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OAKLAND

2013 MAY -2 PM 1:24

AGENDA REPORT

TO: DEANNA J. SANTANA
CITY ADMINISTRATOR

FROM: Kelley Kahn

SUBJECT: Kiva Zip Trustee Agreement

DATE: April 22, 2013

City Administrator
Approval

Date

5/1/13

COUNCIL DISTRICT: Citywide

RECOMMENDATION

Staff recommends that the Council adopt:

A Resolution Authorizing The City Administrator To Enter Into An Agreement With Kiva Microfunds, A California Non-Profit Public Benefit Corporation ("Kiva") To Identify And Recommend Small Businesses In Oakland For Kiva Zip's Micro-lending Platform

EXECUTIVE SUMMARY

Small and start-up businesses often have difficulty accessing commercial credit. Due to recent economic and financial crises, traditional business credit has become more difficult to obtain and micro-financing alternatives can also have requirements that are difficult for start up businesses to meet.

While larger Bay Area and Oakland businesses have a range of financing options, access to affordable capital for micro-enterprises is very limited. As a result, there are many small entrepreneurs that are unable to start a business activity or expand their current operation. Given that small businesses are the engine of Oakland's economy, it is important to offer Oakland entrepreneurs a range of loan options.

Since its launch in 2005, Kiva's mission has been to alleviate poverty by supporting business development opportunities through micro-lending. One the best known international micro lenders, Kiva has lent close to \$400 million in 67 countries, with a nearly 99% repayment rate as of August 2012.

Item: _____
CED Committee
May 14, 2013

Kiva Zip is Kiva's new lending program for business owners, to enable individuals to make direct no or low cost loans to entrepreneurs through Kiva's crowd-funding platform model based on endorsements from "Trustees." The contractual arrangements between the City and Kiva will acknowledge and provide that the City, as a Kiva "Trustee," will not have any financial liability for the loan or any contractual obligation or fiduciary duty with any Kiva Zip lender or borrower. Under Kiva's "Trustees" model, "Trustees" are solely responsible for identifying and recommending borrowers for the Kiva Zip platform through an "endorsements" process. Endorsements can be made after a review of the borrower's business plan. "Trustees" are also asked to provide borrowers ongoing technical support through their loan term, a service already provided by the Oakland Business Assistance Center. One of the objectives of the Oakland Business Assistance Center is to establish partnerships with various types of lenders to increase access to capital for Oakland businesses.

OUTCOME

Adopting this resolution will result in increasing the range of available and affordable capital options to Oakland start up and existing small and micro-enterprises.

BACKGROUND/LEGISLATIVE HISTORY

Kiva Zip

Kiva Zip is a pilot program, launched by Kiva at the end of 2011, and operating in the U.S. and Kenya. Kiva is a 501(c) 3 non-profit, based in the Bay Area, which enables the crowdfunding of microfinance loans via its website Kiva.org. Since its founding in 2005, Kiva has made more than \$400 million of loans to over a million entrepreneurs, in 67 countries around the world. These loans have been crowd-funded by almost a million individual lenders, who make interest-free loans in increments as small as \$25. In 2009, Kiva launched Kiva Zip in the U.S, and has since expanded to more than 30 states across the country. Most recently, Kiva launched in Little Rock, Arkansas, supported by former President Bill Clinton.

Loans on the main Kiva.org website are administered by intermediary microfinance institutions (like Opportunity Fund in the Bay Area); the Kiva Zip platform (Zip.Kiva.org) provides loans that are sent directly to qualified entrepreneurs. This more direct lending model enables Kiva to expand access beyond where microfinance has not historically been able to reach. Kiva Zip focuses on underserved entrepreneurs and offers lower interest rates to borrowers (currently, Kiva Zip loans are made at 0% interest). Kiva Zip also facilitates connections and communication between Kiva's crowd of individual lenders and the borrowers to whom they lend.

Another key feature of Kiva Zip is that lenders become customers and brand ambassadors for the microbusinesses they have funded. Additionally, Kiva Zip lenders become involved in these local businesses by sending messages of encouragement and advice to the Kiva Zip borrowers they have supported.

The three primary objectives of the Kiva Zip Program are:

- Expand borrowers' access to capital, by making loans to individuals who may not qualify for conventional loans;
- Lower the financial costs of borrowers by leveraging new technologies (mobile and electronic payments); and
- Through its "Trustees" and lenders, facilitate connections with the borrower by enabling communications through the Kiva Zip website.

Borrowers must meet certain lending criteria that include: real social and economic need; sound business plan; borrower must not be heavily indebted (\$3,000 in past due debt limit); a borrower must not be in bankruptcy or foreclosure proceedings; borrower must have an income of less than \$100,000 and be endorsed by a Kiva Zip "Trustee".

The initial loan amount available to a Kiva Zip borrower is \$5,000, and can increase to \$50,000 based on borrower's loan repayment performance and business success. Currently, all loans are offered a 0% interest rate for a Kiva Zip borrower. Lenders do not receive any financial return from loans made to Kiva Zip borrowers.

Since December 2011, Kiva Zip has made more than 200 loans throughout the United States endorsed by over 120 trustees, including several in Oakland (Centro Community Partners, Family Independence Initiative and Oakland Community Organizations).

Kiva Zip "Trustee"

Although microfinance institutions do not administer the loans in the Kiva Zip model, Kiva Zip still partners with individuals and organizations that identify potential borrowers and publicly vouch for them on the Kiva Zip website.

Under Kiva's model program, "Trustees" do not have any financial responsibility for the loan nor do they have any contractual obligation or fiduciary duty with any Kiva Zip lender or borrower. "Trustees" do not hold on to anything of value for anyone's benefit. "Trustees" are solely responsible for identifying and recommending borrowers for the Kiva Zip platform through an "endorsements" process. Lenders and borrowers do not have any recourse from "Trustees" if borrowers do not repay the loan.

Item: _____
CED Committee
May 14, 2013

Endorsements can be made after reviewing the borrower's business plan. "Trustees" are also asked to provide borrowers ongoing technical support through their loan term, a service already provided by the Oakland Business Assistance Center.

Each "Trustee" is asked to ensure that each potential borrower has a sound business plan and meets the lending criteria set forth by Kiva Zip. "Trustees" have included technical assistance providers like Small Business Administration (SBA) Small Business Development Centers (SBDC) or Women's Business Centers, community development corporations and non-profit providers.

As a "Trustee," through the Business Assistance Center, the City of Oakland will be able to endorse potential borrowers on Kiva Zip, who may then have the ability to get a crowd-funded loan on the Kiva Zip website. The final endorsement decisions will be made by the City Administrator or by her/his designee. Staff intends to work with business referrals from the Alameda County Small Business Development Center (AC SBDC) and other business technical assistance partners, who have reviewed the business plans and credit history of the Kiva Zip borrower, and make a recommendation to the BAC.

ANALYSIS

Before the economic collapse, microfinance — the granting of very small loans, mostly to poor people — was a concept most closely associated with the developing world. Recent economic conditions have increased the demand for smaller loans in the United States, giving micro lending a higher profile and broadening its appeal. Unlike mainstream banks, which focus on an applicant's credit score, micro-lending programs consider the entrepreneur's passion and a commitment to the community. When combined with focused technical assistance services, the success of a microenterprise is enhanced. Given the number of small businesses in Oakland and the need to increase business and workforce development opportunities, greater attention on very small business development and financing is appropriate.

Since "Trustees" are limited to three (3) endorsements at a time and the contract between Kiva and the City will provide that the City will not have any financial responsibilities for the loans or any fiduciary duty to the participants, staff is recommending that the City of Oakland become Kiva Zip's first city to participate as a "Trustee." Participation as a Kiva Zip "Trustee," will address a gap in the lending resources to Oakland businesses. Also, participating in this platform will facilitate coordination with City staff and experienced business service providers, further enhancing resources for Oakland micro businesses.

PUBLIC OUTREACH/INTEREST

Staff consulted with various Oakland business service providers about the capital needs of microenterprises and start-up businesses.

COORDINATION

This initiative is a joint effort with the Office of the City Attorney, which drafted the legislation and helped prepare this report. The report has also been reviewed by the City Administrator's Budget Office.

COST SUMMARY/IMPLICATIONS

There are no direct costs to the City of Oakland to be a "Trustee" and no City funds are involved in the loan program.

SUSTAINABLE OPPORTUNITIES

Economic: Small businesses are important to Oakland's economy. The provision of information, referral and assistance to startup, new or existing businesses helps to facilitate business development, job creation and retention and expand entrepreneurship and workforce creation opportunities.

Environmental: A key objective of Oakland's economic development programs and services is to support sustainable local development. By increasing the capacity of startup, new and existing businesses, Oakland residents will have better access to local services, thus reducing the need for seeking services outside of Oakland.

Social Equity: Business development services help support entrepreneurship, retention of businesses, creation of new businesses and local business expansion opportunities.

CEQA

This action is exempt from CEQA under Sections 15061(b) (3) (general rule, which exempts activities that can be seen with certainty to have no possibility for causing a significant effect on the environment), and 15306 (information collection).

For questions regarding this report, please contact Aliza Gallo, Economic Development Manager, at 238-7405 or Kiran Jain, Senior Deputy City Attorney, at 238-3837.

Respectfully submitted,



Kelley Kahn
Director, Department of Economic & Workforce
Development

Prepared by:
Aliza Gallo, Economic Development Manager
Department of Economic and Workforce Development

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Approved as to Form and Legality

Kiran Jain

Oakland City Attorney's Office

OAKLAND CITY COUNCIL

Resolution No. _____ C.M.S.

A RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR TO ENTER INTO AN AGREEMENT WITH KIVA MICROFUNDS, A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION ("KIVA") TO IDENTIFY AND RECOMMEND SMALL BUSINESSES IN OAKLAND FOR KIVA ZIP'S MICROLENDING PLATFORM

WHEREAS, the City of Oakland desires to encourage and spur economic development and job creation, and support local businesses in an era of limited financial resources; and

WHEREAS, Kiva is an innovative online microfinance platform that has provided over \$400 million in loans to over a million entrepreneurs in over 67 counthes around the world since 2005 through its website, Kiva.org; and

WHEREAS, these loans, mostly made in the developing world, have been crowdfunded by almost a million individual lenders, who make these loans in increments as small as \$25; and

WHEREAS, at the end of 2011, Kiva launched a pilot program called Kiva Zip in the U.S. (and Kenya) to directly connect Kiva lenders to small businesses focused on economic and social need and thereby, spur local economic development and job creation; and

WHEREAS, Kiva Zip, with the support of former President Bill Clinton, most recently launched in Little Rock, Arkansas, to increase access to capital for small businesses in this region and facilitate connections between Kiva's crowd of individual lenders and borrowers; and

WHEREAS, Kiva Zip relies on "Trustees" to identify and recommend small businesses to the Kiva Zip website where small businesses focused on social and economic need are eligible to raise up to \$5,000 or \$10,000 in crowdfunded capital with below market interest; and

WHEREAS, Kiva's program provides that such "Trustees" solely identify and recommend small businesses for the Kiva Zip platform, and do not finance, guaranty or have any fiduciary duty to these small businesses; and

WHEREAS, Kiva's program specifies that "Trustees" do not have any contractual obligation with any Kiva lender or borrower, do not hold on to anything of value for anyone's benefit, and have no financial responsibility for any Kiva Zip loans; and

WHEREAS, the City of Oakland desires to become a Kiva Zip "Trustee" and facilitate the access of no or low cost capital on the Kiva Zip platform for businesses focused on social and economic need in Oakland; and

WHEREAS, there is no direct cost to the City of Oakland in becoming a "Trustee"; and

WHEREAS, the City of Oakland may utilize a recognized third party to review and recommend small businesses focused on economic and social need based on criteria established by Kiva, now therefore, be it

RESOLVED, the Oakland City Council hereby authorizes the City Administrator to enter into an agreement with Kiva to identify and recommend small businesses in Oakland for the Kiva Zip microlending platform and any other documents that may be necessary to effectuate such an agreement.

RESOLVED, endorsement decisions shall be made by the City Administrator or his/her designee according to Kiva's guidelines and any administrative instructions, policies or procedures that may be developed pursuant to City Administrator direction.

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, GALLO, GIBSON McELHANEY, KALB, KAPLAN, SCHAAF, REID and PRESIDENT KERNIGHAN

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____
LATONDA SIMMONS
City Clerk and Clerk of the Council
of the City of Oakland, California