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Crowdfunding for Impact?

By relying too heavily on cool stories to attract investors, ventures may end up compromising on real impact.

Individuals seem increasingly keen to invest in ventures that create social impact, and crowdfunding platforms are making this easier than ever.

But there is a catch. Unlike professional investors or major foundations which rely on hard data and cost-benefit analyses, retail investors often base decisions on the emotional connection they feel in an investment opportunity. Entrepreneurs who seek funds from them are therefore tempted to craft their message around feel-good stories rather than a rigorous impact strategy. Unfortunately, the stories that retail investors are drawn to and the activities that produce real impact are not always aligned.

Engaging retail investors

Take the case of Uncharted Play, the social enterprise that invented the Soccket – a football with a mechanism to convert kinetic energy into electric power. The idea was 30 minutes of kicking it around would generate enough energy to run an LED lamp for three hours, bringing hope that poor children worldwide with limited access to energy could study even at night.

In 2013, Uncharted Play raised over US$92,000 through the popular crowdfunding website **Kickstarter**. More than 1,000 eager supporters participated. Uncharted Play had hoped to scale to more than 50,000 Sockets a year, but this did not come to pass. There were complaints about shoddy workmanship and poor customer support, as the Soccket often stopped working within a few days of use.

More fundamentally, critics raised a concern about lack of unique value creation: the cost of a single Soccket was many times the combined cost of a solar lamp *and* a football. Also, there was an uproar over the top-down imposition of solutions which are not effective in terms of real development.

Therein lies the tension. While retail investors, in principle, care about creating change for good, too often they are drawn in with a cool story rather than considering the nuances of a venture's business model or the real impact it creates. People who participate in crowdfunding rarely have the patience or the skills for digging into details of the needs analysis, evidence base, due diligence, measurement strategy or impact evaluation, all important to professional investors.

The power of stories

My **recent article** in *Stanford Social Innovation Review* illustrates a similar dilemma for **Kiva**, a social enterprise launched in 2005 as a crowdfunding platform that allows ordinary Americans to fund microfinance loans for entrepreneurs living in poverty in the developing world.

Through a contribution of as little as US$25, a Kiva "lender" could directly help someone far away – such as a beekeeper in Ghana, a spinach farmer in Cambodia or a carpenter in Gaza. What made the story even more enticing was that the money – provided as a loan rather than a donation – came back after supposedly having changed somebody's life halfway across the world.

The organisation's success was celebrated on prominent blogs and television programmes, including an episode of the *Oprah Winfrey Show* which described Kiva as the "ultimate shopping experience". By the time Kiva celebrated its 10th anniversary in 2015, it had achieved a loan volume of US$750 million, connecting 1.3 million lenders to 1.75 million borrowers through crowdfunding.

What about impact?

Despite Kiva's widespread recognition, its critics argued that success should not be measured in the extent of funds raised or even the scale but in terms of real impact. They pointed to the compromises that Kiva had to make whilst implementing its vision. Realising that a pure peer-to-peer (P2P) model was not practical in reality, Kiva's model channelled funds through large microfinance institutions which served as field partners. Working with these partners minimised risk and helped pursue scale. But this put Kiva's implicit portrayal of itself as an interest-free P2P lending platform under **scrutiny**.

In the meantime, findings from **randomised control trials** (RCTs) led by world-renowned economists indicated that mainstream microfinance did not have the transformative social impact that everybody had assumed. Only a small fraction of the borrowers used their loans for business, never mind succeeding as entrepreneurs. In fact, rather than lifting people out of poverty, the microfinance loans were often leaving them saddled with layers of debt.

The dilemma and its resolution

Oblivious to the complexities of Kiva's operating model and the nuances of its impact, loyal users continued their support. If any effort from Kiva to now integrate impact deeper into the user experience didn't align with what lenders believed, it risked disengagement. But it would be irresponsible to only offer lending opportunities that drew attention for their engrossing stories. The trick was to strike the right balance between what inspired users/lenders and what really led to deep impact documented by hard evidence.

In trying to shift its portfolio towards greater impact, Kiva decided to shield lenders from excessive complexity. Relying on research that identifies lending practices and loan attributes with the greatest impact potential, Kiva has been nudging its users gently towards projects with deep impact. This is not based on an aggressive data-driven rational pitch. Instead, Kiva uses evidence drawn from research as a subtle input in determining what the users see and the order they see it on the platform.

So Kiva users continue to think they are selecting the loans purely based on the stories, but Kiva's algorithm already makes sure that the potential success of opportunities they see is backed by hard data from research. This notion of "managing users" via algorithms might look manipulative to some, but Kiva sees it as the most practical way of ensuring its depth of impact without compromising on attracting crowdfunding.

Goldie Chow, Director of Impact at Kiva, said, "That is the thing about pursuit of impact: there is so much you do because of the mission, even if nobody gives you credit for it."

Kiva's CEO Neville Crawley added, "Maybe we will find that the users really do want to understand impact, and it's just the way we present the information that leads to overload or something. We're still learning how much information to present and how. So the model will surely evolve."

Maximising the difference that you make

Kiva's experience reminds us that, in the end, maximising impact involves keeping an eye on both the breadth and the depth of impact. The two dimensions are like the two sides of a rectangle, whose area we are trying to maximise. If you do not achieve much breadth, your impact will be limited. And if you do not achieve much depth, this is also a negative factor for your impact. So a balance is important. But finding the sweet spot where impact is maximised differs from one context to another.

So, what happened to the Soccket and Uncharted Play? The Soccket was discontinued and its grand vision of using play to bring access to energy to the developing world was abandoned. Its team is now focused on developing other motion-based renewable energy technology. In 2016, they raised US$7 million in Series A funding, and changed their name to Uncharted Power in 2017. Where they will end up still remains to be seen, but that is the unpredictable journey of entrepreneurship.

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