



Unbankable: Microfinance in the U.S.

Adele Axness
Kiva Zip



Introduction

Kiva Zip aims to “expand financial opportunities and access for borrowers who otherwise lack them, reduce the cost of capital for borrowers who need it, and enhance the connectedness between lenders and borrowers” (Kiva Zip). Where large banking institutions fall short, Kiva Zip allows for microloans that have a major impact on a population that was previously deemed “unbankable” (Sloan, 2013).

This project involved researching microfinance, primarily in the U.S., and answering the question: *How effective is microfinance in the U.S.?* Once that question was answered, it became clear how to move forward with strategies on how to capture the attention of prospective borrowers, lenders, and a myriad of internal and external stakeholders. My recommendations consist of a multidimensional approach to help Kiva Zip reach their mission.

Goals

The desired outcomes of this project included the following:

- Identify tactics to increase lender involvement
- Construct methods to ensure lender accountability
- Increase pool of financial investors and corporate groups
- Demonstrate local economic benefit and personal benefit

In order to successfully make recommendations, the bulk of my research included gathering data pertinent to the mission of Kiva Zip. Academic articles and business journals, as well as recommendations from Kiva Zip Senior Director, Jonny Price, were used to compile research.

Comparisons of existing U.S. microfinance institutions, case studies of the borrower/lender relationship, and local economic implications provided the historical data to make recommendations on how Kiva Zip can successfully establish themselves as the premiere microfinance institution in the U.S.

Results and Analysis

Results

Q: How effective is microfinance in the U.S.?

A: With significant changes made to the current social barriers and financial limitations set in place, U.S. microfinance, as we currently know it, could soon be an effective means to lift prospective entrepreneurs out of poverty and improve local economies.

Microfinance in the U.S. can be a powerful tool to empower hopeful microentrepreneurs, to build struggling economies, and provide an opportunity for income equality. Paradoxically, there are still barriers within the U.S. economy and banking systems that prevents a simple replication of the microlending that is seen in many developing countries, and seen in Kiva’s original model. In order for Kiva Zip to be effective in the U.S., there must be specific criteria (as seen in Recommendations section) followed in order to see long-term success come to fruition. Such criteria is not yet seen across the board in the United States, because we have much more stringent rules and regulations that must be obeyed by financial institutions, individuals seeking credit, as well as business owners (Pierce, 2013).

Analysis

It became apparent that Kiva Zip would need a shift in their approach, moving away from relying on the feel-good investment in the American Dream, and towards the data that will support the growth and efficiencies of microlending in the United States. There is abundant evidence that microfinance in developing countries can hugely benefit individuals and communities (Richardson, 2009). However, when the same techniques and concepts are applied in a U.S. microfinance environment, you are met with a square peg trying to fit in a round hole. Social collateral, a useful tool in third world microfinance, will only accomplish so much when introduced to microlending in the United States. It is my recommendation that Kiva Zip take a step back to better integrate their organization into the existing climate of U.S. microfinance.

Recommendations

I have developed several high-level recommendations to guide future program development and business strategies for Kiva Zip:

- ✦ Serve as educational resource to help borrowers better understand the high risk involved in U.S. microenterprise.
- ✦ Work with advocacy and policy influencers to promote legislation supporting microfinance.
- ✦ Cater microfinance products and services to women and minorities in low-income households.
- ✦ Target microentrepreneurs in the service sector.
- ✦ Reframe messaging around the relationship between lender and borrower.
- ✦ Emphasize the power of small group accountability to cultivate a sense of borrower comradery and joint liability amongst microentrepreneurs.

Banking on People

Kiva Zip is about human connections. As a Kiva Zip lender, you have the chance to become a customer, brand ambassador and business adviser to the borrowers that you’re funding with interest free loans.



“I love the spirit of helping others. It is a gift to them, and to my heart.”

Jean, Saint Louis MO

“Seeing lenders chip in from across the country was exciting and encouraging.”

Sean, Portland OR



 **\$10,312,555**

TOTAL LOANED



64,793

Individual Lenders



11,335

Small Businesses Funded



0%

Interest Rate



89.1%

Repayment Rate

Source: <https://zip.kiva.org/about>

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