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Crowdfunding for Microfinance Institutions: The New Hope?

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Abstract

Online crowdfunding holds the promise of empowering entrepreneurs and small businesses as an innovative alternative financing channel. However, doubts have been expressed as to whether online crowdfunding can deliver its promise because of the lack of empirical evidence regarding its effects. In this study, we investigate the effects that prosocial crowdfunding has on traditional microfinance institutions (MFIs). Combining multiple data sources, including data from Kiva.org and the Microfinance Information Exchange Market (MIX Market), we examine how access to crowdfunding influences MFIs' sustainability and interest rates. We find that after joining Kiva, MFIs' sustainability improves and interest rates decrease. Further investigation suggests that the changes mainly result from efficiency improvement, rather than increased supply of low-cost funds. We propose that joining an online crowdfunding platform induces greater transparency and crowd monitoring, which motivates and empowers MFIs to improve operations and become more efficient.

Keywords: Crowdfunding, microfinance, prosocial lending, interest rate, sustainability, information disclosure, crowd monitoring