**Microfinance and the use of Peer to Peer social lending to increase sustainability**

**Case study**

**Kiva - a peer to peer social lending organization**

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A thesis submitted for the Master Degree of

Development and International Relations

June 2013

**Abstract**

In the last decades the microfinance industry has known an impressive growth. Nevertheless, most of the microfinance institutions (MFIs) and Organisations Non-Governmental (ONGs) have had to permanently deal with the lack of funding, which has not allowed them to acquire the adequate structure to improve their outreaching and services quality. At the moment that this thesis is being written, 70% of all MFIs in the world are represented by small start-ups that rely on both public and private sector but also and especially on the philanthropy sector, which is thus becoming a very important resource for sustaining organizations.

Since all these sector stand under a more and more strict scrutiny, MFIs and ONG are facing the real necessity to improve their reputation providing a higher transparency in order to maximize the private philanthropy assistance. Kiva is peer to peer (P2P) social lending organization, one among several ONGs that have been trying  to address two interrelated issues:  sustainability and need of transparency, required to satisfy a more and more demanding philanthropy sector. In order to solve these issues, Kiva has been conceived by the fusion of two different but complementary worlds,  technology and microfinance. In this picture, Information Communication Technology (ICT) has been employed to build an easy-accessible  structure,  capable to provide a better understanding of microfinance activities and their actors,  making Kiva an online virtual community for its user.

The aim of this work is to understand whether the model adopted by Kiva can enrich the microfinance industry of an innovative and effective example of transparency, and whether  the disclosure of information and the building of a social network can lead new philanthropists to donate money through micro finance activities. The role of social trust, information transparency and reputation are considered central for the analysis of the problem. In order to find an answer to the above mentioned issues, a thorough analysis of the Kiva platform in a microfinance context, together with the analysis of private philanthropy trends, are provided in this thesis.

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# Introduction

In the last four decades, the progressively emergence of microfinance and the spread of its services, has reflected a greater awareness about poverty emergency in the worldwide society under a new perspective. The number of Microfinance institutions (MFIs) and non-profit organizations (ONGs) has multiplied its services (Rhyne & Otero, Microfinance matures: Opportunities, risks, and obstacles for an emerging global industry, 2007) togrant a higher amount of loans for helping people to realize entrepreneurial projects and to get out of the poverty with their own means. The inception of the Grameen bank and the award ceremony to its funder Yunus Muhammad for the Nobel peace prize in 2006, has conferred a global legitimacy to microcredit principles as an effective mean to fight against the global poverty (Armendáriz & Morduch, 2010). Nevertheless, this did not preserved Microfinance world from the criticisms about the little transparency in which it has carried out its activities (Rhyne & Otero, Microfinance matures: Opportunities, risks, and obstacles for an emerging global industry, 2007). Over the years, there have been several conflicting debates regarding the efficiency of its activities and its real effects on the poor’s life. A higher level of transparency is strongly request especially for satisfying to the new demanding philanthropy sector. This last one, it is becoming more and more important in the last four decades, since its resources are outpacing public funds in growth into the microfinance world.

A well-defined policy about transparency is seen as the best solution for increasing MFIs and ONGs credibility in front of donors. In fact, many academics claim that “*the disclosure of financial and social information form MFIs is still scarce and a positive effect of its employment can surely be the multiply of the donors number”* (Gutiérrez-Nieto, Fuertes-Callén, & Serrano-Cinca, 2008). For this purpose, Internet is considered one of the best means among Information Communication Technology’s (ICT) tools to comply the necessity of the traditional microfinance of being more open and transparent. Today, *“technology is of increasing importance as non-profits appear to rely on the internet more than the for-profits to try to raise funds and awareness of their cause”* (Barry, 2012)*.*

A lot of effort is made for improving the information disclosure into microfinance industry. In this context, new forms of making microfinance arise: online lending platforms. This are considered “*as a source of learning as well as financing for the microfinance sector is significant. Importantly, online lending platforms can contribute to growing the next generation of socially responsible investors by showing the small investor/lender how his and her money can be used to do good in the world while returning the principal amount of that financing to the investor/lender and perhaps even generating a financial return on this principal”* (Burand, 2009).

In 2005, the most representative example of Peer to peer social lending, Kiva.org, appears on the virtual world as an American non-profit organization that, thanks to its collaborations with MFIs in developing countries, intermediates between the traditional micro financial world and common people willing to make social investments by loaning money to entrepreneurs in poor countries. Inspired by Grameen principles, Kiva website, fairly called the Facebook of the poor (Bruett, 2007), proposes a very innovative context in which every lender can choose his/her borrower only by browsing on the website list. The transparency is a very strong component of the website as the lender will be provided of a wide informative dataset about over the borrowers’ profile, the MFIs characteristics, Kiva’s goals and achievement, all its supporters’ and operators’ profiles also facilitating by the web 2.0 activities with blogs e chat.

In few years Kiva has reached a territorial extension very impressive collaborating with 197 MFIs working in 68 countries in the developing world. Its growth has been very notable and to date the total loan amount lent through Kiva is about US $444,367,950 (Kiva.org, 2013).

The aim of this work is to understand whether the model adopted by Kiva can enrich the microfinance industry of an innovative and effective example of transparency, and whether  the disclosure of information and the building of a social network can lead new philanthropists to donate money through micro finance activities.

Therefore, this work has been driven by the following problem formulation:

*“Does the online micro lending website Kiva contribute to enhance transparency and social connections in the microfinance world through the implementation of ICT tools? Does it contribute to increase the philanthropy satisfaction?”*

The problem formulation underlines the donors’ position, since considered essential for Kiva sustainability: the organization’s existence and all its loans relies on lenders’ donations. That brings to take into consideration a real necessity to build and empower an image, even if virtual, based on a positive reputation, credibility and trustworthiness through the use of communications means.

In order to answer to the problem formulation, the theories will be made explicit. In this work I have used three theories: the Information Asymmetry theory, the Social Capital Theory and the Legitimacy theory. All of them will contribute to answer to the research question.

The combination of the three theories opens doors to deeper understanding as different interpretation are taking into consideration.

Furthermore, a general overview of microfinance origin will be drawn by giving an overview of the financial situation of microfinance institutions (MFIs), and ONGs in the international aid framework, the lack of transparency and their first initiatives to overcome this problem. Special attention will be given to the philanthropy sector, which is the main reason for the several innovation applied into the microfinance industry. Later, Kiva organization will be presented.

Lastly, I will continue by analyzing the empirical data collected in order to answer to the research question.

# Methodology

As introduced before the research question in this paper is “*“Does the online micro lending website Kiva contribute to enhance transparency and social connections in the microfinance world through the implementation of ICT tools? Does it contribute to increase the philanthropy satisfaction?”.*

In order to answer to my problem formulation, I will present the use of communication medium (such as internet and Web 2.0) under three dimensions, each of them representing a different implication in Kiva model. In the first dimension, communication use is implied to facilitate the disclosure of information regarding its principles and organization lines; in the second one its use is for establishing strong reputation by the identification of Kiva’sprinciples as culturally valid; in the third one communication means permit the development of connections and social interactions among Kiva’s users through the application of web 2.0 tools. That will make notable how Kiva has yielded a model based on the development of three primary aspects essential for its existence: transparency, credibility and social ties.

In order to get a proper understanding of the Kiva model so to find an answer to my problem formulation, I will use three theories: Information Asymmetry theory, Legitimacy theory and Social Capital theory. All theories are able to make possible to derive the impact that the characteristics and values proposed by Kiva has on the lender’s attitude.

Firstly, the Information Asymmetry Theory will be used to understand how the information disclosure can help Kiva organization to build a high transparency status and increase its reputation and credibility in order to reduce the perception of risk that funders can get.

Instead, with Legitimacy Theory, I will try to analyze the first aspect of Kiva which pertains to the transparency showed on the website, in other words, whether the principles of the model and the methods are considered and accepted as valid by its members.

On the other hand, the Social Capital theory has been selected taking into considerations that lenders have an altruistic behavior as they do not get any income by their investment, which are socially motivated and can be influenced by the social ties created by web 2.0 inside the community. The Social Capital theory can provide an understanding on how the ongoing social dynamics on the website can drive the decision of the lenders. In fact, its assumptions suggest that people actions do not depend neither on rational decision nor exclusively on social values but that they are influenced by the social relations as a consequence of the fact that they generate interpersonal trust.

## Choice of the case

The choice of Kiva organization is a result of a more general explorative study. After deciding on the topic of the relationship between microfinance and ICT, I came across many sources mainly about India where the origins of microfinance have arose. Even though the application of ICT is increasing for improving borrowers’ services, the connection with the information disclosure for donors was still weak. Then I narrow my focus on developed countries which use of ICT is facilitated by a higher availability of resources. After reading into the topic of ICT and microfinance, the focused was canalized to peer to peer social lending website, which are spreading in a notable way in the developed way. But it was not possible to take into consideration all these cases, then a choice have to be made.

Specific reasons have bring me to select Kiva platform, since it is the most suitable organization with the philanthropy sector nowadays. In fact, it and embodies the traditional charity characteristics and an innovative social structure. In addition it has an intercontinental outreach through its MFIs partnerships which permit higher availability of data.

In several working question the central question results: is it Kiva effective in reducing poverty? And also: can this online social lending have a future in microfinance world?

My research, limit my focus in a number of ways. Firstly it will very strong the perspective of philanthropy sector, second the all research have an economic and social perspective. The main justification for these choices can be found into the choice of theories.

## Choice of theory

The theories will be used to analyze the research question: Information Asymmetry by Michael Spence, George Akerlof and Joseph Stiglitz (1970), the Social capital theory by James Coleman (1988), the Legitimacy theory by Mark Suchman (1995). These choices are motivate by three reason.

Firstly all these theories are accepted by the academic literature related to this topic. During my research I have repeatedly come across the notion of transparency, social capital and legitimacy into the microfinance dimension.

Secondly the three theories have economic and social importance, which are really important for the context of my research. Both financial and social values bring together microfinance and philanthropy sector. The selected theories contribute to understand which are the dynamics moving the actors which belong to each sector.

Thirdly, the combination of the three theories, brings to a more holistic approach. The disclosure of information will not be useful for reduce information asymmetry, but also to increase the trust that in turn will enhance social ties and social values. All three contribute to enforce the role of each one.

## Definitions

In every paper it is a must to present and clear out some concept/notion that will be used. In this section, it will presented a brief look at few notions: how it is perceived and how it will be used in relation to the chosen topic.

### Transparency

The shortest of first definition is given by Transparency International defining it as “*a characteristic of governments, companies, organisations and individuals that are open in the clear disclosure of information, rules, plans, processes and actions*.” (TrasparencyInternational, 2009).

In this paper the spotlight will be more on aid transparency which differs from other areas of transparency. The definition basically remains the same, just the context of aid gives more aspects. In comparison, aid transparency lacks literature and theoretical analysis. This is even a “younger phenomena” and to find a good and deep analytic materials is hard. As earlier mentioned by workshop paper notes: “*At least in the last three years, this field has proliferated via new technology use and global networking. These forms are quite distinct from those historically taken by development interventions (e.g. health service delivery programmes; food security projects; civil society budget monitoring projects), and fall outside the comfort zone in which development academics tend to research, analyse and evaluate impact and effectiveness*” (McGee & Gaventa, 2011).

One may ask why this phenomena is so important? Many stakeholders and especially donors want to have a better access to information about aid. Politicians, civil society organisations, media and other related bodies possess information about certain resources. This information also contains current and planned activities about certain field. The rest: citizens, donors, beneficiaries use information and give feedback about whether services meet their needs. However, transparency is still not clear concept and sometimes can be misperceived as an amount of available information. But, this is not always corresponding transparent information. Here, it is meant that the information is correct, precise and with no hidden agenda.

As noted in transparency workshop paper: “*Transparency and accountability (T&A) have emerged over the past decade as key ways to address both developmental failures and democratic deficits. In the development and aid context, the argument is that through greater accountability, the leaky pipes of corruption and inefficiency will be repaired, aid and public spending will be channelled more effectively and development initiatives will produce greater and more visible results*” (McGee & Gaventa, 2011).

Transparency and accountability was perceived, or to be precise connected with corruption. Of course it is till now. But lately especially when aid programs started booming it gained new aspects. It became of high relevance for  NGOs. In the structure of these organizations it contains stakeholders, donors, sponsors, program beneficiaries, staff and etc which also requires transparency in their work, as many money flows.

Transparency, especially aid transparency as a notion in international relations field is quite new. But in these years the question of transparency became very important not only for many non-governmental organisations (NGOs) and social movements, but it also serves to empower peoples trust, effectiveness of donors –beneficiaries search.

* + 1. **Trust**

Trust is a key element of our society influencing individuals' decisions and behavior in several contexts. In fact, it plays a fundamental role in a variety of situations ranging from the everyday interpersonal relations to more complex circumstances such as building cooperation within organizations or shaping customers' expectations about bank solvency and trustworthiness. In most of the cases trust is an instinctual attitude resulting from personal knowledge and social norms learned over time and manifested when trusting best friends and family's members. In other cases, on the other hand, trust involves more complex mechanisms which require a certain disclose of information as for example the investments' decisions in shares or the relation between a private investors' and his merchant banker to trust the latter to take care of his investments.

In a broader perspective, sociologist have also contended that trust, together with other variables such as abundance of resources, geographical position and role of institution, can contribute to countries' economic wealth. In this line, Fukuyama (1995) posited that since trust is often related to social gains, it become an important variable for society to prosper. In fact, if individuals' wouldn't trust at all organizations as well as institutions or governments cooperation between parties would be difficult to achieve and societies would be characterized by antagonistic or opportunistic relations. It means that In situations where trust is scarce, opportunistic behavior is likely to prevail leading to higher transaction costs and expensive social exchanges (Fukuyama, 1995).

Generally, most of the definitions address the issue of trust mainly in face to face interactions when the building of trust can be favored by personal knowledge of the other party or information can be more easily acquired. However, the today technology provides high-tech devices that allow people to communicate and interact in new ways and in online contexts. As a consequence, it is important to consider the application of these definitions, previously based on face to face situations, in online contexts in order to understand the dynamics that facilitate the occurrence of trust in this different environment.

Because of the lack of face to face relations and the difficulty to acquire right or proper amount of information trust shapes online interactions differently compared to traditional face to face interactions.

For instance, in online markets trust cannot develop merely on the few information available about the seller neither is possible for the buyer to personally inspect the products. As a consequence, trust can be built in different ways as for example relying on the characteristics and the reputation of the website publicizing the product.

In order to favor the development of trust in this context several strategies has been exploited. One of the most famous is the feedbacks system adopted by eBay in its Forum section where customers can rate their trading partners by leaving positive, neutral or negative feedbacks or comments about their level of satisfaction in the transaction.

* + 1. **Reputation**

Reputation can be defined as: “A**:** *overall quality or character as seen or judged by people in general; B: recognition by other people of some characteristic or ability”* (Merriam-webster). Thought reputation is more analysed and used in marketing and international politics, it gains bigger importance and respectively effects in development projects only in recent years. Since the focus of this paper is microfinance, the circle of literature is quite limited. Despite that, the author will try to depict main characteristics of this concept.

Probably it goes without saying that good reputation is critical in maintaining or starting any relation, developing projects and doing work as Kiva- improving relations and connection between beneficiaries and donors

AsEunsang et all. stresses *“Several conditions enhance the value of a company’s reputation. Researches has identified two major sources of a company’s reputation: experience and information.* *Because a customer’s experience with any single offering will influence his/her expectations of all other offerings by the same marketer. Information, which is another major source of reputation, can be diffused through two routes: by communication between marketer and customers, and by word-of-mouth between customers*.” (Eunsang, Guffey, & Kijewski, 1993)*.* Though it connects reputation mainly to a market context, reputation with this the principles can be applied to organisations which are the hub of information and also experience as different actors “meets” there.

# Theories

The theoretical framework I have chosen for analysing the empirical data is composed by the Information asymmetry, social capital and legitimacy theory. this offers a rich view of the problem we are researching.

## Information Asymmetry Theory

Information asymmetry has been firstly introduced by the three American economists George A. Akerlof, Michael Spence and Joseph Stiglitz, in the early 1970s, much before than the three authors were awarded with the Noble Price in Economy sciences in 2001. All of them have contributed, through different studies, to enrich this concept which has gained a very successful position for its extensive use in several economic fields.

A major focus will be given mainly to Michael Spence and Joseph Stiglitz.

Michael Spence (2002) in order to develop information asymmetry theory, has introduced the concept of market signaling, the phenomenon that takes shape during an uncertain investment decision. He takes into consideration, as an illustrative case, the job market environment since this embodies the conditions which foster continuous situations of uncertainty during investment decisions as, for example, hiring people. In this situation, Spencer (2002) claims that the employer is not sure about the abilities of an individual before hiring him/her, and it will take time before to understand the real productive capability of the potential employer.

Nonetheless, the employer have available an amount of information, called signals, exhibited by the applicants like education achievement, job experience, race, sex, and a host of other observable, personal characteristics that are examined by the employer to evaluate their credibility and value, thus determinate the investment decision (Spence, 2002). This put the employer in a situation in which he is obliged to take into consideration the signals exhibited by the applicants because a decision has to be taken, before reaching a real assessment of the applicants capability.

Akerlof (1970) instead introduces information asymmetry using another kind of example, the automobiles market. He supposes that there are four kind of cars, new cars and old cars; good cars and bad cars (called “lemons” in American slang). The individuals buy a new car totally unaware of the car quality, while the seller knows precisely whether a car will be good or a lemon. For the seller it would be very advantageous to sell a bad car at the same price of a good car, as he possesses information unknown by the buyer (Akerlof, 1970)

Both examples conceive information asymmetry as the condition in which an information is not mutually shared between two actors involved in a specific economic process, as we said, when an individual possess more information about one topic than another (Akerlof, 1970). In Akerlof example, between seller and buyer there is a strong inequality of the information amount which hinders a regular economic process. That will bring to a disequilibrium in which the seller will take advantage from the exchange with the buyer. Thus, information asymmetry can generate an opportunistic attitude from seller’s side identifiable in two phenomenon: adverse selection and moral hazard. The first one occurs when the seller creates distortion of information about the real characteristics of the good in pre-contractual stage. At the first impact, this permits poor quality good to be considered much more favorable than they would be, because of the disrupted distribution of information.

Instead, the moral hazard is a post-contractual phenomenon that occurs when the seller do not respect the commitment or the agreement established before the sell, damaging buyer’s condition.

In both cases seller will sell a bad quality product at the same price of a good quality product, taking advantage from the lack of knowledge of the buyer.

According to Akerlof, this will provoke an *economic cost of dishonesty*: the seller feels encouraged to sell goods under the average market quality causing, over time, not only the reduction of quality average but also the market size. The economic cost of dishonesty is really serious since it “*lies not only in the amount by which the purchaser is cheated; the cost also must include the loss incurred from driving legitimate business out of existence.”* (Akerlof, 1970)*.*

That is why, both parts of an economic process can take more benefit when information asymmetry is decreased. Akerlof asserts that “*the important skill of the merchant is identifying the quality of merchandise”,* and, in order to reduce information asymmetry and favor mutual benefit, the seller has to be able “*to identify the quality of inputs and to certify the quality of output”* (Akerlof, 1970).

An opportunity to reduce information asymmetry, it is provided by the employment of counteracting institution, intermediary market institutions that provide guarantees to the buyer for a given quality level. Indicators of guarantees can be brand-names, chains and franchising.

These are considered valid means to reduce the buyer’s uncertainty about the quality of the good, to increase transparency, to enhance the level of trust on the seller and its reputation.

## Social Capital Theory

Social capital (SC) is as a very broad concept that has achieved a worldwide salience in social, economic and political spheres in two decades.

Even though it is difficult to trace the origin of “social capital” concept, it can be said that its emerge has started at second half of 1980s with three important academics, the most representative authors who have developed the concept of SC: Pierre Bourdieu, James Coleman and Robert Putnam. All of them have contributed to conceive and spur different perspectives of SC concept making possible its applicability in many fields by inspiring the scholars attention on its evolution and its employment. However, it will receive a large consideration, in order to achieve the scope of this project, above all the work of Coleman and WB concepts.

 Social capital is been firstly defined by the French sociologist Bourdieu in 1986 as the *“sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition.”* (Bourdie & Wacquant, 1992).

His important contribution is specifically of the social context in people individual experience, that is why, more space will be given to James Coleman approach who instead yield a broader view of social capital taking into consideration all kind of communities.

In his most explicative work on Social capital, Coleman begins depicting it as an intangible and not fungible resource available to social actors, persons or corporate actors that are constituted by several entities having in common two elements: they all consist of social structures and they facilitate social actions inside those structures (Coleman, 1988).

 Social capital then, is generated by individuals, or organizations of a given society by building a structure of relations in which all people can achieve specific ends, both economic and noneconomic. Family, communities and religious affiliations represent an example of a typical environment within which people, sharing the same values and rising interpersonal trust, make possible the development of social relations useful for the drive of their activities (Coleman, 1988).

Actors and organizations living in social networks and following established rules, have available an array of social resources and they get the possibility to improve their abilities to interact and collaborate among each other. According to this perspective, SC is a mean to facilitate productive activity because allows the prosper of trustworthiness and trust, which play an important role in making efficient the collaboration in social groups (Coleman, 1988).

Coleman identifies mostly three types of SC to better understand how social relationships take shape, their dynamics and the most favourable conditions for producing them.

First, obligations, expectation and trustworthiness structures are depicted as the fundamental elements to create an appropriate environment in which SC arise. The dynamic of these three elements can be explained in a very common situation of interaction between two persons.

When an individual does something for another individual, create an amount of expectations that he/she would like to see repaid with an equal or similar action from the one taking advantages from that action. The beneficiary, in turn, will take a body of obligations, a sort of credit slip outstanding that the benefactor can call in when necessary (Coleman, 1988). In a society, individuals with an high level of obligations outstanding have an high amount of social capital because is translated in the availability of the ‘debtors’, and at the same way, the obligations are a useful amount of social capital because allows the debtor the access to an high level of action.

Trustworthiness plays an important role to regulate the equilibrium in this reciprocity system between two or more social actors and without it, there would not be any kind of relations, organization or institution.

Indeed, trustworthiness is quite relevant for influencing the choice of an actor to keep/grant trust or not and devote or not resources from which many can take benefits. As claimed by Coleman it is undeniable the relevance of trustworthiness in social structure as “*will facilitate others' actions”* and its lack *“will inhibit others' action*.” (Coleman, 1988).

A second kind of SC is the information that, produced through social relationships, is considered a fundamental element for the development of social actions. Information requires use of time and attention that not always an individual is willing to employ because of its scarce supply (Coleman, 1988). That is why, social actors can leverage their social networks for collect the information they require in order to facilitate the base for their actions, get a better orientation to make a choice and satisfy a need.

The last form of SC presented by Coleman includes norms and effective sanctions which are an important mean “ *to limit negative external effect and encourage the positive one*” (Coleman, 1988) as they contribute to create communities in which good behaviour are rewarded and sanctioned in the opposite case. By doing so, the application of norms increases the individual inclination towards trust and the possibilities to create a social structure based on trustworthiness. Norms can be internalized according to individual attitudes, or provoked by external situation in conformity with the environment within which they are produced. For example, a social actor can internalize a moral value that can influence his/her beliefs and stimulate the right attitude, as opposed to an external norm, which instead can lead the individual to be motivated to adopt a good behaviour so to gain the reward offered by the society.

Coleman claims that, whether internal or external, the major importance of norms and sanctions consist in “*overcoming the public goods problem that exists in collectivities”*(Coleman 1988). He points out as a prescriptive norm that represents in life community an important mean for SC, the norm that encourage people to act according selfless principle for the collective wellbeing.

The effectiveness of norms and sanctions is facilitate by the closure, an important characteristic of social structure necessary for the development of SC.

When a social network provides opportunities to multiply social ties and make them stronger, then it will be possible to establish an high closure among its actors and proportionally there will be a correspondent high level of collaboration and trust built among every persons belonging to that specific group.

The concept of trust is quite relevant in Coleman’s SC analysis since it is considered, as illustrated until now, an important mean that can generate an enlargement of social networks and cooperation among people, hence an improvement of working performance and of economical development (Putnam, 1993).

The several definitions, so far explained, show how social capital can be an *umbrella* concept. This fact does not give it a negative value but makes it only more complex and full of meanings because its use is present into several contexts.

An enlargement of its meaning is given by World bank (WB), which through several researches, had achieved to collect empirical evidences that clearly show the efficiency of social capital in the society improving the social, economical and political sphere.

To better understand how social capital can support the society and its change, WB uses two important criteria: information sharing and coordination of activities.

Information sharing consists in collecting adequate knowledge about the actors and working context in which one is enrolled. When we get necessary information we are able to understand how to orient our trust and discriminate which people and working environment to choice.

By establishing a mutual knowledge it can be reduced the risks of failures, since the individual can outline very probable expectations regarding the investment he/she is facing and try to take the most suitable decisions with respect to his/her project.

Coordination of activities criteria shows how opportunism is counterproductive for the realization of the target decided by economic actors (Grootaer, 1998).

Instead, coordination and equality are important conditions and strongly requested to maximize working effectiveness. Coordination among social actors based on trust is fundamental to realize the main focus which is bringing benefit to the group. The ones enrolled in the same activity attempt to built a stable equilibrium ensured by informal sanctions.

## Legitimacy Theory

Several definitions have contributed to enlarge the Legitimacy concept conferring it different meanings according to the contest in which it is used. In order to define Legitimacy and to understand how it operates within the dynamics of organizational environment, the sociologist Mark C. Suchman takes into consideration two specific contests, institutional and strategic, in which underlines the role of social audience and the empowerment of the organizational actors.

Suchman (1995) claims that:

*“Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.”*

Legitimacy represents an umbrella of evaluation stemmed out from particular acts and events or from occurrences and history of events. Thus, Suchman defines it as socially constructed because the behaviours of a legitimated organization reflects the beliefs of some group of observers. It means that an organization or a specific pattern of behavior posses legitimacy when a social group recognizes them as appropriate,in line to their values, norms and beliefs. Consequently, in those cases, observes decide to accept and support the organizations despite all the reservations they can have by observing them more (Suchman, 1995). That makes an organization created by its observers and gives it a subjective character.

Legitimacy is an essential element for organizational activities for several reasons, mainly because it can guarantee the rise of two fundamental factors: credibility and continuity. These are mutually reinforcing but represent distinct concepts since they are enhanced by different actions (Suchman, 1995). The credibility about one entity is enhanced by Legitimacy, which has a notable impact on audience perception regarding the organization reliability.

Legitimacy process influences the understanding phase of the audience, phase in which it will be established if an entity is appropriate to the audience values, and if their activities are efficient enough for the achievement of a given aim. If a social audience considers legitimated an organization, its characteristics and its line of conduct, then their understanding and judgment on those will be positively influenced and most likely to be approved and supported. Legitimacy can increase the predisposition of audience to recognize an organization as meaningful, worthy, predictable and trustworthy by validating what that organization does.

Social audience plays a key role for the organization’s sustainability because according to how reliable they perceive and understand it, they provide resources necessary for the organization persistence. That is why, Legitimacy has a strong effect not only on individuals’ perception, but also on the organization continuity because audience are most likely to support entities that appear desirable, proper and appropriate (Suchman, 1995).

An organization will request a specific level (higher or lower) of Legitimacy, according to the role it desires to attribute to the audience. There is a higher demand of legitimacy in the case an organization prefers a proactive participation from the audience. Instead, an entity will see necessary only a low level or Legitimacy when it is requested only passive acquiescence to the group of observers.

There are three broad types of legitimacy, which are called pragmatic legitimacy, moral legitimacy, and cognitive legitimacy. They all *“involve a generalized perception or assumption that organizational activities are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.”* (Suchman, 1995)*.*

Pragmatic Legitimacy fosters the organization’s purpose to attract the most immediate audiences through *their* self-interested calculation. In this context, it takes shape another kind of pragmatic Legitimacy, exchange Legitimacy that foresees direct exchanges between organization and social audience that are likely to become *constituencies* by supporting the organization for some exchange in turn (Suchman, 1995).

Other kind of Legitimacy are morale Legitimacy that provides “*positive normative evaluation* *of the organization and its activities”* (Suchman, 1995) *given that* audience can estimate whether an organizations’ activities promote societal welfare according to a constructed value system. Moral Legitimacy is based on an altruistic perspective where the audience does not look for the accomplishment of its self-interest, rather it focuses its attention on the benefits an organization can provide to a specific community. It means that moral Legitimacy reflects evaluations and judgments that lead the observers to choose an entity instead of another *according* to how much they are involved in producing social welfare. In this case, ‘the *right thing to do*’ (Suchman, 1995) is the main characteristic that drives the observers’ evaluation about the organizational ends in respect with their norms and values. Ethically permitted

Cognitive Legitimacy takes into consideration Legitimacy dynamics based on cognition instead of evaluation or calculations. It includes two kind of Legitimacy: Legitimacy based on comprehensibility and legitimacy based on taken for granted.

The first one relies on cultural models that provide plausible explanations for organizations, their activities and endeavors (Suchman, 1995). Comprehensibility is considered a notable mean that enhance the credibility of the organizational activities to the audiences’ view through explanations. In fact, promoting comprehensibility through cultural models is considered a necessary path for an organization to prevent the audience’s attention from having distractions, oversights and misunderstanding*.*

 In order to provide Legitimacy, an effective cultural model, thus the explanation about the organizational activity, has to include both a larger believe system and ‘*an experienced reality of audience daily life*’ (Suchman, 1995). In short, if the organizations desire to be legitimate together with their cultural models, it has to make the most possible understandable their activities by getting closer to the audience’s reality and using a most compatible believe system to that specific environment. In this way, an entity will prove meaningful, predictable and proper to the audience expectations.

The second kind of cognitive Legitimacy, the ‘taken-for-grantedness’, is considered the most powerful and meaningful form of legitimacy to date, and it is achieved when the effectiveness of an organizational activity or simply a new product or service is taken for granted (Aldrich & Fiol, 1994). This form of legitimacy is distinguished for the difficulty and the untraditional way employed for its measurement as since it involves an absence of questioning. In order to overcome this, it is often adopted as form of measurement a popular strategy that implicates “*the number of organizations or the number of media articles, with greater numbers indicating greater legitimacy*” (Deephouse & Suchman, 2008).

# Empirical data

## Microcredit background

This section has the main intent to provide a clear landscape of microfinance industry nowadays.

In order to achieve this, I have seen relevant to define the principles which have had a great influence and given an innovative tool to the modern micro finance movement.

This makes proper an introduction of microfinance roots mainly represented by the first microcredit model proposed by Muhammad Yunus, the founder of the Grameen Bank, which has had, with the introduction of the group lending model, an impressive influence on the further microfinance institution philosophy.

Its influences have been fundamental for determining the concept of the modern microcredit, which put the basis for the microfinance concept evolution, and its vary applicability according to several cultural, social and political regional environments.

In addition, I have considered as important to understand the extensive microcredit spread and its basic characteristics by exposing a general data about the classification of the microcredit regional coverage in the world. At last, an exposition about the microfinance informational constrains is fundamental to introduce how the transparency issue will become an important concern for microfinance programs.

This part, will provide a useful understanding about the reasons behind the great impact the spring of microfinance industry is having on media, private and public sectors and commercial market.

Therefore, this section is essential since it will put the basis to understand the grade of microfinance transparency and to justify the demand of innovative changes, issues that will be developed in section 2.

### 4.1.1 Microcredit origins, principles and outreach

Nowadays, microfinance is a phenomenon that attracts a growing attention from academics, NGOs, development practitioners and more recently the private sector since it has been considered, in the last four decades as one of the most successful, diverse and viable international development program (Barry, 2012)*.* Microfinance is taking a more and more notable extension as showed by the multiply of the Microfinance Institutions in the world (MFIs) as well the NGOs, which believe microcredit as an effective mean for alleviating poverty in developing countries.

 The general purpose of institutions and organizations is to guarantee financial services to those clients defined underserved by the formal bank sector. Conventional banks do not provide any services to poor people because they cannot gain any profit from them, contrarily, the costs requested are too high and the risks too great because lending to poor households generate notable information asymmetry (Morduch, 1999; Ashta, 2009)

Nonetheless, providing credit to poor is seen essential for the creation of self employment, since the investment leads to realize small businesses and income opportunities (Yunus, 2007).

 The guiding philosophy of microcredit is funded on the idea (social economic aim) that poor can get out of their situation if helped to develop their potential abilities and realize their small business. Microcredit is considered very far from a charity action which makes the beneficiaries totally passive and do not allow them to break the cycle of debts and deeper poverty.

In order to better understand the microcredit phenomenon, its origins and development it is useful to depict the work of the economist Muhammad Yunus who is considered the pioneer of the microcredit modern history. In fact, he has proposed an innovative microcredit model, “*which in the last few year has blossomed into a global phenomenon*” (Quibria, 2012).

The application of microfinance tools for alleviating poverty, specifically the credit lending, is an old strategy originated in the early 1950s in developed countries without any success as reported by the low repayment rate record (Murdoch, 1999). Only two decades later, Muhammad Yunus has approached the microfinance in an different way creating a new method designated to become an inspiration for all the world.

The Grameen bank is an institution funded in Bangladesh by the professor Yunus in 1976 for helping the poorest of the poor excluded by the conventional banks because of their impossible loan conditions, inaccessibility and bureaucracy (Yunus, 2007). Yunus has matured the fundamental principles of microcredit during his experience in Jobra, a village in Bangladesh that had a terrible famine in 1974. There, after several studies, he understood that the massive poverty did not depend on the people inability to carry out a job, rather on the lack of credit that pushed the villagers to a greater status of poverty as they felt obliged to recur to loan sharks (Yunus, 1995).

The main intent of Yunus was to provide a structure where the services were thought exclusively for helping this new kind of clients to get out of poverty. The Grameen Bank goes against the typical exclusivity of formal banks extending the access to convenient credits, providing collateral-free loans, low interest rates and simplified forms to accommodate the illiteracy of poor entrepreneurs (Yunus, 2007). Often the bank services were perceived in a negative way, associated to legal pressures because of risky consequences for possible defaulters.

In such a way, Yunus want to give the proper knowledge in order to create awareness among their clients removing doubts and fears about the credit lending.

Yunus purpose was multiple: toinclude all the poorest in financial structures, to empower women role (considered the weaker part of Bangladeshi society), and include them in organizational structures, to eliminate the usury, and to promote self-employment job. In fact, in order to improve Bangladesh condition, he saw as a feasible solution to empower peoples’ skills and support their small business with the intent to provide an aid with a far reaching effects that will not disappear with the consumption of the loan.

Microcredit success is related to the several innovations Yunus has launched, above all the introduction of the group lending model. In fact, one of the Grameen bank characteristic is to lend only to groups of poor households into the same village. The group loan contract rely on social pressure established inside the group among the components, which gives more motivation, and dynamic incentives (Quibria, 2012) to each of them to repay the loan and maximize their activities. This is possible thanks to the accumulation of social ties that mitigates problem of information asymmetry among the borrowers (Morduch, 1999).

In a nutshell, the group, formed voluntarily by five borrowers, agrees with a mutual contract that makes all component responsible for the loan repayment. If one of them defaults or does not follow the rules established in the contract, all the group cannot have access to another subsequent loan.

This has been a very efficient way of lending to the entrepreneurs because creates peer monitoring among the borrowers as well as social collaterals based on interpersonal trust and moral sanctions that provide dynamic incentives for repayment.

The data recorded over the last four decades, are sufficient to point out the huge success achieved by the Grameen bank. Since its inception, it has been disbursed a total amount of US $11.35 billion of loans, out of this US $10.11 billion has been repaid, maintaining an high repaying rate of 96,76%. The total number of borrowers is quite impressive as much as the amount of the loan disbursed. In fact, it is been recorded a total of 8.35 million borrowers, 96% of them are women (Grameen-info.org, 2013).

The Grameen bank success has showed that poor household can be good entrepreneurs and highly trustworthy because able to repay their loans. *The high loan repayment rates for microfinance institutions were credited to new lending practices, especially “group lending”* (Cull, Demirgüç-Kunt, & Morduch, 2008).

These evidences have contributed to spread the Yunus’s group lending model widely recognized as one the most efficient method for poverty reduction (Morduch, 1999). In fact is has been replicated over four continents, in countries like Bolivia, Chile, China, Ethiopia, Honduras, India, Malaysia, Mali, the Philippines, Sri Lanka, Tanzania, Thailand, the U.S., and Vietnam (Armendáriz & Morduch, 2010).

The constant and general attention from media, academics and commercial markets have contributed to give an increase visibility and reputation to the microcredit impact. Over the years, microfinance has been encouraged to multiply its use and push the microcredit concept through an ongoing evolution, which is moving away from one univocal concept of microfinance. In all world there are MFIs that have matured several approaches to the first microcredit model according to the sustainability organizations need and the socio-economic characteristics of the country in which they structure their organization.

In the large, MFIs and ONGs have developed two approaches: the *financial system approach* and the *poverty lending approach* (Robinson, 2001). The first one does not aim to target the poorest client because it put first the financial sustainable of the microfinance program. That implies that MFIs would cover costs partly with higher interest rates which will lead to prefer a higher clients target than very poor household. Instead, poverty lending approach, typical of ONGs, focuses more on providing all its resources to the poor core clients, thus, it will structure and direct all its services to overcome the poorest conditions with lower interest rates.

The numerous institutions of microfinance are continuously proposing a vast array of approaches interpretations according to the environment in which they rise, contributing to give several meanings to microcredit phenomenon. Today, there is broad range of financial institutions offering alternative microfinance models with different philosophies and target group. In fact, in many years, different kind of microcredit institutions have developed growing in size and importance like, for example, Banco Compartamos, Acciòn Internacional, Care Internacional, Finca International, and ACODEP, Asociaciòn de Consultore para el Desarrollo de la Pequena y Microempresa.

### 4.1.2 Microcredit general data

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Poverty emergency is still quite notable as showed by World bank that estimates 1.4 billion people living below the poverty line, with less than $1.25 a day (66.4% from Asia) (WorldBank.org, 2013). In developing countries, the poor’s demand to access to capitals for running their entrepreneurships is being fostered by many political, social and economic limitations, and for many years self-employment remains and “*will remain the most common occupation for hundreds of millions or even for billions of people, the bulk of whom will be women*” (Rhyne & Otero, Microfinance Matures. Opportunities, Risks, and Obstacles for an Emerging Global Industry, 2007).

For a very high percentage of young people it is very difficult to be included in the labor market because of several factors, for example “*the inability of formal economies to absorb new entrants into the labor force, the limited education and skill formation of large segments of the population and the continued rural migration into the cities*” (Rhyne & Otero, Microfinance Matures. Opportunities, Risks, and Obstacles for an Emerging Global Industry, 2007).

That is why the demand and consequently the microloans number is growing considerable as showed in the Microcredit Summit of 2012 which estimates a worldwide total of about 205,314,502 million active borrower entrepreneurs, reached by 3,652 microfinance organizations as of December 31, 2010. Of this, about 137,547,441 million represent the total number of the poorest receiving their first loan, of whom 82.3% are women. With an average family size consisting of five members, it is estimated that loans provided to 137.5 million poorest involve 687.7 million people in developing countries (Maes & Reed, 2012).

The widespread of microfinance is not evenly across regions and largest developing countries like Brazil, Mexico, China, India, Pakistan and Nigeria still do not present a significant microfinance penetration (Rhyne & Otero, Microfinance Matures. Opportunities, Risks, and Obstacles for an Emerging Global Industry, 2007).

Microfinance has the greatest outreach in Asia, the country with the higher percentage of poorest with the 66,4% of the world’s people living under the poverty line and the %91.3 of them, is supported by microcredit services. To follow, among the developing countries with an increasing coverage of microfinance outreach there are Africa and Middle East with 79.8 million poorest families (11.2% coverage), Latin America and the Caribbean with 9 million poorest families (32.4% coverage), Eastern Europe and Central Asia, 3.4 million poorest families (3.7% coverage) (Maes & Reed, 2012) (See [Figure1](#Figure1)). As noticeable in Table 1, even if the microfinance extension in all world has taken a significant shape, many regions with the highest percentage of poverty, Central Asia is an example, still present several gaps in meeting demand.

In the next section, it will be clear that gaps are due to financial constraints, which are bringing MFIs and ONGs to rely more and more on public and private sector subsidies.

### 4.1.3 Microcredit controversies

As depicted in the previous section, the microfinance is a relatively infant model, and it has started to receive a great attention only after the middle of 1990s by media, policy makers and academics, until reaching the top of popularity with the Nobel peace prize awarded to Muhammad Yunus in 2006. The limited number of few reliable programs does not allow to get detailed estimations on microfinance impact. According to Morduch (1999) “*the failures which dot the microfinance landscape are also frequently overlooked, overshadowed by the impressive claims that arise from successful programs*”. This is due to several limitations.

Even though there are a large number of academics studying this phenomenon, the result of several researches represents contrasting voices on the real efficacy of microfinance model (Banerjee, Duflo, Glennerster, & Kinnan, 2010).

Firstly, there is a lack of trustworthy sources, since many statistical evaluations give only a summary collection of information that are not sufficient for a clear and complete understanding. Often this data leads to a wrong perception of the poor household benefits (Morduch, 1999).

Secondly, it is very difficult to give a proper interpretation to general data even though representing positive success, because they can show only a shallow aspect related to the benefits received. Nonetheless, an initial positive impact can spring a variety of counterbalancing effects hidden behind the initial stage. The accomplishment of self-employment status and an increase of household income are all components that can develop side effects, like damaging the value of time (Morduch, 1999). An example is provided by the women empowerment often associated to a positive achievement, an important way to reach a self-sufficiency status and increase the household income. In this case, a loss of time value might create a situation in which is requested a major *“need to have children help at home (to compensate the work taken by parents)*”, which could bring to a decrease of schooling levels (Morduch, 1999).

Thirdly, MFIs and organizations do not provide a correct overlook to the quality of the services and activities they provide, the recipients targeted, and the difficulties experienced during the financial transaction. This might be explained by two factors. Limited financial supply is an example of a common hindrance which do not permit to build proper informational structures or simply to monitor treatment groups (Armendáriz & Morduch, 2010). Moreover, an additional constrain is linked to MFIs worry to incur in loss of reputation in case of borrowers’ default or low organization due diligence, which might damage the donors propensity to fund their services.

This has create, over the years, a general confusion and many doubts about microfinance industry, letting many question being unsolved.

Particularly, it has been called into question the main goals commonly declared as achieved by the micro finance programs, such as the micro finance ability to reach the poorest of the poor, and the women empowerment (Hermes & Lensink, 2011).

## The Philanthropy sector impact on the landscape of microfinance organizations sustainability and structure

The purpose of this section is to demonstrate how the financial support of philanthropy and its role in microfinance industry in particular, and in the landscape of the international development aid in general, has acquired a notable importance for ONGs and MFIs sustainability.

In the previous section, it has been outlined how the spread of microfinance services and especially of the information on microfinance is quite limited mostly because of financial constrains. In this section, I will try to narrow down this last point, showing that start-up or small ONGs and MFIs, representing the higher number of microcredit organizations in the world, are largely depending on external resources.

Therefore, it will be possible to see how the philanthropic sector, playing an important role through its high contribution, has experienced, over the years, an interesting evolution because willing to become more active, and get feasible results in the poverty struggle. This has implied an increasing demand for establishing more transparency and more connections among borrowers, lenders and institutions, to which the organizations are answering with an improvement of their informational system through technological supports. This is considered as a proper mean to guarantee transparency, reputation and connection among the actors of the financial microfinance transaction.

In the first part, I will try to depict a general picture of the sustainability conditions of the microfinance organizations in the world through a rough estimation, which explains the need of most ONGs and MFIs of relying mainly on donors support.

Secondly, there will be presented an overview of the overall trend in micro finance funding in order to show that private philanthropy is outpacing public funders in growth.

The last part includes a data about the real impact of private sector on microfinance, a description of the main characteristic of the new philanthropist trends and the changes generated in the charitable landscape.

###  MFIs and ONGs sustainability

As illustrated in the previous section, the number of micro entrepreneurs is doomed to increase alongside with the demand of microloans flourishing. For many of them, the only alternative to self-employment would be to remain isolated in the poverty, lacking of a minimal credit support that could provide them a useful network for improving their professionalism, knowledge and consequently their financial resources. Therefore, there is a general worry to extend the microcredit services because today many entrepreneurs still do not have the possibility of accessing to financial services.

To date, the microfinance organizations have relied on governments, private sector and especially on private donors *“who made possible the pioneering efforts of microfinance and also funded its growth”* (Rhyne & Otero, Microfinance Matures. Opportunities, Risks, and Obstacles for an Emerging Global Industry, 2007). However, they still do not possess the adequate structure for spreading their activities to a broader number of clients since microfinance is an expensive business (Hermes & Lensink, 2011). ONGs and MFIs have to deal permanently with the lack of funding which do not let them to growth in microfinance industry, to improve their outreaching and their service quality.

To get a clear and precise assessment of microfinance cost-benefit and their sustainability status, is not possible because of the great number of microfinance intermediaries and the high transaction and information costs required (Armendáriz & Morduch, 2010). However, a rough estimation is enough to understand the major microfinance issue: the financial sustainability and therefore, their way to attract capital.

According to a general estimation, all the MFIs in the world are divided into four main groups and in one of them is included barely the 2% of the MFIs profitable and financially sustainable (Hermes & Lensink, 2011; Ashta, 2011) as for example great institutions with a mature experience in microfinance field like the above mentioned Grameen Bank, Banco Compartamos and Acciòn Internacional. These first ones, together with the 8% of profitable MFIs which rely mostly on profits but still needing of subsidies, are considered commercial organizations for their focus on profitability and sustainability (Hermes & Lensink, 2011). A third group is represented by the 20% of MFIs that possess high probability to become sustainable considering their notable growth in size and importance. The remaining 70% of all MFIs gathers the smaller, start-up organizations which could not exist without subsidy support and therefore really far from being financial sustainable (Hermes & Lensink, 2011).

This data is quite representative of which financial constrains the smaller nonprofit MFI and NGOs have to face, constraints that give them much less possibilities to grow, in comparison with the bigger institutions, especially if they keep being nonprofit. In fact, smaller organizations are doomed to fail if become profitable, because, in order to support the activities costs, they should raise the interest rate cap damaging the poor entrepreneurs they want to help. That would not guarantee a long life to an institution, or would imply to abandon the poorest for taking into consideration policies typical of conventional banks.

For many of them the only possibility to build the foundation to set up a stronger organization keeping social aims consist in relying on financial subsidies, above all on philanthropy donations.

The subsidized resources necessaries for the organizations life come from various sources flows and are increasing over the years, but it is noticeable how the private philanthropy sector is growing for importance and it is prevailing on the others sectors to overcome sustainability matter.

### Microfinance funding trends

In 2012, the latest research of CGAP provides a clear analysis about the overall trends in microfinance funding and it can be a very useful mean to understand the role taken by philanthropists today. According to CGPA estimation, it has been set aside US $25 billion for supporting active investments and projects of microfinance sector, as of December 2011 (Lahaye, Rizvanolli, & Dashi, 2012). The largest commitment contribution is provided by the cross-border funders-public with an amount of US $17 billion, mostly funded by government budgets (see [Figure2](#Figure2)). This sector includes multilateral and bilateral donors, United Nations (UN) agencies and development financial institutions (DFIs), which use microfinance as a way to achieve development goals, such as reduce poverty, spread the financial inclusion and increase social and economic development in all world (El-Zoghbi, Gähwiler, & Lauer, 2011).

On the other hand, the remaining US $8 billion have been funded by the private funders that includes private investors, institutional investors (such as commercial banks, pension funds, insurance companies, private equity firms, and other corporate investors) and foundations (Lahaye, Rizvanolli, & Dashi, 2012). Although driven by socially motives, the private investors have the primary aim to get financial returns on microfinance investments, differently by the foundations which main scope is to channel the philanthropists concern for environmental and social issues.

Even though the public sector prevail on private funders representing approximately two-third of the total amount of funds, private funding grew strikingly at a faster rate than public funding did in the last five years. The average annualized growth rate for private funding corresponds at 12% compared to the 3% growth rate of the public sector, between the years 2009 and 2011 (Lahaye, Rizvanolli, & Dashi, 2012). Instead between 2007 and 2009 the difference between the fist one and the second one was 19% versus the 16% for the public funding.

The public funders decrease has affected negatively the growth of commitments supports. The financial support, even if increased gradually over the past five years, reflect a lower rate of increase “*from an estimated 17 percent per year between 2007 and 2009 to 6 percent per year between 2009 and 2011”.* As showed by the several CGAP investigations*,* between 2007 and 2009, *“new commitments averaged US$2.8 billion annually and closed projects averaged US$0.4 billion per year for a net gain of US$2.4 billion per year. However, from 2009 to 2011, average net gain amounted to only US$0.6 billion annually*” (Lahaye, Rizvanolli, & Dashi, 2012).

A slower growth of public funders can be explained by the recent global financial crisis that has dramatically influenced the trends in financial supports because of large cutbacks, which has induced many restriction on the development policy aid from governments, affecting especially the small microfinance entities.

Start-up and small microfinance organizations, as said before constituent the 70% of the all microfinance organizations, are in a difficult position as they have to struggle financially to fill the gaps caused by the budget cuts in the public sector services (Hackler & Saxton, 2007). In addition, for this entities it is quite hard to attract the attention of private investors, because they do not still have a great impact on micro financial sector and do not provide remarkable convenient profits (Schreiner, 2000). Instead the philanthropy sector remain the most reliable since has proven to be sustainable even during the economic recession and its main interest led by social profit. The 70% of ONGs today rely on philanthropy (Rhyne & Otero, Microfinance Matures. Opportunities, Risks, and Obstacles for an Emerging Global Industry, 2007).

### The new philanthropist generation demands

Private philanthropy has become an important source for sustaining organizations in realizing social purposes, above all poverty reduction through financing microcredit projects. This has brought many observers to claim that this sector with the private sector, could fundamentally alter the microfinance industry evolution.

The *Index of Global Philanthropy and Remittance,* published by Hudson institute (2012), constitutes a relevant tool to depict the magnitude of private giving to finance international development and reduce poverty. The latest research assesses that global philanthropy is growing rapidly and, in 2010, it has disbursed an amount of approximately US $56 billion for international development aid, gaining US $3 billion from the previous year (Adelman C. , 2012). This data does not specify the percentage towards microfinance industry, but it underlines the role philanthropy is taking, building a new landscape of international financial support. The public sector is aware of the fact that private philanthropy prevails on the other sectors providing the 70% of NGOs funding today (Kharas & Rogerson, 2012). The benefit of private assistance rely on the ability to fund project “*that governments cannot fund but that make an important contribution to a vibrant civil society*” considering that they can take risk that governments are reluctant to accept (Little, 2010).

A symptom of the size of the philanthropy is given by the increase of more and more foundations like the most popular Bill and Melania Gates foundations, MasterCard foundation and Michael and Susan Dell foundation, which are contributing to foster the microfinance visibility and interest into social investments. Since 2005, they have proven how, with powerful and new strategic solutions it is possible to channel a large part of the growing donations toward microfinance organizations.

According to Hudson Institute, this sector is taking a notable size only during the last two decades, in a time in which the criticism about the government development aid programs was quite relevant (Adelman C. , 2009) as much the high-profile scandals in microfinance industry. The awareness of philanthropy audience about the inadequate or insufficient domestic and foreign funding, poor or corrupt policies regarding the general delivery capabilities towards developing world (Kharas & Rogerson, 2012)have somehow created an explosive emerge of individuals and foundations which support social investments. This has wreaked a large agreement on the fact that it is necessary to enforce the effectiveness of social financial aid, build lasting institutions and capabilities in poor countries in order to increase developmentand poverty reduction (Adelman C. , 2009). It was the first sign of an ongoing philanthropist evolution.

The global philanthropy is taking shape as a representative mirror of a society in which there is less trust for the efficiency of government development aid, a major need for institutional credibility and more willingness to realize real social and economic changes in disadvantaged areas (Kharas & Rogerson, 2012).

Philanthropy has shifted the paradigm of a charitable *gift-giving* (Adelman C. , 2012) into an active giving, a social-financial commitment which is redefining what and how the organizations should accomplish their achievements. The private sector demands to receive improvements from microfinance intermediaries because it has expressed a growing necessity for a higher level of accountability and transparency since it wants to assess the impact of their contribute and its effectiveness.

However, philanthropy evolution is started slowly, through several chances that have made its dynamism today quite different from traditional charity of yesterday. Over the years, it has experienced an interesting evolution, in which several changes in donor and recipient role are occurred.

Until four decades ago, philanthropy was based fundamentally on a charitable giving, consisting in a simple money transfer between the donor and the recipient keeping largely distant. Between the two transaction actors there was not possibility to establish any kind of information exchange as the relationship was totally asymmetrical because fostered in an environment with no need of shared accountability or responsibility (Adelman C. , 2012).

Today, younger generations of philanthropists are rewriting their role characteristics, focusing more on an active participation for achieving an authentic social-economic change. Their donations consist into a financial commitment in order to eradicate a social economic problem to the roots, providing the recipients with the necessary tools for overcoming a disadvantageous situation.

They want to feel involved in their financial investment for creating a sustained solution and promoting, as an effective method, the end of the need and finally realize their social profit (Adelman C. , 2009).

This is bringing to establish a completely new type of relationship between philanthropist, recipient and organization based on expectations on accountability and information flowing in both ways with the aim to create sustainability and capacity over the long term (Adelman C. , 2012). Their financial investment is not considered less valuable than a commercial investment where it is important to establish a mutual and collaborative partnership among every part of involved in the financial commitment among which it has to prevail the exchange of information and the maximization of the service provided to better achieve its success.

Taking into consideration the powerful capability of private philanthropy to provide resources, improvements are required in microfinance industry to better satisfy the philanthropist demands for a higher information exchange, a greater collaborative partnership and quality improvement for the clients service.

### Information spread through innovative tools

Given the importance of funding, one could expect that microfinance industry has available a proper structure that provides a vast array of data about the cost-benefits analysis and quantifies whether the subsidies are effective or not (Armendáriz & Morduch, 2010). But this is not made always possible by the microfinance nature in itself. As seen in section Microcredit controversies, since its inceptions, the microfinance has generated manifold doubts about whether the access to its services is really effective for poverty reduction. For many MFIs and organizations working in developing countries, the high information and transaction costs and the quite limited credit borrowers histories do not permit to get an adequate level of accountability or to prospect the feasibility of loan repayment (Kauffman & Riggins, 2012).

Only recently, many organizations have felt a real necessity to improve their reputation by providing a greater data transparency. In fact, “*with increasing attention given to Microfinance Institutions (MFIs) by global thought leaders and policy makers alike, the entire sector stands under increasing scrutiny and demands for transparency.*” (Ashta A. , 2011)

The pressure received by institutions, government trends and increasing number of global network researchers for maximize the private philanthropy assistance from ONGs and MFIs, is proving to be effective for originating a higher transparency, reputation level and more attention towards philanthropy necessities. (Adelman C. , 2012)

A first remarkable change is noticed at the beginning of 1990s, when microfinance sector was forced to institutionalize its financial services, in order to develop formal governance mechanisms, and to adopt computerized management information systems (Mathison, 2005). This changes were established for pushing MFIs to respect regulatory requirements imposed to financial services in order to guarantee a better quality service and to enhance the clients outreach. According to this new rules, with the adoption of information systems, MFIs are forced to provide a data accuracy and integrity to attract capital from external sources, commercial or donors (Mathison (Little, 2010), 2005).

In the early 1990s, there are many other examples of the strong institutions and movements influence on microfinance sector to promote a deeper awareness about the importance of sharing information in microfinance, their achievements, aims and efficiency in order to increase the involvement of philanthropy.

Even though the Grameen bank has provided the breakthrough for the microcredit concept in international level, only in the middle of 1990s the idea of microcredit was diffused mostly through World Bank support (Aagaard, 2011). In fact, it has largely contributed to deeper the knowledge about microcredit dimension with the main purposeto decrease *“transactional uncertainty and enhances field stability by sharing a common understanding of microcredit.”* (Aagaard, 2011)*.*

In 1995, with the establishment of its branch, the Consultative Group to Assist the Poor (CGAP), World Bank creates an informative tool responsible to provide financial knowledge collecting the experience of institutions and practitioners in the microfinance development, using the additional support of an online platform. Another WB effort is provided with the since 1997, with the yearly announcement of, the microcredit summit in Washington DC gathering the most representative microfinance personalities for debating the issues related to microcredit adoption, promoting the extension and the achievements produced by the microfinance.

Many other transparency dimensions are applied to collect and analyze data about where money is coming from and where it is going (Little, 2010). In fact, remarkable efforts and innovations are going on to satisfy a higher demand for transparency about microfinance industry.

Additional examples are given by the existence of online organizations like Mix Market, which gathers data of MFIs willing to share their information on this website platform, or online rating Charity Navigator, GuideStar or Give Well, which take advantages of the web outreach. They all consist in easy-access tools that, in different way and different level, attempt to measure the effectiveness and efficiency of microfinance intermediaries, by publishing their social-financial data and achievements.

MFIs and NGOs, because of their extended number, operate in highly competitive environments, “*where security of information from other competitors and networks may be central to survival*” (Lamming, Caldwell, & Harrison, 2004). MIFs and NGOs are flourishing “*in an era of heightened scrutiny, greater demands, fewer resources, and increased competition*” (the role of private).

This leads to the perception that, nowadays, it is very important for IMFs and ONGs to develop a greater propensity towards information disclosure considering that “*in all its forms, private philanthropy tends to focus more on local ownership of projects, transparency, accountability, sustainable outcomes, and efficient delivery of services”* (Adelman C. , 2009)*.*

Therefore*,* anumber of efforts are taking place to develop greater transparency and reputation, which has the potential to maximize microfinance assistance(Little, 2010)*.*In fact,transparency is considered apowerful mean because *“it encourages actors to reward effectiveness, collaboration, and innovation”* (Little, 2010)*.*

In summary, the microfinance sector is taking its direction toward the adoption of more innovative systems and technological means. In fact, the need of a higher visibility and a positive reputation has encouraged MFIs and ONGs to use innovative means to favor an increase of accountability and information. Indeed, as some experts claimed the increasing attention for microfinance sector “*coupled with the intrinsic need for MFIs to be efficient in their operations, leads to more and more MFIs adopting Information Technology (IT) tools to automate and streamline their operations*.” (Khan, 2011).

The few example expressed until now about institutions promoting more transparency information, summarize the growing tendency to recourse to technological means. Technology practice is more often promoted and proposed as a valid tool for blurring the boundaries among the financial actors into microfinance transactions. Overall, the spread of financial transparency is been facilitated by the use of Information Communication Technology (ICT) that enhances the opportunity to develop connections, and transparency by building a vast array of data in shorter time and reduced costs.

Indeed, ICT is spreading in Western world as an important enabler of information exchange, which is providing, though its virtual tools, several changes in social, economical and political contexts. A huge facilitation is been applied in financial transactions dimension, in particularly with the use of means like internet, it has been created an effective occasion to supply services to an extended number of people in a more practical way. “*ICT is an important driver in the maturing microfinance* *Industry*” (Kauffman & Riggins, 2012) because with shorter time and costs reduction can increase donor accessibility to microfinance world. ICT might guarantee all conditions seen necessary for the survival of small microfinance organizations to provide open informative resources to a vaster audience.

## The microfinance new wave, peer to peer social lending and Kiva.org

In section 1, it has been depicted a growing necessity of MFIs and ONGs to adapt their programs to the new demands of the emerging philanthropy sector which provide, in a considerable way, to subsidize the microfinance programs.

In the last decades, a lot of effort is being made in order to increase the number of informative systems and they are giving the first results now.

The first paragraph will show as a notable result can be recognized with the appearance of a new way to make microfinance, the establishment of Peer to Peer (P2P) social lending platforms that have create a new structure through which the traditional principles of microfinance meet the new tendency toward a high usage of technology.

The following paragraphs corresponds to a closer look of to the actual content of Kiva, a nonprofit organization that supplies microcredit loans connecting the lenders in developed countries to poor entrepreneurs in developing world with the use of ICT.

Due to several factors I will make explicit, Kiva is the most representative example of P2P social lending philanthropic platform, which tries to overcome the traditional matters of microfinance industry through the implementation of ICT tools like Web 2.0.

In fact has built an extensive informative system in which it is clear Kiva’s role and scopes, the borrowers profile, the MFIs programs and characteristic and additional information about

Kiva case represents an interesting case to show whether an ONG can guarantee fundamental characteristics for the organization sustainability like a high level of transparency and an environment favoring interactions and social ties among Kiva’s characters.

That is way, it is very important for the intent of this work to underline the role played by the lenders and their reaction in front of the several tools the platforms provides them, because they represent the new generation of philanthropists in the microfinance sector.

In order to understand Kiva structure and the results achieved, its depiction is been divided into five subsections. In the first three, there are mainly described its principles, the general data about its growth and outreach and its impact on microfinance industry and on mass media. In the remaining two parts, a closer look is .. to MFIs partnering with the organization and its borrowers, Kiva Fellows and Kiva’s lenders, the amount of the information disclosed and the potential interactions they have.

### Peer to peer social lending websites

The wide spread of information technology (IT), especially Web 2.0, has permitted the arise of new lending models, peer to peer (P2P) social lending platforms which give the possibility to offer small loans outside the traditional financial sector in a quick way to all people can access on the world wide web. Their aim is to promote the connections among borrowers and lenders and facilitate the financial transactions using Web 2.0 tools as new form for building collaborative partnership. The application of general information technologies into the lending field has been widely recognized because it have *“led to direct transactions between peers and concomitantly reduced transaction costs in a number of ways: automating the procurement process and reducing paperwork; interoperability and multi-user communications; auctions to get best prices; collaborative planning leading to reduction of inventories; and collaborative design*” (Ashta & Assadi, 2011).

In 1998, the appearance of the first P2P platform CircleLending (now Virgin money US), consisting in small loan among friends and family members, has been followed by the arise of a notable number of several P2P lending websites.

Today, in Europe and United States, there are many popular online social lending platforms mainly consisting in website of micro finance (Kiva, Wokai, Babyloan), social investing (Microplace) and small loans at commercial market rate (Prosper, Zopa, Lending Club) (Ashta & Assadi, 2011) which constitute a real lending industry involved to channel the new phenomenon of crowdfunding.

As March 2008, according to a rough estimations, a loan amount of US $500 million has been disbursed by twenty online social lending (Asha & Assadi, 2010).

Taking into consideration the exponential growth and the sudden popularity this platforms have reached over few years since their inception, many academics are starting to foresee that they will become an alternative model for traditional saving and investment (Slavin, 2007).

The online social lending has had a great impact on the media and academia, bringing several experts to predict that the recent phenomenon is doomed to obtain a market share of 10% of the worldwide market for retail lending and financial planning (Gartner, 2008). According to several estimations, it is expected a growth of the lending market of around US $10 billion before 2017 (Bruene, 2008)

The explosion of this new social lending tendency is considered an additional way for enhancing the spread of micro finance industry, bypassing the conventional banking system (Yuma, Lee, & Chae, 2012). More and more organizations are taking on the role of online intermediaries not only for facilitating connections among borrowers and potential lenders, but also for promoting a more active partnership with necessary array of information. Information technology tools make constantly possible updating security services and online financial transaction in order to educate for a greater responsible social-financial investment.

Among the most relevant microfinance platforms for size and popularity, there are Kiva, Wokay, Babyloan, MyC4 in United States and Europe.

The major difference among the microcredit website regards mainly the “*targeted audiences, validation of authorized lending and borrowing profiles, source and method of the interest rates fixation*” (Assadi & Hudson, 2011).

Primarily, every website can offer different services according to the structure they adopt, the activities and the outreaching they provide, the kind of connection they want to favor among their users.

The first difference is among direct P2P model and indirect P2P model. The former model permits a direct connection between borrower and lender eliminating any financial intermediary in order to provide greater access at a lower cost (Hassett, et al., 2011). This model includes economically developed markets mainly for helping people who are not extremely poor but in liquidity difficulty.

On the other hand, the latter model take place with the presence of financial intermediaries as microfinance organizations, which arbitrate indirect relationships among borrowers, lenders and MFIs. Typical indirect P2P models, through the help of local intermediaries, provide loans to developing countries targeting mainly poor entrepreneurs.

Direct or not, they all follow micro finance principles that imply to address the microcredit disbursement towards the implementation of small poor people entrepreneurship for increasing sustainability and economic independence. They all turn to involve users with an information technology availability motivated by the will to help people in disadvantaged conditions by the only use of their credit card. In fact the lender type targeted are users who want to invest for combating poverty in order to gain a social profit, or almost. Not always P2P social lending are leading by nonprofit organization showing that the pricing objective and approaches vary for organization to organization (Assadi & Hudson, 2011). A part of them are real players of a microfinance market choosing to charge interest rates on the borrower’s loan in order to provide a relative small income to the lender and/or to the institution.

### Kiva.org: the innovative charitable website

Kiva Microfunds is a non-profit organization funded in October 2005 by the entrepreneur Jessica Jackley and Matt Flannery, a software designer. Kiva takes place in the microfinance dimension as an online social lending platform “*that allows individuals in the developed world to loan to small business people in the developing world.*” (Flannery, 2007).

The idea of Kiva was taking its shape during the funder’s experience in Africa, in 2004, where they could witness the deep poverty and some of the many inefficiencies of several rural villages in Kenya and Tanzania. Crossing these countries, they turned their attention to spot the barriers of entrepreneurs to start small business. After collecting many firsthand documentation, Kiva’s funders realised that the poor had a very entrepreneurial spirit but the most common and hard problem to solve for them was the lack of a start up capital (Flannery, 2007).

The idea of Kiva was becoming more and more feasible.

After coming back from a trip in Africa, Jackley and Flannery decided to start a business plan in order to help people in developing countries. The plan was based on loans instead of donations, as it would represent a more dignified way to receive money which would also probably bust the will of the receivers to repay the loans hence helping them in succeeding, and was consequently built around partner relations instead of benefactor relationsworld (Flannery, 2007). In this way, they decided to mix the two fundamental aspects of Kiva: the humanitarian one, characteristic of ONGs, and the business one, typical of MFIs.

At the beginning of their venture, they did not know what they were getting into (Flannery, 2007). The implementation of Kiva’s website required to face several issues of any sort: technical, financial, legal and so on. However, something very clear was the intention to apply the fundamental principles of the mainstream microfinance world and, leveraging internet tools, to extend them to a larger and easily accessible dimension.

After spending several months overcoming different obstacles, drafting the principle lines and the appropriate organization, the authors could be satisfied of the result. Today, Kiva represents a bridge between the microfinance world and pro-social lenders (Bruett, 2007), such as common people around the world who become social investors by funding money for the realization of poor’ projects in an underdeveloped areas without any interest income in exchange by simply visiting the website of the organization.

Since 2005, Kiva is a platform working with Field Partners, local MFIs enrolled by Kiva in developing countries together with Kiva fellows, basically volunteers with the main role of supervising Field Partner activities. MFIs, after a careful screening, select entrepreneurs who need a loan and help them to post their profile information with photo and the project they want to fulfil. In each borrower’s profile is presented a loan overview that explain the borrowers characteristics, the purposes he/her would like to achieve through the all loan amount and the credit history in the case it is not his/her first loan. In addition, a very detailed description is provided about the sector in which the borrowers are involved and the MFIs with which they partner. Additional information are contained in the repayment schedule, which states periodically the loan repayment. Moreover, on this page, the lender has the possibility to leave comments about the loan repayment trend.

 Anyone, acceding on Kiva.org, can formally become a lender by creating a user account, browse through entrepreneurs’ profile and then express their preference by loaning a small sum of money for the realization of the borrower’s entrepreneurship.

The loan, which can consist of the minimum amount of US $25, is funded on Kiva website by using PayPal[[1]](#footnote-1) service or a credit card, collected by the microfinance institution and, at last, distributed entirely to the entrepreneurs. Once received the loan back, the lender, who does not obtain any returning interest from it as no interest rate is charged on borrower’s loan, can choose to withdraw the money or relend it to another borrower.

Lender’s money does not cover any Kiva’s or Field Partners’ transaction cost service and, according to the agreement expressed on the website, the whole amount of the loan goes totally to the borrower who can repay it normally over 6-12 months.

Kiva specifies clearly the difference between loan volume and revenue. The first one is the capital that the lender disburses, which goes totally to the poor according to an agreement signed by both Kiva and the lender. Instead, the revenue is the amount of capital used by the organization to overcome the cost services, which is accumulated “*through optional donations that lenders are given the choice to make during check out. Around seven out of every ten users chooses to donate an extra 10 percent on top of the loan they are sending, directly to Kiva*” (Jackson, 2009)

All details about the transaction costs, revenue, expenses and more in general Kiva financial statements and tax filing are showed on the webpage through yearly reports.

Nowadays, Kiva is considered one of the most important pioneers among the peer to peer social lending websites, and the first platform totally philanthropic as does not provide any interest income to the lenders. The implementation of a micro lending website enables many advantages and thanks to its policy, Kiva has accomplished most of the goals predetermined (Chang, Huang, & Wang, 2009). Principally, it has become an indirect intermediary able to connect in a virtual community lenders and supporters (Kiva Members), Microfinance institutions (Field Partners), volunteers (Kiva Fellows) and the entrepreneurs they chose to help. By reducing geographical distance, it has attracted the attention of many social investors and made them aware of poor conditions of all around the world.

Moreover, it has facilitated and increased the connection of a network of MFIs. In fact, Kiva provides a very low-overhead service to MFIs which are normally excluded from the global economy because most of them do not meet the right requirements for commercial investment (Flannery, 2007). Internet is considered a suitable mean for keeping down the service costs allowing MFIs to tap into capital market (Bruett, 2007).

#### 4.3.3.1 Kiva general data

Kiva’s social purposes has enabled a huge growth of the platform life. In fact over the years, Kiva has recorded a significant increase of the number and the volume of the loans disbursed until reaching US $444,367,950 million. Since then, in few years Kiva has covered a territorial extension very notable collaborating with 197 MFIs working in 68 countries in the developing world.

 below shows the current situation of Kiva.org.

**Table 1: latest Kiva statistics** (Kiva.org, kiva.org, 2013)

|  |  |
| --- | --- |
| Total amount lent through Kiva: | $444,367,950 |
| Kiva Users: | 1,437,000 |
| Kiva Users who have funded a loan: | 946,584 |
| Borrowers funded through Kiva: | 1,064,775 |
| Number of loans made through Kiva: | 574,269 |
| Kiva Field Partners: | 197 |
| Countries where Kiva Field Partners are located: | 68 |
| Repayment rate: | 99.03% |
| Average loan size: | $407.69 |
| Average loans made per Kiva lender: | 9.65 |

In eight years, Kiva has experienced a very fast growth, showing an average of about US$2 million a week to poor entrepreneurs (Kiva.org, 2013), only by collecting the social lending funds provided by the donors. Since its inceptions in 2005, Kiva has collected the highest amount of funds compared to the others online social lending websites which let many experts to predict that “*If sustained by the U.S. government, Kiva would be one of the largest global providers of microcredit aid"(*Kharas, 2009*)*. In fact, “*Only in the first 2 years from its inception it has provided one-third of identified official development aid (ODA) for microcredit*” (Kharas, 2009).

The social lending website shows the number of loans ammount in the time the are disbursed showing the weekly average of its achievements.

The philanthropist’s involvement in loans disbursment is very interestig as, according to the data on Kiva’s webpage the 60% of lenders chose to repay back the loan towards another entrepreuner’s project (Flannery M. , 2009).

Another very interesting data, as chronicled in many academic literature, is represented by the borrowers’ repayment rate. Since the arise of Microcredit, it has often been investigated the reason driving the borrower to pay back the loan, as any kind of collateral is not requested.

Around this platform, a great public approval emerged suddenly, firstly national and later international, when in 2007 the ex president of United States Bill Clinton mentioned Kiva on his book ‘Giving: how each of us can change the world’ as a top way to fight against poverty. Following, an invitation of Kiva’s authors to the famous television program Oprah Winfrey Show for talking about their scopes, gave even more popularity to this platform.

This was an experience to present Kiva organization to all world. Since that occasion it has had a big impact on mass media as it appeared on more than 200 articles of national and international newspapers.

Many independent television programs, in order to analyze this new crowdfunding phenomenon, have provided a sort of documentaries about the impact of lenders’ loan on poor people entrepreneurships. The information reported has showed a real correspondence with the borrowers’ profile exposed on Kiva website.

Moreover, the platform activity has been supported by nonprofit organizations, independent charity evaluators on the web (Charity navigator.org, Guidestar.org, etc) that have rated it as one of the most trustworthy organization, for its high level of transparency and accountability

#### 4.3.3.2 Geography

During the first years of Kiva’s life, the organization focus was mainly on few African countries. It took long time before to achieve the spread of its services in many others countries until reaching four continents.

Today Kiva has a global focus and, if we track its activities on a geographic map, it is visible how impressively the distribution of the Field Partners actions is increased all around the world.

At the beginning of 2013, Kiva has recorded an important result which says that its operations are spread in 68 countries of four continents. With a user’s click on the website, it is possible *to read* a short description for each country where Kiva works. The platform shows to all users, a number of information provided by World Bank (WB) about the classification of the income level and geographic characteristics.

From the info, you can spot that every country has a different currency risk, which “*can, especially in developing nations, be volatile and devaluate rapidly. Political unrest or natural disasters such as tsunamis or floods can also impact investments made in the nation.*” (Jackson, 2009).

Kiva intent is to warn all users about the possibility to lose their money and make them aware or the fact that there are addition risks regards the nation to where the loan is being sent.

Even though Kiva’s purpose is to create and spread wellbeing, in some case that might cause distortion to the microfinance market *of the country* when its funds duplicate what could be funded commercially (Hassett, et al., 2011). In order to avoid any market failure, to maximize and make the best use of the microloan funds, Kiva executes a *partner selection strategy that* respects some basic principles.

The financial services will be provided only in those countries with insufficient capital like post conflict or under-served countries (Hassett, et al., 2011).

The development of positive work will create or expand “*a) work with unbanked or under-served populations, b) development of new products or c) growth of microfinance “wrap-around” services including training, insurance and business consultations*” (Hassett, et al., 2011).

#### 4.3.3.3 Kiva field partners

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Even though the number of microfinance institutions is very high, Kiva’s partner is represented by organizations of different types, as social businesses, non-profit organizations and schools which can ensure the expansion of micro loans and more in general of financial services to poor people in developing areas of the world.

In order to make aware the lenders about several kind of risks they might face, and guarantee a proper service to the borrowers, the potential partners are selected by Kiva according to some rules and criteria. Each of them has to present specific characteristics and fulfill established requirements. For all the organizations the main characteristics to present includes at a minimum a strong commitment to serving the needs of their clients, have a specific and defined need for small-scale, beneficiary-level finance, have the capacity to maintain a partnership with Kiva, (posting and managing online loan profiles), be registered as a legal entity in its country of operations, be able to show at least one year of financial audits and be registered on the Mix Market website (www.mixmarket.org) (Kiva.org, kiva.org, 2013).

Moreover, when the potential partners are MFIs, they have to exhibit special conditions as to document an history in microfinance field of at least 2-3 years of lending to poor during which it has served microfinance services to a minimum of 1000 active borrowers (Kiva.Org).

In addition, it must have a strong social mission and present a clearly defined use of Kiva funding. Their principal aim must be alleviate poverty or reduce the possibilities of vulnerability (Kiva.org, kiva.org, 2013).

Moreover, every Field Partner has to respect the Client Protection Principles [[2]](#footnote-2), released by the Smart Campaign, a global campaign committed to promote clients protection into the institutional culture and operations of the microfinance industry mainly for giving the clients a way to be served more effectively according high ethical standards. One example it is to prevent that clients do not borrow more money than they can repay (smartcampaign.org).

If the Field Partner is able to present all this characteristic is “*allowed to test out Kiva at small amount of money before to make a mutual agreement and scale up*” (Kiva.org, 2013). For Kiva policy, respecting the rules is quite important as it “*has found that when field partners use the correct screening policies, a return rate of at least 95 percent is very feasible*” (Jackson, 2009).

The profile of every Field Partner can be checked by one lender’s click on Kiva website. By acceding on it, it is very understandable the status of every Field Partner in which is showed a sort of exhaustively journal with a general description about the country in which they operate, the activities, financial programs and the mission statement, *until narrowing down* many details about the repayment performance on Kiva, the loan characteristics with the interest percentage, the journaling performance and the borrowing cost.

In addition, each of them has evaluations provided by Kiva as the risk rating, the percentage of delinquency rate and the percentage default rate of the field partners. The risk rating represent an evaluation made by internal analysts to understand the quality of the organization according to a model established by Kiva. A star rating is proposed to show the risk of the partners’ institutional default:five starts indicate the lower risk and one star the higher risk.

At the first look, it is not easy to understand which are the factors leading the lenders’ choice toward an institution or another. According to Kiva’s data, a very high risk rating does not determinate the amount of the loans an institution will receive from the donors. Apparently, the online lenders are very risk adverse, in fact, as statistical researches have proven (Heller & Badding, 2012), MFIs with higher rate risk tend to be funded more significantly longer than those that do not incur such risks. Instead the riskiness of a borrower’s project have a small influence on lender’s decision, showing that a great attention is paid more to which IMF to choose.

Beyond the use of professional analysts, Kiva uses the support Kiva fellows, volunteers from the whole world willing to get professional and personal experience by working in very close contact with the Field Partners in developing countries. They are considered as “*the eyes and ears for Kiva on the ground, and are instrumental to Kiva’s operations*”. Kiva fellows have several tasks, which fall into three main categories. Firstly, with an consulting/capacity task, they mainly cooperate with the Field Partners, training the staff according the Kiva policies, observe and document the MFI operation and its use of Kiva platform; a monitoring task foresees to assess the loan impact on Kiva borrowers and provide updates and feedbacks though reports; communication tasks include a constant updates on Kiva blogs about their experience and the impact of Kiva on the field; lastly capture images and video witnessing their experience (Kiva.org, 2013).

Even though several controls anti fraud are implemented, Kiva could not prevent fraud from happening in some IMFs. Two episodes have seen involved two Kiva fellows reporting/witnessing irregularities in the microfinance institutions they were operating. In August 2007, the first case Shelby Clark, a 24 years old volunteer, while working in Uganda at a microfinance institution Women’s Initiative To Eradicate Poverty (WITEP), discovered that the leader was stealing a part of the money directed to the borrowers and most of the organization members were using fake names or did not existing at all. Kiva directors decided to close the partnership with WITEP and refund the all amount of the WITEP loss to the lenders whose were alerted of the fact. The lenders’ reaction was extremely positive: they poured the refund back to other MFIs project on Kiva website (Flannery M. , 2009).

The second case was in February 2008 with Afrique Emergence & Investissements (A&EI) organization in Cote D’Ivoire. In this occasion, Kiva discovered many irregularities in which the loan amounts and the terms they published on Kiva website were not corresponding to the real ones. The total amount of the loan was of about $192,575 and even in this occasion there were not negative records of the volume and number of loan disbursed by lenders.

 So far, other seven cases of fraud were discovered and divulged to every single lender involved and more in genera to all users on Kiva’s blog. That did not provoked any decrease in the loan amount funded by the lender’s community (Kiva.org, 2013; Flannery, 2007).

#### 4.3.3.4 Kiva Lenders

As June 2013, Kiva has registered 1,437,000 users of which 929,123 have funded a loan. The lenders are from 213 countries but in the top ten there are United states (61%), Canada (12%), Australia and New Zealand (9%), Other Europe (8%), United Kingdom (4.0%), Scandinavia (3%), Germania (2%), Asia (1.0%), (Kiva.org, 2013).

 It is not so surprising that the higher percentage of donors is from English nations speaking considering the fact that Kiva is an American organization and that they are all characterized by a strong level of Information Communication Technology (ICT).

In fact, from 2005 to 2012, the penetration rate of ICT diffusion has grown considerably in Europe and in The Americas. More specifically, referring to data provided by the ITU (<http://www.itu.int/>), the penetration rate growth (per 100 inhabitants) is reported in Table 2, provided in the following.

**Table 2**: Penetration rate growth in Europe and Americas (per 100 inhabitants)

|  |  |  |
| --- | --- | --- |
|  | Europe | The Americas |
| 2005 | 2012 | 2005 | 2012 |
| Households with Internet access at home | 42 | 74 | 32.7 | 56 |
| Individuals using the Internet | 46.3 | 71.2 | 35.9 | 57.2 |

This can be just an example on how the extension of ICT can favor the increase of P2P social lending in the world.

The development of P2P lending websites has given rise to manifold studies about the borrowers and lender’s role in order to understand this new characters involved in the microfinance website dimension. If browsing on borrowers’ profile permits a clear understanding about the reason that pushes any borrowers to ask for a loan, little is known about the specific motivations driving the lenders’ decision.

One of the biggest questions about this topic has been what it is the motivation endorsing/behind people philanthropy and if exist factors influencing more than others. Several researches have shown that lenders in their micro-funding experience develop specific preferences among borrowers and their projects (Liu et all., 2012; Heller et all., 2012), and consequently they have tried to explain the reason behind these. Alleviating poverty situations in underdeveloped countries is the major motivation lenders have, which reveals an undisputed philanthropic attitude since they do not get any profit back by helping people to realize their projects.To date, there is still not specific explanations for justifying each preference, but the several studies confirm the certainty that “*Kiva lenders rationally consider indicators of the likelihood of repayment as well as borrowers' need*” (Ly & Mason, 2010). Kiva lenders in fact, aim to achieve a social investment making effective their loan.

In this regard is useful to understand how Kiva platform is perceived by lenders to spot whether Kiva is considered a good mean for reaching theirs scopes.

Interesting data are provided by Kiva report in 2012, which, based on a questionnaire, states that the 55% (Kiva.org, 2013) of the active lenders feel the website adequately transparent regarding loan use.

Moreover is shown that the level of satisfaction depends on the number of loans disbursed. The 58% of lenders have shown a satisfaction level as high as four on a scale from one to five, and presents a pattern according to which those who lend more tend to give the website a higher rating (Kiva.org, 2013).

However, a clear overview regarding lenders preferences can be a useful mean to define a proper picture of lender profile. As seen in the previous sections, Kiva provides useful knowledge about MFIs and borrowers’ situation through a wide dataset, an application programming interface (API) that every day facilitates and records lender attitudes in the decision making process.

Evidences available on Kiva’s data set underline a sharp prevalence of loan number funded to women ,79% , *than to men, 21%.* In addition, most of the lenders prefer to make loans to individual instead to group of borrowers: only the 11.2% prefer to make group loans, where there are few males or mix groups (*in which males or mix group are very few*) (Kiva.org, 2013).

Another important issue to take into consideration is how the borrower will use the loan as this reflects information about the influence on lenders decision (Ly & Mason, 2010). Borrowers’ projects are divided into sixteen different sectors: food, retail, agriculture, services, clothing, transportation, arts, construction, housing, manufacturing, health, wholesales, personal use, education, entertainment, green. The projects involved to accomplish environmental causes are the most popular as funded over 390 % shorter “*than the average time to fund the least popular sector (housing)”* (Heller & Badding, 2012)*.* Further on, health care and education are also among the popular sectors, which are funded respectively 113% and 148% faster than housing sector (Heller & Badding, 2012).

Kiva’s platform gives the lenders the chance to make individual loans or group loans through a new lending option introduced in 2008: Kiva Lending Team. This new way of cooperation permits to user to form one or more categorized groups or join existing ones established according to ideologies, scopes or identities. To date, there are 25,264 lending teams varying among (Kiva.org, 2013) them for size, category and loan number funded. Kiva has increased interactions among its users creating indirect social ties not only between lenders and borrowers, but also among lenders by facilitating an ecosystem of connection and cooperative activities inside the platform. Nevertheless, “*only the 12% of lenders joined one team, few people have joined multiple teams and the rest 85% of lenders have no team affiliation”* (Liu, Chen, Chen, Mei, & Salib, 2012).

The most popular teams for the total loan amount funded by its members are: Atheist, Kiva Christians, milepoint, Friends of Bob Harris, Team Europe, Australia, Team Canada, GLBT (Gay, Lesbian, Bisexual, Transgender), Nerdfighters, Poverty2Prosperity (P2P). Only by skimming the list of the teams’ name it is clear how dimension like moral, national, religious, or social identities can gather lenders together. Apparently, the religious identity prevails prominently on the other groups lending. Since its inception in 2008, the top two lending group have been the Atheist group formed by 26,018 team members with the highest loan amount disbursed of US $11,405,325, and

Kiva Christians with 11,615 team members and US $7,439,125 loan disbursed (Kiva.org, 2013)

According to statistics based on Kiva lenders’ statement about their motivation to fund loans (Liu, Chen, Chen, Mei, & Salib, 2012), it is remarkable that lenders’ motivations usually correspond to the motivation of the team they joined. They become a member of a specific group not only to satisfy a sense of belonging of a category but also to share with others the same motivation for a charitable contribution (Liu, Chen, Chen, Mei, & Salib, 2012).

It is a matter of fact that users belonging to any team show a higher lending frequency and make more loans lending US $31 per month more than those with no teams. That means, that robust motivation and team activities are determinative factors for increasing lending percentage (Liu, Chen, Chen, Mei, & Salib, 2012) (*Lending team members are much more likely to visit Kiva.org more frequently*. (Kiva.org)

In order to establish an internal and well-functioning organization, each group can form close or open groups supported by a large use of blogs. Users do not adhere to a virtual group in a passive way, but they can make a considered choice about which team to select by getting in contact with the members and develop an intense social network. Talking about the group organization and testing its motivation, give to the newcomers and the old supporters the possibility to better cooperate among them and actively foster a aim. The ability of teams to communicate on Kiva message board facilitates information exchange, makes possible the coordination of groups activities by setting specific aims and deadlines for raising the total loan amount requested by the chosen borrowers (Hartley, 2013).

This “suggests that successful teams (measured by total amount loaned) might be an effective mechanism to socialize newcomers and to motivate peripheral participants.” (Liu, Chen, Chen, Mei, & Salib, 2012).

Being member of a lending team is not a necessary requirement to take part of Kiva users community. Everyone can join the virtual community in order to interact with all Kiva users through its blog. Kiva friends, started in 2007 as an extension of Kiva Yahoo Group, is the principal blog of the platform established independently by the initiative of two ordinary lenders, the administrators ‘Diane R’ and ‘Joe’ under Kiva acknowledgement. Since the beginning, it has been a very useful mean for creating connections among people and give rise to many topics, discussion of general interests.

So far Kiva Friends has produced 97009 posts and registered a total of 6712 members (Kiva.org, 2013) that includes supporters of Kiva, lenders, newcomers, and all the users willing to join any kind of conversation on the blog. In fact, as showed on Kiva platform, users utilize blogs for discussing a wide range of topics related to lender experiences of lending or their personal interest totally off-topic, general topics to enhance the knowledge about Kiva actions or to the microfinance world.

The topic most famous are provide an example of the vast array of interests developed in the platform, which are classified mainly into 5 categories: Groups and teams (the need to create), Self-others (religious belief, sexual orientations), Integration and Assistance (rules and explanation about how Kiva works), Common interest (movies, music, love for animals), Kiva stories (stories from lenders experience: their emotions in helping people).

# Analysis

In this part of the project I will analyse our research question in relation to the empirical data as described in the section above.

## Transparency accumulation

Appling Akerlof’s theory into a microfinance dimensions, it is proper to say that during a financial transaction it is important that the organization does not take advantage form the lack of lenders information, since from this fact, might depend the transaction outcome. If the organization fostered a situation in which the information is distorted, it would pay the price of its dishonesty. Even though the organization or the MFIs will not be affected by an immediate negative effect, a usual misleading information can contribute to destroy the organization reputation, much more important than a temporary earn.

Kiva is totally aware that transparency is a fundamental requirement since Kiva’s principles are shared by philanthropists, donors feeling very involved in the realization of social aims and very motivated to achieve an authentic social-economic change in the poor household life.

Providing transparency does not mean to sell a positive image of the organization, rather it means try as much as possible to create an easy-to-access structure full of information regarding the operations implemented through the funds collected, including positive or negative information useful to determinate the quality of the activities realized.

Kiva’s aim is to obtain confidence from an audience very careful in scrutinizing the organization performance before and after to supply the loan. Consequently, the potential donor has the power to reward or punish depending on how the platform is perceived. This implies that Kiva, in order to reach a high transparency level, has to show an information asymmetry reduction during two principal phases: before and after the loan disbursement.

The first phase corresponds to the phase in which Kiva has to prevent information distortion from happening before the lender decide to promote Kiva’s activities through a loan disbursement. At this stage of the process, the lender does not have any information about Kiva, that is why, the organization has to show an high amount of information to prove to be a reliable organization in the implementation of its activity.

Firstly, in order to reduce the information asymmetry regarding its profile, the organization has built a platform in which it is constantly operative through detailed explanations about each aspect shown on the online platform. It is possible to read about microfinance history, Kiva history, its principle and a high amount of information mainly related to Kiva’s role into the microfinance dimension and its achievements regarding the activities realized. These are considered necessary concepts to give a proper and responsible education to the lenders about the financial commitment they are taking and as useful to facilitate their decision making.

Even thought the lenders are really interested to social problems, they do not have any knowledge about microfinance and about Kiva’s impact on microfinance industry. In fact, just a little percentage of the lenders group have heard about microcredit before, and they declare that Kiva has been a useful platform to understand properly the information regarding microfinance world.

Nonetheless, this is not enough to determine whether Kiva actually carries out, in all truthfulness, its activities, since all the information provided come from Kiva’s authors themselves. But this is the major issue from which the information asymmetry arises, generally. The organization does not receive external controls which might assess the trustworthiness and the quality of Kiva achievements.

That is why, the platform relies on popular online organizations, like Charity Navigator, an independent charity evaluator of level of transparency, according which Kiva presents a high level of transparency. This recommendation represents a good opportunity for the platform to increase its credibility alongside with the lenders’ level of trust. In fact, as information asymmetry theory establishes, it is important for an organization to rely on intermediaries which can guarantee for a given quality level and reduce the lenders uncertainty.

However, the responsibility of Kiva is multiple since it has the task to guarantee availability and trustworthy information , not only for the organization itself, but also for MFIs, borrowers and Kiva fellows. The platforms declares many times not to have a total control on its partnerships, however, Kiva credibility is represented by the results achieved with the local MFIs, and collaborations. The organization responsibility is to realize screenings and monitoring before and after the MFI become a partner, in order to prevent fraud cases and enhance its trustworthiness.

Even in this case, screening activities are thought to reduce the adverse selection before the lender make a decision. On Kiva platform, it is underlined that all MFIs have to present specific requirements and ensure a high level of transparency, professionalism and service quality to its clients. All the partners have to be registered on Mix market, an online organization that gather MFIs information from all world considered as an useful intermediary for guarantee Field partners transparency.

Moreover, after the partnership is established, Kiva keeps verifying important aspects basically regarding the environment in which the partner works, the social performance, and the risk, default and the delinquency rate. Once again, this provide information to reduce the adverse selection providing the lenders information necessary to make a choice totally aware of the risk conditions presented by MFIs.

Lenders have shown to be very risk adverse, choosing to lend mostly to MFIs with the lowest percentage of risk rating. This explains that lenders considers very important to get the proper knowledge about the organization’s partners, then to trust the intermediary.

Kiva does not advertise MFIs activities in an indiscriminate way, but it clearly shows good and bad characteristics, not only positive descriptions to attract donors’ capital, but elements on which lenders can make decision, assessing the risk conditions, then totally aware of what they are choosing. In this way, the lender’s role become more active, feeling really involved in the financial commitment, deciding which MFIs is better for its social investment.

During the second phase, it is necessary to reduce the moral hazard, phenomenon that occurs when the organization do not respect the agreement established with the lenders, taking advantage from their lack of knowledge. The platform, in this phase, has to guarantee information availability about the use of loan after the disbursement, in order to maintain the credibility and the confidence accumulated. The lenders are interested to know whether the loan has a positive impact on the borrower’s life, that is why, Kiva updates constantly the borrowers and MFIs achievements describing, on the borrowers’ webpage, the monthly repayment evolution and the implementation of the loan after repaid. Thus, the organization does not hide the default rate percentage, even it would not be necessary anyway as the default rate corresponds to a very low percentage rate, and it does not appear risky at all.

A very demonstrative example of moral hazard reduction is experienced in specific episodes. As already said in the empirical data, seven cases of frauds among different MFIs have occurred and discovered by Kiva Fellows. In these occasions, Kiva has showed an high level of transparency divulging to all lenders involved in the loan disbursement, and more in general to all users on the websites, the complete report describing the MFIs irregularities. In this case, one among Kiva's achievements is been the certification of the quality of output, reducing information asymmetry and favoring the lenders benefit.

This situation, at a first glance negative, has brought to increase lenders satisfaction for the organization attitude toward transparency, rewarding Kiva’s honesty by pouring the loan again to others MFIs, so giving a notable trust proof.

In several occasions Kiva has showed to certify the quality of the input and the output, reporting not only rewards received by independent organization as Charity Navigator or more in general from high-profile characters, but also talking about failures or critics on its organizations, so showing to care about lenders benefit and interests. From lenders satisfaction depends Kiva sustainability, then Kiva tendency is to create mutual benefits.

Its transparency has been recognized not only by the confidence accumulated and exhibited by the lenders in the fraud cases, but also to the level of lenders satisfaction for Kiva transparent activities, as shown in Kiva lenders section, in estimations provided by the organization itself, so the number of the loan refunded as high as 60%. It has been seen that lenders with an higher number of loan disbursement, present an higher level of satisfaction.

In conclusion, it can be affirmed that Kiva platforms, through the implementations of ICTs tools, has showed a quite high level of transparency, condition unconventional if compared to the traditional microfinance institutions.

In the traditional microfinance industry, the donors does not have available any data to get any knowledge about the MFIs, the reliability of organization activities or even the existence of the clients. A lot of doubts can be developed about the effectiveness or the seriousness of the loan scope. As seen, the information asymmetry arises when a MFI tries hide the bad quality of its service, in order to preserve its reputation from donors critics, so to continue to be subsidized.

On the contrary, Kiva tries to lead the lender to a proper comprehension of several data pertinent to its activities and its partnerships activities, trying to include the him/her into microfinance world, with the necessary tools to make a responsible choice totally aware of the effect the loan is bringing into people life. In addition, Kiva platform gives the opportunity to many MFIs to get considerable visibility and, in a competitive environment, feel the motivation to improve its quality service.

## Social capital accumulation

During this analysis, it will be underlined how trust among Kiva’s actors plays an important role for building social connections and effective social lending groups. It will be investigated the importance of the knowledge that the lender collects about Kiva and its actors, of the several relationships fostered inside the platform among Kiva, the borrowers and the lenders.

The analysis it is mainly divided in two parts.

Following the social capital principles, it is important that Kiva has to base the partnership with the lenders on trustworthiness, since trust can influence the choice of the lenders, positive or negative, to grant their resources to the organization. Therefore, for Kiva it is necessary to establish a relationship in which it is primary to satisfy the donors’ expectation of accountability and information flowing, in order to demonstrate its reliability and the effectiveness of the project funded.

In the first approach with Kiva, the lenders demand a sort of relationship with the organization (even if it is not face-to-face), since they have to feel the structure as a reliable organization able to reach the common scope to reduce the borrowers poverty. That is why, Kiva works for establishing connections among all the actors working for the organization and the potential lenders, and for creating a social structure with the intent to enhance collaborations between Kiva and its users.

In fact, Kiva has built a platform that represents a social community in which the staff members, collaborators and all its constituents are introduced with their characteristics, human and professional experiences. The lenders have the possibility to connect to the platform, so to be able to feel close to Kiva and to the support of collaborators, before and after the loan disbursement.

In this support context, a strong voice is given to Kiva Fellows (Kiva volunteers around all world), who communicate continually the experience made working on the field, contributing to give useful information on Kiva blog through which lenders can be daily updated about Kiva activities.

All these factors give arise to constant interactions and information exchanges useful to determine the accumulation of social capital and therefore, the accumulation of trust from lenders’ side towards the organization structure.

Kiva creates an environment in which several factors stimulate the arise of social capital not only between lenders and Kiva collaborators, but also between lenders and borrowers.

First of all, the **trust** accumulated for Kiva, it is a very important factor for the lender while deciding to make a loan, since Kiva is the main intermediary between the lender and the borrow.

Another very important factor, which stimulate the arise of social capital, relies on the effects that social media tools have during the phase in which lenders make decision about which borrower to choose.

As depicted in the empirical data section, the lenders do not have any kind of direct relationship with the borrower but, through Kiva platform, they can browse on borrowers webpage, so to choose the most suitable profile for their social investment. Individual lenders are extremely altruistic and they do not choose the borrower profile through formal requirements based on age, ethnic group, social group, family or individual income and past professional experience.

The criteria that normally makes the borrower unbankable it is not considered as decisive to determinate the grant of the loan. In fact, the lenders take into consideration others factors, as social connections based on the solidarity they feel for the borrower, and the feasibility of the project which should guarantee the solution to the poor entrepreneur’s problem to the root.

While in front of the MFIs selection the lenders focus on the less risky choice, they present an approach totally different for the borrower selection, showing to be more risk tolerant, since they are motivated mainly by solidarity feelings, and concerns about the accomplishment of borrowers’ needs.

Kiva platforms creates an environment in which it is possible the flourishing of the actions driven by social motivation, which correspond to the development of compassion for the borrowers profile. This makes lenders extremely motivated to contribute in a decisive way to the realization of a positive outcome. The structure based on social connections, so on social capital accumulation, increases the participation of people willing to feel involved into social-economic changes of people life. The increasing numbers of loan disbursement and the high percentage of lenders who decide to fund back the loan received, to another entrepreneur, it is quite demonstrative of the high participation and involvement of lenders.

Taking into consideration that lenders do not get any financial income in turn, it can be said that their only satisfaction is determinate by the potential success provided by the borrowers’ project, for which they have felt social connection.

Kiva provides an environment where it is deeply encouraged the accumulation of altruistic social values, especially the other people’s wellbeing. The philanthropists, through Kiva activities, can act according to selfless principles in order to enhance the development of social changes.

The social connection framework fostered in Kiva platforms is enriched by the inclusion of the innovative model of lending groups. Kiva has given the opportunity to increase the interactions not only between borrowers and lenders, but also among its lenders by the creation of indirect social ties into an ecosystem of connections and cooperative activities among the users. These means that the platform has seen multiply the number of social interactions, then to the accumulation of social capital produced by its lenders. The formation of lending groups permits to the users to choose of being included in one or more categorized groups according to ideologies, scopes or identities. An example is given by two lending groups, the Atheist and the Christian, which are the firsts for the highest loan amount disbursed. Apparently, religious groups, it is stronger on producing social values more prominent than other groups lending. Successful teams constitute an effective mean to enhance motivation to loan among lenders.

In this context, the production of social capital plays an important role since through the formation of lending groups, lenders have the opportunity to communicate among them, to put a lot of effort for reaching a common scope, and be supportive among each other. In fact, people belonging to lending groups shows an higher lending frequency and make more disbursements than those with no teams.

The main aim of the lenders is the maximization of the social-financial commitment. This aim can be facilitated by the accumulation of social ties which promote or enforce a social values and a stronger motivation to accomplish a mutual benefit.

The group lending represents a social structure in which the lenders will create informal norms in order to respect the social values they have in common. Everyone will collaborate in order to contribute in the most effective way towards the realization of a common project that corresponds to fund the total amount of loan requested by a specific borrower, and to support the borrowers improvements. Therefore, the social capital in the group lending is employed to build up an informal organization, which will have effectively effects for finalize a scope.

Kiva leverage on the accumulation of social capital since it is an effective way to see rising its loan requests funded. That is why, it creates among users, the conditions necessary to favor more closure, that, according to social capital theory, will correspond to a high level of collaboration and a more positive outcome for the realization of a common scope.

However, the lending group is not the only way lenders have to collaborate among each other. Kiva Friends is a virtual community established by two Kiva lenders in order to include not only people belonging to lending groups, but also to newcomers, individual lenders and all the users willing to join any king of conversation on Kiva blog. It is quite interesting that the blog has been started by two Kiva lenders, quite representative of the active participation of Kiva lenders, and of the communication need implemented into a virtual community.

Once again, the blog constitutes a valid mean to favours connections among peers and information exchange. If in the lending group the information exchange is necessary for strengthen coordination, in individual lender or newcomer case, information sharing is necessary to understand how they have to orient trust and discriminate what to choice.

On Kiva blog, one can talk about music interests or about Kiva rules or discuss about several other various topics, which permit to create an amount of information unlimited as much as the social interactions among lenders.

Summing up, it is possible to say that social capital accumulation is essential in Kiva sustainability since individual or lending groups feel much more motivated to fund borrowers entrepreneurs. The individuals through the support of photo and description of the borrowers’ profile, can develop social values like compassion that, whether intermediated by a trustworthy actor, favour an increase of lending funds. In the same way, lenders taking part of groups driven by , feel encouraged in a stronger way, to support

The introduction of tools like Web 2.0 has started only recently, but it has already showed a considerable effect contributing to make more innovative the microfinance models. Philanthropist get closer contact with the recipients they helped, have the possibility to communicate with others philanthropists, and to form lending groups to exchange information about microfinance world.

Before the use of Web 2.0 all this was not possible and lenders did not know any detail of the recipients or the other organization’s actors, at all.

The traditional Microfinance dimension would gain much more attention through the application of social media supports.

## Reputation accumulation

According to legitimacy theory, an organization which needs to be supported, has to be recognized as a valid and worthy entity, in order to rise two fundamental factors for its activities: credibility and continuity.

For an organization like Kiva it is not easy to collect people approval, requirement very fundamental for the sustainability of the organization in an environment extremely competitive as the international ONGs dimensions. However, the role of donors remain essential in Kiva organization since it is requested a high level of participation on the platform activities.

Donors are basically attracted by those organizations able to ensure a high disclosure of financial and social information, because, as affirmed by Suchman (1995), in this way, they have the opportunity to recognize if those organizations have characteristics in line with their values, norms and belief.

With a large array of information, donors can decide if those characteristics are appropriate and make an evaluation in order to accept or deny their support to a given organization.

The accumulation of reputation is very important since represents that the actions of an organization are desirable and accepted in a social context because they generally reflect believes and social values of its donors.

Before to be legitimated, an organization has to go through an understanding process to be considered credible. In order to accomplish credibility and continuity of its activities, Kiva has developed several ways to disclose financial and social information, so to be legitimated by its donors. In fact, for facilitating the understanding process of donors, Kiva uses many tools to better develop the information flow and the understanding about its belief and values system.

First of all, the organization provides many information about their strong commitment towards the social welfare, which makes Kiva a promoter of philanthropist values.

 On the platform it is considered important to show information about the organization selfless interest in helping people and their real social commitment. They show two fundamental data to prove the honesty of their activities, as the financial statement yearly filled and edited on the web; and the lack of interest on Kiva’s borrower loan. Kiva does not earn any money from the lender’s loan, except they do not decide to grant Kiva’s activities with an aside contribute.

In addition, in order to prove their involvement in social causes, they make very clear that their aim to help poor people in developing word is effective, joining relevant campaigns like The Smart Campaign, which promotes principles for microfinance clients protection or giving explanation about the principle adopted for selecting the country in developing world. In addition, constant assessment to the MFIs and updated on the platforms,

 Their intent is to create a real understanding about which social values drive their policy and to demonstrate their high philanthropist nature, making the right choices for not causing damages in entrepreneurs life.

In this way they try to increase their reputation and credibility. Once again, data referring to the increase of the total amount of loan funded every year, can make assume that the audience perceives as a worthy mean Kiva platform in the struggle against poverty.

This brings to the assumption that lenders are satisfied because focused on the benefits the organization provide. The moral values of lenders, which is strictly focused on “the right thing to do” and on the benefits received by the borrowers, corresponds to the total philanthropist image exhibited by Kiva and explained so far. This makes appear the organization as proper because reflects the social values and belief considered important for the accomplishment of a common aim.

Lenders on Kiva website, need to feel their values shared and accomplished by the organization they choose to rely on, since only in this way they can support the achievement a philanthropist cause. Kiva represents and is represented by the values that lenders embrace, the principle to reduce poverty to the roots among the small entrepreneurships which enhance Kiva’s credibility and reputation.

The moral legitimacy can be enhance by another factor, as, for example, the use of techniques and procedures like the application of ICT means. The spread of ICT in developed countries increases, through internet and the use of Web 2.0 applications, the value of transparency, generally recognized as an important mean for guarantee honesty. People acceding on Kiva platform, on its blogs and chats, has recognized its procedures as valid for the information exchange. In fact Kiva uses this technological means to enrich its reputation, make the most possible understandable its activities and cultural models, and get closer to lenders reality.

In two specific occasions, the philanthropist sector has shown to give a strong support to Kiva, which has seen its reputation level rising impressively.

In 2007 Kiva organization was mentioned on Bill Clinton’s book and, some months later, an invitation of Kiva’s authors to the famous television program Oprah Winfrey Show for talking about their scopes, gave huge popularity to this platform.

The number of connection on the website alongside with the loans disbursed by lenders, increased excessively. The users did not have any experience about Kiva, but its validity and legitimacy, was taken for granted because its reputation was supported by a high-profile character. Kiva has used a powerful mean as a popular television show, for providing an explanation of its charity model, and enhance guarantees on the validity of its innovations in microfinance dimension. People need to get guarantees before to make a choice and in this case, Kiva has provided an effective environment to show their believe system by getting closer to the audience reality.

Nonetheless, this has not to be confounded with a marketing strategy to attract and influence potential donors in a large scale. This can be considered as an important episode the organization has used to increase the knowledge about its activities and to foster its credibility about the social and moral values promoted by the platform. However, this episode cannot be the most representative of the legitimacy accumulated by Kiva during eight years, since few episodes cannot guarantee the continuity of an organization. That is why, it is more appropriate to say that the reputation recognized to Kiva so far, it is due to several factors like its social and belief system considered as valid by the philanthropy sector for the achievement of a good cause.

The credibility and continuity, in fact, take place in the legitimacy process, which influence the understanding of the donors. It is a phase in which donors establish if that organization values corresponds to their values.

In conclusion, it can be affirmed that Kiva model results to be correspondent to the philanthropist moral values lending on the platform. Kiva’s usage of ICT has been quite effective in enhancing the information flow and improving the understanding of its activities’ value.

# Conclusion

The research question in this paper, *“Does the online micro lending website Kiva contribute to enhance transparency and social connections in the microfinance world through the implementation of ICT tools? Does it contribute to increase the philanthropy loan disbursement?”,* aimed at understanding how the utilization that Kiva makes of ICT impacts on the philanthropy sector in the microfinance industry.

This work does not focus on describing philanthropy or microfinance as such, but goes as far to explain the existing connection among microfinance, philanthropy sector and transparency. The case study I have chosen, Kiva, it is a relevant representative example of the interconnection among these three sectors. The results of this research work reveals that acting on one of the three aspects does have an effect on the others. It is possible to state that Kiva, through the implementation of ICT tools, has a positive effect on increasing the transparency level, on bettering the social connection and reputation in the microfinance world, therefore on the philanthropy propensity to enhance to microcredit disbursement.

The three theories used, namely Information Asymmetry, Social Capital and Legitimacy , are complementary for answering the problem as it has been formulated.

The Information Asymmetry theory shows that a most effective way to enhance transparency it is to provide a considerable amount of information before and after the loan disbursement. The informative structure of Kiva platform will  enhance lender’s confidence towards the organization since this provides as much information as needed to facilitate the decision making and risk assessment. Hence, the high propensity to disclose information on the Kiva platforms has a positive impact on lenders, and this is by means of implementation of ICT tools.

The second theory that has been taken into consideration, the Social Capital theory, highlights how the rust among social actors plays an important role in building social connections and effective social lending groups. Therefore, what Kiva has achieved to create is a virtual community in which social values and the formation of lending groups contribute to maximize the effectiveness of the work, in order to purse the same aim, it means  the borrowers’ needs.

Lastly, the Legitimacy theory says that the different organizations, in order to be recognized as trustworthy, have to reflect the beliefs and social values of the audience. In several occasions Kiva has presented an altruistic policy capable of attracting the philanthropy sector, which recognizes how Kiva’s microloans are an effective mean to struggle against poverty. This has permitted to enhance its reputation.

It can be thus concluded that the application of ICT is a necessary tool for enhancing three fundamental factors for the sustainability of an organization: transparency, trust and reputation. All of them contribute to satisfy the expectations of the philanthropy sector in terms of a stronger information flow, an active participation and the maximization of microfinance services.

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# Appendix

# Figure 1


Figure2



1. PayPal is an online banking service that allows any individual or business with an e-mail account on its website to receive or send payments online, quickly and safely. It was founded in 1998 by Ebay company, as a new electronic commerce and connected with the users’ credit cards or checking account. [↑](#footnote-ref-1)
2. [↑](#footnote-ref-2)