It cooperates with external partners (e.g. a non-profit organisation or lending institution) in more than 80 countries which manage loan applications and administration.
Technology:	Website and app
Regions:	Global
Link to enterprise formalization:	Indirect (through enhanced access to productive factors)

This case study shows how technological innovations may contribute to the formalization of economic units and their workers. Coined e-formality, the ILO has developed a theoretical framework for different public policies and technological applications that support transitions to formality.



1. What is the initiative and what does it aim to achieve?

Kiva is a non-profit organization that facilitates access to microcredit. Its mission is to expand access to finance, improve the quality and reduce the cost of financial services and help underserved communities to have better opportunities.

2. What is the institutional framework?

Kiva was founded in 2005 and is based in San Francisco, with offices in Bangkok, Nairobi, Portland and with staff around the globe. Kiva's business model has always prioritised the sustainability of loans and the repayment rate is above 95 per cent. The organization relies on a network of accredited partners to offer loans in the field, such as microfinance institutions, non-profit organizations, social enterprises and schools. It has 110 employees, 450 volunteers, and 3,000 field partners and trustees.

3. How does it work?

Individuals can apply for two loan models, the so-called 'partner loans' and 'direct loans'. The difference between the two is as follows:

- **Partner loans** involve an external partner (e.g. a non-profit organisation or lending institution) which manages the loan application and administration on-site (currently in more than 80 countries).

- **Direct loans**, which are mostly interest-free, are being applied for and disbursed through Kiva's online platform. They get approved through 'social underwriting', which means that either family and friends of the borrower cover a part of the requested loan or the credit standing is backed by a Trustee who has been approved by Kiva (see more information below). While the direct loans enable a wider access to finance for borrowers, this loan type is considered more risky as it does not involve on-site loan management by an external partner (who is more familiar with the financial profile of borrowers and can evaluate potential risks).

Borrowers use the loans to fulfil personal projects (e.g. paying course fees or renovating a bathroom). Existing or future entrepreneurs and micro entrepreneurs that need a loan to start or boost a business can also apply via Kiva. For example, there is a category of loans for retailers[1] and another one for agricultural projects. To apply for a loan through Kiva, the enterprise does not need to be formally registered.[2]

Once the underwriting and approval process of the borrowers is completed, the loan is posted on Kiva for lenders (individuals) to support. The lenders can choose the projects and people they will fund, be it in their own country or abroad. They can use the Kiva platform to select borrowers, filtering by gender, size of the business, type of activity, loan duration, default rate of the external partner organization and many other features.

1 https://www.kiva.org/lend-by-category/retail-businesses
2 https://www.kiva.org/lend-by-category/agriculture

After selecting the loan application to fund, lenders transfer their funds to Kiva through credit card processing or PayPal, which waives its transaction fee. The minimum amount that an individual lender can commit is USD 25. Individual lenders do not receive interest on their loans and that repayment is not guaranteed.

In the case of partner loans, the process is as follows: Kiva collects capital from individual lenders and transfers it to its accredited partners in the field, which then distribute the loan to the borrowers. Accredited partners can charge interest to fund their administration costs, but they must fully disclose the rates. Kiva charges fees to its partners based on an assessment of the risk, impact and the local context.

An organization must fulfil several requirements to become a Kiva partner and demonstrate strong commitment to serving the needs of poor, vulnerable and/or excluded populations, either through financial services or by using credit to expand access to beneficial products and services.

The criteria include:

1) Presenting a proposal to use Kiva's capital to fund loans with i) high social impact and ii) pricing that is affordable and appropriate to the market context and industry standards;

2) Sufficient capacity to make at least US$ 50,000 in loans in the first 12 months on the Kiva website, and potential to grow in subsequent years; and

3) Assets or operating revenues of at least US$ 100,000.[3]

Kiva Trustees[4] (individuals or organizations) endorse entrepreneurs as direct Kiva borrowers. The Trustees have no financial liability for loans but stake their reputation on the performance of the borrowers that they select.

4. What has been achieved?

Kiva operates in 77 countries. It has reached 2 million lenders and 3.9 million borrowers, of the latter 81 per cent are women. Loans worth US$ 1.56 billion have been made, with a 96.1 per cent repayment rate. Kiva's loans supported about 1.2 million people in least developed countries, 1 million farmers and 300,000 borrowers in conflict zones. Over 200,000 loans were offered to clean energy initiatives and a further 66,500 to educational initiatives. Though Kiva does not provide aggregated data on the status of formality of the entrepreneurs that borrow money through the platform, the majority of borrowers are either individuals that are seeking to fulfil personal goals or (informal) micro entrepreneurs receiving loans to buy supplies and/or equipment for their economic activities.

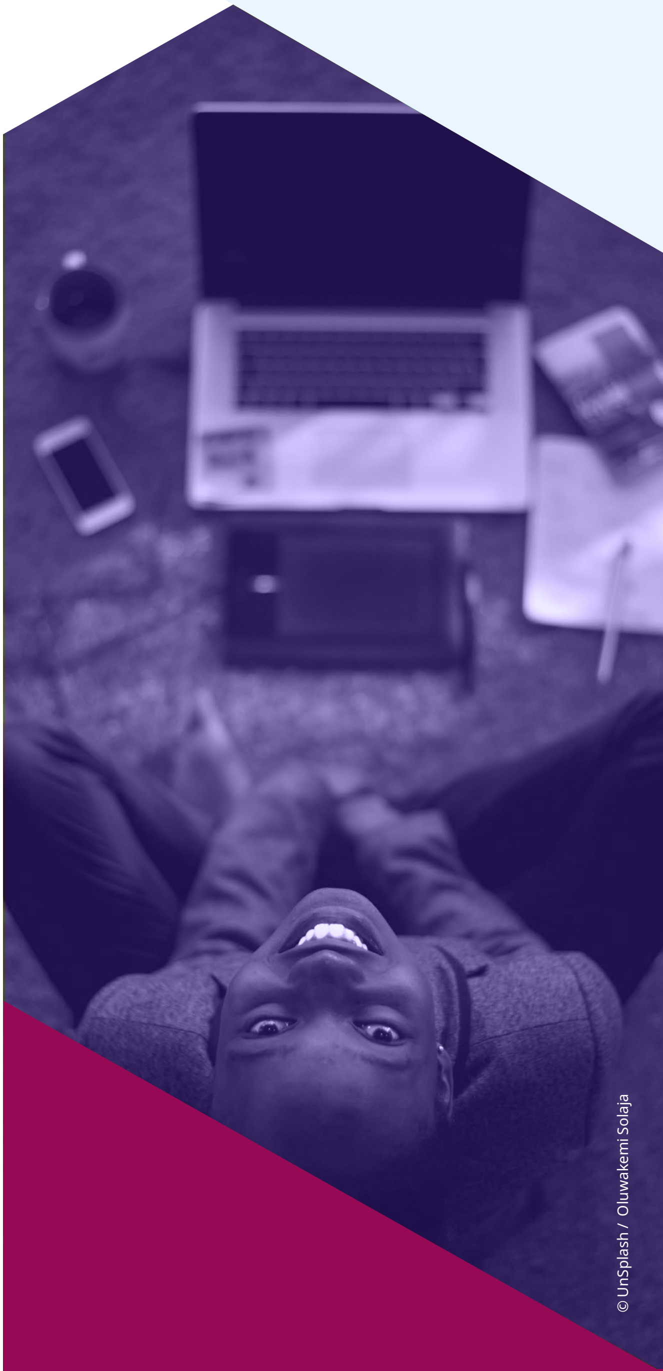
3 https://www.kiva.org/about/where-kiva-works/partner
4 https://www.kiva.org/trustees

5. Link to formalization

Although there is no direct link to formalization, access to finance may indirectly contribute to enterprise formalization at a later stage as it may enable entrepreneurs to grow their business and increase their willingness and ability to seize business opportunities in the formal economy.

6. References

- Kiva (2021). *Impact*.
- ___.2021a. About - Where Kiva works.
- ___.2021b.*Trustees*.
- SalesForce (2021). *Do Kiva borrowers pay any interest on their loans?*



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