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Social Entrepreneurship: Kiva

Jessica Jackley moved to California in 2001 and began working for the Stanford Business School. In 2003 Muhammad Yunis, the Bangladesh economist who in 2006 would receive the Nobel Peace Prize spoke at the school about an innovative program to provide loans to beggars who had been certified with a Grameen Bank identify card. Jackley thought microfinance “was the coolest thing in the world.”¹ Shortly thereafter she went to Kenya, Uganda, and Tanzania to interview recipients of microfinance loans. In 2004 her husband of a year, Matt Flannery, also went to Africa. He commented, “I liked the independent spirit of an informal economy. It’s much more fun than formal economies. You could buy an entire business there for \$500—that was exciting.”²

The couple began to discuss how they could contribute to microfinance, and an Internet approach seemed natural. In October 2005 they ran a pilot trial with eight Ugandan entrepreneurs, as borrowers were called. The couple sent an email to people on their wedding guest list announcing the opportunity to lend—over the weekend all eight entrepreneurs were fully funded. They also sent out a press release that was posted on Daily Kos, and \$10,000 was raised in one day. The first person-to-person micro-lending organization had been born.

At the time Jackley was enrolled in the Stanford MBA program and Flannery quit his job at Tivo to work full-time on Kiva. Flannery explained, “We had no idea what we were getting into. Legally, it’s a minefield.”³ For example, if they took funding over the Internet, would the financing arrangements be considered securities subject to regulation by the Securities and Exchange Commission? Jackley was able to find legal assistance and established Kiva as a 501(c)(3) non-profit organization.

A year later Kiva was featured in a 15-minute segment on PBS and was deluged with funds. Jackley and Flannery appeared on *Oprah* and other television programs and Kiva was featured in

¹ Stanford Business, November/December, 2007.

² Ibid.

³ Ibid.

This case was prepared by David P. Baron from public sources, including the article “Small Change, Big Payoff,” by Cynthia Haven, Stanford Business, November-December 2007.

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Bill Clinton's book *Giving: How Each of Us Can Change the World*. Most loans were funded in less than a day. Kiva also introduced gift certificates, selling \$2.2 million of them over the 2007 Christmas holiday season.

Kiva recruited as president Premil Shah from PayPal, who obtained a commitment from the company to handle Kiva's transactions without charge. Shah had become interested in microfinance as an undergraduate at Stanford University and had worked in India for a microfinance organization. Shah commented about Kiva, "We have all the complexity of being a Silicon Valley start-up that is growing real fast, coupled with the complexity of international financial transactions. It's a complicated model, with a lot of due diligence and screening required."⁴

Lenders received no interest on their loans, but their principal was repaid and lenders could take their funds or relend them to other borrowers. Most of the lenders relended their funds. Although lenders received no interest, Kiva hoped to be able to provide a small return to lenders in the near future. Interest payments would also help with the problem that "...some causes are more popular than others. Widows in Africa are almost always funded immediately, but men in Central America often have to wait longer. The Kiva team plans to experiment with higher interest rates on less popular causes to help attract funders."⁵

Kiva, which means "unity," "agreement," or "concord" in Swahili, matched lenders with entrepreneurs over the Internet. Fiona Ramsey of Kiva explained the role that the organization played: "People are by nature generous and want to help others, but they want to do it in a way...where they can really see how they're making an impact on somebody's life. We all see [the philanthropic work that] Bill Gates and Oprah do, and we'd love to do that ourselves. But few of us can afford it." She added, "Right now, we can't offer a financial return on your investment. But we can offer you an emotional return."⁶

The matching of lenders and entrepreneurs took place on www.kiva.org, which not only provided the match but also established a personal link. Shah explained that people do not give to beggars on the street or charities over the telephone because of a lack of transparency. He said, "I don't know where that money's going to go. I don't know if it will be well used. So we back off on giving."⁷ Through Kiva lenders could see the persons to whom they were lending as well as descriptions of the use of the loans and learn about the differences the loans could make in their lives. Approximately 100 entrepreneurs were listed at any one time. Lenders chose how much and to whom to lend. Lenders received email progress reports on the use of the loans, and entrepreneurs made monthly payments on the loans. Kiva later decided to limit to \$25 the amount any one lender could lend to a single entrepreneur, so that more people had a chance to lend to the person.

Kiva did not select the entrepreneurs but instead relied on field partners—microfinance organizations with people on the ground in various countries. Field partners identified and

⁴ Stanford Business, November/December, 2007.

⁵ Business Week, July 31, 2006.

⁶ Los Angeles Times, October 18, 2007.

⁷ Toronto Star, June 14, 2007.

screened entrepreneurs, and funds were sent by Kiva to the field partner, who passed them on to the entrepreneur. The field partner administered the loans, collected the monthly payments, and remitted them to Kiva. In some cases the field partners visited borrowers on a daily basis by bicycle. Field partners set the interest rates on loans, which overall averaged 22 percent. The rates varied considerably from 4 percent to 50 percent. Rates in Latin America were the highest but were less than those charged by money lenders which were as high as 100 percent. The interest payments were retained by the field partner to cover costs. As of spring 2008, Kiva had 96 field partners in 45 countries, although not all partners were active.

Loans were short term with most maturities between 6 and 12 months. Entrepreneurs could borrow again, and their credit histories were displayed on the Internet page next to their biography and planned use of the loan. In addition to a picture and information about the entrepreneur, the Internet page displayed information about the field partner, including its risk rating, total loans, time with Kiva, delinquency rate, and default rate.

On its Risk and Due Diligence page, Kiva warned lenders about the potential risks associated with their lending. Risks were associated with the borrower, the field partner, and the country. Loans were made in countries such as Afghanistan and Iraq, which posed risks. Kiva's relations with field partners could also be subject to risk such as fraud or embezzlement, and each field partner was either active, paused, or closed. Entrepreneurs also posed risks ranging from uncontrolled events like a bad crop to diversion of the funds. Ramsey observed, however, that "we have a perception of the poor as a [poor] credit risk, but actually they're a very good credit risk. The poor are motivated to be successful. Usually, this is their only chance for a loan."⁸

As of spring 2008, Kiva had 27 employees and 250 volunteers, had funded loans of \$27.2 million, and reported a repayment rate of 99.67 percent. Kiva's operating expenses were covered by donations by individuals and foundations. Lenders could donate 10 percent of their funds to Kiva for operating expenses, and those donations provided the bulk of its funding. Silicon Valley firms also assisted with operations.

The limits on Kiva's growth were not in obtaining funds but rather in identifying borrowers and maintaining integrity in the lending process. Field partners had difficulty expanding because their work required people on the ground to visit entrepreneurs and verify the needs of prospective borrowers, distribute funds, and collect repayments. Kiva monitored its field partners and gave them a rating of one to five stars. The maximum amount Kiva provided was \$100,000 a month for a five star partner and \$10,000 a month for a one star partner. Finding field partners was time consuming, requiring considerable due diligence and financial and reference checks. The objective was to find reputable and reliable partners, so as to maintain the integrity of the Kiva system.

⁸ Wall Street Journal, March 20, 2008.

PREPARATION QUESTIONS:

1. What roles does the Internet play in the success of Kiva?
2. Identify the management challenges Kiva faces.
3. What are the limits to the growth of Kiva?
4. Are there additional roles or services that Kiva could provide to help the poor?
5. What potential threats does Kiva face?