

Microfinance : Microcredit

Kiva.org - Become a Microlender

Business Week called it the "eBay of microfinance." The Wall Street Journal told readers they could now "act like a Noble Prize winner." Kiva.org has changed the face of microfinance by giving thousands of Internet users an easy way to loan money directly to entrepreneurs in the developing world.



Jane Wambui Chege is one of many entrepreneurs featured on Kiva.org. The 46 year-old mother of two sought a loan to renovate her pig shed and buy feed. (All photos: Courtesy Kiva.org)

In a nutshell, Kiva.org allows anyone with a credit card and Internet access to make zero-interest loans to low-income entrepreneurs in over twenty countries. "Kiva.org has given microfinance institutions and low-income entrepreneurs access to a new source of capital – small amounts of cash sitting in the pockets and bank accounts of people in the developed world who don't mind lending it for twelve months," explains Fiona Ramsey, who manages community and operations at Kiva.org. "It is democratized philanthropy, because for only 25 dollars, anyone can get involved."

A virtual marketplace of growing businesses

The basic idea behind Kiva.org is simple. The website displays profiles of entrepreneurs in the developing world who need loans for their small businesses. From hundreds of profiles – a virtual marketplace of growing businesses – potential lenders choose projects they want to finance with no-interest loans, and transfer the money using PayPal. Since Kiva.org is a small, San Francisco-based non-profit, it relies on partner microfinance institutions – now over thirty around the world – to distribute the loans and collect repayments. These MFIs charge the entrepreneurs an average interest rate of 15 percent, well below the MFI standard of 30-35 percent.

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Take the example of Christine Sorora, a Kenyan entrepreneur who was featured on Kiva.org's website in January 2007. Next to a photo of Christine, potential lenders could read that she is married, has two

children, and is active in her community. One could also see that Christine sought a 750 US dollar loan to purchase more clothes to sell at her stand in downtown Ongata Rongai.

If a Kiva.org user liked Christine and wanted to help her realize her business plan, they could loan her 25 dollars. But the interaction with Christine would not have to stop there. Until the loan is repaid into their PayPal account, lenders get periodic updates about Christine and how her business is going.

Not a single defaulted loan

There are several aspects of Kiva.org that make it attractive to potential "armchair" philanthropists. Certainly, the simplicity of modern online transactions ease the process of financing a small business thousands of miles away. Another "plus" is the low risk of lending on Kiva.org. Of the over 4,000 businesses that have been financed via Kiva.org to date – around 2.5 million US dollars of loans – not a single entrepreneur has defaulted on a loan.

But according to Fiona Ramsey, most people are driven to lend money by the person-to-person connections that develop between lenders and entrepreneurs. Building personal connections and partnerships motivates many Kiva.org lenders to finance not just one or two, but several different projects. "Kiva.org highlights similarities between people," says Ramsey. "Rather than focusing on the fact that these people are poor, Kiva.org promotes the fact that these entrepreneurs are in many ways just like you – they have dreams and plans and given the right opportunities can be very successful. After all, most people – even in the United States – will need some kind of loan over the course of their lives."



Christine Sorora sought a 750-dollar loan to buy new clothes for her shop in Ongata Rongai, Kenya. Just weeks after her project was featured on Kiva.org, she had reached her goal.

"Kiva.org very much started as a hobby and as an experiment," recalls Matt Flannery, who founded the website with his wife, Jessica, in 2005. They had both spent time in Uganda and Kenya, and were inspired by the entrepreneurial spirit and ability of people they met there who had launched successful businesses with very little money.

Upon returning to northern California in 2004, Matt built a small website featuring pictures and descriptions of entrepreneurs in one Ugandan village who needed some capital. Matt and Jessica sent the website around to friends and family. Before long, all of the entrepreneurs featured on Matt's website had the capital they needed. The Flannerys' network had raised around 3,000 dollars in an astonishingly short period of time. And within six months, every cent of the money had been paid back.

Next step: lenders collect interest

"Friends and family were feeling connected to the entrepreneurs," says Flannery. "It is different than a donation. Once your loan gets repaid, it is kind of proof that your money was put to good use."

A year after this first experiment with online microlending, Matt and

Jessica founded Kiva.org (the name comes from the Swahili word for "unity"). Since then, Kiva.org has received a good share of media attention for its innovative, peer-to-peer approach to microfinance, and has grown into one of the most-visited microfinance-related websites in the world.

Flannery says his non-profit will continue to expand its network of partner MFIs around the world. Meanwhile there are plans to equip the website with more options for social networking – a hallmark of the so-called "Web 2.0" generation of user-driven Internet sites. Kiva.org lenders may also soon have the option of collecting interest on loans, which could attract a new breed of investor entirely.

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