



PERSONAL BANKING

A YOUNG SAN FRANCISCO COUPLE ADVANCES THE STATE OF MICROFINANCE, HELPING ENTREPRENEURS THROUGHOUT THE DEVELOPING WORLD

BY DINA MISHEV



Ecuador's Alexandra Castro used her \$925 loan to expand her business: The money enabled her to begin buying inventory in large, wholesale-priced quantities.



Clothing maker Rose Amoit of Kenya needed capital to obtain enough materials to keep pace with growing demand. A \$450 Kiva-brokered loan did the trick.



IT WAS 2004, AND THEN-28-YEAR-OLD Matt Flannery was working in high tech in Silicon Valley. His new wife, Jessica, 27, wanted to study microfinance and live in Africa. Neither one of them was up for *that* long-distance a relationship.

The newlyweds solved their problem by helping others with theirs, forming www.kiva.org, a Web-based start-up in San Francisco. Their first loan was \$500 to Elizabeth Omalla, a fish seller in Uganda who wanted to expand her business. She paid it back six months later.

“There are so many entrepreneurs in the developing world,” Matt says. “They know what they want to do and how they can do it, but money is often the missing ingredient. As business people themselves, they understand the difference between a loan and a handout. From our first test loans, we realized they took the responsibility of a loan very seriously.”

Kiva, launched in October 2005, didn’t invent the idea of providing small loans to the developing world’s “unbankables”—the industry term for those with no credit history and no collateral. Germany had village banks for rural farmers in the 1860s. Quebec was doing something similar in the early 20th century. Numerous institutions were providing these types of small loans worldwide by the 1970s. But the trend reached critical mass in the 21st century, and now there are microfinance sites for every type of investor. MyC4 (myc4.com), for example, a Copenhagen-based microfinance site active in sub-Saharan Africa, works with an impressive roster of 5,000 businesses and 25,000 investors; the eBay-owned MicroPlace (microplace.com) is registered with the Securities and Exchange Commission and its loans are secured. Those investing through the former do not receive interest; those working with MicroPlace can expect a 2 to 3 percent return. In 2006, when microfinance pioneer Muhammad Yunus won the Nobel Peace Prize, 3,133 microfinance organizations, including 89 “field partners” that Kiva works with, provided loans to 113 million borrowers.

“Microfinance isn’t about foreign donors coming in as great benefactors, doling out money to the poor,” says Premal Shah, who left a job at PayPal, which handles money transfers via the Internet, to be Kiva’s president. “Lending money rather than giving it shows mutual respect. You

find a microentrepreneur you believe in for whatever reason and you enter into a business relationship with them. You’re equals.”

If the Flannerys didn’t invent microfinance, they certainly helped to reinvented it. Anyone in the world with a credit card or PayPal account (paypal.com) and a minimum of \$25 can make a Kiva microloan to the borrower of their choice. It’s microfinance for the masses, with a side of social networking. After logging in, lenders sort potential borrowers—dairy farmers in Tajikistan, seamstresses in Uganda, taxi drivers in Bulgaria, butchers in Guatemala—by gender, nationality, business type, amount of need, and level of risk. As in most business ventures, Kiva learned the hard way that you’re only as reliable as your partners: that last criterion was added in 2008 after Kiva found that five of the microfinance institutions (MFIs) they worked with in Africa were mishandling funds. Once a lender has made a loan, the funds—PayPal waives its usual payment-processing fees for Kiva—are sent for dispersal to the local MFI that first approved the borrower’s loan request. Kiva charges borrowers no interest—although the local MFIs it works with do. Lenders do not make money from Kiva transactions; they are reimbursed only for the exact amount they loaned. Many immediately stake new borrowers.

IN THE THREE SHORT YEARS SINCE KIVA was launched, its work has expanded well beyond Africa: some 336,000 lenders have funded more than 60,000 loans, totaling more than \$42 million, through 89 partner MFIs in 42 countries. Nearly 30 staff members work in Kiva’s Mission District offices. Business is brisk: occasionally potential lenders have logged on, only to discover there were no more loans to fund, and its default rate is one traditional banks would kill for: 1.5 percent. Matt, who was working as a programmer at TiVo when Kiva first went live, found himself appearing on *Oprah* with President Clinton. “Oprah us



Left to right: Kiva Foundation co-founder and CEO Matt Flannery, president Premal Shah, and co-founder Jessica Flannery.



Ali Azimov, a cattle, sheep, and goat farmer near the village of Qaraqoyunlu, Azerbaijan, used his \$1,200 microfinance loan to purchase food and supplies for his livestock.



Kem Pharin, a water spinach farmer in Thnot Chum Village, Cambodia, reduced her overhead by purchasing (instead of renting) a motorbike cart for transporting crops to markets.





d Moussa Dieng and three business partners operate a cattle-raising business in the village of Mout, Senegal. Their \$1,200 loan financed the purchase of new animals and veterinary care.

intimidating, President Clinton is not," he says. "Jessica and I were sitting in the audience and didn't know when we would be called up or what she would ask. It felt a little like being in grade school and getting called on."

No one is more surprised than Matt that Kiva has emerged as one of the hippest, helpingest Web sites since, well, ever. "Everything that has happened with Kiva blows my mind on so many levels," Matt says. "I'm so notoriously unqualified to be a banker, and now I feel personally responsible for millions of dollars. I was a programmer, and now I'm speaking in front of people." Of course, these days he has plenty of help with the banking: Kiva staffs a team of 12 microfinance professionals with more than 60 years of experience in the field.

The lenders are sharing the love. "I used to give a fairly significant amount of money to charity," says Kiva lender John Kelly. "But I never felt like I was making a difference. It was like the money would disappear into nothingness." In August 2008, Kelly received a "field update" email from

Kiva about one of his eight borrowers: an Internet café owner named Cookey Nosayana in Benin City, Nigeria, had cut his fuel costs in half with the gas generator he'd obtained with his loan money. "It doesn't matter to me so much whom I'm making a difference to as long as I know I'm making a difference to somebody," Kelly says.

Bill Tucker, a 30-year microfinance veteran and now executive director of the Small Enterprise Education and Promotion (SEEP) Network, says, "Kiva's runaway success stems from the way it allows ordinary households in the United States to learn about microenterprise borrowers in developing countries, and to therefore engage personally in the field of microfinance." Micro begets macro: Matt Flannery, in addition to finding an especially inventive way to preserve his young marriage, discovered something about the world. "I started out being pretty skeptical of people's willingness to be generous," he says. "Now I'm humbled by how many people care." □

For more information, visit kiva.org



Gs Grocer Roselyne Namalwa Makendo of Mayanja, Kenya, used her microfinance loan to increase her inventory. Like everyone featured here, she paid the loan back—in full and on time.

"LENDING MONEY RATHER THAN GIVING IT SHOWS MUTUAL RESPECT," SAYS KIVA'S PRESIDENT.



Chiyenure Uwobodo, a self-employed hairdresser from Benin City, Nigeria, expanded her business's offerings by using a \$250 loan to invest in new hairstyling equipment.



Tailor Patience Okpuigie, owner of Patience Fashion Design Material Store in Benin City, Nigeria, used her recent \$400 loan to purchase clothing for new materials.

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