Case Study

Crowdsourcing student loans: Student financing in Kenya with Kiva and Strathmore University

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Introduction

In 2012, the micro-lending institute Kiva partnered with Kenya's Strathmore University to offer tuition loans to low-income students. The loans were crowdfunded by Kiva and distributed by Strathmore University, who selected applicants based on the criteria of having high academic performance and coming from a low-income household, among other requirements. From 2012 to 2018, Kiva fundraised USD 762,675, which was distributed to 84 students who received an average loan of USD 9,004. The program ended in 2018 because the delinquency rate had risen to 14.65%, with many students being unable to pay back their loan owing to scarce job opportunities after graduation (Kiva, 2018).

What is Kenya's higher educational situation?

Kenya faces a systemic problem of inequality. According to the Society for International Development, in 2004, 10% of the population controlled about 42% of the overall national income and the bottom 10% contended with significantly less than 1%. These numbers have not improved over the years; instead, in 2012, the Development Policy Management Forum argued that poverty in Kenya had progressively deepened and that the socio-economic gap between the rich and poor was widening (Mulongo, 2013).

This problem of inequality is also noticeable in the population's access to education, which is a problem at all grade levels in the country. The main factor of inequality in access to education is rooted in economic limitations, as Kenya relies on privatized education to provide schooling at all levels. According to the Association for the Advancement of Higher Education and Development, acceptance into university education in Kenya is mostly dependent on a student's socio-economic background. This is illustrated in the fact that at the University of Nairobi, about 84% of students that are admitted come from high income potential areas (Mulongo, 2013). Thus, low-income and female demographics are particularly vulnerable.

Furthermore, according to the State Department for Higher Education University, the general demand of Kenya's population for university education has continuously increased, leading to many students, even from high-income backgrounds, being unable to access Kenyan universities (Ministry of Education, 2020). This bottleneck in higher education supply further aggravates access for low-income students because many universities are private and are therefore inclined to increase tuition fees, following an economic rationale. Initiatives to increase access to higher education for low-income students are therefore bound to address the financial limitations of such demographics, often by means of financing mechanisms such as student loans.

How does Kiva's student financing work?

Kiva, an organization founded in 2005, is a platform that does lending-based crowdfunding. Kiva's financing works by means of small loans granted by individuals, which are distributed to specific individuals in need of a loan. Despite having specific terms and conditions for each loan, in general, the lenders get back their principal with no interest. The borrowers do pay interest on their loans, but those interest payments flow to local and regional microfinance institutions that administer the loans in various countries. Individuals who lend money through the Kiva website receive online up-dates and profile information of the borrowers of their loans. A majority of lenders end up consid-ering it as a donation. In fact, 98% of the time, when their principle is returned, they decide to keep the funds in the Kiva system to enable further borrowers to receive a loan (Freedman & Nutting, 2015).

Kiva establishes contracts with the so-called field partners, who help select and distribute the loans to a specific demographic. Most field partners are microfinance institutions, but they can also in-clude educational organizations, non-governmental organisations (NGOs), or social enterprises. In this case of the loans for low-income students in Kenya, Kiva partnered with Strathmore University in Nairobi. According to Kiva, Strathmore University is a private chartered university that was select-ed owing to its goal to provide low-income students with access to higher education. As mentioned, tuition fees are a significant barrier for students who seek to enroll in universities. This was also the case with Strathmore University that, in 2012, had about a third of accepted students not enrolling due to lack of tuition fees (Kiva, 2018).

Students are selected for loans depending on their mean grades. Students from national and top provincial schools need to score a higher mean grade than students from provincial areas (Strath-more University Foundation, 2014). Furthermore, students need to belong to a low-income house-hold to be considered for loans.

The Kiva–Strathmore student loan program offers three types of loans:

1. Full-tuition loans are 11-year long-term loans with a grace period of up to 5 years. During this period, the borrower is not required to make any payments and they are charged with no interest rate. At the end of this grace period, repayments are due on a monthly basis, whereby the borrower pays 4% of interest for the remainder of the loan term.
2. Partial-tuition loans are short term loans that are available to enrolled students (second year and above) who face cash-flow constraints. Repayments are due on a monthly basis, and the borrower is charged 6% of interest per year. The borrower immediately makes repayments and understands the repercussions if unable to do so. There is no grace period for these loans, but there is an ex-tended repayment period. Two-thirds of the repayment amount is required before the student is allowed to graduate.
3. Laptop loans are given to purchase laptops with a 12-, 18-, or 24-month loan term at an interest rate of 6% and are open to students studying an undergraduate program. These loans have no grace period (D. Capital Partners, 2013).

In 2012, the program's first year, a total of USD 508,679 was received for 65 loans (full-tuition, par-tial-tuition, and laptop), with 34 of these loans being full-tuition loans. Within four years, Strath-more University planned to provide 100 full-tuition loans at any given time. It further considered offering loan-scholarship options pegged to performance. A loan beneficiary who earns a First class (an average score of 80% after four years) could apply for a rebate of 50% of the total loan amount if s/he repays the loan within the agreed repayment period (D. Capital Partners, 2013).

Nevertheless, these plans did not come to fruition. In 2018, Kiva terminated the partnership with Strathmore University owing to 14.5% of the students unable to repay the full-tuition loans. Accord-ing to a Kiva statement, the high delinquency of the students was attributable to graduates strug-gling to find jobs, doing unpaid internships, and ultimately not earning enough to repay the full loan amount due each month (Kiva, 2018).

References

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