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Global Digital Peer-to-Peer (P2P) Lending Platform Empowering Rural India: Determinants of Funding

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Abstract : With increasing digitization, the world is coming closer, not only in terms of informational flow but also in terms of capital flows. And micro-finance institutions (MFIs) have perfectly leveraged this digital world by resorting to the innovative digital social peer-to-peer (P2P) lending platforms, such as, Kiva. These digital P2P platforms bring together micro-borrowers and lenders from across the world. The main objective of this study is to understand the funding preferences of social investors primarily from developed countries (such as US, UK, Australia), lending money to borrowers from rural India at zero interest rates through Kiva. Further, the objective of this study is to increase awareness about such a platform among various MFIs engaged in providing micro-loans to those in need. The sample comprises of India based micro-loan applications posted by various MFIs on Kiva lending platform over the period Sept 2012-March 2016. Out of 7,359 loans, 256 loans failed to get funded by social investors. On an average a micro-loan with 30 days to expiry gets fully funded in 7,593 minutes or 5.27 days. 62% of the loans raised on Kiva are related to livelihood, 32.5% of the loans are for funding basic necessities and balance 5.5% loans are for funding education. 47% of the loan applications have more than one borrower; while, currency exchange risk is on the social lenders for 45% of the loans. Controlling for the loan amount and loan tenure, the analyses suggest that those loan applications where the number of borrowers is more than one have a lower chance of getting funded as compared to the loan applications made by a sole borrower. Such group applications also take more time to get funded. Further, loan application by a solo woman not only has a higher chance of getting funded but as such get funded faster. The results also suggest that those loan applications which are supported by an MFI that has a religious affiliation, not only have a lower chance of getting funded, but also take longer to get funded as compared to the loan applications posted by secular MFIs. The results do not support cross-border currency risk to be a factor in explaining the determinants of loan funding. Finally, analyses suggest that loans raised for the purpose of earning livelihood and education have a higher chance of getting funded and such loans get funded faster as compared to the loans applied for purposes related to basic necessities such a clothing, housing, food, health, and personal use. The results are robust to controls for 'MFI dummy' and 'year dummy'. The key implication from this study is that global social investors tend to develop an emotional connect with single woman borrowers and consequently they get funded faster Hence, MFIs should look for alternative ways for funding loans whose purpose is to meet basic needs; while, more loans related to livelihood and education should be raised via digital platforms.

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