MICROFINANCE – EVOLUTION AND IMPACT

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DEDICATION

I would like to dedicate this paper to my two boys, Jamie and Nolan who have empowered me to be the best version of myself. And to my husband Shayne, who supports me and without whom nothing would be possible.
ABSTRACT OF THE THESIS

Microfinance – Evolution and Impact
by
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Master of Business Administration
San Diego State University, 2013

A widely touted statistic is that over 2.6 billion people live on less than $2 a day at the so called “bottom of the economic pyramid.” The majority of these individuals at the bottom of the pyramid are excluded from the global economy and operate in local informal economies.

The goal of microfinance is to alleviate poverty within these bottom of the pyramid individuals by providing them access to financial services that will enable them to better their economic well-being and empower them to improve their quality of life. If microfinance achieves this goal, the implication equals a real opportunity for individuals at the bottom of the pyramid to pull themselves out of poverty through access of previously unattainable financial resources.

This paper analyzes the effectiveness of microfinance at alleviating poverty. This analysis will provide the history and evolution of microfinance, and closely examining three microfinance institutions; Kiva, Namaste Direct, and Accion, with respect to their model, target segments, services offered, and their potential for poverty alleviation.

Closely examining the three microfinance institutions brought to the forefront three major conclusions. First, in evaluating the success of the impact of microfinance, broader definitions of success in alleviating poverty need to be considered. Second, different types of institutions have emerged in microfinance resulting in an ecosystem, represented in Figure 18, which is making significant impact on poverty alleviation. Finally, each of these institutions needs to be evaluated using measures of effectiveness based on their specific role within the ecosystem.
TABLE OF CONTENTS

ABSTRACT ...............................................................................................................................v
LIST OF FIGURES ................................................................................................................. ix
ACKNOWLEDGEMENTS .......................................................................................................x

CHAPTER

1 INTRODUCTION .........................................................................................................1

2 OVERVIEW OF MICROFINANCE.............................................................................5

   History ......................................................................................................................5
   Birth and Growth of MFIs ....................................................................................6
   Expansion Years ..................................................................................................6
   Regional Growth ..................................................................................................8

   Product Evolution ....................................................................................................9
   Definition and Goals of Microlending ...............................................................9
   Financial Literacy ............................................................................................10
   Future Trends ......................................................................................................10

   Target Segmentation ..............................................................................................11
   Gender ..............................................................................................................11
   Level of Poverty ...............................................................................................12
   Geography ........................................................................................................12

   Impact ....................................................................................................................14
   A Case for Effectiveness ..................................................................................15
   Counterpoint – Are Jobs the Answer? .............................................................16
   Summary ............................................................................................................17

3 KIVA ............................................................................................................................19

   History ....................................................................................................................19
   Expansion Years ..................................................................................................21
   Current Innovation .............................................................................................21
   Model and Organizational Structure ..................................................................21
LIST OF FIGURES

Figure 1. Models of microlending. ............................................................................................7
Figure 2. Summary of the world’s poor by region.................................................................13
Figure 3. Graphical representation of microfinance investment by region. .........................13
Figure 4. Microfinance impact – Comparison chart of evaluation methods.......................15
Figure 5. Impact of job creation in specific regions. .............................................................18
Figure 6. Numerical summary of the size of Kiva’s organization, the reach of its business and the amount of money transacted............................................................24
Figure 7. Kiva loans per country.........................................................................................26
Figure 8. Percentage of loans made per sector and type of business activity......................26
Figure 9. Example of built-in social network sharing functionality on the Kiva website. Once a lender makes a loan they can share the details of that loan on Facebook. .....................................................................................................................29
Figure 10. Percentage of loans by sector made by Namaste Direct....................................36
Figure 11. Numerical summary of Namaste’s impact with regards to number of clients who received financial education and the amount of money lent to borrowers. .............................................................................................................39
Figure 12. Accion’s strategic goals as of Jan. 2013..............................................................45
Figure 13. Location of Accion partners worldwide..............................................................46
Figure 14. Accion’s revenue sources and expense categories.............................................48
Figure 15. Summary of balances and loans outstanding by region, as of 2011...............53
Figure 16. Year over year performance in terms of number of clients and amount loaned.................................................................................................................................53
Figure 17. Comparison chart of key organizational components of Kiva, Namaste Direct, and Accion. .............................................................................................................56
Figure 18. Microfinance ecosystem – visual representation of the interconnection and value creation of primary stakeholders...............................................................59
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I would like to acknowledge Dr. Chamu Sundaramurthy for all the help she has given me to make this paper a reality. She guided me every step of the way, shared compelling thoughts and insights and pushed me to think more deeply about the topic. I could not have done this without her.
CHAPTER 1

INTRODUCTION

A widely touted statistic is that over 2.6 billion people live on less than $2 a day at the so called “bottom of the economic pyramid.” Individuals at the bottom of the pyramid are primarily defined by their low income level. Other attributes include: poorly educated, low skilled, in need of improved sanitation, health care and nutrition. A subset of this group is the extreme poor who lack basic necessities like sufficient food, clean water and adequate shelter.

Traditionally, our approach to poverty alleviation for this group has been top-down. Charitable organizations and governments provided grants and other monetary subsidies to the bottom of the pyramid individuals, but success was limited. As a result, organizations were challenged to devise other models to address poverty alleviation. “In addition, to growing pressure on the aid industry to explore new approaches, a second trend is also leading to greater focus on the role of markets in addressing poverty. The poor are not well served by the private sector; they are often ignored and lack access to many goods and services” (London, 2007).

The majority of these individuals at the bottom of the pyramid are excluded from the global economy and operate in local informal economies. Some argue that exclusion from the global economy will prevent them from bettering their economic position. The idea behind this is called the cycle of poverty. Defined it means, the “set of factors or events by which poverty, once started, is likely to continue unless there is outside intervention” (Free Dictionary, n.d.).

Exclusion from the global economy and lack of service from the private sector is best illustrated in the area of banking and finance. Traditional banks and lenders have qualification hurdles that prevent bottom of the pyramid individuals from qualifying for a loan and other financial services products due to their lack of credit history and reduced income. For those that do qualify, they typically face extremely high interest rates that
negate any economic benefit that they might have received from taking the loan in the first place.

It is within this context that the concept of microfinance was born. “Microfinance has evolved as an economic development approach intended to benefit low-income women and men. The term refers to the provision of financial services, primarily loan products, to low-income clients, including the self-employed” (Ledgerwood, 1999).

The goal of microfinance is to alleviate poverty by providing those at the bottom of the economic pyramid access to financial services that will enable them to better their economic well-being and empower them to improve their quality of life.

If microfinance achieves this goal, the implication equals a real opportunity for individuals at the bottom of the pyramid to break the cycle and pull themselves out of poverty by accessing previously unattainable financial resources. In the recent past, there has been a rapid growth of several types of microfinance institutions, but there is limited understanding of whether and how these various institutions are achieving this broad goal.

Thus, the objective of this paper is to understand and analyze the effectiveness of microfinance institutions in alleviating poverty. This broad objective is addressed by reviewing the history and evolution of microfinance and by closely examining three institutions: Kiva, Namaste, and Accion. In particular, I examine their respective models, target segments, services offered, and their potential for poverty alleviation. These three microfinance institutions were specifically selected due to the differences in their models and the scale of their operations.

A close study of the three cases provides evidence that microfinance plays a role in alleviating poverty. Although the literature shows mixed opinions on the effectiveness of microfinance, this study shows that these different types of organizations have in varying ways, been able to reach the bottom of the pyramid and provide customized financial services to those who have not had access to financial services previously.

In particular, the following specific findings and conclusions emerged from the study. First, in order to fully understand the impact of microfinance at poverty alleviation, broader views of effectiveness and success need to be considered. Borrowers can receive measurable positive impact through the stabilization of their income and the ability to improve their living conditions, even if they haven’t increased their net income. This study will present a
borrower pyramid of needs that asserts that, on a foundational level, borrowers first need to stabilize their income and improve their standard living before an increase in income will begin to pull them out of poverty. As the borrower moves up the pyramid they are receiving measurable positive impact. Hence, meeting any of these needs constitutes effectiveness of microfinance.

Second, an important finding that emerged from the study is that each type of microfinance institution plays a unique role and together they create value within a broader microfinance ecosystem. For example, large scale institutions generate large amounts of funding and awareness for the movement. They play an important boundary spanning role in maintaining trust in the ecosystem by generating self-governing rules and transmitting information on the returns to capital invested in the system. They funnel financial resources to the small scale regional institutions that work directly with borrowers and bring deep client understanding and expertise. Each is dependent on the other and when they work together they are able to effectively reach and serve bottom of the pyramid clients.

Third, since each microfinance institution plays a distinct role in the system, the effectiveness and success of each varies with respect to their scale and model; hence each will need its own definition of success. The same definition of success cannot be applied to every institution and indeed may disturb the very effectiveness of the system achieving the goal of poverty alleviation. The key contribution of small scale regional institutions is their ability to build deep relationships with the borrowers, understand their unique needs, and design services that meet those needs. On the other hand, large microfinance institutions such as Accion are more effectively deployed to draw financial resources from the broader capital market into the microfinance arena, build trust in the microfinance ecosystem, and raise awareness of the returns from investments.

The remaining chapters are organized in the following manner. Chapter 2 will provide the history of the microfinance movement and briefly reviews studies that examine the impact of microfinance. Chapter 3 will take an in-depth look at Kiva, a relatively new non-profit microfinance organization that has produced an extremely successful and scalable lending model. Chapter 4 will look closer at the smaller niche, non-profit Namaste Direct that lends exclusively to women in Guatemala. Chapter 5 will look at Accion; an early founder of the microfinance movement who currently focuses on creating new microfinance
institutions around the globe. Finally, Chapter 6 will summarize the findings that emerged from this study of the three cases and will present a framework of how the three institutions play a role in the effectiveness of microfinance in alleviating poverty.
CHAPTER 2

OVERVIEW OF MICROFINANCE

HISTORY

For many years, governments and other charitable institutions have recognized that in order for individuals to better their economic lives they needed access to capital. In the 1970s the primary vehicle to deliver this aid was through subsidized credit funded by governments and institutional investors. Their primary goal was to increase and promote agriculture by providing farmers with access to cheap credit. At this time small credit unions were also established in an attempt to promote and teach these farmers how to save. However, this model was greatly criticized as ineffective due to the high reported loan losses that suggest borrowers did not benefit from the loan and organizations regularly needed recapitalization, which meant they were not self-sustaining. It had become evident that a market based solution was required and the emphasis shifted to the creation of local and sustainable institutions that could be modeled after the traditional banking system.

One of the pioneers of this new way of thinking was Dr. Mohammed Yunus who is often considered to be the father of modern day microfinance. His initial pilot program in Bangladesh would eventually turn into Grameen Bank a large contributor and leader in the microfinance industry. Grameen Bank (n.d.) describes their model as follows:

The Grameen model emerged from the poor-focused grassroots institution, Grameen Bank. It essentially adopts the following methodology: A bank unit is set up with a Field Manager and a number of bank workers, covering an area of about 15 to 22 villages. The manager and workers start by visiting villages to familiarize themselves with the local milieu in which they will be operating and identifying prospective clientele, as well as explain the purpose, functions, and mode of operation of the bank to the local population. Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to rules of the bank. Only if the first two borrowers repay the principle plus interest over a period of fifty weeks do other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, collective responsibility of the group serves as collateral on the loan.
During this same time in Latin America, Accion International was supporting the development of solidarity group lending to urban vendors.

In 1973, Accion staff in Recife, Brazil began to focus their efforts on helping informal businesses. If these small-scale entrepreneurs could borrow capital at commercial interest rates, they wondered, could they lift themselves out of poverty? An Accion organization in Recife, called UNO, coined the term “microenterprise” and began issuing small loans. The experiment in Recife was a success. Within four years, the organization had provided 885 loans, helping to create or stabilize 1,386 new jobs. Accion had found a way to generate new wealth for the working poor of Latin America. (Accion, n.d.-f)

In the traditional banking system, Bank Rakyat Indonesia, a state-owned rural bank also moved away from subsidized credit and adopted a traditional model based on market principles. They developed a transparent set of incentives for borrowers (small farmers) by rewarding on-time payments and relying on voluntary savings as a source of funds.

**Birth and Growth of MFIs**

The 1980s and 1990s experienced huge growth in the creation of microfinance institutions (MFIs). A microfinance institution is quite simply any institution that provides microfinance solutions. These models can vary wildly and range from very small localized MFIs that serve niche segments, such as rural women in Guatemala, to large MFIs that have scaled their business globally. And, although most would assume these MFIs are non-profit there a number of large for-profit institutions that participate in microfinance. Figure 1 provides descriptions of the 8 primary models an MFI can adopt. The most common models found in practice today are: village banking, non-governmental organizations, intermediaries, and cooperatives. In later chapters, we will look closer at three MFIs, Kiva, Namaste Direct, and Accion who have adopted the intermediary and non-governmental organizational models.

**Expansion Years**

The early years of microfinance began to establish credibility for the microfinance movement. They showed that microentrepreneurs could borrow money at acceptable interest rates and repay those funds in staggeringly high percentages. As a result, “the 1990s
saw growing enthusiasm for promoting microfinance as a strategy for poverty alleviation. The microfinance sector blossomed in many countries, leading to multiple financial services firms serving the needs of microentrepreneurs and poor households” (Global Envision, n.d.).

In her book, Sustainable Banking with the Poor, Microfinance Handbook, Joanna Ledgerwood (1999) has asserted, that there are six key reasons that can explain this growth. First, up until this point the traditional banking system avoided servicing individuals at the bottom of the economic pyramid. Banks believed these individuals were not suitable for loans due to the perceived inability to pay. Microfinance enterprises were the first institutions to reach out to this segment and offer them a product that was suited for their needs and that they could afford to repay. Second, unlike the early models of subsidized loans that needed frequent capital infusion, microfinance institutions were able to become self-sustaining. The amount they charged in interest on individual loans was enough for them to maintain liquidity and continue to lend to additional borrowers. Third, microfinance does not attempt to reinvent the banking system; instead, it leverages the traditional models and adapts processes, products and services to meet the needs of their clients. The benefits of
this approach are numerous, including: ability to leverage best practices from traditional banking and enabling potential investors/donors to understand their model better and perhaps have greater confidence in their operation. Fourth, the contribution of microfinance to strengthening and expanding existing formal financial systems also contribute to its growth. When microfinance succeeds it serves as a bridge that connects the underserved/undesirable to the traditional markets. As customers gain access to financial services through microfinance they are able to move up the pyramid into economic categories served by traditional banks. Additionally, banks are able to create microfinance divisions separate from standard operations that can adopt these microfinance models and serve customer segments their core business cannot. Five, perhaps the most powerful driver of growth was the numerous success stories shared by microfinance institutions from around the world. All report nearly perfect repayment rates (98% +) and add a human layer by sharing stories of women and men who have been able to improve their economic lives by having access to financial services. Finally, technological advances have really enabled microfinance institutions to become innovative in the ways they reach their customers and the products they are able to offer them. As a result, they are able to reach more customers than before, spurring growth of the microfinance movement. Kiva, which will be discussed in an upcoming chapter, is a perfect example of how technology can create an entirely new model, person-to-person lending via the Internet.

**Regional Growth**

During this time of growth microfinance institutions sprang up around the globe each bringing their own approach to the sector. The following are but a few examples.

- **ICICI Bank (India):** Two state banks in India (Corporation and Canara) partnered with an NGO to provide salaried low-income workers with access to savings. The project uses the already established ATMs in the factories to offer a recurring savings product, along with education on personal finance (Global Envision, n.d.).

- **Equity Building Society (EBS) in Kenya:** emerged as one of Kenya’s leading microfinance institutions, with over 155,000 savings clients and 41,000 borrowers. Once insolvent, EBS transformed itself into a profitable financial service provider by rigorously focusing on the needs of its clients – in particular, by developing a wide range of market-based financial products and services (Global Envision, n.d.).

- **Producer Associations as Clients of Financial Institution: GAPI and CLUSA in Mozambique:** GAPI offers investment and working capital loans to fora (federations
of associations) of small farmers and small and microenterprises. Loans are secured through a solidarity group-like guarantee between the participating fora. Each forum on-lends to its member associations, who collect the produce from their individual members and other area farmers and deliver it to the forum in return for the loan. About 80% of the profits from the sale of produce are handed back to the associations – the remaining 20% of the profits are kept by the forum as interest payments (Global Envision, n.d.).

**PRODUCT EVOLUTION**

As these MFIs have matured so have their products and services. Originally, the primary product offered was credit, or microlending. But soon MFIs began to realize that credit was not enough and did not help in all situations. Credit can be very useful to start or expand a business but savings is critical to help stabilize the individual’s personal economic situation. Microsavings, aims to help individuals stabilize and begin to grow their wealth. Taking savings a step further some MFIs have also begun to offer insurance. Microinsurance enables individuals to protect themselves against the inevitable and unexpected disasters in life. Lastly, MFIs have realized the need for greater education and as a result most offer financial literacy programs as well as business planning services.

These products and services are only the beginning. Technology is enabling MFIs to become more innovative and has facilitated the ability of remittance services (sending money across borders), mobile payments and money transfers, among others.

**Definition and Goals of Microlending**

The term microfinance is often used interchangeably with microlending and microcredit but there is a distinct difference. Microlending/microcredit specifically refers to lending money where microfinance encompasses a broad range of activities including; microsavings, insurance, and financial literacy. This paper will primarily analyze the effectiveness of microlending but in order to do that it’s helpful to have an understanding of microfinance as a whole and how the lending component fits into the bigger picture.

Microlending is the practice of extending small loans to individuals or groups outside of the traditional banking system. The Virtual Library on Microcredit (n.d.) defines microlending as “programs that extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families.” Specific objectives of microlending include: reduce poverty, empower women or other
disadvantaged groups, create employment, help existing businesses grow or diversify, and encourage the development of new businesses. “In a World Bank study of lending for small and microenterprise projects three objectives were frequently cited. 1. To create employment and income opportunities through the creation and expansion of microenterprises. 2. To increase the productivity and incomes of vulnerable groups, especially women and the poor. 3. To reduce rural families’ dependence on drought-prone crops through diversification of their income generating activities” (Lederwood, 1999).

**Financial Literacy**

Microfinance institutions have discovered that simply providing financial services to individuals can have limited impact if those individuals don’t understand the basics of money management. Therefore, as the industry has evolved, some microfinance institutions have incorporated a financial literacy component into their program. These financial literacy programs can provide varying degrees of education and include topics such as; managing cash flow, basic banking instruction, and the importance of savings. As we will see later, Namaste Direct has placed a huge emphasis on financial literacy in their lending model and have reported high increases in client profits as a result. Namaste’s positive results are substantiated through a study on the impact of professional financial advice to low income consumers conducted by Professors Tang and LaChance at San Diego State University. In their paper, they found “financial advice helps low-income clients more by avoiding most negative behaviors and improving some positive behaviors to a greater extent than the high-income clients” (Tang & LaChance, 2012, p. 21). In other words, their research has shown that professional financial advice improves low-income clients’ ability to use financial services more effectively.

**Future Trends**

The future of microfinance is being driven by technology. As mentioned previously, innovation in the areas of remittance, mobile payments, smartphone technology, etc. are enabling MFIs to offer new products and services and run their business more efficiently. The following are just a couple examples of technology in action.

- **ADOPEM (Dominican Republic):** leverages PDAs (Personal Digital Assistants) to run their business. As a result, the number of days between application and
disbursement dropped from 5 to 2 days, expenses for paperwork dropped by 60% and loan offer productivity increased by about 35% (Global Envision, n.d.).

- **Prodem (Boliva):** introduced a combination of biometric fingerprint and Smart Cards to deliver financial service to its clients. Biometric technology measures an individual’s unique physical or behavioral characteristics, such as fingerprints, facial characteristics, voice pattern, and gait, to recognize and confirm identity. This system has reduced fraud, error, and repudiation of transactions (Global Envision, n.d.)

**TARGET SEGMENTATION**

Microfinance is specifically targeted at the 2.5 billion individuals around the globe who are un-served or under-served by the traditional financial markets. This is an extremely broad and diverse group with diverse needs which creates the necessity for individual MFIs to identify their own target segment. It is up to the MFI to determine not only the characteristics (geography, gender, level of poverty) but also the type(s) of microenterprise they wish to fund.

An example of how individual MFIs target is Banco Solidario in Ecuador. Banco Solidario is a MFI partner with the larger Accion International (Accion, n.d.-k). Accion International provides funds directly to Banco Solidario that they then in turn lend to individual borrowers. Banco Solidario has chosen its target based on the type of enterprise they wish to fund. Its clients are either microenterprises, small businesses, family-run businesses, and the urban and rural self-employed.

**Gender**

Microfinance is often cited as one of the primary methods for empowering low-income women to better their lives.

Many qualitative and quantitative studies have documented how access to financial services has improved the status of women within the family and the community. Women have become more assertive and confident. In regions where women’s mobility is strictly regulated, women have become more visible and are better able to negotiate the public sphere. Women own assets, including land and housing, and play a stronger role in decision making (Kiva, n.d.-a)

As a result, many MFIs exclusively target women microentrepreneurs. One such MFI is Namaste Direct, which exclusively works with rural women in Guatemala. Namaste will be discussed further in an upcoming chapter. Another example is ACDF in Kenya. ACDF does not distinguish the type of microenterprise and instead targets based on certain
characteristics. They exclusively target women, adolescents and youth (below 18) who live in both rural and urban areas of Kenya (Mix Market, n.d.).

**Level of Poverty**

MFIs must also consider the level of poverty of their prospective clients and consider how their unique needs fit with their operating model. For example, the local economic environment and level of poverty of the target segment can dictate what product(s) are offered, (loans, savings, etc.) and may also be a deciding factor on entering the area at all. A study titled, Segmenting the Base of the Pyramid; identifies three unique subsets of individuals within the bottom of the pyramid in the emerging markets: extreme poor, low income and subsistence. (Rangan, Chu & Petkoski, 2011). “The extreme poor, lack basic necessities: sufficient food, clean water, and adequate shelter.” MFIs that chose to work with this level of poverty, should consider the local living conditions when deciding what products and services to offer. These individuals may not benefit from microloans but could benefit from microsavings or microinsurance, which would help them smooth out their income and protect against unexpected challenges. The second tier, subsistence, are individuals who live on $1 to $3 a day, are poorly educated and skilled but have some kind of income. This group likely would benefit from not only microsavings and insurance, but also loan products as well. The final tier, low income refers to individuals who live on $3 to $5 a day, have some basic level of education and skill and many earn semi-regular incomes from jobs. This group, having achieved some level of basic sustenance, likely would be an ideal target for a microloan.

**Geography**

The world’s poor is a large and diverse group spread across many geographies around the globe. Figure 2 summarizes their location by region and highlights some key anecdotal information by region. Figure 3 adds another layer to this data by providing a graphical representation of regional investment by year. Looking at both figures, you can see that the amount of regional investment does not always match the amount of poverty. For example, the data shows that East Asia and the Pacific contain the largest population of the world’s poor at 24%. But according to the Consultative Group to Assist the Poor’s (CGAP, 2012)

<table>
<thead>
<tr>
<th>Region</th>
<th>Population in Poverty</th>
<th>Countries</th>
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<tbody>
<tr>
<td>East Asia &amp; Pacific</td>
<td>Region contains 27% of the world’s population &amp; 24% of the world’s poor</td>
<td>China, Indonesia, Myanmar, Philippines, Cambodia, Fiji, Malaysia, Mongolia, Vietnam</td>
</tr>
<tr>
<td>Eastern Europe and Central Asia</td>
<td>Total population of 367 million of which 19.6% live below the poverty line</td>
<td>Bosnia, Herzegovina, Georgia, Russia, Tajikistan</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>Only 39.4% of adults have access to formal financial institutions</td>
<td>Brazil, Columbia, Haiti, Mexico, Nicaragua, Paraguay, Peru</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>Region has world’s highest unemployment rate of 24%</td>
<td>Algeria, Egypt, Iraq, Jordan, Morocco, Syria, Tunisia, Yemen</td>
</tr>
<tr>
<td>South Asia</td>
<td>Region undergoing significant change and in some countries turbulence which has affected the landscape for financial inclusion</td>
<td>Afghanistan, India, Bangladesh, Pakistan</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>The highest degree of poverty in the world, 47% of the region’s population live on less than $1.25 a day.</td>
<td>Benin, Burkina Faso, Botswana, Burundi, Congo Democratic Republic, Cote d’Ivoire, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Niger, Nigeria, Senegal, South Africa, South Sudan, Tanzania, Uganda, Zambia, Zimbabwe</td>
</tr>
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</table>

investment survey, this region receives one of the least amounts of microfinance investment. There are likely a variety of factors that explain this difference but regardless the data indicates that MFIs seem to prefer certain regions over others. The good news is on a global scale microfinance investment is trending upward. As shown by the Global line of the graph, microfinance as a whole enjoyed a strong increase in investment from 2007 – 2009 at which point investment slowed (likely as a result from the global recession) but has continued to trend in the positive direction.

**IMPACT**

The impact of microfinance has been a rather controversial question amongst practitioners and skeptics. This is primarily due to the fact that it is simply too hard to quantify precisely to what extent microfinance helps alleviate poverty. There are too many variables that can explain economic improvement. As a result, MFIs have adopted the practice of using loan repayment rates to measure the success of their lending programs and this is the most widely cited metric for impact and effectiveness. This is not an entirely incorrect way to measure program effectiveness. Repayment rates suggest that borrowers have adequate cash flow and the financial stability to repay a debt. But repayment rates are directional at best and don’t illustrate the full story. To better understand impact, additional data points need to be collected and analyzed.

CGAP conducted a review of the three primary methods of impact measurement: qualitative, quantitative (non-experimental), and quantitative (experimental). The table in Figure 4 provides a comparison of these three methods of impact measurement. It illustrates there are pros and cons of each method with no one method providing information on the complete picture. The majority of impact studies found today are qualitative. These are the stories we hear of how a microloan has allowed the borrower to increase their income and improve their well-being. But this type of measurement fails to consider other factors that may have played a role in the borrowers increase in well-being. Improvement likely comes from a combination of many factors and not solely the act of taking a loan. Non-experimental quantitative measurement doesn’t provide much additional insight over qualitative measurement. It can measure improvement in quantitative terms but also suffers from correlating improvement to microfinance alone. Conversely, experimental quantitative
studies have been able to more precisely measure the impact of microfinance. These types of studies are a big step to understanding impact and the following section provides an example of an experimental quantitative study. But again, this type of measurement is better analyzed when this quantitative data can be combined with qualitative data that can provide a deeper understanding of the impact.

A Case for Effectiveness

Proponents of the effectiveness of microfinance frequently site the numerous positive qualitative reports and the rates of repayment as evidence of the positive impact of microfinance. These qualitative studies report on the individual cases of borrowers who were able to improve their economic position after receiving their loan. But as stated previously, this type of measurement is very not very rigorous, as it fails to empirically prove the positive impact of microfinance as an isolated variable. As a result, more academics and researchers are running experimental studies that properly establish test and control groups with microfinance being the only variable that distinguishes the two groups. An example of experimental studies is the Karlan study detailed below.

Dean Karlan an economics professor from Yale University and his partner Jonathan Zinman conducted a field experiment in the Philippines in 2009. (Karlan & Zinman, 2011). There they worked through a local MFI and used randomized credit scoring for impact evaluation. They randomly assigned liability microloans (of $225 on average) to 1601

<table>
<thead>
<tr>
<th>METHODS</th>
<th>WHAT IT DOES</th>
<th>WHAT IT DOES NOT DO</th>
<th>EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualitative methods</td>
<td>Focus on processes, behaviors, and conditions as perceived by interviewees</td>
<td>Attribution of causal effect subject to biases</td>
<td>Portfolios of the Poor (2009)</td>
</tr>
<tr>
<td>Quantitative nonexperimental methods or quasi-experiments</td>
<td>Evidence of change on the lives of clients</td>
<td>Difficult or impossible to isolate biases (selection, placement), so attribution of causality is difficult</td>
<td>AIMS studies, e.g., Chen and Snodgrass (2001), Khanderi (1998), Bruhn (2009), and Townsend (2009)</td>
</tr>
<tr>
<td>Quantitative experimental methods (RCTs)</td>
<td>Evidence of causality of an intervention on the lives of clients as compared to a control group</td>
<td>Do not always provide a good understanding of the contextual and process factors</td>
<td>Karlan and Zinman (2009), Banerjee and Duflo (2009)</td>
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individuals in the Philippines through credit scoring. They were testing the following hypothesis: “Microcredit mitigates market failure, spurs micro-enterprise growth and boosts borrowers’ well-being” (Karlan & Zinman, 2011).

In their experiment they used a test and control group, and after 11 to 22 months compiled some very interesting evidence. They found that the test group increased their net borrowing versus the control, but their business activities and their subjective well-being decreased slightly compared to control. There was also little evidence that suggested the benefits of microfinance were more pronounced for women. Interestingly, what they did find was that microloans did increase the test group’s ability to cope with risk; it strengthened community ties, and increased access to informal credit.

Their final analysis asserted that “microcredit here may work, but through channels different from those often hypothesized by its proponents” (Karlan & Zinman, 2011).

**Counterpoint – Are Jobs the Answer?**

A counterpoint to the Karlan research is a paper by Aneel Karnani (2007) published in the Stanford Social Innovation Review; titled, Microfinance misses its mark. Karnani (2007) argues, that microfinance has proven to be ineffective in its stated goal of eradicating poverty and that the only proven method of poverty eradication is jobs. His point of view is summarized succinctly in the following quote.

> To understand why creating jobs, not offering microcredit, is the better solution to alleviating poverty, consider these two alternative scenarios: (1) A microfinancier lends $200 to each of 500 women so that each can buy a sewing machine and set up her own sewing microenterprise, or (2) a traditional financier lends $100,000 to one savvy entrepreneur and helps her set up a garment manufacturing business that employs 500 people. In the first case, the women must make enough money to pay off their usually high-interest loans while competing with each other in exactly the same market niche. Meanwhile the garment manufacturing business can exploit economies of scale and use modern manufacturing processes and organizational techniques to enrich not only its owners, but also its workers. (Karnani, 2007)

Karnani (2007) acknowledges that his analysis did find that microcredit yields some noneconomic benefits but it does not significantly alleviate poverty, and in some cases makes life at the bottom of the pyramid worse. He states two driving factors for the lack of economic improvement: high interest rates and the microentrepreneurs themselves. With
with respect to interest rates, Karnani (2007) recognizes the rates are still lower than traditional markets, yet finds them still to be high relative to the earning power of the borrower. The more interesting argument he makes is that the microentrepreneurs themselves are a part of the problem. One of the failures of microfinance he argues is that microloans are more beneficial to borrowers living above the poverty line. These individuals are willing to take risks and invest in new technology and hiring of labor. Conversely, the poor borrowers tend to take more conservative loans and are primarily concerned with protecting their basic livelihoods. Expanding on this idea further he states that these bottom of the pyramid microentrepreneurs are entrepreneurs in the literal sense, meaning they create and self-run their own business. But they lack the critical component that has catapulted their western counterparts, vision. This lack of vision, combined with having no special skills, and small operations, translate to meager incomes that will not lift them out of poverty.

What is his solution? Jobs. According to Karnani (2007), “employment is the key to growth and poverty reduction. Productive and remunerative employment can help ensure that poor people share in the benefits of economic growth.”. Figure 5 presents 3 different graphs that show the level of poverty in China, India and Africa. These graphs are broken up by segments: working population, people in poverty, and the working poor. Karnani (2007), uses these graphs to illustrate his point that jobs are the key to poverty reduction, citing particular success in China where there was a large increase in employment in the 1990s during which time China also experienced a dramatic decline in poverty.

Summary

This section has provided a baseline understanding of the microfinance movement, its evolution and viewpoints on impact. On this broader level, the measures of effectiveness, sustainability and repayment rate have been established. The next chapters will provide a close examination of three different microfinance models with the objective of giving greater insight on how an MFI targets and what products and services it offers, and measures of effectiveness.
CHAPTER 3

KIVA

HISTORY

Kiva was founded in 2005 with a mission “to connect people, through lending, to alleviate poverty” (Kiva, n.d.-a). Founders, Matt Flannery and wife Jessica Jackley initially started Kiva based on the idea of “sponsoring a business” (Kiva, n.d.-a). Both inspired by a speech from Dr. Muhammad Yunus, became passionate supporters and believers in microfinance. During time spent with local MFIs in East Africa the beginning concept for Kiva was born. Flannery the entrepreneur understood the challenges faced by anyone who wanted to start a business. During their time in Africa both saw first-hand, individuals who were barely breaking even but who had opportunities to start/grow their businesses. In all instances their lack of capital prevented them from taking advantage of these business opportunities. The concept of “sponsor a business” originally came from the child sponsoring charities in Africa that both participated in previously. Sponsoring a business was meant to take that type of relationship but make it more of a partnership between borrower and lender, as opposed to outright charitable donations. The Internet seemed like a viable place to create a platform to facilitate such relationships.

However, what on the surface seemed like a simple proposition, connecting borrowers and lenders online, soon ran into challenging questions around scalability, organizational structure (non-profit vs. for-profit), and securitization (can you loan money over the Internet?). At this time Kiva stated the following goals (Flannery, 2007):

- Allow Internet users to make small loans to specific micro-borrowers around the world, possibly with interest.
- Connect a network of MFIs to our platform and have them post the loan applications of their borrowers to the site.
- Create a financial connection between lender and borrower whereby the lender assumes the default risk.
- Create loans between people, not necessarily organizations, where Kiva acts as a platform and MFIs act as distributors.
The issue of scalability was primarily directed at how the lending process was first defined. Initially, Kiva intended to require borrowers to provide lenders with frequent, real-time updates of their progress on paying back the loan. A reasonable request, but one that would require some kind of monitoring system, as well as actually setting up the infrastructure to pass these messages from individual borrowers to their lenders. And, because Kiva would be lending through local microfinance institutions, the burden to facilitate this would fall to the MFIs who were not set up to provide or fund this type of service. Perhaps, it would work on a small scale but not a global one. Ultimately, it was decided this issue was not worth the effort to solve and the idea was dropped.

The concern of organizational status was primarily an issue of perception. Was it better for Kiva to be seen as a charity or a business? At the time, most microfinance institutions were beginning to become for-profit enterprises in an attempt to integrate better into the global economy and tap the capital markets. Flannery felt the Kiva model would also facilitate such access, “we began to see person-to-person debt capital as a bridge for MFIs on a journey from donor dependence to tapping into the capital markets” (Flannery, 2007). For-profit seemed like the prudent approach; however Kiva’s goal was to connect individuals. “Rather than try to attract the most capital as fast as we could, we were interested in engaging average income people to unlock a new type of more connected capital” (Flannery, 2007). At this time, Kiva was hearing from potential users that they preferred a more personal and connected experience over a commercialized one. Therefore, it seemed that Kiva’s best choice was to organize as a non-profit.

Perhaps, the biggest challenge Kiva faced in its formative phase was the regulations around lending money. By allowing lenders to lend money to borrowers over the internet in return receive their loan repaid with interest, are you in fact offering an investment? The answer to that question was critical, since investments are highly regulated by the Securities and Exchange Commission (SEC). Also, if loans are paid back with interest does that automatically classify the organization as a for-profit institution? Lastly, as a result of the U.S. Patriot Act, lenders are required to put safeguards in place to ensure money lent does not end up in the hands of terrorists. After many months and close partnership with the SEC, Kiva was able to resolve these issues with the simple decision of not displaying interest rates to users on the Internet. By not displaying rates, the SEC was unlikely to notice and consider
these loans securities. Additionally, it was decided that the interest earned on a loan would be retained by the local microfinance institutions that would use it to help sustain their operations.

**Expansion Years**

With the business mostly sorted out it was time to get the word out. To-date Kiva had run various beta tests with small groups of borrowers to prove their concept. Some growth was happening but it was extremely minimal. Then the tide began to turn with a series of buzz-worthy events that brought Kiva the mass attention it needed. In October of 2005, Kiva was featured on the hugely popular blog Daily Kos and a year later Frontline/WORLD aired a documentary about Kiva that drove so much interest that $250,000 was lent in a single week. In March 2007, New York Times columnist and Kiva lender Nicholas Kristof, wrote an article about his Kiva experience which went viral and generated $250,000 to be lent over just 3 days. This positive exposure was increased substantially when Kiva was profiled in President Bill Clinton’s book Giving. The cumulative exposure had garnered Kiva large donations from the Draper Richards Foundation and the Skoll Foundations, and loans had surpassed the $1 million mark. In June 2008, TIME magazine named Kiva one of the “Best 50 Websites of 2008” and by November of 2009, loans distributed had reached the $100 million dollar mark. In November 2010, Kiva was named one of Oprah’s Favorite Things and the rest is history, Kiva had entered the main stream.

**Current Innovation**

During the past couple of years Kiva has continued to grow its reach internationally and has also turned its attention on the home market of the United States. The most notable of recent accomplishments is the innovative concept of Kiva Cities. Piloted in Detroit and now happening in New Orleans and Los Angeles, this program leverages the Kiva model to provide loans to individual entrepreneurs to start or grow their business.

**Model and Organizational Structure**

Kiva has adopted the intermediary model (Figure 1, Chapter 2), which as stated previously is the “go-between” organization between lenders and borrowers and plays the critical role of generating credit awareness and education among borrowers.
It facilitates this connection of borrowers and lenders through their web service that serves as a platform for person-to-person lending. The Kiva model is very simple. Kiva teams up with MFIs, whom they call Field Partners, in various geographies around the globe. These Field Partners work directly with borrowers and are responsible for vetting clients for credit worthiness and uploading their borrower profile to the Kiva site. Lenders from all over the world view these profiles on the Kiva site and lend their money to specific borrowers. Kiva disburses lenders’ funds to the Field Partner who then passes the funds to the borrower. As borrowers repay their loans the Field Partner passes the loan repayment amount back to Kiva. The Field Partner keeps all interest collected to cover their operating costs. Kiva provides repayment to the lender who can lend again.

**Microfinance Partners (Field Partners)**

Kiva currently has 188 Field Partners in 67 countries around the world. These Field Partners work directly with borrowers and set their own interest rates for loans. Kiva partners with a wide range of organizational types and has developed a 3-tier level of partnership based on the level of investigation from Kiva. The most basic level is an experimental partnership. This level of partnership allows the potential Field Partner to test out the relationship with Kiva. Small credit lines of up to $20,000 are extended on a trial basis and minimal investigation is performed. The next tier up is called Basic Due Diligence, and partners can have credit lines up to $200,000. These partnerships are reviewed and approved on a case-by-case basis by the Kiva investment team. The Full Due Diligence tier includes partners that Kiva has deemed qualified for the largest credit lines (up to $2 million). Also, reviewed and approved on a case-by-case basis these partners have the highest level of qualifications.

Regardless of partner level, all Field Partners must meet the following minimum requirements (Kiva, n.d.-c):

- Display a strong commitment to serving the needs of the bottom of the pyramid
- Have a specific and defined need for small-scale, beneficiary-level finance
- Have the capacity to maintain a partnership with Kiva, including posting and managing online loan profiles
- Be registered as a legal entity in its country of operation
Serve at least 1,000 active borrowers with microfinance services

Have a history (2-3 years) of lending to poor, excluded, and/or vulnerable people for the purpose of alleviating poverty or reducing vulnerability

Have at least one year of financial statements

Have a strong social mission and a clearly defined use for Kiva funding

**Organizational Structure**

The Kiva model relies heavily on their 500+ volunteers that perform a variety of tasks for the organization. These volunteers are organized into three categories: Kiva Fellows, Interns and the Kiva Review and Translation Program (Kiva, n.d.-d).

There are currently 81 Kiva Fellows in the field who work with and report on their local Field Partners. These individuals travel to and live in the host country with one of Kiva’s Field Partners for a minimum of 12 weeks. Beyond working directly to help the Field Partner they are responsible for providing updates and feedback to Kiva on partner performance as well as blog and capture images of their experience.

Additionally, Kiva’s internship program hosts 3 internship classes per year. Interns are expected to work a minimum of 3 days a week at Kiva’s corporate office for a period of 6–8 months. While there they apply their diverse skills to a variety of key initiatives and programs. These positions are highly sought after and competition is fierce. As a result, Kiva’s acceptance rate is 10–15%.

Lastly, the largest group of volunteers (~500) participates in the Kiva Review and Translation Program. These are remote volunteers from all over the globe who volunteer a minimum of 2 hours per week editing, translating, and reviewing every single loan profile before it’s posted to Kiva.

A summary of Kiva’s organization and its reach is illustrated in Figure 6.

**Revenue Model**

100% of funds lent through Kiva go directly to the borrower. Kiva does not charge interest or take any portions of the interest proceeds assessed by the Field Partner. So how is the business funded? Kiva has two distinct revenue streams: donations, and interest income. Donations can come from individual lenders who can chose to make a donation directly to Kiva. They can set up one-time or recurring donations to support Kiva’s operations.
Donations also come from small businesses, corporations and foundations. Kiva has established a series of rewards/incentives that reward donations at various levels. For example, a small business who makes a donation of $25,000 or more earns the right to use the Kiva logo when communicating their Kiva partnership in their marketing pieces. Corporate and Foundations who donate $250,000 or more are able to have their own page on the Kiva site and can participate in joint PR ventures and media tie-in.

A second revenue stream for Kiva is interest income. Kiva maintains bank accounts to facilitate funds transfers from borrowers to Field Partners. As a part of this process they carry a balance that earns interest. Additionally, some lenders choose to relend funds once paid back. These funds may also sit in the Kiva accounts for periods of time and earn interest.
Target Segment

Kiva began by working with a specific group of microentrepreneurs in rural Uganda with the intention of focusing their efforts in Africa. As the organization grew, Kiva realized they would be limiting their impact by having such a narrow focus. Although, Africa is a very large continent, its population is not as dense when compared to other areas of the world, and Africa represents only 10.4% of MFIs world-wide (Flannery, 2007). The greatest areas of the microfinance population can be found in Southeast Asia and Central and South America. “Microfinance has scaled best in places where crowds of people live in close quarters. Dense populations bring down transaction costs. The lower the transaction costs, the lower the interest rates” (Flannery, 2007). With this realization, Kiva made the transformational decision to not focus on a specific region or even type of entrepreneur. Kiva currently sees itself as “a technology platform for microfinance institutions alleviating poverty everywhere” (Flannery, 2007). Not restricting themselves to specific targeting and focusing on their role as a platform is a key element to their model.

Kiva borrowers can be found in 67 countries around the world and engage in a variety of business activities and sectors. Figures 7 and 8 illustrate how many loans have been provided in each country and what business sectors the microentrepreneurs are working in.

PRODUCTS AND SERVICES OFFERED

Kiva has a singular product, microloans. The majority of these microloans are made to individual or group borrowers who use the funds to start or expand their business. For each profile, Kiva applies tags to categorize by: gender, sector (agriculture, clothing, etc.), group or individuals. Kiva also distinguishes specific attributes for loans with specific applications: Green, Transportation, Housing, Rural Communities, Start-Ups, Fair Trade, Youth, etc. This specific classification system allows lenders to easily search for the specific type of borrower they want to lend to.

Kiva’s Product Philosophy (Flannery, 2007).

- **People are central.** The first thing you notice are faces. Money and organizations are secondary, people are primary.
- **Lending is connecting.** At Kiva.org, lending money is all about information exchange. In a sense, money is a type of information. Lending to someone else

creates an ongoing communication between two individuals that is more binding than a donation.

- **Things are always changing.** Every time you load our website, it should be different. Every minute, loans are being purchased and repaid, and stories are being told about the borrowers. This can lead to a dynamic where philanthropy can actually become addictive.

- **Emphasize Progress over Poverty.** Business is a universal language that can appeal to people of almost every background. This can lead to partnerships rather than benefactor relationships. We appeal to people’s interests, not their compassion.

- **Create a Data-Rich Experience.** Whenever it is possible to collect data from the field, we collect it. Over time, we will display as much information about our partners, lenders, and borrowers as possible and let the users decide where money flows.

**IMPACT**

Kiva’s primary metric for measuring success is tracking repayment rates. Based on this metric they have been extremely successful. Kiva has made $409,827,650 in loans of which a staggering 98.98% have been repaid (Figure 6).

Additionally, they have engaged a massive number of lenders (901,507) from around the world and mobilized them to get involved and lend to borrowers.

People cared about the progress of an entrepreneur half-way across the planet. There was, to some degree, a sustained mental and emotional connection. Whether the connection had a positive feel was secondary. These tiny, interpersonal loans were creating a consciousness that didn’t exist before. (Flannery, 2007)

**Measures of Positive Impact**

But what impact does Kiva have in alleviating poverty? As mentioned earlier in this paper, quantifying poverty alleviation is very difficult and measuring impact in this way is one of Kiva’s stated goals for the future. In the meantime, they rely on the Kiva Fellows who work on the ground with the local Field Partners to report back on what impact the lending is generating. The following excerpts are qualitative reports of how a loan from Kiva helped these borrowers expand their business and improve their home and children’s education.

**El Salvador**

Denis lives in El Salvador with his wife and 7-year-old daughter. He's worked as a farmer for over 15 years, after learning the trade from his father. He took out
his first Kiva loan in September 2011 and used that $450 to buy herbicides and fertilizer to ensure a bountiful harvest. His initial goal was to improve his family's nutrition by increasing his income. Not only did Denis pay back this loan, he's currently requesting his third Kiva loan -- this time for $700 to pay the lease on his land and buy manure for his crops. Since his first loan on Kiva, he has been able to financially support his children’s education and even make some home improvements. (Kiva, n.d.-b)

Iraq

Nabat is a 33 year-old Iraqi woman who is married with three children. With limited career options due to cultural expectations and domestic responsibilities, Nabat works from home and uses her sewing skills to make dresses and small household items to sell and contribute to the family’s income. In February of last year, she took out a $1,500 loan to buy a new sewing machine -- making her work more efficient and allowing her to provide a wider variety of designs. Nabat repaid her first loan and is now taking out a second loan to make further improvements to her business. (Kiva, n.d.-b)

STRENGTHS

Kiva’s core strength is the platform. By creating a web based microfinance platform their reach is almost limitless. MFIs from around the globe that meet Kiva’s minimum requirements and have access to the Internet can enter into a partnership and access the massive amounts of capital generated by Kiva’s lenders. And the lenders themselves are just as global and diverse. Kiva’s model is able to harness the power of the “the crowd” who lend as individuals or have formed communities and lend as teams.

Secondly, Kiva has very strong marketing. Their model relies heavily on attracting new lenders and word of mouth. Their website, which is the sole point of lender interaction with the company, is very intuitive for users who can easily search the site to learn more about microfinance, the Kiva organization and to make a loan. Additionally, the site clearly portrays a strong brand identity that has managed to appeal to individuals who might otherwise have not taken the time to get involved with microfinance. This message is spread via effective use of social marketing. Figure 9 is an image of the built-in social sharing functionality that Kiva developed on their website to enable lenders to easily share their activity with their social network. After a lender has made a loan, they are prompted to share the experience via Facebook. Additionally, they are rewarded for referring friends to the site, for each referred friend, the original lender receives $25 that they can lend to a
Figure 9. Example of built-in social network sharing functionality on the Kiva website. Once a lender makes a loan they can share the details of that loan on Facebook.

borrower of their choosing. Harnessing the power of social networks allows Kiva to enjoy widespread word of mouth at zero cost.

This word-of-mouth is further enriched by the many emotional and engaging stories conveyed by Kiva Fellows and other bloggers. Without a doubt these highly personal stories allowing prospective lenders to identify with the plight of the poor and inspire them to get involved:

Behind each of these businesses lies a story. Each is unique but patterns emerge – patterns that get us closer to understanding what it means to be in poverty and the difficult process of trying to escape. These stories are at the heart of Kiva’s goal and strategy: the human connections we build between lenders and borrowers have brought new lenders to the microfinance movement, and foster in them a new awareness and connection to the people who briefly use their money. (Flannery, 2007)

Another key strength is Kiva’s commitment to transparency. A critical component in the Kiva model is trust. Trust between Kiva and their Field Partners and between Kiva and their lenders. Kiva is 100% dependent on financial support from their lenders. By being transparent in all things, good and bad, Kiva is able to establish credibility, trust, and faith in their operations which has cultivated loyalty in their lenders.
Last but not least, Kiva’s strength lies in their volunteers. In order to pass 100% of lenders’ funds to borrowers Kiva must keep their operating costs low. The majority of day-to-day operations are run by volunteers. Their massive volunteer network is so popular that they are in the enviable position of having to turn down volunteers.

**Weaknesses**

As a platform that connects lenders and borrowers Kiva is vulnerable to fluctuations of supply and demand. If the site is flooded with more borrower profiles that exceed the number of lenders, there is a likelihood that the excess loan requests will expire and not be funded. Unfunded loans can potentially create liquidity problems with the Field Partner. Additionally, Kiva is dependent on these Field Partners to operate fairly and not commit fraud.

Conversely, if there is not enough loan requests to meet the amount of funds offered by lenders, Kiva runs the risk of losing the interest of lenders who may leave Kiva and take their business elsewhere. Kiva is further dependent on these lenders as their source of growth. Kiva has observed that when the lender base grows more profiles are posted to the site.

On a macroeconomic level Kiva, like other MFIs is susceptible to fluctuations in the macro economy. If a borrowers’ local economy becomes depressed it makes it more difficult for them to repay their loans. Additionally, recessions in lenders’ economies can reduce their disposable income thereby reducing the amount they are able to lend.

Finally, the Kiva model lends money in US dollars and is repaid in US dollars. If the local currency is devalued it makes it harder for the Field Partner to repay Kiva.
CHAPTER 4

NAMASTE DIRECT

HISTORY

Namaste Direct, founded in 2004 by Bob Graham, is a small grassroots microfinance organization with offices in San Francisco, CA and Antigua, Guatemala. In Guatemala, the organization operates under the name Fundacion Namaste Guatemaya.

The origins of Namaste can be found in philanthropist Bob Graham’s earlier microfinance enterprises. In 1984, Graham founded the Katalysis Partnership, a now defunct community loan fund that supported microfinance activities in Central America. Katalysis established a network of 16 local MFIs in El Salvador, Guatemala, Honduras, and Nicaragua that lent the funds raised through the partnership. Katalysis eventually turned into Namaste Foundation whose primary project is Namaste Direct. In addition, to Namaste Direct, the foundation also sponsors The Ganesha Program for Sri Lankan Relief and is affiliated with aiding the Tibetan government in exile.

As an organization, Namaste Direct started small and has remained small. However, over the years their reach within the communities they serve has grown. They currently have a staff of only 17 individuals, 16 of whom are located in Guatemala. Kristen Houk, the President and CEO is based in their San Francisco headquarters but like most of the board members, she makes frequent trips to Guatemala.

MODEL AND ORGANIZATIONAL STRUCTURE

Namaste Direct classifies itself as a Non-Governmental Organization (NGO), however, similar to Kiva their model is technically an intermediary. They have adopted a standard donation-based model where they solicit donations from individuals in the United States that are lent through local MFIs to women in Guatemala. Unlike, Kiva, whose users are officially lenders whose funds are loans that are paid back, at Namaste all funds received are true donations. Like Kiva, Namaste does work with local MFIs who determine which borrowers qualify for loans and provide administration services. And, beyond making loans,
Namaste is primarily devoted to providing financial education and providing business consulting services to borrowers.

In their own words:

Namaste’s vision is that low income business women in the developing world shall have the tools and access necessary for attaining sufficiently higher business cash flow to move from semi-poverty towards middle class status. This will promote the wellbeing of the woman and her family, healthy community economics and participatory democracy.

Our mission is to directly contribute to Women’s Economic Empowerment by providing business development programs that increase the business cash flow of low income women. (Namaste Direct, n.d.-a)

**Microfinance Partners**

Namaste Direct currently partners with 4 local MFIs in Guatemala (FAPE, Edubanco, CES, Puente de Amistad), and 1 MFI in a neighboring area of Mexico (AlSol). As with Kiva, these partners facilitate the loan process including, vetting applicants and administering the loan. What is different with Namaste is that they work more closely with the MFIs and individual borrowers to provide financial literacy training and business advising services. These additional services will be discussed in-depth in a later section.

**FAPE (FUNDACIÓN DE ASISTENCIA PARA PEQUEÑA EMPRESA)**

- Guatemala City, Guatemala
- Number of clients: 3,300 (92% women)
- Started in 1984 with a small amount of seed capital, FAPE supports micro-enterprise development in the most marginalized communities. A change in leadership three years ago brought about a more focused and professional approach to microfinance, and the organization has methodically built its financial and management capabilities since then. FAPE is now an important part of a thriving microfinance community, serving a vital role by reaching out to underserved communities in rural areas of Guatemala. Its methodology is primarily group lending through a model called Bancos de Mujeres de Confianza ("Banks of Trustworthy Women"), although as of recently FAPE also offers solidarity group loans and individual loans. FAPE’s loan repayment rates are on the order of 95-97% (Wikipedia, n.d.).
EDUBANCO (A PROJECT OF CARE INTERNATIONAL)

- Chichicastenango, Guatemala
- Number of clients: 1,695 (100% women)
- The EDUBANCO project provides microcredit loans and seeks to support elementary education for borrowers' children. Women receive discounts on loan interest if their daughters remain in school. This project seeks to empower women and their daughters simultaneously by supporting women's economic opportunities and girl's education, helping to address the education gender gap in Guatemala. CARE collaborates with the Ministry of Education, local partners, teachers and associations in implementing education reform and strengthening the quality of primary education (Wikipedia, n.d.).

CES (SOLUCIONES COMUNITARIAS)

- Nebaj, Guatemala
- CE Solutions was founded in May 2004 by former Guatemala Peace Corps Volunteers Greg Van Kirk and George B Glickley. Upon completing their two-year commitment in April 2003, Greg and George decided to stay on to complete "unfinished work". The CE Solutions team works to transfer both knowledge and resources to local individuals so that they can improve their quality of life and of those of others in their community. Their success is derived from creating practical, low cost and flexible solutions that address real needs and offer compelling opportunities. CE Solutions conducts extensive analysis to ensure that the designed solution and implementation mechanism is one that is appropriate for the local environment and constituents (Wikipedia, n.d.).

ALSOL (ALTERNATIVA SOLIDARIA)

- San Cristobal de las Casas, Mexico
- Number of clients: 14,020 (100% women)
- Since 1998, AlSol has been working to provide financial and social services to the poorest women in the state of Chiapas so that these women and their families can improve their standard of living. AlSol follows the Grameen methodology and makes its loans to solidarity groups of three to five women. Using an integrative approach, AlSol aims to address various facets of extreme poverty, including lack of capital, illiteracy and malnutrition. In addition to its microcredit program, AlSol offers life insurance and educational programs for microcredit borrowers and nutrition programs for their children (Wikipedia, n.d.).
PUENTE DE AMISTAD (FRIENDSHIP BRIDGE)

- Panajachel, Guatemala
- Number of clients: 14,460 (100% women)
- Working in Guatemala since 1998, Friendship Bridge is committed to reaching the poorest areas of rural Guatemala and providing credit and education to women (primarily Mayan). Topics on business development, self-esteem, and women's health are delivered through regularly scheduled repay meetings. In addition, in an effort to support clients' desires to enable their children's education, Friendship Bridge offers scholarships and school supplies to thousands of children, and operates a children's learning center in the remote village of Nebaj (Wikipedia, n.d.).

Organizational Structure

Namaste Direct runs a very lean operation that has almost as many advisory board members as staff. Officially, there are 17 individuals on staff all of whom are on the ground working in Guatemala except for Namaste’s president who spends a large portion of time fundraising in San Francisco. Additionally, of the 16 Guatemalan staff, 5 individuals work as business advisors and 2 work as education specialist to the local borrowers. These individuals are all paid employees as opposed to volunteers. Namaste does leverage volunteer help at their annual fundraising event Namaste Nights (to be discussed in an upcoming section) but relies on employees for all other tasks. “The reason for this is that we want to ensure commitment to the client. While volunteer efforts are great, they are not as reliable as paid employees” (Kristen Houk, Namaste CEO, personal communication, March 26, 2013). Namaste’s 10 board members, are very hands on with the organization and also responsible for personally donating a majority percentage of the funds raised by the organization.

Revenue Model

Namaste operates 100% on donor funds. Unlike other MFIs, they do not disclose what percentage of donations is used to run the business and what percentage makes it into the hands of the actual borrowers.

Donor funds come from almost four perfectly split buckets: individuals, family foundations, institutional support, and the advisory board. The majority of these individuals, foundations and institutions are either also board members or close friends and relatives of the board and founder Bob Graham. Namaste recognizes large donors officially as partners
on their website. They have created 5 unique donation tiers: Lake Atitlan Club ($100K +), Tikal Club ($50K +), Antigua Club ($25K +), Chichicastenango Club ($10K) and the Chiapas Club ($5+). The individuals or groups in each of these clubs have their name posted on the Namaste website.

**Fundraising**

Namaste raises donor funds in a variety of different ways. Individuals looking to make a difference can make donations directly on Namaste’s website and are also encouraged to spread the word by sending eCards and hold house parties or other events. Individuals who make larger donations also have the opportunity to travel with Namaste to see their work on the ground in Guatemala. Trips are timed to coincide with the Annual Microcredit Borrowers Conference sponsored by Namaste. This conference will be discussed further in an upcoming section. This behind-the-scenes look gives the donor an opportunity to see the Namaste model in action as well as experience local Guatemalan culture. Additionally, some individuals have grouped together to form what Namaste calls Giving Circles. These Giving Circles are featured on the Namaste website (9 in total) and have come together for a variety of reasons. One such group, called the Hillsdale Effect, is a group of High School students from Hillsdale High School in San Mateo, California. The group gives themselves an annual fundraising goal of $15,000 and most students have made the journey with Namaste to Guatemala with their teacher.

In their own words:

We began as a group of nine students devoted to making a difference in the world. We formed relationships with the Rotary Foundation and Namaste Direct, both non-profit organizations which work to give microloans to impoverished women in third world countries. We are dedicated to informing our community about the needs of people in developing countries, the power of microloans to help them, and financing microloans in order to empower women and transform communities.

Microloans can play a major role in the effort to end poverty because they provide capital to the people who need money the most, the very people who would be turned away by conventional banks. While charities can provide short term help, they do not break the vicious cycle of poverty the way that microloans can. A woman who is able to start a successful business is able to send her children to school; and, eventually, an entire community can be positively affected through these small but powerful loans. We chose our partner, Namaste Direct, because it
is uniquely effective in the way it offers economic and vocational training along with the loan.

Our goal is for each member of our club to raise enough funds to provide one woman with a loan and the accompanying education and training. In addition, we each aim to raise enough to travel with Namaste Direct to Guatemala to see and learn about the loans in action this spring. By supporting us, you are not only changing lives and communities in Guatemala but the lives of young people in your own community. Who knows how far the effect will reach —The Hillsdale Effect! (Namaste Direct, n.d.-d)

Finally, the biggest source of Namaste’s fundraising is generated during their annual fundraising auction, Namaste Nights. Each year, individuals donate various goods and experiences to be auctioned with all proceeds going to Namaste. This event typically generates around $500,000 for the organization in a single night.

**Target Segment**

Namaste Direct has a very narrow target segment that they work with, rural women in Guatemala, mostly first-time borrowers that are at the level of semi-poverty. These women are free to invest in a variety of businesses, but the majority have opened small stores, make food and make and/or resell shoes and clothing. Figure 10 was taken from Namaste’s 2012 Annual Report and shows what percentage of funds are lent per business sector.


**PRODUCTS AND SERVICES OFFERED**

Namaste offers a single microloan product, customized small business loans which are offered at interest rates 25 – 50% less than other microlenders. In addition to offering a
customized product, Namaste works with the client throughout the process to ensure a positive impact is realized.

Due to the nature of their model, Namaste spends the majority of their time offering financial education and business counseling services to their clients. Both their financial literacy training and personalized business advising are requirements to accepting a loan.

The financial literacy training, provided by Namaste employees in Guatemala, comes early in the loan process so women can apply these lessons throughout their loan cycle. Additionally, women are grouped together in cohorts and taken “through culturally-sensitive education materials developed by the Freedom from Hunger foundation and participatory techniques, clients learn by doing” (Namaste Direct, n.d.-c). The Freedom from Hunger foundation is a non-profit organization that primarily focuses on hunger alleviation. As part of their work they are involved in the microfinance industry and as a result have created a number of materials that can be leveraged by microfinance organizations, like Namaste. Namaste uses their educational materials to deliver courses on topics such as cash management techniques, including the importance of separating personal and business finances.

Once the borrower’s loan cycle has begun they are assigned a personal business advisor to guide them through the entirety of the loan cycle.

Each Namaste Entrepreneur is assigned a professional business advisor for the duration of their loan cycle. Business advisors are local community leaders, well versed in the local economy and also the indigenous language of the region. Together, client and advisor go through the details of the business, focusing on cash-flow analysis, detailed record keeping, and strategic planning. The Namaste training methodology – highly sensitive to literacy rates and cultural needs – is crafted to keep each client on track. (Namaste Direct, n.d.-b)

In addition, to providing literacy and business services, Namaste holds an Annual Microcredit Borrowers Conference each year at Lake Atitlan, Guatemala. The event brings approximately 100 Mayan businesswomen from Guatemala and Mexico together. At the conference the women have the opportunity to network and learn from each other.

Beyond microfinance products and services, Namaste has also started leveraging new product technologies to help them operate their business. In 2012, they began using their own custom database. This new software provides Namaste real-time management, measurement, and evaluation tools that allow them to better analyze their work. This
software is just the beginning for them as stated in their 2012 Annual Report; Namaste is in the process of enhancing this software so it will be compatible with mobile devices. The software itself allows Namaste to keep accurate records of their lending activities, create private-sector like performance reporting on both Namaste as well as their clients, and maintain records of client impact. The mobile version of this software will allow their business advisors to become more efficient by having access to data while they are in the field.

**IMPACT**

Namaste like other MFIs has a fantastic repayment rate close to 100%. But what makes Namaste different is their personalized approach. Their involvement with clients enables them to witness first-hand, and quantify the actual impact their efforts have generated. Figure 11 summarizes Namaste’s impact in terms of amount lent and number of women who have gone through their program. According to their 2012 Annual Report, of the 985 women who have completed the business development program:

On average these clients realized a net profit gain under our tutelage of $62.84/month or $784/year. This is a 41% increase in profits and represents a first year return of 200%. Clients are now averaging $2.50 per hour vs. the Guatemalan minimum wage of $1.00. Increased income = better nutrition, health and education and other improvements for the family. (Namaste Direct, 2012, p. 2)

And, perhaps a testament to their impact, Namaste’s Annual Report states, the Inter-American Development Bank, Oxfam, and Mercy Corps are discussing opportunities to leverage Namaste’s training and evaluation methods across their programs in Guatemala.

**STRENGTHS**

Namaste’s strength simply put is, their model works. They have identified a target segment that is able to benefit from their type of model. Their clients are in semi-poverty, and as a consequence can use the majority of their loan funds towards their business, as opposed to sustaining just the basics. By having the ability to focus on their business, these women are able to take advantage of and gain immediate benefit from the financial literacy training and business advising that are the cornerstones of the Namaste model.

Additionally, their strong focus on financial literacy gives their clients the tools to become proper money managers. And, likely the biggest key to their success is their business advising program. This consultative service provides the client a valuable business partner who can help them identify new ways to grow their business or mitigate challenges that have arisen. By nurturing successful businesses, Namaste is also ensuring their repayment rate remains high.

Lastly, Namaste has managed to do what many MFIs struggle with which is measure their impact. Because they work so closely with their clients they can observe and record to what extent their loan has improved their economic well-being. As evidenced in the section on impact, Namaste was able to measure that the women in their program have been able to increase their profits by 41% which is a direct impact to their net income. This ability to measure and report on results can be a great asset if they were to solicit donations on a larger scale.

WEAKNESSES

Namaste suffers from two major weaknesses: scaling and funding. Their current model, although very effective, is extremely hands-on. For them to grow into other markets they would essentially be starting from the ground up, setting up a local office, hiring staff, etc. So even though their model could be applied in multiple locations they could not take
advantage of any economies of scale. Additionally, such growth would require increased
donations which is their second challenge.

Namaste is essentially a personal mission by a small group of friends and colleagues
who personally make up a large percentage of donations. And, they are a very small
organization, not widely known or advertised outside of their primary circle. This means that
their ability to generate donations is somewhat finite. It can be argued that if they made a
bigger push for awareness this could change but it likely would be an uphill battle fighting
for attention with Kiva in their own backyard. Lastly, given their dependence on a small
group of donors if any one of their donors stops supporting them they could potentially be
faced with financial challenges.
CHAPTER 5

ACCION

HISTORY

Accion’s history begins in parallel with the microfinance movement itself. Like so many others of the time period, in 1961, Joseph Blatchford set out to Venezuela with a group of 30 Americans to work hands on with bottom of the pyramid individuals, to help improve their lives and take them out of poverty. This early group, which would become Accion, went to the barrios of Venezuela to work on a variety of projects geared toward poverty alleviation. The work was extremely diverse, from digging ditches, to building schools, to fundraising. But the goal was the same, to help disenfranchised communities realize the power they possessed when they worked together. “Accion’s projects are a vehicle by which the people of the slums have been able to become full participants in the life of their country” (Accion, n.d.-f).

Their work continued on throughout the 1960s during which time their organization grew. They expanded into Argentina, Brazil and Peru and set up community organizations centered on the same mission they began in Venezuela. In the later part of the 1960s they officially started Accion which was headquartered in New York City. The New York headquarters provided technical support and funding to the various community partners in Latin America, many of which are still in operation today.

Then in the 1970s, Accion began to focus their efforts on a more microfinance centric model as opposed to letting the needs of the community dictate what types of projects they worked on. The impetus of this was their belief that the primary cause of poverty was the lack of economic opportunity. Much like Muhammad Yunus and Grameen, they began to shift their focus to creating economic opportunities for these individuals at the poverty level.

In 1973, in Recife Brazil, their entry into microfinance began when for the first time they started to help informal businesses through issuing small loans. They argued, “If these small-scale entrepreneurs could borrow capital at commercial interest rates, could they lift
themselves out of poverty?” (Accion, n.d.-e). The answer was yes, within 4 years, they had provided 885 loans which helped to create or stabilize 1,386 new jobs (Accion, n.d.-e).

Bruce Tippett, manager of the Accion Recife Project said in 1973:

Within the first year, we had 99.5 percent repayment. And so we could see that this was a group of people who could be counted upon. Right from the early stages, we saw that if this could be done on a large scale it could have a huge impact on those communities. (Accion, n.d.-e)

With this early success Accion began to focus on expansion.

**Expansion Years**

With a proof of concept achieved, Accion spent the 1980s and 1990s refining their model and expanding into other areas of Latin America. Their lending model aimed to meet the needs of microenterprises, by providing small, short-term loans, and the traditional application process was replaced with site visits so Accion could gain a better understanding of the borrower’s situation. Beyond the economic impact, borrowers were able to build confidence through loan repayment and establish a credit record.

This lending model worked very well for Accion who saw repayment rates of 97%, a number very similar to the microfinance sector as a whole. And, like other microfinance institutions, they soon discovered that this lending model was able to sustain itself. Interest collected on one loan was used to fund additional loans. Accion became another success story of microfinance’s self-sustainability.

Although self-sustaining, additional capital was needed for expansion. To address this issue, Accion created the Bridge Fund, which enabled Accion’s regional microfinance partners to connect with the local banking sector. The Bridge Fund, extended loan guarantees that supported access of MFIs to local capital markets, expanding their funding sources and enabling their growth and development (Accion, n.d.-g). This additional funding dramatically increased the number of microentrepreneurs they were able to reach. During the period between 1989 and 1995, the Accion network multiplied by 10 times in Latin America, thanks to this new funding channel. However, even with this dramatic growth, at that time Accion reported only being able to reach less than two percent of the microentrepreneurs in need of its services.
It became clear to them that in order to continue to scale their business, access to large amounts of capital was critical.

In response, Accion helped create BancoSol, the first commercial bank in the world dedicated solely to microenterprise. Founded in Bolivia in 1992, BancoSol is a bank of the poor: its clients are typically market vendors, sandal makers and seamstresses. Today, BancoSol offers its 143,000 active borrowers a range of financial services including savings accounts, credit cards and housing loans – products that previously were only available to Bolivia’s upper classes. (Accion, n.d.-e)

Like Grameen Bank, BancoSol was revolutionary in how they were able to scale their business and reach traditional markets. Many microfinance institutions today have followed their lead and created similar commercial banks that help fund their microlending.

Taking things one step further, in 1994, Accion and BancoSol began to sell certificates of deposit in the U.S. financial market. There were no deposit guarantees other than the individual borrowers themselves and their agreement to repay their loans. Investors in these certificates of deposit invested because it made good financial sense for them to do so, not because they were making charitable donations.

The implication of gaining investors in this manner meant that the microfinance model was becoming creditable and reputable to traditional markets. And the large infusion of capital meant that Accion could continue to grow their business to more areas of the world.

**Recent History and Current Innovation**

With much success in Latin America, Accion decided to start growing in other geographies in the world, beginning with coming back to the United States. In 1991, they brought their lending model to Brooklyn, soon to be followed by San Antonio, Albuquerque and San Diego. In the Unites States, as in Latin America, they targeted individuals who did not have access to the traditional financial markets as a result of having either no credit history or poor credit. Since the inception of the U.S. program, Accion and their state-wide partners have helped 26,500 entrepreneurs and lent out $305 million (Accion, n.d.-e).

Starting in 2000, international expansion continued to Africa, China, Mongolia and India. As they entered a new region their mission remained the same, which was, “to continue to focus sharply on the reduction of vulnerability and on increasing opportunity for
poor households by helping to deliver full financial inclusion – credit, savings, insurance, payments, remittances, financial education, and more – provided at affordable prices, in a convenient manner, and with dignity for clients” (Accion, n.d.-e). In Africa, Accion partnered with Ecobank, a leading regional bank that allowed them to offer savings and loan services in Ghana, which was then expanded to other parts of Africa. In India, Accion partnered with local financial institutions in Panta and Mumbai, to teach them microfinance methodologies and provide group lending to local microentrepreneurs.

During this time, Accion made the strategic decision to start building cash reserves that would allow them to develop new products, technologies, increase their staff and invest in less mature microfinance partners. Thereby, fortifying their ability to continue to grow and innovate.

Lastly, in 2008, they created the Center for Financial Inclusion, which was an “action tank” to advance the commercial model of microfinance. Today this center works to elevate and spread the microfinance discussion to key experts in financial services including, academics, investors and bankers.

**Model and Organizational Structure**

Similar to Kiva and Namaste, Accion has adopted the intermediary model, serving as the critical link to lenders and borrowers (Figure 1, Chapter 2), but unlike these peers, they have their own approach to acting as the intermediary.

Accion began with the traditional intermediary model of linking lenders and borrowers and working through regional microfinance institutions, first in Latin American, and then worldwide. But as the organization has grown they have dramatically evolved the way they do business. Their new organizational model and goals are reflected in Figure 12. Today, instead of simply investing through regional partners, Accion actively works to build and grow new partnerships around the globe. A creator of MFIs, they do this by providing management and investment services to individual microfinance institutions as well as aiding the microfinance industry as a whole through creating new and innovative operating models and governance. The services they offer will be explored more deeply later in this chapter.

Organizational Structure

Accion is currently one of the largest microfinance institutions in operation today with an international organization headquartered in Boston, Massachusetts. The Board of Directors, as well as the 12 person senior management team represents a variety of experience from the private and public sectors, including commercial and investment banking, nonprofit management and international community development. Their large full-time staff performs a variety of functional roles including, accounting, global investments, and product development. Accion also leverages a large group of volunteers who provide a range of services from internships at their headquarters to ambassador program volunteers who work in the field documenting impact.

Microfinance Partners

Over the years, Accion has built 63 MFI partners in 32 countries and on 4 continents around the world (Accion, n.d.-j). Figure 13 shows a visual representation of where these
partners are found across the globe. Within their core geographies of: Africa, Asia, Latin America & Caribbean and the United States, Accion seeks out microfinance institutions for partnership opportunities. Below is a sampling of their microfinance partners with deliberate examples of the different types of partnerships Accion is involved with.

**EB-ACCION SAVINGS AND LOANS - GHANA**

- An institution jointly owned by Ecobank (70% shares) and Accion (30% shares) through its investment subsidiary, Accion Investments. The bank offers microfinance services – including loans as low as US $40, savings and remittances products – to merchants, manufacturers and other microentrepreneurs to help them develop their businesses and lift themselves out of poverty. EB-ACCION pursues innovative and efficient ways of distributing these tailored financial services to their clients, including debit cards and remittances (Accion, n.d.-k).

- **Accion’s Role:** Accion provided extensive support to Ecobank in preparation for the launch of EB-ACCION Savings & Loans, including training for loan officers, and now serves in the role of Head of Credit and Branch Operations at the bank. Accion’s goal is to offer tailored financial services to low-income entrepreneurs in other countries in Ecobank’s network through the creation of additional subsidiary companies (Accion, n.d.-k).

**ACCION MICROFINANÇAS – BRAZIL**

- ACCION Microfinanças is a state-of-the-art microfinance institution that seeks to meet the demand for microfinance in and around Manaus, Brazil. It will also, eventually, provide an array of non-credit financial services. Through ACCION
Microfinanças, Accion also hopes to support businesses that can stem the tide of environmental degradation throughout the Amazon (Accion, n.d.-k).

- **Accion’s Role**: Accion is a majority owner of ACCION Microfinanças. It is the second microfinance institution for which Accion is the owner-operator. In this role, Accion can leverage philanthropic support to pilot new methods and technologies designed to ultimately drive down cost and increase efficiency and share findings with the microfinance industry (Accion, n.d.-k).

- In addition to its capital investment, Accion is providing technical assistance in the following areas (Accion, n.d.-k):
  - Institutional set-up and incorporation
  - Organizational development
  - Management information systems
  - Credit methodology
  - Risk management systems and tools
  - Development and use of alternative delivery channels for loan disbursement and repayment
  - Partnerships third-party providers to develop non-credit financial services and non-financial services

**BanGente – Venezuela**

- BanGente is dedicated to ensuring the economic success of the entrepreneurs of Venezuela by providing credit and other financial services to self-employed individuals who, due to the small scale of their businesses, lack access to the traditional banking sector (Accion, n.d.-k).

- **Accion’s Role**: ACCION has continued to provide technical assistance to BanGente, supporting them as they open new offices in cities outside of Caracas. ACCION continues to support BanGente’s microcredit activities, serving on the board of directors and facilitating its collaboration with international associates including Banco del Caribe. ACCION’s technical assistance teams led the development and implementation of BanGente’s credit scoring model, which leverages three different scorecards for client selection, market segmentation, and collections to increase overall efficiency and save cost associated with credit processing (Accion, n.d.-k).

**Revenue Model**

Accion funds its business activities through a variety or revenue streams. As Figure 14 illustrates, like most microfinance institutions the bulk of their revenue (43%) comes in the form of contributions and grants. The next largest portion of income (41%) comes from
dividend and interest income from both program investments (interest from loans) as well as from short-term investments. Accion is unique in that the remaining 16% of their revenue comes from management fees and contract revenues and training fees. These are the fees generated when Accion acts in their consultant capacity with microfinance partners (Accion, n.d.-a).

Of the revenue generated, 51% of funds are reinvested back into their global programs and microfinance institutions. Accion relies on 24% of their revenue to cover general and administrative expenses as well as fundraising activities (Accion, n.d.-a).
Target Segment

Accion’s mission and vision statements clearly state their objective to create a financially inclusive world. They achieve this by working through regional MFI partners in Africa, Asia, Latin America & Caribbean and the United States.

**Mission:** We are a global nonprofit organization with the mission of giving people the financial tools they need to improve their lives.

**Vision:** Our vision is to build a financially inclusive world with access to economic opportunity for all.

**Our Belief:** We believe in a financially inclusive world—one in which every individual can seize the opportunity to access a full range of high-quality, affordable financial services. Through access, each person we serve can capitalize on his or her own capability and drive to achieve real economic gains—and build brighter futures for themselves and their families (Accion, n.d.-b).

Because Accion plays the role of intermediary they do not target specific borrowers themselves, instead they target regional microfinance institutions. Since their organization got its start in Latin America the majority of the partnerships and borrowers reside in that area. As their business has grown they have targeted other geographies where they felt there was an un-served or under-served population without access to financial services.

**A Highlight of Accion’s Work in Africa**

In Africa, lack of access to capital means that only one percent of the population has obtained loans from formal financial institutions. Accion’s proven model—technical assistance, product innovation and, often, investment—is helping to create permanent access to financial services for many of the continent’s poor. In 2008, Accion launched its new hub office and training center in Accra, Ghana, underscoring our commitment to expanding financial services for Africa’s working poor. The new center’s staff provides support to Accion’s team of African microfinance experts, who currently work with microfinance institutions in both East and West Africa (Accion, n.d.-b).

**A Highlight of Accion’s Work in Latin America & The Caribbean**

Accion’s enduring presence in Latin America, the proving ground of sustainable, regulated microfinance, is key to our growing global success. Through deep knowledge of the region and long-standing partners, we continue to innovate and experiment while expanding in established and new markets. Accion’s product and service innovations fuel that growth. Our Latin American and Caribbean partner MFIs now offer a full range of financial services to 2.37 million
microentrepreneurs and their families – from housing loans and savings accounts to microinsurance and remittances – enabling MFIs to provide the services their clients require and, ultimately, helping millions of poor people work their way out of poverty.

In collaboration with the Inter-American Development Bank, Accion is assisting five partner institutions in expanding their microfinance services to rural clients in Latin America. This multi-year project involves Banco ADEMI, Credife, Finamerica, Financiera FAMA, and MiBanco and includes innovative work in the areas of financial products, alternative distribution channels, value chains, financial education and systematization of knowledge (Accion, n.d.-b).

PRODUCTS AND SERVICES OFFERED

With a clear objective of growing and nurturing microfinance institutions, Accion has developed a number of products and services meant to help their MFI partners start or grow their operation. These services fall into three broad categories: microfinance services, impact investing, and client education and training and trainer for practitioners.

Microfinance Products and Services

Accion provides a comprehensive list of products and services they offer to their partner microfinance institutions, listed in detail below. In addition, they also deploy Accion managers to work directly with the partner institution who may work in a variety of different capacities (CEO, commercial manager, product development manager, etc.) Regardless, of the type of partnership or the products and services involved, Accion’s goal remains, to build and support their partners so they can be successful.

- **Products offered include:** credit, savings, and provisions of resources. In the cases of both the credit and savings products, Accion works directly with their partner MFI to design and help implement products that can be tailored to the local market. This includes, providing credit methodologies (evaluation, approval and collection processes), and advice on how to optimize their funding structure, and establish a savings portfolio. Other products include, providing resources for the partner MFI to design and implement product development strategies, to delivering other products like insurance services. The provision of resources is normally Accion staff who lends their time and expertise (Accion, n.d.-i).

- **Services offered include:** human resources, commercial operations, training and capacity building, information technology, risk management, marketing, alternative delivery channels, rural finance, and client education (Accion, n.d.-i).
• **Human Resources** – Development of performance management systems, incentive schemes, recruitment processes and HR policies tailored to partner MFIs.

• **Commercial Operations** – Assistance with business process engineering and management to reduce operating costs and improve institutional efficiency; development of strategies to improve back-office operations and restructure branches – including back-office centralization, outsourcing and the use of credit factories.

• **Training and Capacity Building** – Development and delivery of training programs for loan officers, branch manager and mid-level manager to increase staff capacity; mentoring of senior managers.

• **Information Technology** – Production of technology audits; management of technology products; support with selection and implementation of management information systems.

• **Risk Management** – Automation of loan evaluation processes for improved credit scoring and risk calculation; design of institutional risk management strategies, including risk mapping, modeling, manuals and reports.

• **Marketing** – Creation of marketing strategies for effectively reaching target markets; development of brand strategies and advertising; mapping and design of marketing processes, roles and responsibilities.

• **Alternative Delivery Channels** – Development of innovative and alternative channels for delivering financial services, including ATMs, point-of-sale devices and mobile banking.

• **Rural Finance** – Diversification of loan portfolios and implementation of strategies to expand outreach into rural and underserved areas.

• **Client Education** – Delivery of financial literacy modules to educate clients on managing their personal finances and on using financial services effectively; design of business training modules to educate clients on operating more efficient businesses.

**Impact Investing**

Accion learned early in their history that in order to scale their business they needed access to capital. Throughout their history they have created a variety of investment vehicles that have provided a supply of capital. To support their MFI partners in a similar fashion, Accion provides:

Early-stage equity, quasi-equity financing and loan guarantees to help MFIs become independent of donor funds, build their capital base, attract deposits and attain financial leverage, and invests beyond microfinance to cultivate a financial
ecosystem that will radically enhance the efficiency, reach and scope of financial services at the base of the economic pyramid. (Accion, n.d.-g)

Examples of Accion’s investment vehicles include:

- **Accion Gateway Fund LLC** – private equity fund that makes direct investments in microfinance institutions to generate social awareness and financial return (double bottom line). Gateway provides equity and quasi-equity capital to microfinance institutions worldwide investing in Greenfield or early stage operations that demonstrate a potential for strong financial returns and social returns to its shareholders (Accion, n.d.-g).

- **Accion Investments in Microfinance, SPC** – Third party equity fund that invests in microfinance institutions to achieve a commercially acceptable total return that will meet or exceed historical returns achieved in microfinance in emerging markets and to achieve a social return through deployment of capital to promising MFIs that are yet unable to attract investment on commercial terms (Accion, n.d.-g).

**Training for Practitioners**

Perhaps, the most valuable service offered by Accion is the training they provide to their partner MFIs. Through this training, Accion is able to share the knowledge and best practices gained over years of being a successful microfinance institution. They developed a wide range of programs meant to share their wealth of knowledge on a variety of topics. Training classes are offered during workshops and as well as specialized training programs for individual MFI partners. The team of instructors comes from a wide range of functional disciplines and backgrounds adding to the depth and breadth of the training content (Accion, n.d.-d).

**IMPACT**

Accion measures their impact in terms of reach and repayment. Reach refers to the number of individuals they have reached through their microfinance partners and have offered some kind of product (loan or savings account). In these measures, as shown in both Figures 15 and 16, you are able to understand that massive scale on which Accion operates. As of 2012 data, Accion had a total of 5.1 million active borrowers worldwide, with the majority (4.98 million) located in Latin America and the Caribbean. Equally impressive is the reported $9.9 billion they have lent to clients. Of these funds, Accion enjoys a 97% repayment rate. As a point of comparison, Kiva, the other large scale microfinance institution cited in this paper has made $409 million in loans. Accion is a clear leader in this

<table>
<thead>
<tr>
<th>Region</th>
<th>Latin America &amp; the Caribbean</th>
<th>Africa</th>
<th>Asia</th>
<th>Totals</th>
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</thead>
<tbody>
<tr>
<td>Active Borrowers:</td>
<td>4.93 million</td>
<td>45,536</td>
<td>80,593</td>
<td>5.1 million</td>
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<td>Amount Loaned:</td>
<td>$9.77 billion</td>
<td>$100.86 million</td>
<td>$34.91 million</td>
<td>$9.9 billion</td>
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<td>Active Portfolio:</td>
<td>$5.47 billion</td>
<td>$56.9 million</td>
<td>$18.37 million</td>
<td>$5.54 billion</td>
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<td>Clients with savings accounts:</td>
<td>1,784,822</td>
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<td>2,095,422</td>
</tr>
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<td>Total deposits:</td>
<td>2,607,769</td>
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<td>2,675,686</td>
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*Does not include the Accion U.S. Network*

sector and as Figure 16 shows; its growth continues to move in a positive direction. Since 2001, Accion has reported steady growth in both number of borrowers and amount lent, in all years except 2009. In 2009, with the world in recession, Accion was able to maintain the total amount lent but did experience a drop in the number of borrowers.

**STRENGTHS**

Accion’s primary strengths are its size and its long history in the microfinance sector. As stated during the discussion on impact, Accion is one of the largest microfinance institutions in existence today, having lent nearly $10 billion through their network of partners. This size is proof that their model is successful and scalable. It also means they are able to generate massive amounts of capital, which they can invest in new and struggling MFI partners as well as on new product innovation.

In addition to its size, Accion’s long history is a key strength. Along with Grameen Bank, Accion was one of the first successful organizations in the microfinance sector. Being at the forefront and having grown a successful business over 50 years has given them a wealth of knowledge and best practices. This not only gives them credibility to capital markets who invest in them, but also allows them to share their knowledge with microfinance partners and the community at large to propagate the value and need for microfinance.

Great examples of how Accion has leveraged their strengths is; the creation of the offshoot organization Center for Financial Inclusion (CFI) and the Campaign for Client Protection. The Center for Financial Inclusion acts as a link to the various sectors that can impact financial inclusion (academics, bankers, microfinance institutions, etc.). CFI brings together this diverse group who then works together to attempt to solve and remove barriers to full financial inclusion (Center for Financial Inclusion, n.d.). Lastly, the Campaign for Client Protection is Accion leading the microfinance sector in self-regulating activities. The campaign is a global effort with the mission of protecting borrowers through the creation of ethics and business principles that help not only the borrower but encourage the microfinance sector to remain socially focused. Their core principles are: appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, and mechanisms for compliant resolution (Accion, n.d.-c).
WEAKNESSES

Paradoxically, their strength of size can also be a weakness. Accion is a large organization with operating expenses making up 15% of their overall expenses. (Figure 14) This is a percentage they need to control very closely. The larger it grows the less money they are able to divert to their microfinance activities. Additionally, large organizations sometimes cannot quickly act to changes in their environment. Larger organizations typically involve additional organizational complexities, sometimes referred to in the negative sense as bureaucracy. The implication is, sometimes getting projects accomplished or decisions made have to go through more layers of the organization for approval and buy-in. In the area of microfinance, an example could be the rapid downturn of a local economy necessitates the modification of business practices in the area. A large microfinance institution may not have the ability to adapt their operations easily. Historically, smaller organizations are more nimble and can make changes to their business faster and easier.
CHAPTER 6

EFFECTIVENESS OF MICROFINANCE AT POVERTY ALLEVIATION

CASE STUDY COMPARISON – KIVA, NAMASTE DIRECT, ACCION

Kiva, Namaste Direct and Accion are three examples of different models of microfinance. Figure 17 summarizes how they compare to each other with respect to the key organizational components, model, target segment, geography, number of MFI partners, products and services offered, amount lent, and repayment rate.

![Figure 17. Comparison chart of key organizational components of Kiva, Namaste Direct, and Accion.](image)

**Model and Scale**

Each of the three organizations developed their own distinct model of microfinance. All three share the similar trait of acting as the intermediary linking borrowers to lenders. But each performs this function in a different manner. Namaste takes a very personal approach; working very closely with their borrowers they are able to practically ensure their success. However, this hands-on approach is not scalable; therefore, the impact they have is very localized. Conversely, Kiva and Accion operate on a global scale. With the decision of
limiting their role to acting as a platform for person-to-person lending, Kiva has achieved massive scale. As long as they are able to generate a sufficient pool of lenders, there is no limit to the number of regional MFIs they can partner with. But, although they can achieve scale, the current Kiva platform can only lend itself to microlending. The platform cannot facilitate microsavings, insurance, or financial literacy training. Finally, Accion, a founder of the microfinance movement seems to have achieved an ideal model and scale. The largest institution of the three, Accion has lent a staggering $10 billion dollars and has developed a sizable portfolio of microsavers. Their model, with the focus of investing in new and growing microfinance institutions allows them to leverage their size and capitalization to grow the microfinance movement and impact new borrowers. Their model also encompasses all facets of microfinance; loans, savings, investing, etc., which further increase their impact.

**Target Segment**

Of the three organizations, Namaste is the only one with a clear and specific target segment, rural Guatemalan women in semi-poverty. Both Kiva and Accion leave the specific targeting to their regional MFI partners. Both approaches have advantages and disadvantages. For Namaste, they are able to build a deep knowledge of their target segment and develop their products and services to better serve them. But the downside clearly is the scalability of their model. For example, if they were to move into neighboring Mexico they might have to make a number of operational changes to suit the expanded target. On the other hand, by having no specific targeting, Kiva and Accion can take their model anywhere, which is a major advantage. However, their model relies heavily on their partner MFIs to understand and serve the target segment. Assuming they partner with reputable MFIs they have no problems but if they partner with a poor MFI they are open to risk.

**Products and Services**

All three organizations offer microloan products. Kiva exclusively offers microloans, Namaste offers loans and financial literacy and Accion offers all possible microfinance solutions. The nature of their offerings has similarities with their operating model. For example, Namaste offers a highly tailored and personalized loan along with individualized financial literacy teachers and business advisors. These high-touch products and services
have generated positive impact for their clients but suffer from the inability to scale. Kiva, offers a single loan product that doesn’t appear to be customizable. This means that like their model it can be offered to a wide range of individuals. But the lack of customization can be a limiting experience for the borrower. Lastly, Accion’s wide range of products and services makes them almost a hybrid of the Kiva and Namaste model. Accion provides these products and services to MFI partners across the globe and their consultative arm provides guidance on how each MFI can tailor the product and service to their specific region and target.

**IMPACT ON POVERTY ALLEVIATION**

All three cases studies provide evidence, to varying degrees, that each organization, has been able to make a positive impact on poverty alleviation. Of the three, Namaste was the only organization that could quantifiably prove that their model had a positive impact on poverty, as evidenced by their statistic stating that the women in their program saw a 41% increase in their business profits. (Namaste Direct, 2012) However, even though the impact Namaste has on their clients is significant, the scale of their business is so small that very little is done to impact poverty on medium or large scale. Kiva and Accion, on the other, hand, operate on large scales that can make an impact on global poverty. Through serving 5.1 million and 933 thousand clients respectively, Accion and Namaste have been able to reach a significant number of individuals at the bottom of the pyramid. Each organization reports a repayment rate of 97% + which, as stated previously, indicates that at a minimum level they are reaching borrowers who have done sufficiently well that they are able to repay a loan plus interest. Additionally, both organizations, as well as Namaste, report numerous field studies that show qualitative evidence that their microfinance activities have enabled clients to improve their lives in some capacity. It seems very likely that these organizations have a positive impact on poverty alleviation.

**FINDINGS AND IMPLICATIONS OF THE STUDY**

Closely examining the three cases brought to the forefront three major conclusions. First, in evaluating the success of the impact of microfinance, broader definitions of success in alleviating poverty need to be considered. Second, different types of institutions have
emerged in microfinance resulting in an ecosystem, represented in Figure 18, which is making significant impact on poverty alleviation. Finally, each of these institutions needs to be evaluated using measures of effectiveness based on their specific role within the ecosystem.

Figure 18. Microfinance ecosystem – visual representation of the interconnection and value creation of primary stakeholders.

**Broader Definition of Success**

A close examination of the work of the three cases clearly highlights the sentiment expressed by Richard Rosenberg that poverty alleviation should be broadly conceptualized beyond just income generation. In his paper, “Does Microcredit really help poor people?” (Rosenberg, 2010). Rosenberg (2010) argues that even if microfinance cannot be empirically proved effective in alleviating poverty other worthwhile benefits can be proven. He suggests “moving the goalposts” of the definition of success.
Rosenberg (2010) makes a case that microfinance products are not always used for business ventures but to smooth out gaps in income and help borrowers cope with unexpected expenses. And for him, this in and of itself makes microfinance worthwhile. Evidence has shown that microfinance does have a positive effect in smoothing out income levels. By stabilizing their income, bottom of the pyramid borrowers can better react to unexpected crisis and life events.

Rosenberg’s (2010) argument is supported by the Karlan experiment in the Philippines that found that microfinance did work but not in the expected ways traditionally hypothesized.

Rosenberg (2010) argued and Karlan’s empirical test provided evidence that stated the positive impact realized as a result of microfinance is not always economic. Positive impact is very subjective and many benefits can be categorized as such.

In all cases the following was reported; the individual borrower was able to take out a loan and repay it with interest over the course of the specified term. Borrowers used their funds in a variety of ways, some invested in their business, some made home improvements, others used the funds to cover gaps in income. And in all cases the individual borrower was able to improve their quality of life. This evidence supports the claim that indeed microfinance does help individuals at the bottom of the pyramid. And, in order to truly understand the extent to which microfinance makes a positive impact, we must expand the definition of positive benefit beyond just income generation. In some cases, having access to a microloan or microsavings product is enough to help an individual smooth out gaps in income. In this scenario, their net income hasn’t increased but their quality of life has since they are able to sustain a steady income. Kiva, Namaste Direct, and Accion, indeed use this broader definition of impact and report numerous qualitative stories of how their client’s lives have improved as a result of receiving a microloan.

**Microfinance Ecosystem**

A key conclusion of this study of the three cases, Kiva, Namaste, and Accion, reveals that these varying types of institutions have emerged to create an ecosystem wherein each type has a different, unique, yet complimentary, role in the process of creating a cycle of positive impact. Kiva, the large scale intermediary has been very effective at raising both
awareness and funds from the mass market and funneling those funds to regional MFIs who work with the actual borrowers. Namaste, a small scale regional MFI has had a great deal of success educating and advising their loan clients and can accurately measure the increased income their clients are experiencing. And, finally Accion, a large scale player and founder of the movement, operates on a large scale generating awareness and creating new MFIs as well as keeping the organization in close contact with borrowers through some of their regional partnerships.

All models are effective at alleviating poverty but no one model can accomplish this on their own and when you step back you can see that their success is all dependent upon each other. Figure 18 is a diagram of what I think is the microfinance ecosystem. This graph illustrates the interrelationship of each player in the microfinance universe. As the diagram shows, there are three primary groups in the ecosystem that interact directly; borrowers, small scale MFIs, and large scale MFIs. The small scale MFIs are the groups that work directly with the borrowers. They have close interaction, high level of trust and tactical expertise. However, they cannot function alone. They are dependent on the funding, resources and awareness building that the large scale MFIs provide. Without this they do not generate enough funding on their own to be effective. Conversely, the large scale MFIs do not work directly with the borrower. They have minimal direct interaction with the borrower and instead focus their work on supporting the regional small scale MFIs. Without the regional MFIs they could not effectively reach the borrower. Outside of this ecosystem you have inputs from the capital markets and traditional banking which benefit the ecosystem. Capital markets inject funding and traditional banking contributes funding as well as operational best practices. To achieve the maximum effectiveness the entire ecosystem must work together in harmony.

Varying Measures of Effectiveness
In order for the ecosystem to be effective, it relies on the various institutions to be successful in their area of expertise. Hence, in addition to traditional measures such as high repayment rates, and self-sustainability, other measures specific to the role of each institution’s role in the ecosystem needs to be considered, such as their ability to build trust with the clients and in the larger ecosystem.
Repayment rates are a valuable measure of impact and provide evidence that the institution is effective at meeting the broader goal of poverty alleviation. These high rates of repayment indicate that microfinance institutions can successfully target borrowers who have sufficient liquidity to repay their loan. The microfinance industry as a whole reports an average repayment rate of 98%, which was substantiated with our three cases. Kiva, Namaste and Accion, enjoy 98.9%, 99% and 97% repayment rates, respectively. Repayment alone doesn’t necessarily suggest that the borrower’s life has improved but it does indicate that at a minimum they are able to generate sufficient income to repay the loan plus interest. These repayment rates are also critical for microfinance institutions to be self-sustaining.

Self-sustainability was something identified very early on that set microfinance models apart from their predecessors. When microfinance is successful the MFI is able to continue operations through its own operating activities as opposed to needing regular infusions of new capital. In the case studies, all three organizations, Kiva, Namaste, and Accion reported that their microfinance partners have the ability to sustain their operations through revenues generated by loan interest and interest accrued on the funds that sit in their bank accounts. Although, it is fair to note that in order for a microfinance institution to grow its operations additional capital is needed. Accion has played a critical role in growing MFIs by supplying them with the needed capital for growth. But for those MFIs that lack such support, they likely will experience minimal growth which will limit their overall effectiveness.

Trust, is a critical component of any organization and is not unique to microfinance. However, microfinance institutions have a highly personal relationship with their clients which necessitates a different level of trust beyond organizational trust that exists between businesses and their customers in the formal markets. Microfinance institutions often make lending decisions based on personal interviews with clients and use their own judgment as opposed to traditional markets which rely on impersonal scoring models. This difference means the microfinance institution must have a certain degree of trust that the potential client has represented themself honestly. Additionally, the borrower must trust that the MFI is operating ethically and will not take advantage of them. Another layer of trust is needed between the lenders and intermediaries and the MFI. The lender must trust that the intermediary is passing their funds to the MFI and that the MFI itself is operating honestly.
and providing those funds to qualified borrowers. All three organizations, Kiva, Namaste and Accion, took steps to establish trust and credibility with their respective partners. For regional institutions, like Namaste Direct, the focus is on building and maintaining client trust, while larger institutions, like Kiva and Accion, must ensure trust is maintained with investors.

The Kiva model is fully dependent on the trust established between lenders and Kiva, between Kiva and their Field Partners. Kiva’s person-to-person lending model means any individual who wishes to help and has access to the Internet can go to the Kiva site and make a loan. This means that these individual lenders must trust that Kiva has vetted their Field Partners and that the funds they lend are getting to the borrower. Additionally, they must trust that the borrower profiles presented on Kiva are factual. Kiva is very aware of the need to build and maintain trust with their lending community.

Similar to Kiva, developing trust amongst partners and borrowers is critical to the success of Namaste’s business. Their practice of providing hands-on financial education and business advising services necessitates that their clients trust them to not only look out for their best interest but to also have the knowledge and expertise in the areas they are providing instruction. To build and maintain such trust, Namaste employs local Guatemalans, who provide the financial literacy training and business advising. These local experts have the knowledge and expertise to provide these services. And, because they are from the local area, they can relate to the clients situation and needs. They also have a deep understanding of the business, economic and political climate in which these microentrepreneurs are operating.

Lastly, given the large scale on which Accion operates, the level of trust in the organization has the potential to have large implications on the organization’s success. Accion operates on many different levels, first as intermediary between lenders and partner MFIs, second as a MFI itself, in the handful of regional operations they run, and lastly as the industry leader that is trying to drive awareness, legislation and regulation in support of microfinance. And, in each role there are different types of trust they will need to manage in order to be successful and effective. As a regional MFI, they must develop and nurture interpersonal trust with borrowers. And as both an intermediary and industry leader they must ensure that their direct partners (regional MFIs, lenders) as well as indirect partners
(capital markets, governments, traditional banking) have trust that Accion is both competent as well as operates in a trustworthy manner. Finally, as an industry leader, Accion must foster trust in the microfinance movement itself, which they accomplish through their work in developing operating norms and standards and creating proactive regulation.

**CONCLUSION**

While microfinance is not a panacea, it can play an important role in alleviating poverty if it is defined more broadly, beyond just income generation. More importantly, key players with varying models have emerged within the microfinance space, and each plays a unique role in contributing to the sustained success of the ecosystem; hence, each group’s effectiveness needs to vary to reflect those distinct roles. In conclusion, whether or not microfinance is a silver bullet remains to be seen but it has sufficiently proven itself to be a useful tool to better the lives of individuals below the poverty line.
REFERENCES


