



Microfinance 2.0 : Can a crowdsourced model save microfinance?

Andre Persson

Avdelningen för mänskliga rättigheter
Historiska institutionen
Kurskod: MRSM01
Termin: Höstterminen 2012
Handledare: Lena Halldenius & Lina Sturfelt
Omfång: 10000-15000 ord



Abstract

Microfinance has spread rapidly in the last thirty years and the wealth of microfinance organizations has increased rapidly. According to some this has been a major success and a breakthrough in poverty eradication, but other researchers has pointed to the low levels of actual development created by microfinance and to the potential of very negative side effects. These effects has according to many critics come as a result of the increased commercialization of microfinance. Along with the development of the internet the organizations utilizing the possibilities it brings has been many and in recent years organizations doing microfinance through crowdfunding has increased manifolds. Their aim in explicitly charitable.

My intention in this essay is to look at three organizations that use a crowdfunded microfinance model and to see whether they can mitigate some of the problems that the criticizers of microfinance point at.

Keywords: Microfinance, crowdfunding, crowdsourcing, economic development, development aid, human rights

“Give me a place to stand and a lever long enough, and I will move the world”.

Archimedes, 200 BC.

Innehållsförteckning

| | |
|---|-----------|
| 1. Introduction | 5 |
| 1.1 Problem statement | 5 |
| 1.2 Scope..... | 6 |
| 1.3 Source critique and ethical considerations..... | 7 |
| 2. Theory and Method..... | 8 |
| 2.1 Amartya Sen..... | 8 |
| 2.2 Milford Bateman..... | 9 |
| 2.3 Method and Work Process | 9 |
| 2.4 The critique of micro finance | 11 |
| 3. Literature and previous research | 14 |
| 4. Background | 15 |
| 4.1 Microfinance | 15 |
| 4.2 Crowdsourcing | 17 |
| 4.3 Crowdfunding..... | 19 |
| 4.5.1 Pre-disbursed loans | 22 |
| 4.5.2 Ethical issues..... | 23 |
| 5. Organizations background and analysis | 26 |
| 5.1.1 Kiva..... | 26 |
| 5.1.2 Kiva Field Organizations..... | 28 |
| 5.1.3 Analysis..... | 30 |
| 5.2.1 Vittana..... | 32 |
| 5.2.2 Vittana Field Organization..... | 34 |
| 5.2.3 Analysis..... | 35 |
| 5.3.1 Zafen | 37 |
| 5.3.2 Zafen Field Organization - Fonkoze | 39 |
| 5.3.3 Analysis..... | 40 |
| 6. Concluding analysis..... | 43 |
| 7. Works Cited..... | 45 |

1. Introduction

Microfinance has increasingly become a thing of common knowledge among people in the developed world. Grameen bank and Muhamad Yunus Nobel prize in 1999 propelled it to fame, but even before that there was an increasing support for using microfinance within the development community. The old saying that it is better teaching someone to fish than to give them a fish resonated with large parts of what the development community came to believe, and as a result the number of organizations increased and so did the amount of available credit. As time passed, however, there was increasing criticism of the apparent lack of results from microfinance. With the rise of the internet there has, however, been an online movement to raise and disburse funds directly, with the aid of internet technology. Organizations raising money online and then using this to create microloans became increasingly numerous and gained increasing attention.

1.1 Problem statement

The international microfinance industry has grown massively since the Grameen bank was created by Muhamad Yunus in 1983 in Bangladesh and has since expanded into many more countries. The development of Grameen and microfinance to help the poor awarded Yunus the Nobel prize in 1999, something that gave the microfinance community greater recognition and a greater public awareness of it.¹ The amount of funds collected and lent in this way grows every year. There has been increasing criticism, however, in recent years and the perception of micro finance as the ultimate solution to poverty has become increasingly challenged. One of the stories Yunus likes to tell is that thanks to micro finance poverty will be reduced to something that we will have to go to a museum to see. The reality, however, shows something of a different story and the poverty reduction has according to some not been even close to what the proponent are claiming. In part this is due to the commercialization of microfinance, a development that has meant that microfinance institutions should now be self sustained, and preferably, turning out a healthy profit for their owners and shareholders. This has according to the critics led to a development where the original purpose of aiding people in developing countries has moved into second place, after the purpose of making profit.²

¹

² Bateman, Milford. "Why doesn't micro finance work?" Zed Books, London. 2010. p, 3

In recent years the possibilities that have been created due to the development of the internet has been enormous. One of these is reaching out to many people to communicate, create or fund something. Kickstarter.com spearheaded the crowdfunding community by creating a model where anybody with a project idea could reach out to many people through the internet, people whom in turn each donated or lent a little bit of money that together created enough funding for the project to get started. A lot of people can thus come together and make something happen together.³

Kiva was one of the first organizations to recognize that this could be used for development purposes. Since Kiva was founded in 2005 this type of organizations has grown exponentially and today there are organizations for the most varied purposes. They all however share the basic model of Kiva, where a lot of people can get together through the internet and each lends a little bit of money that then together becomes a microfinance loan to someone in a developing country.

The questions of this essay is:

1. Can the crowdfunded, indirect P2P model that Kiva and the other organizations use can be a viable way of bringing micro finance back to its non-profit roots and to through a charity based microfinance model solve some of the issues that the micro finance industry has been criticized for? I want to find out whether Kiva, Vittana and Zafen can act as a filter against some of the overtly commercialized aspects of micro finance can be stopped and whether they can keep check on these tendencies in their partner organizations.
2. If microfinance is brought back to its roots, is giving loans to entrepreneurs the most effective way of creating sustainable, capacity building development, or is other kinds of microfinance more effective?

1.2 Scope

This essay will deal with three microfinance organizations that use crowdfunding as a central element of their way of operating. I will look at Kiva – an organization that gives loans to entrepreneurs in developing countries, Vittana – an organization that gives loans to students in higher education in developing countries and Zafen – an organization that gives loans to entrepreneurs as well as other projects, but exclusively in Haiti. I will look at these organizations and try to see whether they can counteract the commercialization of microfinance and whether they can answer the five fundamental issues of microfinance. More about this in the theory chapter.

This essay will not deal with the broader perspectives of microfinance and how it is applied and executed throughout the world, nor will it deal extensively with the development perspectives of

³ Howe, Jeff. "Crowdsourcing" Three Rivers Press. New York. 2008. P, 253

microfinance.

1.3 Source critique and ethical considerations

A lot of the primary information that this essay will be based on comes from the information provided by the organizations on their websites. The organizations take great precautions in what they publish and highly value openness, but there is still an issue of a partial or overly positive view being present in the material published on their websites. There is also the issue of the information being incomplete, with negative information and criticism being omitted. As these are organizations it naturally lay in their interest to portray themselves in a positive light in all information they put out. I am aware of this limitation to the material and the potential hazards it brings to the analysis. I will try to make up this deficit by consulting other sources as well, such as scholarly articles, objective reports and newspaper reports that are available on the subject.

In order to illustrate to the reader how Kiva, Vittana and Zafen use the visuals of pictures to create a sense of closeness for the lender I will use pictures of the websites. There are issues related to this, as people are shown on the photographs. These people are all loantakers whos cases are represented on the websites. I have not gained permission by the organizations or the individuals in the pictures to publish these pictures. The issue is that these people could be said to already be in a sensitive situation by having their pictures and information published on the internet and me publishing them heightens this predicament. I believe however that for the sake of this essay the publication of these photos is essential I showing the emotional impact these sites have and the way that these organizations go about in creating this impact, as well as showing the sensitive situation that these organizations create for these people by doing so.

2. Theory and Method

In this essay I will use Amartya Sen's theory of human capabilities as a backdrop for my analysis. I will use the basic assumption of Sens that the economy and economic development through market development is the best way to help people out of poverty. Based on this theory I will use Milford Bateman's theory of the flaws of micro finance as a tool for analyzing the potential effects of Kiva, Vittana and Zafen. The main theorist behind the micro finance movement the person who made it famous, Muhamad Yunus. I have chosen to not use Yunus however since he is one of the most arduous supporters and campaigners for microfinance. Whereas his theories regarding microfinance are relevant I think his perspective is very biased, making him unsuitable for my purposes. Bateman can to a certain extent be said to be biased as well and to counteract this I will also use other sources, as well as Yunus writings to make sure that both sides are represented correctly and that both points of view are present.

2.1 Amartya Sen

Amartya Sen received the Nobel prize in 1998 for his theories on economic development and human capabilities. His theory states that the main purpose of economic development is to develop peoples capabilities.⁴ Money is always a means to an end and a tool to do other things, something that means that development is essentially about strengthening people's ability to do things and money is a mean to this end. This theory is based on a fundamental belief that the market is the best way to develop and that economic development is almost equal to development of the market. The issue is how this market is developed and for what purpose. Sens theory builds upon this foundation. After this he goes on to argue that humans have fundamental capabilities and economic development should be for the purpose of removing the obstacles to people developing these capabilities. Poverty he assert should not be seen only as low income, something that has traditionally been the case, but should be seen as inability to develop ones own capabilities. The limitations are often of a structural sort. Sen explains that there are five basic capabilities: political freedoms, economic facilities, social opportunities, transparency guarantees and protective security. These five are intertwined in the ways they help a person develop his or her capabilities, but a united approach to develop these fundamental freedoms should be the focus of economic development, not simply raising GDP or GDP/capita.

⁴ Sen, Amartya. 1999 "Development as Freedom. Oxford University Press, P, 28-29

2.2 Milford Bateman

Milford Bateman looks at microfinance and sees first of all how microfinance organizations and the practice of microfinance banks has shifted from their original motive of creating development and helping people, to the aim of maximizing profits and operating more like a regular bank. His theory is that the neoliberal wave of the 1980s created a climate in which microfinance was received positively, since it after all dealt with helping people create businesses and thus improving their lives, rather than more direct form of aid.⁵

The essence in Batemans theory of how microfinance is not the positive force for development that it could be is the commercialization of the organizations that has happened since the 1980s. Their purpose has been altered.⁶ They have gone away from Yunus original ideas of not for profit, low rent loans to aid development, to a way of operating where they give out loans rather with the purpose of making profit than to create economic development and for this purpose they evaluate the project or lender more based on their possibility to generate profit than the potential for the loan to help development. This has created a situation where the poor countries are saturated with microfinance, but microfinance that does not contribute to development. Through this theory I will evaluate three crowdfunding based organizations giving microloans. I want to see whether their way of operating can in some way mitigate the issues and challenges to microfinance brought on by Milford Bateman. I want to see whether the way that these organizations can be a way to bring microfinance back to its roots and to serve as a filter for some of the negative aspects of the commercialization.

2.3 Method and Work Process

This essay will be looking at the methods and practices of three crowdfunded microfinance organizations. My reasoning behind doing it this way is that I am primarily interested in how these organizations operate and whether they can be a way to bring microfinance back to its original purpose. Concretely I will look at the way the organizations operate, how they are structured and what underlying way of thinking that underpins them. I will do this through the information available on the websites of the organizations. Organizational structures, processes, partner

⁵ Bateman, 2010. P.9

⁶ Batman, 2010. P. 14-16

organizations and focus of operation will be the primary things I will focus on in my research of the organizations. The first organization I have chosen is Kiva – an organization providing microloans to entrepreneurs in developing countries. I choose Kiva since it is the leading organization utilizing crowdfunding to provide microloans. It is the largest both in terms of users and amounts of funds, but is not without its problems. The second organization is Vittana – an organization providing loans to students in higher- and vocational education in developing countries. I choose them since they have started garnering larger amounts of attention recently and because its focus is different than the one of Kiva. The third organization is Zafen, which is an organization giving loans as well as donations exclusively focused on Haiti. Even though I have chosen three relatively similar organizations I have strived to look at organizations with differing ways of operating as well as differences in what they focus on. I believe that this gives the analysis a larger width and can provide a broader perspective on the phenomenon.

Batemans analysis devotes a lot of time to a large macroeconomic discussion about the effectiveness of microfinance on economic development as a whole. Whereas this is a very fascinating question it lies beyond the scope of this essay. It is too wide on an issue to find the determinant factors of economic development and to see whether these are positively affected by microfinance.

For this purpose this essay will focus on the effectiveness of the crowdfunded model of microfinance and I will assume that microfinance can have a positive impact when done in an altruistic way. This will in other words not be an essay about the larger aspects of poverty eradication and development strategies, but will be more narrowly focused on microfinance and indirect peer to peer finance.

I will do this through first looking at Batemans arguments about microfinance and the problems with the model. The part dealing with the problems of microfinance will be heavily influenced by Bateman's thinking, but other sources are also used to broaden the perspective. After this I will look at crowdfunding, both the theory behind as well as how it has evolved and is being used. Following this I will look at the three organizations I have chosen and look at the way they operate, what their aim is, as well as potentially beneficial and potentially harmful aspects of their way of working. After this I will look at this from an analytical point of view and try to see whether the way of operating that these organizations use as well as crowdfunded microfinance as an idea

can answer some of the objections raised by Bateman. Through this I will try to evaluate the potential benefit on development by these new organizations.

I will use Amartya Sen's theory on capacity building as a way of measuring the potential these organizations have for development. Whether they are effective or not in solving poverty and creating capabilities in a way that microfinance according to Bateman has not been able to do. I will evaluate the organizations through the five criteria set up by Bateman and then look at the potential for capacity building development that the three organizations can have through their approach to these problems.

This will be done as an analysis based on various literature as well as information from the websites of the organizations, research about them as well as organizational reports. Primarily though it is an analysis of three organizations using theoretical criteria set up by Bateman, and to then evaluate these criteria and their practical application through a capacity building perspective.

I will also use pictures from the websites of Kiva, Vittana and Zafen in order to illustrate how they try to create a sense of directness between the lender and loan taker. I will do this also to illustrate the potentially sensitive situation this can create for the women.

2.4 The critique of micro finance

This section dealing with the problems with microfinance will primarily be based on Bateman's assertions but will also where appropriate take into account other surveys and other research regarding the problems plaguing microfinance.

The first and one of the largest issues with microfinance is the commercialization that has been the trend since the mid 1980s. The neoliberal stress on self reliance and increase of bank like behavior has created large implications for the possibility of microfinance acting to alleviate people of poverty. What this primarily led to was an increasing similarity of microfinance organizations to ordinary banks, but primarily it led to higher interest rates.⁷ Low interest rates was one of the fundamentals of microfinance to Mohammad Yunus, but in order to be self sustaining and to create profit for their owners the organizations needed to start charging higher interest rates. As this trend continued the interest rates at times climbed as high as 195%, making the practices of these

⁷ Bateman, 2010. P.18

organizations very similar to the loan shark operations Muhammad Yunus had started Grameen to push out of business.⁸ Surveys of the effect these organizations had on alleviating poverty showed that they had pretty much no effect on lowering the level of poverty. They rather had a negative effect by pushing people deeper into poverty by granting them new loans to be able to pay their previous ones.

The second issue is related to this first one. As the microfinance institutions started operating more like regular banks the demand for profit became much stronger. Seeing the high repayment rates many international institutions started entering the microfinance field, not with the aim of alleviating poor people, but purely for economical reasons. For many of these the aim was to expand rapidly and create large profits with the aim of a future IPO.⁹ Their aim thus was to increase the number of loans as much as possible, leading them to give out loans to people already heavily indebted or otherwise illegible for loans. This practice is very similar to the sub prime loan practice of American banks, a practice that led to a worldwide crisis in 2008.

Another major problem and the third for the purpose of this essay, with this is that people take on loans that they then cannot repay, leading to taking on more loans to repay the original loan. Many are left severely worse off because of this type of microfinance. This is in a sense related to the fact that most of microfinance is used not for expanding or creating businesses but for consumption. Surveys have found as much as 90% of microfinance to be used for consumption. This is not inherently bad, since most of it is used to even out the income. The way poor people work they are often not paid periodically but have a more sporadic income. This makes it difficult to pay education, for example, which requires regular payments over a long time. When serviced with a low rent this becomes feasible, but due to the high loans and the loans not essentially increasing the recipient's pay it can lead to the person taking on more loans just to be able to pay of the old one, leaving them worse off and with an ever increasing debt.¹⁰

The fourth problem lies on a higher, macro level. A fundamental issue with microfinance that Bateman strongly pushes is that the model is fundamentally based on flawed thinking. Economic development, he says, has both in Europe, USA and Eastern Asia come through collective efforts and long term investments in education and infrastructure by the government. Microfinance gives

⁸ Bateman, 2010. P.22

⁹ Bateman, 2010. P. 22

¹⁰ Bateman, 2010, p.58

the recipient the possibility to run their own business, businesses that are largely home-based and involves simple production, selling basic goods and simple agriculture. The idea is that this should empower people and give them control of their own lives.¹¹ This is thought to create a more efficient economy, since competition will increase, prices pushed down consumption stimulated. This is the natural course of the economic development and as prices gets pushed down, the theory claims, efficiency will increase and people thus be better off. They are able to buy more goods at a lower, price and then can use these goods to further their own productivity and so on. The problem is that when people take on loans to create business that then fail, or take on loans to try to turn around failing business that subsequently fail, microfinance is not making them better off. As a result of their loan they are made poorer.¹²

The fifth problem with microfinance is the social consequences. When Yunus started Grameen the solidarity circles were an important part of it. By giving loans to the group and making the other members obligated to pay for someone who did not the thought was that solidarity and a closer group connection would be created. Research has shown, however that the opposite is often the case.¹³ By creating a system where shame and group pressure is an incentive to pay the loan there is often a negative sense of group. Solidarity is often not created but destroyed by the suspicion and pressure to conform to the group and repay or be shamed in society.¹⁴

The second negative social effect is that of strengthening of the role of women. One of the main positive impacts and one of the things that has often been shown to be the best features of microfinance is its supposed effect of giving the women a higher standing in society and thereby changing male dominated societies. Research has shown, however, that a lot of these effects are absent. The increased power and capabilities that women gain by having been granted a loan also comes with corresponding responsibility and pressure. Suddenly women are responsible for the honor and reputation of the family as a result of the solidarity circles. This increased pressure and new role of women has often led not to the women having a stronger position and a better life, but simply having to take on two jobs instead of just one as before.¹⁵ She still needs to do the house

¹¹ Sen. 1999. p 286

¹² Bateman, 2010. p. 74

¹³ Mayoux, L. 1999. Questioning Virtuous Spirals: micro-finance and women's empowerment in Africa. *Journal of International Development* 11:957-984

¹⁴ Bateman, 2010. P. 44

¹⁵ Rahman, A. 1999. *Women and Microcredit in rural Bangladesh: An Anthropological Study of Grameen Bank Lending*. Boulder, Co. Westview Press

chores, and on top of this she now also needs to work to be able to pay of the loan. There has been reports of threats to the husband and relatives of women who have taken out loans, further increasing the pressure and making their position even more difficult.¹⁶

As we can see thus there are several grave issues for micro finance. Both in relation to the way it is being done, but also more fundamentally how it works and whether the model actually works.

3. Literature and previous research

The literature making up the background of this essay is divided into three parts. The first is the literature centered around microfinance. There is a vast array of books and articles on microfinance, but there is varying ideological divide in the literature.

The second one is the literature regarding crowd sourcing and crowd funding. The area of study is a fairly new one, so the literature is still relatively limited. Within the body of literature there is a divide between the theoretical books explaining the mechanisms behind cooperation on the internet and such, and then the literature about crowd sourcing and crowd funding seen from a practical perspective. The main authority on the subject is author and journalist Jeff Howe, who authored the first article about crowdsourcing as well as the book *Crowdsourcing*.¹⁷ Other literature regarding the phenomenon seen from a theoretical perspective include *Here Comes Everybody*,¹⁸ *Wisdom of Crowds*¹⁹, *Wikinomics*²⁰ and *Macrowikinomics*²¹. These give an overview of how crowdsourcing is being used, but their primary focus is on the theoretical aspects of harnessing group action for the benefit of various purposes, organizations and companies.

The third is the material about methods and practices of these three organizations. My main source

¹⁶ Bateman, 2010. p. 108

¹⁷ Howe, Jeff. "Crowdsourcing" Three Rivers Press. New York. 2008

¹⁸ Shirky, Clay. *Here Comes Everybody*. Penguin Books, New York. 2008

¹⁹ Surowiecki, James. *The wisdom of crowds*, Random House, New York, 2005

²⁰ Tapscott, Don & Williams, Anthony D. *Wikinomics*. Penguin Publishing, New York, 2008

²¹ Tapscott, Don & Williams, Anthony D. *MacroWikinomics*. Penguin Publishing, New York, 2011

for this information will be the information provided on the three websites, www.kiva.org, www.vittana.org, and www.zafen.org. The research done regarding these sites are limited to a few scholarly essays about the practices of Kiva and news articles and analyses of the others in New York Times, The Economist, and other similar newspapers and magazines. One that has been a big step in the analysis of these organizations is Shameem Black's *Microloans and Micronarratives: Public Culture; Sentiments for a Small World*. In this Shameem Black looks primarily at the way in which the perceived closeness created by the way Kiva's website is laid out affects people's desire to donate and get involved.²² Another article making up the literature on the subject is Pierre Ly and Gerri Mason's *Individual Preferences over Development Projects: Evidence from microlending on Kiva* where they look at what kind of projects are prioritized by the people donating and whether their priorities are different than those of development professionals in development organizations.²³

4. Background

In this part I will look at the history of microfinance, how it is being used today, and the commercialization that has entered into the industry lately. After this I will look at crowdsourcing in its different forms before I move in on crowdfunding, which is at the heart of this essay. In this part I will look at the ways in which the organizations I will look at later work. After this I will look at pre-disbursed loans which will be followed by the possible ethical implications of this way of working.

4.1 Microfinance

Microfinance, or microcredit as it is also known, originated in Bangladesh in the 1970s when Muhammad Yunus, an American educated economist came back to his home country and saw how

²² Black, Shameem. *Microloans and Micronarratives: Public Culture; Sentiments for a Small World*. Spring 2009, Vol. 21 Issue 2, p269-292

²³ Ly, Pierre & Mason, Gerri. *Individual Preferences over Development Projects: Evidence from microlending on Kiva*. VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations, 2012, Volym 23, Nummer 4, pp. 1036 - 1055

vulnerable the poor people were against loan sharks, and how even a small debt could be detrimental to their livelihood. He solved a group of women from their 42 dollar debt against the promise that they could repay the money when they could. Yunus was surprised at the level of relief this gave the women, and was equally surprised at their diligence in repaying the loans.²⁴ This made him realize the potential of small loans given to entrepreneurial people in poor communities. With these small loans they could start a business and become masters of their own fate or expand a business they already had and as a result be able to create a better future for themselves and their children. Even a small sum of money could have a significant impact.

Yunus initial idea and the initial practice of micro finance was to give loans to low interest rates so that more of the money would remain in the hands of the people. Another initial idea was that the loans would be given to women, due to their larger sense of responsibility both for their children and towards society. Men, it was said, had a larger propensity to drink and did not have the same sense of duty to use to money in a diligent way. Another part of the original practice was that the loans would be given to so called solidarity circles. The idea behind this was that if the loans are given to a group and if the group becomes responsible for the repayment this will encourage repayment and punish free riders. Part of this was also the observation that the women were more concerned of social standing and reputation both of themselves and their family, and since most lived in small villages and in close proximity of each other not fulfilling ones obligations to repay the loans could quickly have very negative impacts for the family, further increasing compliance.²⁵

In the 1980s microfinance started getting more international attention and the community grew rapidly. During this time, however, the use of microfinance and the philosophy behind it started changing. The neoliberalism and the election of Reagan and Thatcher in the mid-1980s increased the perception that microfinance institutions ought to be self sustained. Until then they had been subsidized by governments and international aid organizations, USAID being one of the biggest supporters. With the change in ideology however there was a stronger belief that this was not the way to go, but that the organization would be more efficient were they self sustained. This was one of the factors that led to an increasing of interest rates charged by microfinance institutions, something that was seen as a way of paying for the costs of the organization. Increasingly there was also an expectation to make profit and the organizations started operating more and more like

²⁴ Bateman, 2010, p.9

²⁵ Sen, Amartya. 1999. P. 167

ordinary banks.²⁶ This culminated in the 2007 IPO²⁷ by Compartamos, a Mexican microfinance organization. When the IPO became reality the public got a look into the inner workings of the organization, and what was found was astronomical wages for management personnel and interest rates of up to 195% charged to loan takers. The research done of the beneficial effects Compartamos had delivered to the community showed that they had basically no positive effect whatsoever. During this era the increased desire for profit also led organizations to load lenders with microloans. They did not lend to those who truly needed or were capable of handling loans, but simply tried to push as many loans out to the public and by this increasing profits for the aim of an IPO.²⁸

This and the Compartamos created a massive backlash in the microfinance community, and Muhammad Yunus himself said that this is the death of microfinance.²⁹ Since then these types of organizations has continued with this type of loan practices and research has shown that their efforts enrich themselves to a much larger degree than their minimal impact on poverty reduction. With the internet revolution there has, however, appeared a whole new type of organizations. Led by Kiva these organizations use crowdfunding as a way of raising funds to give out loans through partner organizations. In only a few years, Kiva was founded in 2008, this type of organizations has increased manifolds and today there are many organizations like this, with various focus and methods. To some this is a new way of giving loans and a way of restoring microfinance to its original purpose, but to others it is mostly hype, seeing that they still give loans through microfinance organizations and banks, each charging their own interest rates and fees.

4.2 Crowdsourcing

Croudsourcing is a concept that has swept through the business community and particularly so the IT and computer related business world. A few examples would be Wikipedia, Dell's IdeaStorm, where the company takes on ideas and desires from the public, the translation of Facebook into a myriad of languages, and so on.³⁰

If we are to distill crowdsourcing into its purest form and explain it simply then crowdsourcing is

²⁶ Yunus, Mohamad. "Sacrificing Microcredit for Megaprofits" New York Times. January, 11. 2011

²⁷ Initial Public Offering. An initial selling of stocks for listing on the stock exchange.

²⁸ Bateman, 2010. P. 22

²⁹ The Economist. "Microfinance: oing good by doing very nicely indeed" 2008, June 26

³⁰ Howe, 2008. P.157-159

the use of many peoples, connected to through the internet, with the purpose of getting a task done or a problem solved. Several ways of doing this has existed for a long time, but the internet has become a facilitator for it and made it much easier for more people to use crowdsourcing.

To understand crowdsourcing, however, we need to see first of all that it is an umbrella concept, under which several ways of using it exists. I will here look at the four main ways of utilizing crowdsourcing along with examples of how this has been done.

The first way is known as one sourcing. This involves reaching out to a large group to search for someone to perform a specific task or job. Amazon's Mechanical Turk job service is one such site, where mechanical work (updating information, making sure links work, etc) are being cut into small pieces and done by individuals for a small pay.³¹

The second way is what is called expert sourcing. There you reach out to a large number of people to find an expert in a certain are, usually to solve a problem. An example of this is www.innocentive.com. If a company has a technical, chemical or otherwise scientific problem they can not solve they post it on Innocentive, and then anyone with the right skills can try their hand at solving it. The person who solves it can often expect a reward ranging from \$100,000 to a million dollars.³²

The third way is known as mob sourcing and involves reaching out to a large crowd in an open way to receive ideas and input. A successful example of this is Dell's IdeaStorm project. The purpose of IdeaStorm was to find out what their customers really wanted and to try to find new, innovative ideas. So Dell created a web page and invited anyone to share their ideas and desires. One thing that Dell found was that there was a strong customer demand for a computer with the Linux operating system pre-installed. Dell had not seen this desire before and them seeing it now made them create and release a computer based on Linux.³³

The fourth way, and what I intend to focus on, is known as crowdfunding. The idea is essentially an old one. When someone wants to start a company or fund a new project they for the most part do not get loans, but reach out to the people around them, collecting a little money from each one

³¹ <http://www.mturk.com> Last Visited on 0101/2013

³² Sherman, Aliza. "The Complete Idiot's Guide to Crowdsourcing" Alpha Books. New York. 2011. P. 129

³³ Sherman, 2011. P. 5

perhaps with the intention of paying it back. The internet has opened up vast possibilities to reach out to more people who could be potential benefactors. This idea started with Kickstarter.com, a site where anyone can create their campaign and collect small donations from people. This idea was taken one step further by Kiva.org, a San Francisco based organization that uses this approach to create microloans with a charitable purpose to people in developing countries. I will expand on this later, but for now it is enough to say that crowdfunding is the process of collecting small sums of money from many contributors which then create a larger contribution or loan.³⁴

4.3 Crowdfunding

Crowdfunding in relation to charity and development organizations is not an all that new idea, but the introduction of the microfinance loan model is a novel approach. The innovation and entrepreneurship focused organizations that created the crowd funding movement were and are primarily donation based.

What then makes crowdfunding different from regular donations or fund raising? In other words, what makes the way that Kiva, Zafen and Vittana different from, say, the Red Cross or Save the Children? The simple answer is the way they use the internet. They utilize the internet's ability of making it much easier for more people to connect and contribute more easily than was possible before. It has become much easier to make a donation through the internet. Whereas before you had to transfer money from your bank you can now donate with a few clicks. The hurdle to donate has become a lot smaller.

The main advantage that these organizations have viz-a-viz the Red Cross and Save the Children, however, is the directness. When a person donates money to a traditional organization they do not know where this money will go or how it will be used. In recent years there has also been a number of scandals where employees and directors have embezzled money, leading to lower desire to give to these organizations. On the other hand, when one gives to Kiva, Vittana or Zafen you can choose which project or person to lend to and these organizations guarantee that the money are earmarked for this person. As Matt Flannerey says:

“One of the contributions that Kiva has made is to demonstrate that

³⁴ Howe, 2008. P.247-248

empathy increases generosity. The pictures and stories on the Kiva site increase understanding between various parties that would otherwise operate in completely different universes. When understanding increases, so does empathy. When empathy increases, so does generosity. People are inherently more generous towards people and causes they understand.”³⁵

This sense of closeness and directness that anyone who donates through these organizations get is a large part of their success. The transparency that comes with deciding and knowing where your money will go and how they will get there is also very important for all the organizations.

A third thing that makes these organizations differ from regular development organizations is that they can have a democratizing effect on the microfinance process. All three of them work with partner organizations that find and evaluate candidates and then disburse the loan to them. If these organizations acted on their own they would be in a position of greater power towards their loan takers. The loan takers have relatively small possibilities of asserting themselves against a micro finance institution or bank. When any of these organizations enter a partnership with Kiva, Vittana or Zafen they are required to live up to certain minimum standards of accountability, due diligence and ways of operating. They need to be transparent, set fair interest rates and have development and the best for the loan takers before their eyes, otherwise their contracts are terminated and they will receive no more funds. These organizations thus get an additional pressure to act fairly, both from the crowdfunding organizations themselves, but in the long run also from the lenders. On Kiva, the other sites do not have things feature yet, lenders can see which organization is administrating their loan, their reliability score, how long they have worked with Kiva as well as additional comments regarding repayments, if the organization is a non-profit organization or not, and so on. The lenders can easily choose not to lend through an organization that does not give fair interest rates or who's track record is not as good as it ought to be.

The other strength is that this model may allow microfinance institutions to lend to people they would not normally lend to. The reason for this is partially based on the practice of pre-disbursed loans expanded on earlier. Pre-disbursement of loans allow the organizations to lend to more people sooner than would be possible had they not gone with this model. While waiting for the loan taker

³⁵ Dave Roodman's Microfinance Open Book Blog. http://blogs.cgdev.org/open_book/2009/10/matt-flannery-kiva-ceo-and-co-founder-replies.php Last Visited on 27/12/2012

to repay the loan they receive the money from, say, Kiva and can use this money to give another person a loan. Had they operated as a common microfinance organization they would have to wait for the funds to get repaid before they could extend a new loan. The crowdfunding model allows the pre-disbursement model to be used and this in turn allows the organizations to increase their impact.³⁶

For the philanthropic crowdfunding there are three main types of organizations:

The first one is the direct Peer to Peer funding model. The essence of this model is that there is a direct connection between lenders and borrowers. There is a facilitator that connects these two, but there is no local partner organizations or other microcredit organizations on the ground disbursing the loan or helping the lenders. United Kingdom based organization Zopa has raised \$217 million in this way since it was created in 2005.³⁷

The second model is known as the microplace model, named after Microplace – the organization that started popularizing the model. In this model the crowdfunding organizations does not sponsor people directly, but rather sponsor the organizations. This model often pays interest rates and dividends to people who invest, and it can perhaps thus be seen more as a model where investors can invest, get interest and at the same time create something good, rather than a model for which development is the main objective.³⁸

The third model, and the one I wish to focus on, is the *indirect peer to peer funding model*. In this model, that Kiva, Zafen and Vittana use, the crowdfunding organizations work with a regional or local partner. These partners have to adjust to certain demands and conditions set by the crowdfunding organization, but in return get access to a potentially very large pool of investors. There are four primary strengths of using this model. The first one is that it allows these organizations (field partners) to grow and become stronger organizations due to the increased capital they can attract. The second one is that it can lead these organizations to innovate and change their business model to be able to attract this new type of investments. This could lead, for example, to these organizations adopting higher ethical standards. The third advantage is that it democratizes social investment. Anyone can participate, and this mass of investors in an open

³⁶ Walker, Ken "The Kiva Effect". Christianity Today. December 2009. P.17

³⁷ Hassett, Timothy. Bergeron, JD. Kreger, Michelle & Looft, Michael. Indirect P2P Platforms. 2011 Microcredit Summit, Comissioned Workshop Paper. P.1

³⁸ Hassett, et al. 2011. P. 2

model strengthens the well performing partner organizations. People lending money will be affected by what partner organization they are going through, leading to a democratization of investment where the best one gets the most lenders. The fourth one is that it can educate lenders about the situation of the borrowers and hopefully stimulate their curiosity to learn more about the situation the person they lent to is facing. If, for example, they lend to a coffee farmer in Colombia they might become more curious about their situation and perhaps become a more conscious consumer whenever they buy coffee in Starbucks or at the local supermarket.³⁹

There are three primary disadvantages of working with an indirect peer to peer funding model. The first one is that the partner organizations are at risk of currency loss. This means that their loans are given in dollars, converted to the local currency when disbursed and then when paid back once again converted into dollars and returned. If the local currency loses value against the dollar during the time that the loan is standing the loan will be more expensive to repay for the partner organization. Some organizations offer insurance or guarantees up to a certain amount, for example Kiva sets an upper limit on 20% appreciation, but some crowdfunding platforms let the partner organization bear all the weight of the eventual currency fluctuations. The second one is the risk that operating costs increase. The organizations need to gather information, document the lenders, publish this to the website, report regularly on both the progress of the lenders and on their own progress and operations. Working with a crowdfunding platform brings a lot of additional work, something that possibly increase the operating costs for the organizations. The third one relates to the privacy of the borrowers. It is necessary to use discretion when publishing someones story and photograph for the whole world to see, since this could create privacy issues. An example of this is people in sensitive situations, people in countries currently in war or conflict or post-conflict situations, where Kiva has chosen to make the profiles and photos of these people more anonymous and blurring photos. All to make sure that the risk of someone facing negative consequences because of the exposure on their website is as small as possible.⁴⁰

4.5.1 Pre-disbursed loans

In 2009 Kiva found itself in the middle of something of a crisis. An article in the New York Times

³⁹ Hassett, et al. 2010. P. 6

⁴⁰ Hassett, et al. 2011. P. 11

had cast doubt over their business model and shown that what appears to be a person to person direct loan is not quite so. In "Confusion over where the money lent to Kiva goes"⁴¹ Stephanie Strom questioned the directness of Kiva microloans and was soon followed by Dennis Roodman, a research fellow at the Center for Global Development.⁴² Looking at the Kiva website most people would assume that the people featured on the website are there looking for loans, and the money contributed together makes up this loan which after it has been completely funded is disbursed to the recipient, who can then create his or her business. The truth, however, is that most of the people applying for loans on Kiva's website have already received their loans. If one looks carefully on the information for each recipient there is a small piece of information on the disbursement date. This is the date that the loan was paid out to the person, a date that often precede their story being posted on Kiva by as much as a month. Kiva responded to this by explaining its way of working in a blog post reply to Mr. Roodman. This is their way, he said, that Kiva has been working for a long time. The problem is that it did not do a very good job of explaining it on its website, something that has later changed and if one looks at Kiva.org today it is more clearly articulated.⁴³

This practice of pre-disbursement of loans is a quite common practice among these types of organizations, and both Kiva and Vittana use it. What actually happens is that a microfinance organization field partner disburses the loan to a person with the plan of publishing their stories on Kiva or Vittana. This means that they can give the loan quicker to the person and does not have to wait the weeks or months it might take to get it funded. After the loan gets funded through Kiva or Vittana the money goes to this organization to provide security for the loan already given.

The strength of this model is that after the partner organization has given the loan and received the funds from, say, Kiva, they can use this money to create new loans and as the recipient repays his or her loan they return this money to the Kiva lenders. They are thus capable of providing more loans than would have been possible had they stuck to waiting for the Kiva funding before disbursing the loan.

4.5.2 Ethical issues

⁴¹ Strom, Stephanie. 2009.

⁴² Dennis Roodman's Microfinance Open Book Blog. http://blogs.cgdev.org/open_book/2009/10/kiva-is-not-quite-what-it-seems.php Last Visited on 27/12/2012

⁴³ Dennis Roodman's Microfinance Open Book Blog. http://blogs.cgdev.org/open_book/2009/10/matt-flannery-kiva-ceo-and-co-founder-replies.php Last Visited on 27/12/2012

The possible problems with this model is first of all that should the campaign not get fully funded from Kiva or Vittana the organization has to bear the loss. None of this is passed on to the lenders, but the loss impacts the organizations ability to give further loans.

The second and perhaps larger issue is that of the ethical side of it. For most users that goes to Kiva or Vittana the strength of these models is the directness. The direct connection to another person and the directness of the loan is one of the main selling points of these organizations. You can see the profiles, pictures and stories of the people looking for loans and then based upon this decide whom to give to. As Kiva founder Matt Flannerey said in his reply to the New York Times article “One of the contributions that Kiva has made is to demonstrate that empathy increases generosity. The pictures and stories on the Kiva site increase understanding between various parties that would otherwise operate in completely different universes.”⁴⁴ In other words, one of the main factors of success for Kiva in the personal connection created by the pictures, stories and other aspects that creates the sense of a direct connection to the other person. The lenders feel empathy and a desire to help because of these elements. The problem is that the money they lend is used to cover the loan already given, but more likely the money goes to fund a loan to someone else. The sense of directness is thus in a sense a false one. The money lent is used by the organizations as they want. What would happen then if people knew that they were actually making a loan to a microcredit organization, and not directly to the person they think they are giving to? There is a bit of an ethical dilemma here since Kiva and Vittana builds their models on directness and a sense of compassion, but in reality the loans are not given directly to these individuals. This way of working, on the part of the field partners, is not unethical in any way, the problem lies rather in how Kiva and Vittana portrays it on their websites. Kiva was severely criticized when this issues first emerged, but has taken to the criticism and when someone visits the website today the process is clearly explained. The marketing is however still emphasizing the directness of the method and if one does not look at the longer version of the explanation of how they work it is not very clearly stated that they use a pre-disbursed lending model.

Vittana also use a pre-disbursed model, but are not as clear as Kiva about it. If one does not visit the Q&A section there is little information about it. Since Vittana works with students the reason for using a pre-disbursed model is also because of the strict schedules and timetables of education

⁴⁴ Dennis Roodman’s Microfinance Open Book Blog. http://blogs.cgdev.org/open_book/2009/10/matt-flannery-kiva-ceo-and-co-founder-replies.php Last Visited on 27/12/2012

institutions. A loan extended in August may allow a student to register for the fall semester, whereas a loan disbursed in September might mean that the student has to wait until spring semester to register. They also work in a way where they encourage the field partners to tie the money to the student in question and not use it for other students. They thus try to create a slower pace of lending for the organizations by tying up the money, something that could mitigate the issue of over indebtedness as well as over lending.

5. Organizations background and analysis

For this part I have chosen three organizations to look and and to try to test the thesis that if microfinance could be brought back to its not for profit roots it would again become a useful tool for development. To do this I have chosen three organizations that use crowdfunding as a way to provide microfinance loans. I have chosen three organizations that vary slightly in their focus and way of working. The first one is Kiva, one of the largest indirect peer to peer crowd funded microfinance organizations. They have an entrepreneurial focus and give loans to people starting or running businesses in developing countries. The second one is Vittana, an organization giving loans to students attending higher education in developing countries. The third organization is Zafen, an organization that gives loans for various types of projects. Whereas the other two have an international focus Zafen focuses exclusively on Haiti. I will look at the way these organizations operate, their main focus and their impact so far. As a part of this I will use Sen's capacity building theory as a way to measure the potential impact of the three organizations. After this I will give a overlook over the relationship they have with the partner organizations/ field organizations that give out and monitor the loans. I will follow each organization with analytical passages in order to give perspective as well as depth. Rather than concentrating the analysis to the end I chose this way of organizing to create a closer connection to the factual parts and to make this connection easier to follow for the reader.

There are five issues Batman brings up and that I will look at in this part are the following:

- ⤴ The commercialization of microfinance leading to loan shark-like practices.
- ⤴ The commercialization of loans leading to MFIs giving out more loans in order to increase profit – leading to a sub prime loans- like problem.
- ⤴ The poverty trap. People taking more loans to be able to pay old ones, furthering their debt and pushing them deeper into poverty.
- ⤴ The issue of whether microloans to businesses are really effective or not.
- ⤴ The negative consequences that people face due to the solidarity circles.

I will look at these issues one by one, seeing how the three organizations handle this issue and what their potential for creating a more sustainable type of microfinance through solving these issues are.

5.1.1 Kiva

Kiva is one of the, if not the, leading charity crowdfunding site. It was created in 2005 and has since then gathered increasingly large crowds contributing to give microloans to people in developing countries. Over the years it has contributed \$378,982,275 to 922,290 borrowers in the 66 countries where they are represented.⁴⁵ Their focus is on giving loans to entrepreneurs, or giving money in order to help making the borrowers able to make a living on their own. It can range from a seamstress employing a person to create a sewing company and make clothes, to a farmer buying one more cow to increase his or her yield of milk.

The way it does this is through partnerships with local aid or microfinance organizations. The person who wants to borrow money goes to one of these organizations. They write down their story, their purpose behind borrowing the money and their view of what they want to do with it. Along with a photograph they then publish this on the Kiva website, making it available for people from all over the world to see. Anyone who wants to help can then give a small part of the loan that together with the contributions of others makes up the entire loan. So, if the person needs 1,000 perhaps somebody gives 25, another 50, and so on. A small interest is charged for the loan, but often it is by far lower than any other loan accessible to these people. This rent does not, however, go to the lender but to the local organization. For Kiva this is a way of contributing to strengthening these organizations and helping them improve their work. The average loan is \$400.69 and Kiva has a loan repayment rate of 99%, by far outperforming any commercial bank both in the developing countries and in the developed ones.⁴⁶

Kiva has gained a certain amount of attention as its reputation has grown during the last few years. This critique has been both positive and negative, with the positive ones perceiving it as the next revolution in giving and international development. The negative ones has a broad range but are primarily focused on the perception of the loan takers that the site gives. There has been critique of it for giving a neo-colonial perception where the benevolent people of the developed world give the poor people in developing countries money to silence their conscience.⁴⁷

⁴⁵ Hassett, Et al. 2011. P. 2

⁴⁶ www.kiva.org

⁴⁷ Ly, Pierre. Mason, Geri. 2012. *Individual Preferences Over Development Projects: Evidence from Microlending on Kiva*. *Voluntas* (2012) 23: p. 1036-1055

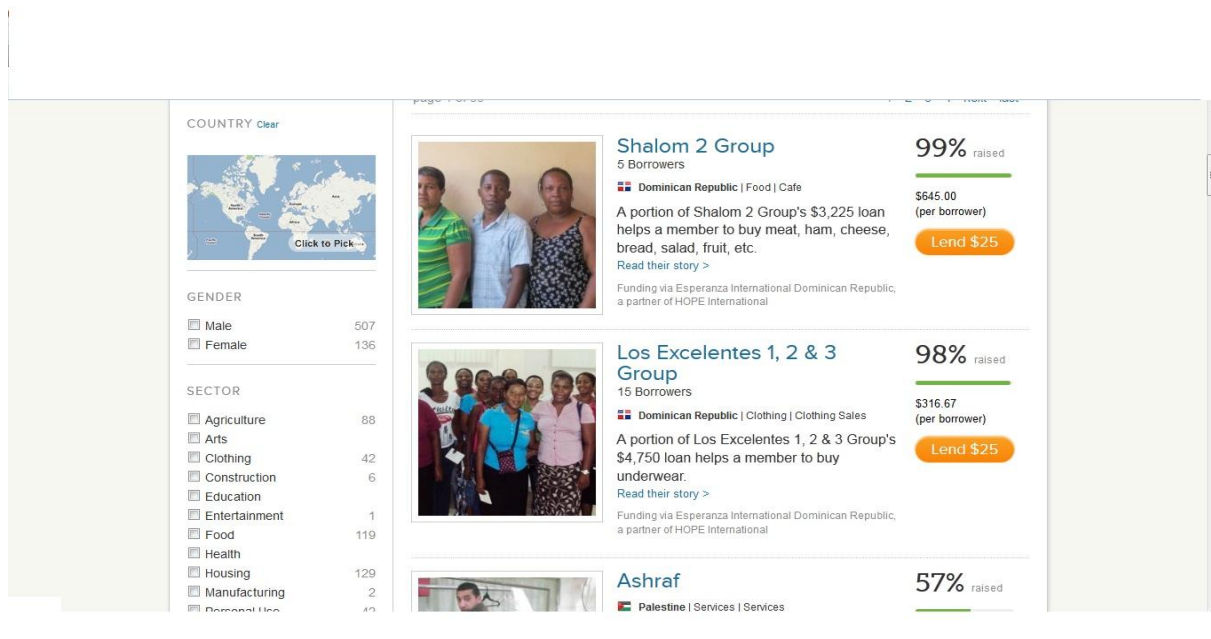


Image 1

5.1.2 Kiva Field Organizations

For organizations wanting to work with Kiva there are two ways of assuring due diligence, both coming with different conditions and demands that need to be fulfilled. Here I will look at the process Kiva use to assess and check a potential new partner organization, one of the main steps the organization use to make sure that the organizations they work with a reliable and ethical organizations. There are two processes, full due diligence and basic due dilligence. The difference is that a basic one is easier, but it reduces the amount of money an organization can raise through Kiva.

The first one is the Full Due Diligence process, where there are several steps and demands that needs to be fulfilled by any potential partner organization.

The first step involves a screening of the potential field partner. The requirements at this stage is that they need to already have 1,000 active borrowers that they serve with microloans, they need to have a history of lending to poor and vulnerable people for at least three years, they need to be registered as a legal entity in their country, having had performed at least one years of financial audits ans to have a strong social mission and a clear plan for their use of Kiva financing.

An important part of this initial first step is also that the organization has a strong social focus and a shown commitment to development. They can thus not be a strictly profit driven bank-like organization. Kiva at times choose to work with for profit organizations, but for these organizations to be approved there is a stricter review process where their lending process, business model and reason for wanting to use Kiva are as looked at.

The second step is reviewing the application. In this stage Kiva requires a full documentation of the organization. Financial statements, organization manuals, portfolio reports, resumes of managers and board members, projections and ratings, business plans as well as evidence of impact and references.

The third step is an on site visit to the organization. Based on the previously submitted documents Kiva evaluates the organization on the ground, auditing it and looking at everything from financial factors to personnel and the potential social impact of the organization.

Once an organization has passed these steps they move on to the risk assessment part of the process. This is when Kiva use model for assessing the risk that these organizations can not live up to their commitment as well as the risk that it will not survive in the long run. It is thus an assessment of the stability and robustness of the organization based on an analysis of the above mentioned factors and reports. After this each organization gets assigned a risk rating on a one to five scale, five being safe and one being insecure.

The second mode of risk assessment is a Basic Due Diligence. The basic due diligence differs in that it consists of steps one and two as mentioned above, and based on this an analysis in done and a rating assigned. The demands are thus not as strict, but this also means that the amount of funds the organization can receive through Kiva is limited to a maximum of \$200,000. This is still a relatively large number, but for a bank or microfinance institution it is a relatively small number.⁴⁸

After the approval process the partner organizations are still obligated to provide regular due diligence reports upon which their score is determined. Many organizations have fallen into disgrace by having trouble returning the money they have received from Kiva for various reasons. For these organizations Kiva first tries to work with the organization to see where the problem lies.

⁴⁸ <http://www.kiva.org/partners/info>. Last Visited on 27/12/2012

If it is not resolved and the situation improved the organizations rating is lowered and if after this the organization still does not improve Kiva terminates its relationship with it, something that is not all that infrequent.

5.1.3 Analysis

We can through this see that Kiva can potentially have an effect on some of the issues that has plagued microfinance.

The first issues that Bateman deals with is the commercialization of microfinance and the increase in interest rates this has created. Kiva has a strong and well established process for vetting its field partners. No matter if they are for-profit organizations the organizations it works with has to have a strong social commitment to the society in which they operate. On top of this the process of auditing created by Kiva makes sure that even if the organizations strive to make profit they will do so in an ethical way that does not create the kind of problems microfinance organizations has created through over commercialized interests. The periodic audit of the organizations and the ranking of the organizations done by Kiva means that the lenders know which organizations have ethical lending processes and stable organizations. This process has led to a relatively large number of contracts being terminated and the suspension of funding for organizations due to things Kiva found in their audits. Despite this there has been cases of badly performing organizations getting funding through Kiva The problem is that even though the contracts are terminated and these organizations shamed, they are only done so retrospectively.

The second issue is that of microfinance organizations over lending and operating more like regular banks, creating sub prime like lending practices. Kiva does not directly control the lending practices of the partner organizations and can thus not control or regulate the conditions under which they give out loans. Kiva makes sure that the organizations it works with operate in an ethical way and has properly functioning organizations, but the fact that an organization works properly does not assure that they do not have overly aggressive lending practices or that they do not extend loans to people who are not likely to be able to pay them back. Something that further exacerbates this issue is the pre-disbursed lending model. This way of operating allows the organizations to extend a loan to someone, and then receive funding from Kiva as security for this loan. The money received from Kiva will not be used to lend to the person whose profile is on the website, he or she has already received his or her loan, but the money will most likely be used as a loan to someone else. This means that the organizations can give more loans that they would otherwise have been able to do,

giving them the possibility of much more aggressive lending practices.

The third issue, that of over borrowing, is connected to this. The problem of over borrowing stems from the problem of borrowers not being able to pay back their loan, thus leading them to take another loan to be able to do this. This use of microfinance has a tendency to push people deeper into poverty rather than alleviate them of it. Kiva does not specifically audit the way the organizations look at the social consequences of the loans they are extending. In other words, Kiva has a strong process of controlling that the organizations give loans in an ethical fashion, but the reasons for people deciding to take on these loans are not covered in Kiva's demands of an organization. Often the reason for people deciding to take on more loans is that the business they started with the help of microfinance failed or is about to fail. Rather than give up they take on more loans in hope that they can turn it around. This issue is something that Kiva can not control, but the entrepreneurial focus is something that could possibly exacerbate the issue.⁴⁹ This is something that connects closely to the next issue.

The fourth issue according to Bateman is whether microfinance actually works at all. Even if the organizations are not profit driven, can they still contribute to development? Kiva is a organization that focuses exclusively on entrepreneurial activity and as such it has certain problems. The failure rate of any business whether in the developed countries or in the underdeveloped ones has a high rate of failure, but even more so among micro enterprises in developing countries.⁵⁰ If a business fails the person still needs to repay the loan, doubling their burden. The entrepreneurial focus could work in that the market gets more crowded and thereby increase the market efficiency. This means that prices are pushed down, thus increasing consumption and making people better of. The issue with this, however, is that people who take loans to start businesses that subsequently fail are not left better of, but are rather pushed deeper into poverty. The entrepreneurial focus can thus be something that negatively affects the possible impact on poverty. The entrepreneurial focus can strengthen the capabilities of the loan recipients to a certain degree, by reducing the barriers to controlling their own life through running their own business, but the issue of failing loans is still an issue. The loan empowers, but would the business fail the new found freedom of action will be destroyed, and due to the difficulties created by the need of repaying the loan the person's freedom will be blocked by higher walls than before. The issue is however still present and the new capabilities created by the loan is not essentially secure capabilities. If a micro entrepreneur

⁴⁹ Bateman, 2010. P. 57

⁵⁰ Bateman, 2010. P. 74

succeeds he or she will have a new level of capabilities and control of their lives, but this increase in capabilities is dependent on the success of the business they create. As capability building development the focus on entrepreneurs is thus a one that has a risk of having little effect.

The fifth problem with microfinance as it has been done is the possible negative social consequences to come from the way the organizations make sure that their loans are getting repaid. The solidarity circles was a big part of this in the model envisioned by Muhammad Yunus. The solidarity circles has been shown to have negative social consequences, however, and the use of them has not created the empowerment of women that they were envisioned to do. Several of the organizations that work with Kiva use solidarity circles. Kiva does promote a social vision among all its field partners, but the true effects of the solidarity circles is something that is not assessed in the way they work. All the organizations that Kiva work with take a look at the larger social aspects and this is not a demand from Kiva. As Sen says there is a great potential for economic development when women are more involved in the economy. This has the potential to create many of the social changes that are a necessary in order to increase the capacities for participation and control of their own life for women.⁵¹ Without looking at each project and each organization it is difficult to assess the effect of Kiva on women's empowerment, but because of the use of solidarity circles and varying ways of working by the field partner organizations we can not assume that Kiva has a more positive effect than other types of microfinance organizations.

Through this we can see that Kiva provides something of a filter from some of the negative consequences of micro finance, but that it operates largely in the vein of Yunus original idea and that it thus does not solve some of the potentially fundamental flaws of micro finance.

5.2.1 Vittana

The issue of education is a fundamentally important one for almost everybody in the world. For those with an education it is what got them the job they are doing. For those that never had the chance the reason they are working is to be able to send their children to school and university so they can have a better chance at life than they had.

This is the starting point for Vittana, a crowdfunding site giving microloans to young people in

⁵¹ Sen, 1999. p. 201-202.

developing countries. It is a relatively young organization. Created in 2008 it has helped students in eight countries ⁵² get access to higher education. It is still a young organization and thus have limited capacities to help students from different countries, but it is expanding rapidly and only months ago it started giving loans to Mongolian students. At the time of this writing there are 73 students awaiting funding for their loan, 19 from Bolivia, 3 from Ghana, 2 from Honduras, 2 from Indonesia, 3 from Mongolia, 6 from Nicaragua, 32 from Paraguay and 6 from Peru. The distribution is as we can see very uneven, with a large tilt towards South America.⁵³

Vittana works through partnerships with organizations in the various countries. These organizations make sure that the money reach the student, doing the administrative things and also collects the loan afterward. The student is charged a small interest, but this fee is given to the local partner organization and not to the lender. This is to insure that the partner organization can have the competence necessary and can keep the program going.

Vittana has recently started gaining a certain amount attention in other media and both the New York Times ⁵⁴ and The Economist ⁵⁵ has lauded Vittana for its aim and its vision.

The image shows a screenshot of the Vittana website. On the left is a 'Student Filters' sidebar with the following options:

- Country:
 - Bolivia (42)
 - Ghana (8)
 - Indonesia (5)
 - Nicaragua (4)
 - Paraguay (15)
 - Peru (4)
 - Philippines (4)
- Sort by:
 - Close to Funded
 - Newest
 - Expiring Soon
 - Greatest Impact

The main content area displays three student profiles:

- Erika Gabriela Sejas Flores**: 1.6x income change. Public Accounting & Finance. 52% funded - \$783 to go of \$1,647. Quote: "I am very thankful for this loan, I can obtain a professional degree and a better income." LEND NOW button.
- Luz Maria Villalba Zuazo**: 2.9x income change. Accounting. 34% funded - \$761 to go of \$1,167. Quote: "I love this career." LEND NOW button.
- Jhony Alberto Callau**: 1.4x income change. Law. Funding progress bar is partially visible.

Image 2

⁵² Bolivia, Ghana, Honduras, Indonesia, Mongolia, Nicaragua, Paraguay and Peru

⁵³ <http://www.vittana.org/students> Last Visited on 27/12/2012

⁵⁴ Strom, Stephanie, *College Loans as Development Aid*. New York Times, December 5, 2009

⁵⁵ Making the Grade, The Economist. September 9, 2010

5.2.2 Vittana Field Organization

Vittana currently works with 26 partner organizations in eight countries. These organizations range from banks to microfinance organizations and community building organizations. The span is quite wide, but groups focused of community development and especially education make up the majority. The way that Vittana assures that these organizations is through a very close cooperation and through supervision of the lending programs. Vittana creates the programs and monitors the way in which these organizations are to implements them. The process Vittana undertakes is illustrated in a graph found on their website.

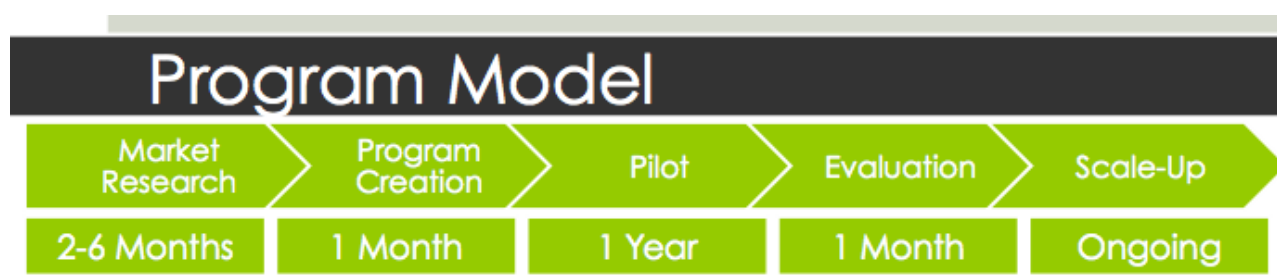


Image 4

The whole process, as lined out on their website, follows a six step process taking approximately two years.

1-4 months: Due Dilligence

- ⤴ During this period Vittana search for the right countries for their operations. An extensive due diligence process helps narrowing down the possible countries that are evaluated by a range of economic, social and political factors. Among these are safety, the risk of ethnic tension and conflict, the potential job situation and the general outlook of the economy. They then proceed to find and evaluate potential partners in the country.

2-6 months: Market Research

- ⤴ When Vittana has found the right partner in the country they go on to research the situation for students in the country and they help their partner better understand the situation for young people as well as the education industry. They work together with the partner organization to assure that they have enough knowledge and understanding of the situation to be able to do a good job.

1 month: Program Development

- ⤴ Vittana creates a program tailored to the circumstances in the country and based on the findings of the research they help partners define loan terms and interest rates, develop

relationships with universities and vocational school, markets it to students and train the loan officers of the partner organizations.

1 Year: Pilot

- In this stage they start the operations and test run it for a year, making sure everything works and that the organizations work the way they are supposed to. At this stage the organization interviews students and the best ones are uploaded to Vittanas website to be funded by lenders in the United States and Europe.⁵⁶

We can see through this that the primary way in which Vittana assures that their partner organizations work well and have the students best for their eyes is through cooperation and through taking a large role in creating the programs. The organizations themselves do not set the conditions under which the lend or develop their own programs, these are all functions that Vittana take primary responsibility for.

5.2.3 Analysis

Vittana has a way of working that is very similar to that of Kiva, but there are small differences and their focus is very different, something that makes their potential impact different from that of Kiva.

On the first issue of commercialization of microfinance Vittana handles the potential problem primarily through the way in which they create partnerships. Vittana establishes a close relationship to all of its working partner organizations and together with them create the student lending programs that they work through. This means that the organizations themselves can only decide their lending practices in terms of interest rates and such up to a certain degree. Based on the assessment of the country and situation for students Vittana together with the partner organizations sets the interest rates and loan policies, making it possible to reduce the risk of overly commercial interests taking charge over lending policies. The second thing that Vittana does to lower the risk of overtly commercial interests taking charge is that they primarily work with organizations whose focus is on education. Their strict focus on education thus means that some of the organizations whose aim is to make profit will not be useful as partners, at least not in the same sense that they would in an organization that gives loans to businesses, where the payoffs are potentially higher and more short term oriented.

⁵⁶ <http://blog.vittana.org/the-method-to-our-madness> Last Visited on 27/12/2012

Batemans's second issue, that of over lending, is also closely related to this. The programs are tailored to the circumstances facing students in a certain country and lending practices and such are created within the frame of these programs. The potentially negative thing about Vittana and the thing that might compromise its potential role as a filter against overtly commercial interests is the pre-disbursed loan system. This system, once again, allows organizations and microfinance institutions to give out loans without amassing very much risk, since the money they gave out will most likely come from Vittana before the student repays them again. They thus increase the amount of money they have and can easily give out more loans without much of a risk.

The third issue, the risk of over borrowing and taking on more loans than can be paid of is also somewhat mitigated through Vittana's model. A big part of the risk behind over borrowing is the entrepreneurial focus. This is in part because many start up business fails, but also because businesses that are not as efficient or for other reasons get pushed out of the market by their competitors take on loans with the hope of being able to turn it around. Vittana focuses solely on students and thus mitigate this risk somewhat. The potential risk is that the students will not be able to find a job after they graduate and for this reason can not pay back their loans, leading them to take on loans by other micro finance institutions. Vittana tries to solve this issue by assessing the job market in the country they work based on different categories, and then based on these create special programs. For this reason almost all of the students shown on Vittana has a very concrete area of study and after graduating they get a concrete job title and a profession.⁵⁷

On the fourth issue of the effectiveness of the lending I believe that the fact that Vittana focuses on education makes their possible impact on development through microfinance different from organizations with an entrepreneurial focus. The educational focus allows the borrowers to move up the value chain of work and get a higher paid job than they would be able to had they taken a loan to expand their small scale agricultural business or fruit stand. Instead most of them will now join the service sector in one form or another, bringing skills that their country desperately need to be able to in order to develop. Bateman's critique of the microfinance model is that it primarily creates development in the primary sector. People might be able to make a better living of their farms and small businesses, but in order for the country to truly develop they need infrastructure, healthcare

⁵⁷ <http://www.vittana.org/students> Last Visited on 27/12/2012

and larger companies.⁵⁸ This is something that the educational focus can do a lot to help. The issue of education lies firmly in Sen's theory of capability development. With education more opportunities open up and young people can radically improve their lives. The long term effects is a stronger macroeconomic development, where more educated teachers, doctors and engineers can further the development of their country even more effectively.⁵⁹

As for the fifth issue we can see that in terms of social consequences the education focused model can be a more sustainable one than the one using solidarity circles. The students feel an added pressure to complete their education and find a job, but the burden of financing their education has been taken off of them, arguably making their education experience easier. The organizations that Vittana partners with does not use solidarity circles, seeing that it would be difficult due to the lack of practical group structures that could be utilized in the universities and within education. They also do not lend exclusively to women and thereby do not have the issue that organizations that use this practice has. Where education can be a very strong incentive is in order to create the social developments that, among other things, lowers birthrates and strengthen the role of women in society. Education can thus be an effective way to strengthen capabilities in the long run.⁶⁰

5.3.1 Zafen

Zafen is a crowdfunding platform focusing only on Haiti. It provides both crowdfunded microloans for businesses and entrepreneurs as well as donations for social projects. It was created in 2010 in response to the massive earthquake that shook the island nation and devastated the lives of many people. It was formed jointly by four organizations: The International Vincentian family (FAMVIN), DePaul University Chicago, Fonkoze Microfinance and the Haiti Hometown Associations Resource Group. They jointly formed the organization with the aim that it could play an important role in making the Haitian people self-sustained and better off. They stress that their purpose and relation to the Haitian people is not that of purely giving aid, but rather one of providing a partnership for support and cooperation with the common goal of aiding Haiti. They do this through partner organizations that evaluate the project based on the history of the person leading it, its possibility to create jobs and to create a better situation in Haiti. The social aspects and potentials of a project is

⁵⁸ Bateman, 2010. P. 67

⁵⁹ Sen, 1999. p. 144

⁶⁰ Sen, 1999. p. 190

more important than credit history or other economical and financial factors.⁶¹

Zafen is still a small organization and its limited focus on Haiti has, it seems, been a factor in limiting its exposure internationally. At the time of writing there were 9 projects on the website awaiting funding, something that puts them at a disadvantage against both Kiva and Vittana where there are many more projects available for the lenders.

It has several potential strengths, however, when compared to other crowdfunded microfinance sites. The first one is that it does not charge interest for its loans. Mohammad Yunus original idea for microfinance was that only low interest would be charged the lenders so that more money would remain in their pockets. Zafen charges no interest rates at all, something that means that more of the loan and the earnings from the business resulting from it will remain with the people themselves.

The second strength is that they do not use partner organizations. Both Kiva and Vittana use partner organizations in the various countries where they are represented, something that creates the necessary to create and maintain guidelines for these partners audit and inspect them, as well as the risk of a bad partner squandering the money and creating bad publicity. This happened to Kiva in 2012 when they had to cut their partnership with LAPO, a Nigerian microfinance institution that was severely mismanaged, corrupt and had very little positive influence on the lives of those they lent money to.⁶² Zafen does not have to worry to the same extent about issues of this kind.

The third advantage Zafen has is that they focus on only one country, meaning that they can amass greater amounts of expertise and knowledge about the people whom they are aiming to help, something that can help them become more effective in doing so.

⁶¹ Fonkoze Annual Report 2011, p. 6

⁶² <http://www.kiva.org/partners/20> Last Visited on 27/12/2012

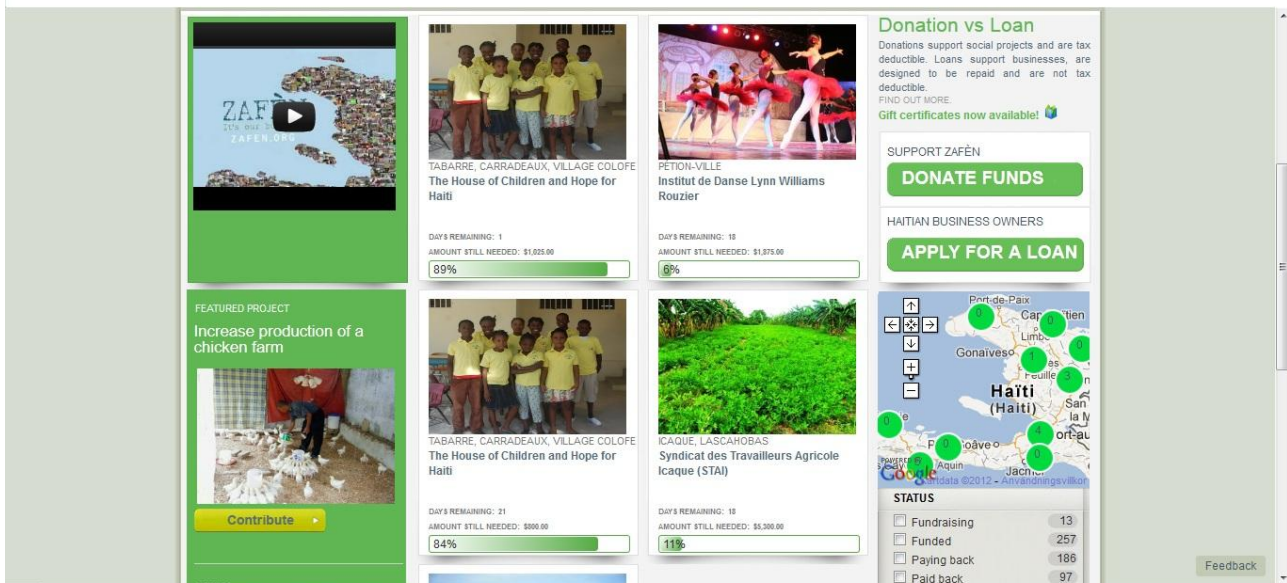


Image 6

5.3.2 Zafen Field Organization - Fonkoze

Zafen works quite differently compared to the other two organizations in terms of partner organizations and due diligence. Zafen was created jointly by four organizations, one of whom is a microfinance organization. Fonkoze as it is known is an organization started in Haiti by a catholic priest in 1994 with the aim of helping the poor through providing access to various financial services. The services they are handling are:

- Micro-credit, using a solidarity group methodology of lending.
- Small and medium sized business development loans
- Savings accounts and help with saving money.
- Currency exchange services.
- Money transfer services.
- Literacy, business skills, women's health, children's rights
- Social impact monitoring.
- Life and credit microinsurance.
- Housing rebuilding and repair for member-clients following the earthquake of January 2010.⁶³

⁶³ Fonkoze Annual Report 2011, 9

Fonkoze can thus be said to be a more versatile organization than most other microfinance organizations and has a broad focus on development. It provide services ranging from remittances from Haitians living abroad to micro insurance and disaster insurance. There are however two things that makes it difficult to assess due diligence and to look at the demands by Zafen on Fonkoze. The first on is that Fonkoze is one of the founding organizations of Zafen. Zafen putting pressure and auditing Fonkoze would thus essentially be it auditing itself. The issue of due diligence however becomes more difficult since Fonkoze is a for profit organization. It aims specifically to be self sustained.

If we look at www.myphilanthropedia.org, a division of Guidestar, an organization that rates and examines charity and microfinance organizations, we can get something more of an objective view of Fonkoze's practices. Fonkoze, they say, is a microfinance organization operating in one of the most difficult countries there is, but that despite this has managed to create a strong organization. They emphasize the experience and expertise of the leadership within the organization, but comments on the organizations apparent difficulties to tie Haitian leaders to its organization and to retain talent within the country. Another thing they said in their evaluation was that there is a need to further educate the staff and improve their financial management skills. Their methods and practices are sound according to this examination and they have a strong and dedicated leadership.⁶⁴

This does make it seem like Fonkoze is a reliable partner for Zafen, but the issue of the lack of external checks and audits from partner organizations are lacking compared to Kiva and Vittana.

5.3.3 Analysis

Fonkoze is a family of three organizations: Fonkoze, Fonkoze Financial Services and Fonkoze USA. Fonkoze is a non-profit organization dealing primarily with education, training and support for poor people. Fonkoze Financial Services (for clarity, hereafter referred to as FFS) are the ones that give out loans and they are a for profit organization. This division of labor makes for an interesting organization. They have a very strong social focus in the Zafen organization and all the loans given out by FFS are followed by educational programs and help from Zafen, thus helping the loan taker to be able to use the money most effectively as well as handling repayments and such. So even though FFS is a commercial for profit organization they still have a strong social commitment, and together with the education and social aspects taken into consideration by Zafen they could

⁶⁴ <http://www.myphilanthropedia.org/top-nonprofits/international/microfinance/2012/fonkoze> Last Visited on 27/12/2012

perhaps be seen as a virtuous for profit organization. Strengthening this impression is the fact that Fonkoze has received a string of awards and distinctions for being a good, ethical and reliable charity organization.

When looking at the issue of organizations overextending loans Fonkoze is different from the previous organization in that it is essentially only supervising itself. Since it is a part of Zafen there is no higher authority setting out demands for it. It does however have a strong internal process of assuring ethical practices and has a special division separated from the usual operations working solely to assure that things are done fairly. The fact that FFS is a profit driven organization makes it impossible to assure that their motives are entirely altruistic, but looking at the opinions of charity organization ranking institutions, such as GuideStar Navigator or Charity Navigator, Fonkoze has a solid reputation as a for profit organization working to eradicate poverty rather than enrich itself. Fonkoze and Zafen also does not use pre-disbursed loans, making it more difficult for FFS to create more aggressive lending practices that are symbolic for the over lending problem.

The third main issue for Bateman, the problem of people taking on more loans than they can handle, is something that Fonkoze handles in part through the Fonkoze organization part of the loan. They provide education, training and are available should the borrower want to consult about something. Should the borrower come into bad circumstances or have problems repaying they can help and aid with advice and help. The problem of people over lending due to the business they started or tried to expand with the aid of their micro loan not going well is still present, but it is made slightly better by the training and the whole social aspect that Fonkoze brings to the process. It is also potentially made better by the regional focus of Zafen. This small focus allows the aid workers and representatives to have a greater local knowledge and expertise into what kind of finance and aid can be effective and what will probably not be. Almost all of the employees of the organizations are locals, something that further increase this tacit knowledge as well as a cultural understanding perhaps making them more sensitive to the social context of the borrowers and their societal circumstances. This consultation aspect is important seeing that many of the loan takers do not have the necessary experience or knowledge to be able to run a business successfully. Even if they know how to, say, grow corn they may not have the necessary business experience to handle the process of running a business with employees and such. This simple process can help people hold on to the capabilities created by the loans through increasing the chances that their business venture is successful and sustainable.

The fourth issue, on whether microfinance would work even if done in a non-commercial way, seen through Zafen and Fonkoze is an interesting question. Zafen and Fonkoze has a very diverse focus as to the projects they support. It is not only micro entrepreneurs, but they also support schools, community projects and such, making their impact different from the other two organizations. Zafen and Fonkoze thus have a potentially wider impact on society. This is also not only because they support a wider area of projects, but also because FFS brings a lot of new services to the poor. Savings accounts, remittance services, microinsurance and other financial services are all services that allow the poor to potentially lift themselves out of poverty in a more efficient way that would have been possible had they focused only on micro entrepreneurs.⁶⁵

The primary way that this can be possible is that people's consumption can be smoothed through the increased security that for example an insurance brings. Sen talks about the coupling of disadvantages when it comes to the limited possibility for poor people to exercise their rights. First is the lack of disposable income and secondly is the structural barriers. These could be the person being a woman, someone needing to care for an injured or handicapped relative or other situations where financial services as savings or insurance could lighten the burden of someone and make them capable of utilizing their capabilities to a further extent than would be possible otherwise.⁶⁶

The fifth issue is regarding the potentially negative social consequences of micro credit. FFS use solidarity circles in some of its lending programs and many of these are aimed specifically at women. According to the organizations' own 2011 yearly report the women taking loans in these programs fared better than those that took loans in other ways, but most of them still remained in poverty. These solidarity circles are thought of as a way for the women to, in part, put pressure on each other to stay in the program and to work hard to achieve what they set out to achieve, and in part as a social support as a step towards being able to take a personal loan, if necessary. When looking at dropout rates in loan programs, however, the primary reason for people dropping out is problems with the solidarity circles, with 20% of the dropouts citing this as their reason for quitting.⁶⁷ The work by Fonkoze is meant to counteract any negative social consequences as a result of the loan and to help all the participants, resulting perhaps in less severe social consequences for the participants. Another factor that can be of consequence when looking at the solidarity circles is to look at the culture of Haiti in terms of the position of women. A lot of Bateman's critique of the solidarity circles was based on the fact that women in Bangladeshi society have a very weak

⁶⁵ Bateman, 2010. P. 58

⁶⁶ Sen, 1999. p.88-89

⁶⁷ Zafen Annual Report 2011, p.25

position, making them very vulnerable to social pressure and extortion. Their high repayment rates may not have come as much from their higher sense of responsibility, but might just as well have come from a very subdued and vulnerable position, where the women knew that if they did not fulfill their obligations the consequences would be very dire.⁶⁸ Haiti is not an entirely equal society, far from it, but the position of women is still stronger than in Bangladesh. Women are constricted and far from equal, but their position is comparatively stronger, making the intensely negative social pressure felt by the women in Bangladesh lighter and perhaps making the solidarity circles work in way more similar to that envisioned by Yunus.⁶⁹

6. Concluding analysis

As we can see the answer to whether the indirect P2P crowdfunding model of microfinance can help mitigate the problems of the microfinance institutions is a manifolded one. The function of the organizations to work as a filter against the purely economic interests we can see is partially functioning. They audit the organizations and create the programs with them, assuring that their practices stay away from the loan-shark like practices within the microfinance community, that Yunus and many other has reacted to. Their filtering function is, however, limited and what they can do is limited both in scope and in time. During the initiation phase they have a certain amount of control, but this control is then diminished during the operational phase. What they can do is largely limited to acting retrospectively and severing the contract with the non-functioning or fraudulent organization. To put it differently, they can act as filters and can act to bring micro finance closer to its original purpose and aim, but they can only do this to a certain extent. The fundamental issues that remain are the ones that question the original idea behind some of the main pillars of microfinance. Many of the loans through Kiva and Zafen go through solidarity circles, a practice that has been shown to have more negative than positive consequences in many societies. The one thing that seems to have promise is to follow Vittanas example and to give to other purposes than funding entrepreneurs. By doing this one can get away from a lot of the negative consequences that solidarity circles potentially cause. Students belong to a different segment than rural women, they are not victims to the same social pressures, and for the most part they live in bigger cities, where the potential or possibility to use solidarity circles are severely restricted due to the less intimate social bond between people. Giving loans to different segments than entrepreneurs would also to a

⁶⁸ Bateman, 2010. P. 108-109

⁶⁹ CIA World Factbook, Haiti, Social.

certain extent help to solve the issue of people lending to start business that fail, or lending to keep failing businesses out of bankruptcy. We can thus see that the belief in the market held by Sen among others is fundamentally a sound one, but as a development policy it can not be the only approach. A sole focus on the market can have negative consequences and the approach needs to be diversified. The fundamental belief in markets does not need to mean that entrepreneurs is the best way to development. Education is as needed as capital to develop markets. Engineers, doctors, accountants and other things education create is as needed as capital if businesses are to grow. Crowdfunded microfinance can be a good way to diversify the efforts of development by giving priority to the values and priorities of the average donor.

To summarize I can thus say that these organizations have a potential to act as a filter against overtly commercial interests in microfinance. Their way of operating mitigates some of the issues posed by Bateman and their insistence on a charitable purpose driving their partner organizations means that they can be a filter against overt commercialization. Their filter functions are limited and depending on the organization and their make-up and focus the area where they can act as a filter varies. They are in other words effective as filters in different areas. The area is still new and these organizations are still in their infancy, but they have the potential to be a change maker in the microfinance industry. What I believe I have shown is that first of all there is potential in these organizations to counteract some of the negative aspects of the commercialization of microfinance. As I expanded upon above I believe I have shown that they can be a filter against some of the negative consequences. The second thing I believe to have shown is that even if microfinance is brought back to its strictly for development purposes motive and way of operating, there are still issues that need to be dealt with. The potential for capacity building development are there, but the entrepreneurial focus puts it at risk due to business failures. This is something that I believe would be a fertile area for further research. I believe I have shown that the educational focus, in this case represented by Vittana, has capacity building potential in a way that the entrepreneurial focus perhaps lacks. This is the long term capacity building perspective and helping social mobility for people. The issue of women's situation in solidarity circles and the practice of only lending to women is something that needs to be further discussed.

7. Works Cited

Books

Bateman, Milford. "Why doesn't micro finance work?" Zed Books, London. 2010

Howe, Jeff. "Crowdsourcing" Three Rivers Press. New York. 2008

Sen, Amartya. "Development as Freedom" Oxford University Press. Oxford. 1999

Sherman, Aliza. "The Complete Idiot's Guide to Crowdsourcing" Alpha Books. New York. 2011

Shirky, Clay. *Here Comes Everybody*. Penguin Books, New York. 2008

Surowiecki, James. *The wisdom of crowds*, Random House, New York, 2005

Tapscott, Don & Williams, Anthony D. *Wikinomics*. Penguin Publishing, New York, 2008

Tapscott, Don & Williams, Anthony D. *MacroWikinomics*. Penguin Publishing, New York, 2011

Rahman, A. 1999. *Women and Microcredit in rural Bangladesh: An Anthropological Study of Grameen Bank Lending*. Boulder, Co. Westview Press

Articles

Hassett, Timothy. Bergeron, JD. Kreger, Michelle & Looft, Michael. Indirect P2P Platforms. 2011 Microcredit Summit, Comissioned Workshop Paper

Ly, Pierre. Mason, Geri. 2012. *Individual Preferences Over Development Projects: Evidence from Microlending on Kiva*. *Voluntas* (2012) 23: p. 1036-1055

Strom, Stephanie, *College Loans as Development Aid*. *New York Times*, December 5, 2009

Making the Grade, *The Economist*. September 9, 2010

Mayoux, L. 1999. Questioning Virtuous Spirals: micro-finance and women's empowerment in Africa. *Journal of International Development* 11:957-984

Microfinance: Doing good by doing very nicely indeed. *The Economist*. 2008, June 26

Yunus, Mohamad. "Sacrificing Microcredit for Megaprofits" *New York Times*. January, 11. 2011

Walker, Ken "The Kiva Effect". *Christianity Today*. December 2009

Websites:

www.kiva.org

www.vittana.org

www.zafen.org

Dave Roodman's Microfinance Open Book Blog. http://blogs.cgdev.org/open_book/2009/10/matt-flannery-kiva-ceo-and-co-founder-replies.php Last Visited on 27/12/2012

<http://www.kiva.org/partners/info>. Last Visited on 27/12/2012

<http://www.vittana.org/students> Last Visited on 27/12/2012

<http://blog.vittana.org/the-method-to-our-madness> Last Visited on 27/12/2012

Fonkoze Annual Report 2011

MyPhilanthropedia:<http://www.myphilanthropedia.org/top-nonprofits/international/microfinance/2012/fonkoze>
Last Visited on 27/12/2012

<http://www.mturk.com> Last Visited on 01/01/2013

Images:

Picture 1: <http://www.kiva.org/lend>

Picture 2: <http://www.vittana.org/students>

Picture 3: <http://blog.vittana.org/the-method-to-our-madness>

Picture 4: <https://www.zafen.org/en/projects>