Impact Investing Through Crowdlending

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Project description (incl. objectives and methodological approach)

We examine examples of impact investment crowdfunding platforms in an international and domestic context. We evaluate their organisational structure, especially in connection with the potential integration of an intermediary and possible conflicts of interest.



Crowdfunding platforms provide impact investment opportunities but may induce conflicts of interest

Environment and dynamics for promotional banks and development finance institutions

Development banks are facing changing market conditions with low interest rates and rapid technological changes. This combination of factors challenges traditional processes and business models. In addition, another trend appears significant, namely the growing perception of sustainability as an investment rationale, combined with the problem of the lack of uniform definitions and reliability in meeting ESG criteria. The question is whether this increased interest in impact investment opportunities, including on the part of retail investors, can be acted upon.

Impact investing through crowdlending platforms

We analyse four examples of crowdlending platforms for impact investing.

» Crowdlending platforms with an international focus: Kiva and Zidisha

» Crowdlending with a domestic or regional focus: GLS Crowd and L-Bank MikroCrowd

Evaluation of the different organisational structures of the platforms

If an evaluation of the advantages of a certain organizational structure is to be made, two aspects in particular must be taken into account: firstly, the framework of the financial markets, for example risk and distribution of information, and secondly, the nature of market participants on both sides, for example the professionalism of borrowers and lenders.

Investments in developing and emerging countries, as well as those in a national context that are intended to have an impact by fulfilling environmental or social criteria, are usually complex in structure and are associated with a high degree of information asymmetry and potential moral hazard problems.

Development banks as an intermediary in impact investment structures

The involvement of a development bank as an (additional) intermediary makes sense both for microfinance approaches and for larger-volume projects. Our analysis confirms the importance of development bank involvement in financing developmentally valuable but complex project structures.

Results

Our analysis provides both

» economic justification for activities of promotional and development banks in the area of impact investments

» new inputs for expanding their business model with a transparent and trustworthy financial lending instrument for small-scale retail investors.

Outlook

Ensuring the correct use of funds creates high transaction costs due to government agencies and private donors using different data systems, a lack of real-time data and uneven information levels. The use of blockchain technology in this area appears promising (as a first example, 'TruBudget' by KfW Development Bank)

Analysed Crowdlending Platforms

Source

» Lee, Andrew; Weiland, Christiane (2020): Impact Investing Through Crowdlending: Examining the Role of Intermediation and the Potential for Development Banks, in: DIW (Hrsg.): Vierteljahrshefte zur Wirtschaftsforschung, Oktober 2020.


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You can find the published article at Lee and Weiland (2020): Impact Investing Through Crowdlending