

Kiva and the Birth of Person-to-Person Microfinance

I started Kiva in 2005 with my wife, Jessica. Kiva is an online lending platform that allows individuals in the developed world to loan to small business people in the developing world. Kiva operates in the microfinance space and works with a growing network of microfinance institutions (MFIs) in more than thirty countries. Our MFI partners post the profiles of their loan applicants to the website. Internet users in the United States, Canada, Europe, and beyond make small loans via PayPal to these businesses. The businesses pay the lenders back over a period of about a year. Since starting, Kiva lenders have funded \$6 million in loans this way.

In its first year, the site featured a spinach farmer in Cambodia, a hot dog stand man in Nicaragua, a carpenter in Gaza, a bee keeper in Ghana, and a fish seller in Uganda. Behind each of these businesses lies a story. (See Textbox 1.) Each is unique, but patterns emerge—patterns that get us closer to understanding what it means to be in poverty and the difficult process of trying to escape. These stories are at the heart of Kiva’s goal and strategy: the human connections we build between lenders and borrowers have brought new lenders to the microfinance movement, and foster in them a new awareness and connection to the people who briefly use their money. By telling stories, we allow MFIs that lack access to capital markets to efficiently raise money and serve more clients.

This case tells the story of Kiva—how Jessica and I came to the decision to create Kiva, what the effort involved, and our progress to date. We had no idea what we were getting into.

BEGINNINGS

When Jessica and I got engaged in early 2003, I had a job writing software and doing some design at TiVo. Many of my friends who had graduated from Stanford with me had struggled to find work in the depressed tech market, so I knew I was lucky to have a job. Still, I spent a good deal of my time dreaming up new business ideas. I’m the kind of person who always has a new idea, and is always talking

Matt Flannery is the Co-Founder and CEO of Kiva.org. Matt is a 2006 Global Social Benefit Incubator entrepreneur and a featured blogger on the Skoll Foundation's Social Edge website. He holds a BS in Symbolic Systems and a Masters in Analytical Philosophy from Stanford University.

about it. I started to have a new business idea every day; 365 ideas was my goal. My friends and family were extremely patient to suffer through this with me.

Jessica, who was working at the Stanford Business School as a staff member in the Public Management Program, had access to a wealth of ideas and contacts in the social entrepreneurship arena. She would come home talking about things like “Social Return on Investment” and “The Double Bottom Line.” For me, this was an interesting but academic discussion. One night, she invited me to come hear a guest speaker on the topic of microfinance, Dr. Mohammed Yunus. Dr. Yunus spoke to a classroom of thirty people and shared his story of starting the Grameen Bank. It was my first exposure to the topic and I thought it was a great story from an inspiring person. For Jessica, it was more of a call to action that focused her life goals.

Around the same time, we took a thirteen-week pre-engagement class at our church. They make you do is talk about big things like kids, money, family, and career goals. We scored pretty well on our tests until midway through the course when we got to the page in our workbook that asked: “What are your Career Goals? Matt’s Answer: “I want to live in the Bay Area and be an entrepreneur.” Jessica’s Answer: “I want to go to Africa and do microfinance.” You can imagine the concern our classmates expressed; nevertheless, we passed the class and got married that summer.

Six months later, I was still living in San Francisco and working for a high tech company. Jess was in Africa doing microfinance. She had received an interesting opportunity to do some consulting with a Bay Area nonprofit called Village Enterprise Fund (VEF), which helps start small businesses in East Africa through small grants and loans. The pages of the workbook were playing out before our very eyes.

The workbook also tells you to “Spend as much time together as you can during the first year of marriage.” We weren’t off to a great start, but we were going to try to make the best of the situation. I planned a month-long trip to Africa and, in the meantime, it was surprisingly easy to stay in close contact by phone. Our conversations were filled with stories of small business challenges and success. Jessica was conducting impact evaluations, analyzing the effect of small business on the health and livelihood of families. Her task was to locate as many VEF businesses as possible and measure impact. She asked questions like “Do you take sugar with your tea?” and “Do you sleep on a mattress?” She described the particular business challenges the entrepreneurs faced and sometimes overcame. The issues of access to capital, inventory management, transportation and marketing sounded oddly familiar to those I thought about as an aspiring entrepreneur.

When the words “Sponsor a Business” entered our phone conversation, it set off a chain of ideas. We had both grown up sponsoring children in Africa through our church and families. Why not extend the core of that idea to business? However, instead of donations, we could focus on loans. This seemed like a dignified, intellectual, and equitable extension that appealed to us at this point in our lives. Instead of benefactor relationships, we could explore partnership relation-

Textbox 1. Tales of Life in Africa

In the outskirts of Kampala, Uganda, on a rocky hill donated by a tribal king in Banda-Kireka zone, 3,000 war-affected families live in an Internally Displaced People's camp known as the Acholi Quarter. In 2006, loans from Kiva lenders enabled 35 residents in the Acholi Quarter to invest in improvements to their community.

Julius Ocola's water tap has brought cheap water for household consumption closer to hundreds of families that used to pay a premium for it to be carried up the hill. Doreen Acen's barber shop provides a place to revive the community's self-esteem, while Richard Ochii's video hall offers low cost entertainment just a few doors down. Grace Ayaa's peanut butter factory now employs 3 workers, and Monica Achaa's husband-maimed by LRA (Lord's Resistance Army) rebels and left disabled before the family fled to Kampala-now has an honorable occupation running the small grocery that her loan has helped to set up in their home. Seven displaced families now live in better housing built with Kiva loans, and women whose only source of income used to be digging in the local stone quarry are now able to employ others on small income generating projects that require less strenuous work.

Kiva connected with these people through Life in Africa (LiA), a Ugandan grassroots member-owned social enterprise that operates community Webbed Empowerment Centers in Kampala and Gulu. LiA members also participate in global arts projects, interactive technical assistance (and occasional funding) through the online community at Omidyar.net, export craft sales through a network of California-based home party resellers, and contract production for InvisibleChildren.org.

In this rich mix of global opportunities for families accustomed to living in conditions of extreme devastation and poverty, Kiva plays an important role in helping members leverage their modest new LiA incomes and begin planning for their families' future. After just one year, the impact of Kiva at work to uplift the poorest of the poor is undeniably visible in this impoverished community. For residents of Kampala's Acholi Quarter the impact lies not just in facilitating entrepreneurship, but in restoring dignity and a sense of normal life to families who have lost everything to the unspeakable horrors of Northern Uganda's rebel war.

ships. Instead of poverty, we could focus on progress. This was fascinating not only on a humanitarian level, but it sounded interesting and possibly even fun.

Soon after that phone call I packed my bags to visit Jessica in East Africa. I planned to spend most of my time making a short documentary of small business stories. I was also intent on investigating the viability of our new idea.

I followed Jessica with my camera through Kenya and Tanzania. Most of our

days were spent tracking down entrepreneurs and conducting interviews at their places of work in rural villages outside of major centers like Dodoma, Tanzania, and Kakamega, Kenya. Using a set of culturally specific questions, Jessica worked to ascertain the quality of life of those she interviewed, some of whom had started small businesses and others who had not. I witnessed firsthand the painful decisions familiar to anyone who has lived in poverty—whether to pay school fees, put food on the table, or buy medicine for a child suffering from a curable sickness. These are the tradeoffs mothers and fathers are making each day in that part of the world. Confronting them firsthand for a month left a lasting effect on me.

The emotional impact of a close confrontation with poverty combined with my more intellectual interest in business problems. I spent a lot of free time interviewing entrepreneurs about their barriers to growth. The challenges seemed quite familiar and understandable to me, even as an outsider.

For instance, in a village outside of Dodoma, there was no convenience store. Villagers would walk or bike several miles every day to a nearby village to buy household items. Why not just start a store in that village? The answer, more often than not, was access to start-up capital. The \$500 needed to buy an initial inventory and start a store was too great a barrier. So everyone walked.

In another case, a fish monger sold a half dozen fish on the side of the street every day and brought in barely enough income to feed her seven children. She purchased the fish from a middleman who would come from the lake about two hours away. Because of this, she made only a very small profit each day. Why couldn't she just make the two-hour journey to the lake herself and save three-fold on every fish she sold? She couldn't afford the bus ticket and had, in fact, never left her village. A bus ticket is out of the question if its purchase means not feeding a family for a number of days.

Our question about the fish monger set us on our own journey. On long bus rides, our "Sponsor a Business" idea began to mature. We began to discuss the idea in terms a self-regulating lending marketplace where microfinance institutions could raise loan capital online to fund projects like the fish monger's bus ride. We were excited, but the idea seemed detached from the slow-paced reality we saw from our bus. Good thing we didn't know how hard it would get, or we never would have begun.

ASKING FOR PERMISSION

After we returned from Africa in 2004, Jessica and I began to work on a business plan. We used business plan software her Dad bought us as a tool for addressing the key questions surrounding the idea. This forced us to think about costs, revenue, and, most importantly, our plan for growth.

Will that scale?

Jessica is an extrovert and very good at developing a web of connections. I'm a bit

more internally focused and have often erred on the side of just getting work done. In this early period, we balanced each other nicely. Through her work at Stanford, she was able to meet a number of practitioners of microfinance in the area. She kept talking about an organization called Unitus that called itself a “microfinance accelerator.”

So that summer, we found ourselves in the cozy living room of the Unitus offices in Redmond, Washington. We had scored a meeting with Geoff Davis, the CEO, who was kind enough to spend part of his day listening to our pitch. By that time, we’d managed to produce a ten-page “feasibility plan” document printed from our business plan software. It was for an organization we called “Kesho.org.” In Swahili, Kesho means “tomorrow.” (Later we changed the name to Kiva.org, based on another Swahili word.)

It’s eerie reading the plan after all that has happened since then. It opens:

Through its innovative online platform, Kesho will provide opportunities for people to connect with and invest in individual small-to-medium enterprises (SMEs) in the developing world through soft loans. In doing so, KM aims to alleviate poverty and improve standards of living in developing countries by financially supporting indigenous SMEs.

Kesho will utilize partners within existing microfinance institutions (MFIs) to identify viable SMEs and facilitate the administration of loans. Loan capital will be raised through Kesho’s website, by offering people the opportunity to contribute to the capital used for a loan to a particular SME—and the opportunity to receive their money back, with a small amount of interest. During the period of a loan agreement, investors will receive frequent, real-time updates on the progress of SMEs working to pay back the loan.

Kesho is currently in its idea stage, but plans to launch a set of pilot micro-funds by 01 January 2005.

We are considering plans to operate as a social enterprise with an LLC wing (that will raise investments, facilitate the loan process, and manage Kesho’s website), and an NGO wing (that will provide training and operational support to Kesho LLC, and will cover its expenses with tax-deductible donated funds).

The feasibility plan also discussed, among other things, how the LLC and NGO (limited liability corporation and non-governmental organization) entities would work together, how Kesho would cap the interest rate charged to borrowers at 5 percent, how Kesho would offer interest income to our lenders, how we would launch in 2005 with a beta round involving fifty friends, how we would require \$5,000 in capital for operational costs for the first year, and how we hoped to raise \$150K in our first year of business in loans to the poor. Despite our naiveté at the time, we ended up executing much of our plan.

Geoff Davis gave us the perfect response that Monday morning. Unlike many

people, he listened first. The first half hour of the meeting was spent reading through the plan and understanding the mechanics of what we proposed. He asked a lot of questions that showed he was quickly homing in on the tensions in the model.

Then he pinpointed what he considered to be the main challenge to making this happen. “That sounds like it would be hard to scale,” he stated prophetically. It was the first time we’d heard that feedback. There is an historical tension between the donor/lender desire to “know where my money goes” and the recipient organization’s need for efficiency. Geoff

told a story about placing \$100K of a donor’s money in an Indian MFI. The donor wanted the funds to be used for loans to women borrowers. The Indian MFI politely refused the offer because tracking money like this would be too costly. Yuck. If the cost-benefit of tracking at a scale of \$100K wasn’t favorable, what did this mean for us? We were trying to track \$25 at a time and connect one borrower to one lender. The plausible answer to this question left me with a pit in my stomach.

We left with a lot to think about, a little depressed, but also resolved to solve the problems in the model.

There is an historical tension between the donor/lender desire to “know where my money goes” and the recipient organization’s need for efficiency.

That’s Charity (That’s Bad)

The second challenge we faced was the question of whether it was better to be seen as a charity or as a business. This was a challenge of perception. We noticed that people seemed to think in these big categories, and breaking existing mental models proved harder than it looked.

I started to go to microfinance events and conferences. Well into the formation of our idea, I scored an invitation to the UNDP Global Year in Microcredit Summit at the U.N. headquarters in New York. If there was one unifying theme of the event, it was the commercialization of microfinance institutions. If microfinance is going to have a significant impact on world poverty, the argument goes, then MFIs will need to be integrated into the global economy and tap into the capital markets.

That made a lot of sense to me. However, the commercialist persuasion of microfinance events formed a sharp contrast to the message I would hear when talking to average Internet users. It is clear that Internet users prefer a connected experience over a heavily commercial experience. In fact, a recent survey of our user base shows that 50 percent of our users would not lend on the site if Kiva adopted the for-profit model.

It was an early goal to appeal to a mass market audience. Rather than try to attract the most capital as fast as we could, we were interested in engaging average-income people to unlock a new type of more connected capital. Thus, from the start, we weren't trying to compete in the commercial investment fund game. Rather, we wanted to get individuals who had never even heard of microfinance into the mix.

This brought us to a question: How does "sponsoring a business" or "person-to-person lending" fit into the microfinance world? It would take us a while to figure this out. The answer began to unfold as we realized that the vast majority of MFIs don't qualify for commercial grade investment. In addition, many of the most commercial MFIs had relied on donations during their early years. It is difficult for MFIs to move from donor dependence to the capital markets all at once. We began to see person-to-person debt capital as a bridge for MFIs on a journey from donor dependence to tapping into the capital markets.

Lastly was the issue of organizational type. Kesho, by that time, was far into the process of incorporating as a nonprofit. However, I began to question this in an environment where commercialization was a common theme. Did the trend toward commercialization of MFIs mean that Kiva, which was running a microfinance web service, should be a commercial for-profit? Curiously enough, almost every U.S.-based microfinance institution was incorporated in this country as a nonprofit. Visiting the web sites of U.S.-based microfinance related organizations, you are bound to see a big "Donate Here" button. Yet most of them tout commercialization. I was excited about creating a "Loan Here" button. Hmm, this was becoming a confusing mess.

Men in Suits

Scalability and commercialization were big questions, but they weren't deal breakers. A more formidable and potentially fatal barrier soon presented itself.

A cloud of legal uncertainty began to hover over our idea. We first saw it when a wise friend exclaimed: "You can't just loan money over the Internet!" Whenever money is being exchanged between two people, someone in some government somewhere will begin to take notice. The more we began to research the legal issues surrounding this model, the more complex it became.

Most central is the issue of whether or not you are issuing an investment product to the public. If you are, things can become complicated. Before Jessica had returned from her final month in Africa, I had completed a very basic first run of the website, which was being hosted at my personal web domain. I architected the database, software, and user experience around the idea of returning interest to users. There was never any question that we wanted interest rates on the site.

Jessica went on a campaign to get legal support around San Francisco, knocking on the doors of more than thirty firms. Many of them wouldn't work with us because of the murky territory of securitization we were wading into. There are a number of bodies that pay attention when you offer investment products to the

Textbox 2. Elizabeth Omalla's Story

Elizabeth Omalla sells fish. As a widow and the sole supporter of her seven children, she has pursued and capitalized on many opportunities for growing her businesses.

Omalla's business career started in 2000 with a \$100 Village Enterprise Fund (VEF) grant she used to start a business selling greens, tomatoes, onions and cooking oil. A year later, she attended business training courses from VEF, including choosing a profitable business, marketing, book keeping and business strategies.

After attending these classes, Omalla changed her business to fish mongering. In Uganda, fish mongering is one of the higher profit businesses because people depend on fish, which is very affordable, rather than higher-cost meat. Just by buy purchasing half a dozen fish from a middleman and selling them to passersby, Omalla made enough money to be able to afford to purchase animals and to send her children to school.

With a second loan of \$500 from Kiva, Omalla expanded this business. Now she travels from her village to Lake Victoria and purchases fish by the basket. Instead of selling it on the roadside, she sells in open markets in villages all around Tororo. During a recent rainy season when fish were plentiful and their prices low, Omalla bought fish in bulk and smoked them, a smart business move that allowed her to become a supplier to middlemen.

This business has changed Omalla's life. She can now feed, dress and educate her family. She has used her income to buy two cows and five goats. She has repaid the \$500 loan and opened a savings account in which, as of November 2005, she had saved 320,000 Ugandan shillings, the equivalent of \$130.

public. Such bodies enforce regulations intended to protect investors from losing their money on scams. Most notable among these is the SEC (U.S. Securities and Exchange Commission). The SEC maintains a definition for what is and what is not a security. If the SEC rules that you are issuing securities, they require that such securities meet a long list of requirements. A few such requirements hold that the products are sufficiently collateralized and are invested in entities that comply with U.S. equivalent accounting standards. We were trying to allow people to lend to a goat herder and fish seller in rural Uganda. Surely our friend Elizabeth Omalla's fish business outside Tororo didn't comply with Sarbanes-Oxley!' (See Textbox 2.)

This was just the first step into a legal minefield that was even more crowded than we realized. Secondary to the securitization issue is the topic of organizational type as it relates to raising money from the public. We wanted the site to center around loans, not donations. We would call our users lenders, not donors, and we would actually return their money, possibly with interest. The question arose then, can this activity be undertaken by a charitable organization with 501(c)(3) status? Can a 501(c)(3) issue loans to the public and be involved in potentially helping

lenders make a profit of such loans? Furthermore, what are the tax implications for the lenders upon the return of their money? Can they receive a tax write-off for funds, or profits, potentially lost? Would Kiva need to issue tax statements and would our lenders need to hire auditors to do their Kiva-related taxes?

In any event, since the concept of online person-to-person lending didn't exist, microfinance was less well known in the business community, and the model was highly experimental, we decided that the 501(c)(3) status would help us form a bond with our users and raise a small amount of donation capital to get the idea off of the ground. Jessica's search for legal support continued. When we were at the end of our rope, the phone rang. It was a lawyer about our age, Kiran Jain, at Bingham McCutcheon, who said she would help. She, along with a team of attorneys, became the missing piece we imagined. We embarked upon the process of filling out forms, and waiting.

A third issue was the U.S. Patriot Act. We were intent on allowing lenders in the developed world to connect with borrowers in some of the most remote and unstable places on the planet. One of the first MFIs we were thinking of connecting with operated in Gaza, another in India. The U.S. Department of Homeland Security provides a number of guidelines to follow to decrease the likelihood it will consider you as an entity that *potentially* could put money into the hands of a terrorist. You can follow the regulations in every way, but this doesn't guarantee you will escape scrutiny. Despite these guidelines, the Department can be rather opaque in its methods and is therefore hard to predict.

At this time, we had no source of funding and no funding on the horizon. Funders require that you figure everything out before they will even consider funding you. The questions posed by our model, at this point, seemed intractable and a reasonable set of answers would require a multimillion dollar investment in legal fees. Thus, we were presented with a classic entrepreneur's dilemma: begin and be exposed, or don't begin at all.

SOMETHING FROM NOTHING

About nine months after our trip to Africa, we returned to my childhood home in Oregon for Christmas. Every time I go home, life slows down and I am able to put things in some perspective. That year was no different. We realized that the process of asking for permission had taken a toll on us. We had reached a point where we didn't live and breathe this concept anymore. It was no longer rewarding and we had lost touch with the reason we had started at all. The journey of the fish monger seemed like an afterthought and the only progress we had made for months were a few meetings and tweaks to the all-important business plan.

Coming back from break that year, we decided that it would be extremely difficult, if not impossible, to get much traction on the business unless we figured out a way to just start. True, there were several open questions about this model. However, there's no more powerful way to resolve debates than to actually test and see. So, we resolved to "just start" and see how things would play out over time.

Textbox 3. Kiva's Product Philosophy

People are central. The first thing you notice are faces. Money and organizations are secondary, people are primary.

Lending is connecting. At Kiva.org, lending money is all about information exchange. In a sense, money is a type of information. Lending to someone else creates an ongoing communication between two individuals that is more binding than a donation.

Things are always changing. Every time you load our website, it should be different. Every minute, loans are being purchased and repaid, and stories are being told about the borrowers. This can lead to a dynamic where philanthropy can actually become addictive.

Emphasize Progress over Poverty. Business is a universal language that can appeal to people of almost every background. This can lead to partnerships rather than benefactor relationships. We appeal to people's interests, not their compassion.

Create a Data-Rich Experience. Whenever it is possible to collect data from the field, we collect it. Over time, we will display as much information about our partners, lenders, and borrowers as possible and let the users decide where money flows.

That led to a year of sleepless nights. Most of my sleep was traded for a web application. Jessica and I spent the first months of 2005 building the first and “beta” versions of the site. This happened in a series of cafés and doughnut shops across the Mission and Noe Valley neighborhoods of San Francisco. The constant change of scenery was required because the staggered closing times of each café helped us stay awake. Our goal was to launch the beta round in March. It felt incredibly good to be building something again.

We reconnected with several of the concepts and philosophies we had dreamed up on long bus rides across East Africa. (See Textbox 3.) And we focused on turning these philosophies into a product at last. In three months, we made an order of magnitude’s more progress than we had made in the past nine.

Calling the SEC

Throughout this time, I was still working as a programmer at TiVo and Jessica was working part-time at a local nonprofit. Our spare time was being poured into addressing the challenges that were holding us back from launching. While she was working on researching potential partners and getting us set up as a 501(c)(3), I was investigating the potential securitization issues we had discovered.

My first task was to define exactly what, in terms of investing, we were trying to do. There were a few high-level goals we were trying to achieve:

- Allow Internet users to make small loans to specific micro-borrowers around

the world, possibly with interest.

- Connect a network of MFIs to our platform and have them post the loan applications of their borrowers to the site.
- Create a financial connection between lender and borrower whereby the lender assumes the default risk.
- Create loans between people, not necessarily organizations, where Kiva acts as a platform and MFIs act as distributors.

The SEC seemed to me like a gigantic black box. Having no legal background, I had little idea how to start. I spent a lot of time reading through long, esoteric documents online. I found very little that described anything like what we were proposing. At the time, there were no other person-to-person lending services online. Now, there are two, in addition to Kiva—zopa.com in the United Kingdom and prosper.com in the United States. Both of these services allow one individual in the country to lend to another in that country, but they are not working with MFIs in the developing world.

One day, I just decided to cold call the SEC and see what I would find. Essentially, I wanted to know how they would react if we launched. This experience helped reinforce a lesson I have applied many times since—even large scary organizations are made up of normal people and there is a lot to gain by simply reaching out to them in a transparent way. Five minutes after calling, I had a special counsel agent from the Office of Small Business Policy on the phone. We talked for an hour. The next day, he called me and we talked for another hour. I was beginning to take a lot of long walks around the TiVo building and missing a lot of work.

We worked together to come up with a description of what we were trying to do and how it might be interpreted. Right away, he identified with the social mission and was incredibly helpful. After a series of conversations, we came to a few conclusions, although nothing he said was offered as a “formal” opinion. First, if we return interest to users on the Internet, we run the risk of being seen as a securities issuer and should really seek serious legal counsel before doing so. Second, if we remove the interest rates from the service, the SEC would be unlikely to take notice and consider these loans as securities.

Given our lack of funding and the enormous complexity of issuing securities,

This experience helped reinforce a lesson I have applied many times since—even large scary organizations are made up of normal people and there is a lot to gain by simply reaching out to them in a transparent way.

the decision made itself. We would have to launch without interest rates on the site.

A Small Initial Public Offering

After three months of intense coding, we were on the verge of launching the “beta” round. There were a few details to work out. First, we didn’t have a name we liked. “Kesho” had elicited mixed or confused responses such as “hmm, sounds interesting. How do you spell that?” We knew it had to go. Second, we didn’t have a logo. These minor details were worked out in a week or so within the confines of my cubicle at TiVo.

I was lucky enough to share the space with TiVo’s visual designer and most creative mind, Ryan Pressler. I learned at TiVo that a short, memorable brand can be incredibly important in launching a company. There is always a tension between using an English word that has an obvious meaning and using something less obvious that you can create meaning and affinity around. Jessica and I preferred the latter and were focused on East Africa.

We spent a week consulting two sources—the Swahili dictionary and Register.com. We chose Kiva because it has an appropriate meaning—“unity” or “agreement”—and because it was available. In fact, it was being held by a squatter at the time, but I was able to buy it from the squatter for a clean \$600. That was perhaps the best \$600 I ever spent.

Getting the logo done was slightly more tricky. Ryan is a busy designer in great demand. As I have learned several times since, it can be extremely valuable to offer a volunteer a gift or a stipend in order to create some accountability around a project. After spending \$600 on the domain name, I didn’t have much cash lying around. Ryan, however was a budding guitarist. I’m a former wannabee rockstar. A simple trade then, was proposed: my electric guitar for a logo. We had a logo a week later. That was perhaps the best use I ever got out of that guitar.

Once the site was ready, we needed loan applications in Africa to post on the site. That’s where our friend Moses came in. Moses Onyango is a pastor in Tororo, Uganda, whom Jessica had stayed with after I left. Moses is a community leader in Tororo and is highly connected to the Internet. We had been in close contact over the past year and Moses was ready to post and administer the loans of seven entrepreneurs in his community. One of them was the fish monger, Elizabeth Omalla.

Once Moses had posted the seven businesses, the site was ready to go. We sent out an email to our wedding invite list and waited to see what would happen. We emailed about 300 people, and all seven businesses were funded in a weekend. That was April 2005, and we raised \$3,500 in a few days. We were blown away; everything worked. It was better than we expected.

Full-Scale Public Launch

That year some really interesting things started to happen. Moses, outside Tororo, became one of the first rural Africans I know of to start a blog. His blogging platform was the Kiva website, his readers were my wedding list, and his subject mat-

ter consisted of seven small businesses in his neighborhood: a fish monger, a clothes reseller, a goat herder, a produce vendor, and others.

Moses blogged his heart out, chronicling the intimate business challenges and successes. As if writing for the business section of a local paper, he wrote about the local clothing and fruit market the way a venture capitalist analyzes solar power and semi-conductors. Every month, new business journals produced by Moses poured in over the Internet. Reading the first bunch was like receiving a scribbled note from a carrier pigeon a world away. Magic.

Since the messages were going out to my family and friends, we were always talking about them. I'd be out with friends and the latest journal entry would become a subject for debate or light-hearted humor. Going home for a holiday, a distant relative would delight at being repaid for her loan. Another time, a family friend would inquire why a certain borrower wasn't paying back on time. In every case, it was interesting that people cared

about the progress of an entrepreneur half-way across the planet. There was, to some degree, a sustained mental and emotional connection. Whether the connection had a positive feel was secondary. These tiny, interpersonal loans were creating a consciousness that didn't exist before.

At that point, I knew every user in the database. Then a stranger showed up: Premal Shah from PayPal. We began to talk. He had recently returned from India on sabbatical where he was working at an MFI. During his sabbatical he got a crazy idea—what would happen if you posted microborrowers on Ebay? Unlike me, he didn't waste a lot of time asking for permission. (The loan applications were promptly removed from the Ebay website by its compliance department.) Premal had done this a few months after Jess and I returned from Africa. We three, on trips continents apart, had essentially thought of the same idea at essentially the same time. We lived and worked just down the street from each other and had actually gone to college together.

A new partnership began. We saw Premal as a missing piece of the puzzle. Jessica and I were confessional, careful, thorough, strategic, and technical. Premal was passionate, charismatic, brilliant, wildly enthusiastic, and reckless. That's what

[P]eople cared about the progress of an entrepreneur half-way across the planet. There was, to some degree, a sustained mental and emotional connection. Whether the connection had a positive feel was secondary. These tiny, interpersonal loans were creating a consciousness that didn't exist before.

Textbox 4. Moses' Blog on Steve Odongo, Gracious God Butchery

Steve Odongo buys animals for slaughter and sells their meat in Tororo, Uganda. Odongo received his loan of \$500 in January of 2006 and paid it back in its entirety by April, 2007.

The lenders who provided Odongo with his loan come from around the world. Federal employee and adjunct history professor Ed and his wife Sae in Las Vegas donate because they "cannot simply be aware of suffering around the world and not do something about it." Dave, a marketer from Seattle; Leslie, a life coach in Yokosuka, Japan; and David of Calgary, Alberta, Canada; also helped Odongo bootstrap his business.



*Moses Onyango of VEF in Tororo keeps these lenders in touch with Odongo through his blog entries that appear on Odongo's page on the Kiva website. The following entry appeared one month after Odongo received his funds.**

Mar 3, 2006: Business Update. Steve Odongo has been in butchery business for quite some time now. He goes to deep in the villages, buys animals (cows) brings them in town, slaughters them, takes to his butcher which is with in town to sell in kilogram's.

He has been buying 3 animals each time he goes to the villages to buy animals. The price for animals differs depending on the size, ranging from 180,000 - 280,000.

<i>A kilo of meat is</i>	<i>2,600</i>
<i>1 cow has roughly</i>	<i>250 - 300 kgs</i>
<i>From 1 cow he earns</i>	<i>650,000- 780,000</i>

Therefore when he deducts the revenue, license, market dues and transportation, he roughly receives from each animal a profit of 350,000- 400,000.

When he got loan money from Kiva fund Uganda in January this year, he increased the number of animals he buys and also he has opened many butchers. His services to people are spreading widely. He now buys five animals unlike before when he used to buy only 3 animals.

He is grateful to all his funders who enabled him to reach at a level he has reached now which he never imagined he would reach.

Thank you for making a difference in his life and in the lives of many, may God bless you mightily. Yours truly, Stedia, Reporter.

** To see the full blog, visit
<<http://www.kiva.org/app.php?page=businesses&action=about&id=137>>.*

we needed to take this organization to the next level. However, it would be half a year before we would actually work together because Premal continued to focus primarily on building support within both Ebay and PayPal for a corporate micro-finance effort.

Meanwhile, Jessica and I decided to focus on what we could control: building a great product. We also knew that the seven loans made our site look anemic and that lending to seven people would prove nothing. To really change minds and prove that person-to-person microfinance was a valid concept, we would have to show some level of scale. We told Moses to find fifty qualified entrepreneurs in Tororo by October. Once they were on the site, we issued a press release.

The Pain of Distance

I spent my nights coding at doughnut shops and managing a small MFI in Uganda. I spent my days coding in my cubicle at TiVo, where I had recently been promoted. Jessica had started business school at Stanford and we now lived in a woodsy area in the foothills just off campus. The Kiva press release echoed out onto the wire with little pickup. A month later, I had received a brief phone call from a trade magazine and a couple of bloggers wrote about Kiva. It was back to work as usual.

But then something happened. My day started as usual. I took the Caltrain to Mountain View and the TiVo shuttle to work. I then checked my email. I had received nearly a thousand emails to my Kiva address. I checked the database logs and saw that we had raised about \$10K that morning and that all the loans on the site were sold out. Why? We had been featured on the home page of DailyKos, one of the world's largest blogs. Over a million people had read about Kiva that day and hundreds were actively discussing it online.

I looked through the emails and tried to respond to all of them. A huge outpouring of support had woken me up out of my coding daze. In addition to supporters, many of the emails were from MFIs all around the world. I heard from MFIs in Bulgaria, Rwanda, Nicaragua, and Gaza. These organizations were interested in using our site as a platform upon which to list their own loan applications. Maybe this concept was scaleable after all?

Over the weekend, with Jessica away at a school retreat, the week's events began to settle in and I digested what was happening. I went on a long walk through the woods and let my mind roam. As I walked, I was consumed by an overwhelming feeling: pain. For the first time, I connected with how much it actually hurt to not fully pursue a passion that had been ignited a year and a half earlier in East Africa. I felt weak and extremely light-headed. I couldn't deny myself what every muscle in my body wanted. I quit my TiVo job the next Monday. Every day since has seemed more colorful.

Community

Quitting my job was helpful because it gave me more time and focus. More importantly, it demonstrated a level of seriousness to the project that was previously

lacking. When I had two jobs, it was much more difficult to get people to believe in what I was saying. People would ask: “Is this just a hobby for you? Why should I commit my time, money, reputation to it if you won’t fully do the same?” Now on my own, I set my sights on gathering a group of people to help turn a project into an institution. It turned out to be incredibly easy. Pretty soon I was surrounded by a tight group of true believers and my previous pain of distance was leavened by the blessing of community.

We didn’t have any seed capital at that point. It didn’t really matter. We had a self-selected group of people who possessed more drive, energy, and pragmatism than money can buy. My friend Chelsa had just returned from a trip around the world after leaving a career in finance; she became our Director of Partnerships. A married couple, Jeremy and Fiona from Connecticut, had just returned from Tsunami-torn Thailand and were looking to connect the Internet with world development when they read the article on DailyKos. A few weeks later, they flew across the country to lead our technology and marketing efforts. My friend Krista was a veteran of public relations in high tech and guided us through our first year of press. And Premal decided it would be best to pursue his passion of person-to-person microfinance outside of Ebay, Inc. Ebay supported Premal’s decision and to this day supports Kiva by donating to us free payment processing. We are thankful to Ebay, Inc., for enabling our model.

Just a few months into our full commitment to this project, we had assembled an energetic nucleus of people ready to build something big. We hunkered down in Premal’s house and worked there, unpaid, for the first six months.

Growing a Partner Base

The most pressing challenge we faced was to get more businesses on the site. The only businesses were the fifty that Moses had posted thanks to the blessing and passive cooperation of Village Enterprise Fund. I managed Moses and a small staff, so in a sense, Kiva had created a small MFI in rural Uganda and was its only partner.

We looked to the existing microfinance world to find partners to help us. We set our sights on creating a partnership program whereby microfinance institutions could use our site as a platform to attract low-cost debt capital—one borrower at a time. Jeremy and I worked to prepare the software for multiple partner accounts .

Signing up partners onto our system presented a significant challenge. We were facing the broken record of criticism that “it won’t scale.” To the outside world, the critics looked to be right. However, I believed that the critics were at least partially wrong. To explain how we began to overcome this criticism, some background about the state of microfinance investing is needed.

In the past few years, we have seen the formation and growth of a new group of funds that seeks to link the microfinance industry to the capital markets. These funds feed a substantial and growing desire among institutional and individual

Textbox 5. Long-Tail MFIs: Senegal Ecovillage Microfinance Fund

Though community motivated and hard working, the villagers of Louly, Senegal lack the resources necessary to create an economic base for their families. The per capita household income in that area is less than \$1 per day and mean level of wealth below \$1.50 per household member. Peanuts were the cash crop of the region, but adverse growing conditions in previous years had left families destitute. In response to the question, "What is your greatest need?" he overwhelming answer was, "Money for peanut seeds."

In response, in 2004 John Fay and Boubacar Sarr began the Louly Microfinance Project with a pilot program of 15 families who received loans for peanut seeds and were to repay their loans after the growing season. One hundred percent complied.

In 2006, Fay partnered with Nan Gulsander to found the Senegal Ecovillage Microfinance (SEM) Fund. This association of 38 remote rural villages works together, though few villages have paved roads or electricity, to promote environmentally friendly development and integrate modern technology with traditional African values.

Fay learned of Kiva through an Internet blog in early 2006. He contacted Kiva and wrote, "We are a small organization and just getting started." Kiva suggested that perhaps they could grow together. The SEM Fund was one of the first microfinance institutions to establish a lending partnership with Kiva and it now raises a majority of its loan capital through Kiva lenders.

With the help of Kiva, the SEM Fund has provided loans to 821 clients in 24 villages. Half of the loans are given to groups located in the post-conflict regions of Ziguinchor and Kolda in the southern Casamance, which has the highest incidence of poverty in all of Senegal.

The Soppante Takku Liggeey Group, a group of 30 women, received a \$900 group loan from Kiva for the production of juice and marmalade. One member, Mareme Seck, stated, "I represent my colleagues, who join me in thanking SEM for the opportunity it has given us to work for a living. I never expected to be able to benefit from a loan, because I come from a very poor background. But thanks to SEM, all the women of our group have received the same loan amount, which allows us to work with dignity and to earn our living honestly. The most important thing is the feeling of independence we have gained from this affair. We are all very happy."

high-net-worth lenders to invest in microfinance in developing countries. These funds also value both social and financial return and are usually rather risk averse. This is a fantastic trend that will no doubt contribute to the rapid increase of borrowers served.

Because these funds need to provide commercial returns, they are typically targeted towards the best of the "Tier 1" MFIs. Tier 1 MFIs, the largest and most established, account for just 200 of the approximately 10,000 MFIs in existence.

Lists of these MFIs and their terms for accepting debt are widely available. They attract international debt because they have reached a substantial size, are well run, and can prove it through transparent financial statements.

While the number of Tier 1 MFIs is growing rather slowly, the number of investment funds is growing incredibly fast. Thus, we are beginning to see a fairly crowded situation where a growing set of funds is targeting a relatively small group of institutions. I would argue that the amount of capital available to the MFIs in this group, even if they increase beyond the current 200, will outpace their capacity and numbers, leading to a significant bottleneck in supply.

It's natural to ask, then, why don't we invest in the other 9,800 MFIs? The short,

over-simplified answer is a lack of transparency and commercial viability. Many of the 9,800 MFIs are extremely small, opaque, unsustainable, and often impossible to contact internationally. We call this the "long tail" of MFIs. (See Textbox 5.)

Since these MFIs are off the commercial radar screen, they often have trouble accessing favorable debt and building up a level of creditworthiness. But Kiva's partnership strategy

We are reaching down into the long tail of MFIs, giving them the ability to prove themselves as good borrowers on the Internet, put their reputation on the line, and gain the ability to access future debt.

includes openness to connecting with the long tail of MFIs. We view our ideal portfolio to be a combination of very established and more commercial MFIs and less established MFIs. Our ability to take risks and dip into the long tail is what differentiates us from the microfinance investment funds. We are able to do so for two reasons:

1) *We have a risk-tolerant source of funds.* Individual Internet users lending small amounts at a time have a greater appetite for risk than commercial institutions or wealthy individuals using microfinance as part of their retirement account. I would argue that this group represents a huge, sustainable, and growing constituency that is not artificially subsidizing our partner MFIs in unsustainable ways.

2) *We use the Internet as a reputation-building mechanism.* Through Kiva, MFIs build a track record for borrowing and paying back in real time. Users can monitor the performance of each MFI and the borrowers associated with it. Thus, we are giving organizations the ability to prove themselves through performance in a similar fashion to how Ebay allowed lesser known individuals and businesses to become major e-commerce players through credibility scores.

Since its inception as a movement in the 1970s, microfinance has been largely about providing financial services to those outside the banking system. MFIs often

provide loans to people who have no collateral, and no previous credit history or formal, traceable identity. They are able to do this because they use reputational collateral and a hope for future access to funds in order to enforce repayment. MFIs have achieved very promising results through this approach. Kiva, in many ways, is conducting a similar experiment in our relationships with MFIs. We are reaching down into the long tail of MFIs, giving them the ability to prove themselves as good borrowers on the Internet, put their reputation on the line, and gain the ability to access future debt.

In our first year, we started reaching out to Tier 2-4 MFIs, and they started reaching out to us. Building a partner base was slow at first. It took three months after the DailyKos event to get our first set of MFI partners on the site. By the fall, we had around twenty. As of April 2007, we have nearly forty. A handful of our partners are commercially viable and able to attract true investment capital. The majority, however, are not top tier. Thus, the Kiva website is providing them with a platform to demonstrate a track record of borrowing that may one day lead to their inclusion in the capital markets.

Out of Africa

During those first long bus rides across East Africa, the business idea behind Kiva had become a vivid picture in our minds. The ensuing two years were an exercise in manifesting that picture in reality. Sometimes, though, reality surprises you and the picture becomes more colorful than your wildest imagination.

We had chosen to focus on Africa because of our experience there. Kiva is a Swahili word and the original vision was Afro-centric. We believed that it made sense from a branding and product perspective. And at the time, there was something off-putting –generic and less respectful –about the idea of lumping poor people from all over the world into one user experience.

By December 2005, when we were defining and growing the partnership program, our decision to work only in Africa came into conflict with reality. By limiting ourselves to Africa, we would artificially reduce our potential partner base by 90 percent. Plus, by early 2006 our user base was growing and we were in danger of not being able to find enough investment opportunities to meet the demand. Signing up great partners was our lifeline. Thus we needed to quickly expand our partnership base and work with well-vetted, growing, and transparent institutions.

While many such institutions exist in Africa, the majority are elsewhere. In fact, Africa currently represents only 10.4 percent of microfinance world-wide; 2 the greatest areas of concentration lie in Southeast Asia and Central and South America. Two factors seem to lead to this skew. First, Africa has a low population density. Microfinance has scaled best in places where crowds of people live in close quarters. Dense populations bring down the transaction costs. The lower the transaction costs, the lower the interest rates. Higher interest rates are less appealing to the poor and thus inhibit growth. Second, microfinance is relatively new to Africa. The first great movements of institutionalized microfinance occurred in

Bolivia and Bangladesh and spread from those regions. It simply hasn't been around for as long in Africa.

We came to see ourselves as a technology platform for microfinance institutions alleviating poverty anywhere. We enrolled partners in Bulgaria, Gaza, Nicaragua, Cambodia, and elsewhere. The effect was not what I expected. The new

regions added so much personality to the site. It was fascinating to see the similarities and differences in microbusiness across disparate geographies. A sense of a global community began emerging, one where cross-geography information sharing could prove invaluable.

As the pan-ethnic personality of the site evolved, so did an unusual cross-cultural form of competition. Our users, given an array of choices, voted with their wallets. Every business on the site thus far has been funded at an average rate of 2.2 days per business, but with significant variance. Lenders showed unambiguous preferences according to region, gender, and business type: Africans first, women first, and agriculture first. A female African fruit seller? Funded in hours. Nicaraguan retail stand? Funded in days. A Bulgarian Taxi Driver? Funded in weeks.

Every business on the site thus far has been funded at an average rate of 2.2 days per business, but with significant variance. Lenders showed unambiguous preferences according to region, gender, and business type: Africans first, women first, and agriculture first. A female African fruit seller? Funded in hours. Nicaraguan retail stand? Funded in days. A Bulgarian Taxi Driver? Funded in weeks.

Funded in days. A Bulgarian Taxi Driver? Funded in weeks.

SURPRISED BY SUCCESS

We had completed our 501(c)(3) application in late 2005. By the summer of 2006, we were still waiting. As we found out, it takes a long time to hear from the IRS. Hurricane Katrina of August 2005 had caused a rush of applications for charities in the United States and the IRS motioned to prioritize these over other applications. For nearly a year, our application was stuck in a pile of papers somewhere in Cincinnati. Meanwhile, Kiva's offline fundraising efforts were handcuffed; no foundation will talk to a "prospective 501(c)(3)". Finally in August 2006 the IRS sealed us with approval and granted us 501(c)(3) status.

By then, we were in a funding crisis. Our revenue model and plan aimed for

Textbox 6. Kiva's Revenue Model

Kiva divides its financial world into two separate buckets—loan volume and revenue.

Loan volume refers to the capital that our lenders send to the entrepreneurs on the site—\$25 at a time. One hundred percent of this money is channeled to our partners and then distributed to the entrepreneurs you see. Neither Kiva, nor our partners, as our agreements dictate, take any money out of the stream as the money flows to the entrepreneurs.

Revenue is capital that flows to the organization itself to fund our own operations—rent, servers, salaries, and other expenses. We calculate and project revenue as a factor of loan volume. Today, we have two streams of revenue—"optional lender fees" and float.

Optional Lender Fees are essentially small donations that our users make during check-out on the website after making a loan. Typically, seven out of ten users choose to donate 10 percent on top of their loan to Kiva. For instance, after making a loan of \$100, the typical user chooses to pay \$10 on top of the loan—bringing the total to \$110. This means that, on a typical day when we process \$50K in loan volume, Kiva might bring in \$3,500 in these optional fees. These small donations are tax deductible and Kiva doesn't pay taxes on any profits made from them.

Float refers to the revenue from the interest accruing in one's bank account. Each day, Kiva receives from lenders world-wide payments that are targeted at borrowers world-wide. We distribute funds to our partner MFIs at the end of each month. In addition, we bill partner MFIs quarterly for the funds that they owe users. We pay back our users at the end of each loan term, which average about one year. Eighty percent of our users re-loan their funds after being repaid. The above factors combine to ensure that Kiva is managing a fund that will grow at well over a factor of two every year for the near future. Kiva earns about 4.5 percent interest in its bank account. Currently, float is a small revenue source that will account for 1-2 percent of our loan volume in 2007, but we expect that to continue to grow over time.

permanent cash-flow positive status three years after launch. (See Textbox 6.) That model assumes that Kiva will bring in 8—16 percent of its loan volume as revenue over time. That summer, however, Kiva was crawling along at \$1000-\$2000 in loans and 25 new users a day. This translates to around \$2,500 in revenue per month, a rate nowhere near cash-flow positive status. We weren't getting traction very fast.

We realized that the Kiva model required an early infusion of capital. We considered venture capital funding, but their goals of a 10-time return on investment didn't mesh with our goals. We also briefly looked for so-called "patient capital" or "blended value" investors, those willing to wait a long time for a return from socially-oriented investments, but had trouble finding them. This new class of

investment is arguably harder to access than donations.

By fall 2006, Kiva had received about \$125K total in startup donation capital in the past twelve months—some coming from the experienced angel investors on the board. At our October board meeting, we were down to \$15K in cash reserves with a monthly burn rate of about \$15K. We weren't sure we could hit payroll. Running out of options, I ran the idea of becoming a for-profit by the board, but they shot it down unanimously. One board member asked us to call him if we were about to hit zero so he could liquidate some of his assets.

First Foray into Financial Sustainability

Around that time, Jessica and I went back to East Africa to be part of filming for *Frontline World* on PBS. It was our first time back since the initial trip two years earlier.

The show aired on Halloween night. The 15-minute piece was incredibly well done thanks to the creative and social vision of Clark Boyd and the *Frontline* crew. It was so well done, in fact, that it took our servers down for four days in early November. Like being in *DailyKos* a year earlier, the *Frontline* event was a game-changing moment for the organization.

Overnight, our loan volume went from approximately \$3K per day to approximately \$30K per day. [See Figure 1: Kiva Growth Chart] Our lender base before the piece was around 6K. Today, it is around 60K. Before the show, we had processed \$500K total in loan volume. By April 2007 we had processed around \$5.5M cumulative and have a goal of being at \$12M cumulative by the end of 2007. The *Frontline* piece was fundamental in making this happen.

The order of magnitude increase in scale took our nonprofit from a point of financial crisis to a relatively healthy state. Since November 2006, we have been essentially cash-flow positive. By this, I mean that our revenue—a combination of optional lender fees and float—has surpassed our costs in the period.

In the future, it is possible that Kiva will introduce additional revenue streams—including charging our MFI partners a small fee and capturing breakage (unused gift certificates and repaid loans)—as the law permits and our users consent. As a mission-driven entity, we will evaluate decisions to increase revenue based upon whether the cause would be better served by such revenue. Any excess, as the tax structure requires, will be injected back into serving the mission of the organization.

The non-profit structure is working for us now, and has several advantages. Prominent among these is users' goodwill and branding. I consider Kiva to be a public property owned by its users. This feel would be harder, but not impossible, to pull off if we were a for-profit. We gain a level of trust as a nonprofit that would be harder to gain as a for-profit.

Equally important are cost savings because of donated services. Right now, PayPal donates free transaction processing to us, which means we aren't charged the usual 3% of every transaction. Our model would be more difficult to pull off

without PayPal's partnership. By being fiercely practical about the decision between non-profit and for-profit tax structures, we have been able to focus on getting work done and maximizing the benefit of our non-profit status; these are tax structures, not religions.

LOOKING AHEAD

Kiva began almost three years ago. Near that time a friend told me that a key to success in any venture is a combination of surrender and attachment. By that, he suggested I surrender all of my fears to a cause greater than myself and attach myself to it with everything. I listened. That single mindedness unlocked a potential I never knew existed. It also took quite a toll on my personal life from which I'm just learning to recover. Similarly, this cause took over the lives of a number of other people. Although only some could be mentioned in a paper of this size, they all have shown what people can achieve when they lay their egos at the alter of something greater than themselves.

This story began because of Jessica's stubborn conviction to go to Africa and get involved in microfinance. She dragged me along on a trip that would change the course of our lives. Since that time, she has made many decisions and connections that propelled Kiva to the next level. Now, upon her graduation, Jessica will find Kiva in a very different spot from where it was when she started her MBA at Stanford two years ago. These changes will allow us to finally synthesize the divergent paths first described in our engagement counseling workbook.

That's what's next for us. For Kiva, this is what's coming.

What About Interest Rates?

While our financial model has now proven itself, we would still like to realize our original vision of having interest rates on the site. The fact that we had to remove them is a sore spot with me.

In cocktail conversations, people say that they wouldn't want their money back after lending it to someone in poverty to start a business. In addition, Kiva has an 80 percent "re-loan" rate. [See Table 1: The Typical Kiva Customer] This means that eight out of ten lenders choose to pour their loan funds into a new business after they are repaid by a borrower on our site. Yet we believe that Kiva needs interest rates for three reasons.

First, today our lenders choose among businesses based on pictures, stories, and MFI repayment history. In the future, MFIs will be able to differentiate themselves through another characteristic: interest rates. From conversations with many of our partners, I know that several of them would be willing to return a percentage of the interest rate that borrowers pay to Internet lenders. Doing so might allow certain partners to differentiate themselves by attributes other than pictures and stories. For instance, interest rate returns to lenders might help facilitate the funding of loans to businesses that tug less at people's heart strings, such as the

Nicaraguan taxi man. Another way to define this difference is “emotional” returns versus financial returns.

Second, interest rates change the relationship between lenders and borrowers from benefactor-to-dependent to business-to-business. We often divide our financial world into two categories—charity and business. Most of us in developed countries grew up thinking about the poor in the developing world as potential targets for charity. We related to them, both passively and actively, as benefactors. Many of the recipients of such aid internalized the message. In my experience, recipients resent benefactors even as they consume the aid.

Benefactor relationships lie in apparent opposition to colonialist relationships. A benefactor assumes that the poor need your help to escape. A colonizer assumes the poor cannot escape. However, both share a common assumption—the poor are helpless. Traditionally, Westerners have related to the developing world as colonizers. In recent decades we have related as both benefactors and neo-colonizers. I would argue that these are two sides of the same destructive mentality. Each side perpetuates the other. So interest rates, which turn a charitable relationship into a business relationship, empower the poor by making them business partners.

And finally, this shift in relationship is made real by the exchange of both money and information. When you receive repayment with interest from an entrepreneur in the developing world, you learn something: you can have a transformational impact in this world by relating to others as a business partner. This information is a key tool in bringing about social change. By allowing lenders to make a small profit from lending to the poor on our site, we could contribute to a larger movement rippling through society—the search for a deeper integration between daily decisions and core values.

Kiva thus continues its effort to allow our partners to post businesses to the site with interest rates attached. Unlike most of our decisions, however, this is mostly out of our hands. What started out as a product question has been reduced to a legal one. We are currently working with a legal team to make this happen, but will ultimately need to defer to the SEC to help bring our vision to ultimate reality.

World’s Largest Database of Micro-entrepreneurs

As I write, MFI administrators in about thirty countries are uploading micro-entrepreneur data to the Kiva platform. As time passes, the site is becoming a repository for borrowers’ names, locations, business plans, loan repayment data, pictures and stories. Last year, at this time, there were about 200 names; in April 2007 there are about 6,000. How many will there be next year?

Our mad dash to collect borrower data will expand not only geographically, but by collection method as well. In the coming years, you can expect Kiva to rely more on the mobile devices loan officers carry as information retrieval tools. In addition, our web-based platform will integrate into existing accounting systems used by MFIs. Our platform may eventually become the only accounting system used by some institutions.

A data-rich system is inherently more transparent. Transparency allows more accurate risk assessments on the site. Lenders can use the fine-grained information to make decisions about where to place their money. The database also serves as a free and open information resource for the public. Detailed impact assessment and social return on investment (SROI) data will provide for more accurate measures of how microfinance affects poverty in the regions we serve.

In many places, the Kiva website is serving as the first ever public record of a particular person's existence. The reputations that entrepreneurs gain on the site enhance their individual reputational collateral in the form of ad hoc credit ratings. Other efforts to quantify micro-credit, such as U.S.-style FICO³ credit scores, are either nonexistent or years away, but the Internet is a promising platform for housing portable credit ratings. One day a borrower moving from one MFI to another, or one country to another, will be able to point to a Kiva profile as a reference point for creditworthiness.

The seed for the Kiva concept came from the child sponsorship model. Child sponsorship has been an effective tool for pulling at heartstrings and attracting donor dollars. However, the classic critique of such sponsorship is that it is a high-overhead business. Using the web as a platform, the Kiva model has the potential to be a very efficient and low-overhead business. We have begun to show that person-to-person microfinance has the potential to go beyond marketing by enabling the exchange of information. In addition to unlocking a new source of capital by reaching micro-lenders, we have the potential to liberate a wealth of information that will prove useful for years to come.

Not a Panacea

The U.S.-based offices of international microfinance organizations are often focused on fundraising. Their home pages and brochures are filled with borrowers' success stories and photographs in order to attract donor capital. As a new practitioner in the field, I cannot be critical of such tactics; I am in awe of the international networks and the awareness they have created over the past few decades. However, all experienced practitioners are aware of the side of microfinance that does not show up in the brochure. Although microfinance can be an amazing tool to fight poverty, it can also be quite harmful when placed in the wrong hands. Predatory lending, fraud, and mismanagement are commonly cited in cases of MFIs that get it wrong. Unfortunately, when an MFI gets it wrong, the clients suffer.

As Kiva grows, so does the likelihood that we will come into close contact with MFIs that don't truly serve the poor in their region. I am also certain that we will confront fraud. Does this mean that that the effort is not worth it? I certainly don't believe so. Instead, it means that we need to approach this model with an ever-growing sense of responsibility. In the first year after launch, our central problem was to attract users to the platform. Now, we need to give these users the ability to make increasingly educated decisions about where to place funds. Achieving

this will require extensive offline monitoring. Now that we have more resources, we are implementing an international auditing and visitation program. This will help us communicate to our users the financial health of our partners, the truthfulness of the information posted on the site, and the extent to which we are fulfilling our mission of alleviating poverty.

Transparency in this next period will be our best weapon against the challenges of growth. This model thrives on information, not marketing. The entrepreneurs represented on the site are not promotional material—they are real people in the course of attracting and paying back loans.

Transparency in this next period will be our best weapon against the challenges of growth. This model thrives on information, not marketing. The entrepreneurs represented on the site are not promotional material—they are real people in the course of attracting and paying back loans. We hope to build a system that surfaces and displays problem cases in a transparent way. Thus, when there is a problem with a borrower or an MFI, our site will simply reflect this fact.

Things will not always be pretty. Certainly, default and delinquency rates will fluctuate significantly in the next few years. Crises in a particular region—political, economic, or natural disaster— will cause temporary drops in repayment rates that

will eventually stabilize. I'd be a fool to say that I can accurately predict repayment rates in the next period since we are operating on the frontier of an experimental field. However I firmly believe that repayment rates will stabilize at well over 90 percent.

Kiva is different from the typical international development organization in that the platform will deliberately show the negative as well as the positive stories. Thus, in cases where things go bad, our lenders will know. I believe that's what makes this experiment all the more worthwhile.

-
1. The Sarbanes-Oxley Act of 2002 in the United States, also known as the Public Company Accounting Reform and Investor Protection Act of 2002.
 2. Derived from current MIX Market data on microfinance. See <<http://www.mixmarket.org>>.
 3. FICO is a credit score scale used by lenders to determine default risk. See <<https://www.ff.com/public/glossary.jsp>>.