# Legislation Details (With Text)

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Staff Report for a Resolution Approving an Application to Serve as a Trustee for the Kiva Zip Micro-Lending Program

## SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council approve a resolution authorizing the City Manager to transmit a Trustee Application to Kiva to identify and recommend small businesses in San Leandro for Kiva Zip's micro-lending program.

## BACKGROUND

Dissolution of the Redevelopment Agency requires a new approach to business development that seeks out innovative and alternate funding sources for business incentives that do not rely solely on the General Fund. For example, the Downtown San Leandro Community Benefit District (CBD) set up a financially sustainable way to fund maintenance, security and marketing activities for properties in the downtown. Likewise, Kiva Zip provides the City's Office of Business Development another financial incentives tool to attract and support businesses in San Leandro.

## Analysis

Kiva Zip is an innovative pilot program launched by Kiva, the world's first and largest micro-lending website. Kiva, a non-profit organization based in San Francisco, became famous for enabling anyone with an internet connection to lend as little as $25 to alleviate poverty. Kiva Zip is not like the typical "crowdfunding" organizations such as Kickstarter, GoFundMe or Crowdfunding.com where start-ups and entrepreneurs receive cash donations for their business ideas. Kiva Zip provides 0% interest capital loans up to a maximum of $10,000 directly to small-business borrowers.

The Kiva Zip lending model relies on a network of Trustees who facilitate the lending process by

sponsoring borrowers and working with them to keep up their repayment reputation. Trustees are responsible for sourcing Kiva Zip borrowers, reviewing their businesses, vouching for their character, and publicly endorsing them on the Kiva Zip website. Trustees have no financial liability for the loans, but the Trustees' reputations are tied to the repayment rate of the borrowers they endorse. Trustees also have no fiduciary duty to Kiva, the borrowers or the lenders. Trustees never actually handle the loans, which Kiva Zip disburses directly to the end borrowers. Trustees can be either individuals or organizations.

Locally, Kiva Zip loans are currently being facilitated by Trustees in the cities of Oakland, Berkeley and San Francisco. The City of Oakland's Business Assistance Center added the Kiva Zip loan program to its list of business incentives. The Berkeley Micro Finance (BMF) organization is a UC Berkeley student group that empowers local entrepreneurs and start-ups with Kiva Zip loans and free business consulting. In San Francisco, the Mission Economic Development Agency uses Kiva Zip loans to help small disadvantaged businesses that would normally not be able to achieve traditional financing for their businesses.

Below are scenarios of how some local businesses could potentially benefit from the Kiva Zip loan platform:

- Restaurants could use the loan funds to modernize their existing operations or to fund minor interior renovations.
- Tech startups could purchase equipment related to Lit San Leandro connections or fund other startup costs.
- Small manufacturers could fund small materials and equipment purchases or startup costs.

Acting as a Trustee, the City of San Leandro Office of Business Development will initially be able to facilitate up to three (3) loans of up to $5,000 each in the Kiva Zip program. Trustees (such as the City, as proposed) have no fiduciary responsibility to repay a loan made by Kiva Zip to a local borrower. Trustee reputations are based on loan repayment success rates. Once 10 successful payments are made by those borrowers, the City may serve as Trustee for up to 10 additional loans at $5,000 each. As the loans are successfully repaid, the City's reputation increases, which opens up opportunities for more loans to a maximum of 30 loans at $10,000 each.

Below is a summary of the loan criteria that the City and Kiva Zip will use as Trustees to determine eligibility for a Kiva Zip loan:

- The borrower must have a real social and economic need
- The borrower must have a sound business plan
- The borrower must not be heavily indebted
- The borrower must not be in bankruptcy or foreclosure proceedings, or about to enter into them
- The City, as Trustee, must endorse the borrower's character
- The City, as Trustee, must determine that the borrower is financially responsible

Office of Business Development staff will coordinate with a Kiva Zip representative in reviewing each loan application to ensure that they meet the criteria. Loan applications will be sponsored by the City's Business Development Manager in consultation with the Kiva Zip representative and loan disbursements will originate from Kiva Zip directly to the applicant via a PayPal account. Other than

sponsoring a loan applicant as a Trustee, the City will not have any involvement in the disbursement or handling of funds between Kiva Zip and an applicant.

In addition to working with prospective borrowers, the City's role as a Trustee will also entail engaging in outreach activities to make sure that local small businesses are aware of the program. The San Leandro Chamber of Commerce has been an active partner in helping the City explore the Kiva Zip program and City staff anticipates that the Chamber will be an invaluable resource for business outreach related to this program. Over time, if the program is successful, City staff will be able to make use of this tool when working with new and prospective business owners to help them access funding for investing in, or expanding, their businesses.

## Legal Analysis

The resolution and related materials have been reviewed as to form by the City Attorney's Office.

## ATTACHMENTS

- Trustee Application
- Response Criteria
- Kiva Zip FAQ Sheet

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