CASE: E-288
DATE: 2/05/08 (REV'D 1/30/09)

KIVA

This is not charity. This is business: business with a social objective, which is to help people get out of poverty.
—Muhammad Yunus, Founder and CEO, Grameen Bank

INTRODUCTION

Jessica Jackley Flannery, the cofounder and chief marketing officer at Kiva.org (Kiva), an online microfinance nonprofit, stepped into her car after a long day of meetings and media appearances. It was an exciting and busy time. Kiva was growing exponentially and receiving an unprecedented degree of positive press and user feedback. In the midst of the whirlwind, Flannery appreciated having a few minutes of downtime to reflect on how far her organization had come, as well as how to best shape it for continued success and impact.

GLOBAL MICROFINANCE[1]

Microfinance is the supply of basic financial services to the poor, including loans, credit, savings, insurance and transfer services. The formal financial sector has not traditionally been accessible to the impoverished entrepreneurs who comprise most of the world's working population. Instead, informal systems and relationships, including loans from neighbors or relatives, and rotating savings/ credit clubs, have filled this gap. While such solutions have worked for some and are often the only option available, they can be inconsistent and unreliable during times of tremendous need. In addition, poor entrepreneurs can become trapped in vicious cycles of borrowing from local moneylenders, who may demand exorbitant interest rates.

Traditionally, banks were unwilling to provide loans to poor entrepreneurs due to the perceived risk. Common concerns included the fact that the unbanked were often illiterate, had no collateral, no prior credit history, and were not employed by anyone other than themselves. However, in 1976, Muhammad Yunus, seen by many as the visionary behind the microfinance movement, bucked conventional wisdom and loaned the equivalent of $27 of his own money to

[1] This section is excerpted and modified from the Stanford GSB case: Equity Bank (A), case no. E-260.

Bethany Coates prepared this case under the supervision of Professor Garth Saloner as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

some poor craftsmen in Jobra, Bangladesh. After all of the borrowers repaid, he repeated the experiment with more villages, and over the years, grew his series of experiments into a multi-billion dollar bank that has provided small loans to over 5 million people worldwide. Years later, Yunus noted, "At Grameen, we don't have any legal instrument between the lender and the borrower…. Everybody asks, 'What will happen if nobody pays back?' I say, 'But everybody pays back, so why should I worry about that?'"[2] Grameen Bank charged 20 percent interest and reinvested all but 10 percent of earnings back into its operations.

As Grameen grew, other leading microfinance institutions (MFIs), including ACCION International and Opportunity International, began to emerge and based their work on the same bold ideas as Yunus: that the poor could reliably repay their loans, with interest, and could use the profits to grow their businesses. Mission-driven, nonprofit MFIs also entered the market. These organizations tended to pursue very rural or otherwise unreachable clients, even at great cost. They were able to provide financial services, including credit, tailored to the unique needs and limitations of the poor. Microfinance products and services provided by a nonprofit versus a for-profit tended to be more flexible, forgiving, and higher-touch. They were also typically bundled with education and training. To widely varying degrees, nonprofits would subsidize and/or pass along the higher costs associated with their in-depth services to clients. These MFI providers commonly prioritized immediate poverty alleviation, coupled with outreach to the poor, ahead of profitability.

Not all of the new entrants embraced Yunus' original vision of lending to the poor at low interest rates. Yunus, who won the Nobel Peace Prize in 2006, criticized Banco Compartamos (BC), Mexico's most profitable bank, in particular. BC began in 1990 as a non-profit organization supported by aid from international donors. It served mainly indigenous, rural women in some of Mexico's poorest regions. However, by 2006 the organization had transformed into a commercial bank. According to Yunus, "They're absolutely on the wrong track. Their priorities are screwed up."[3] By 2007, Banco Compartamos charged an average interest rate of 81 percent. Yunus argued that capital became too expensive under those terms and no longer enabled the world's poor to ascend from poverty. In his view, this was not microcredit, but rather, "raking in money off of poor people desperate for cash."[4] Some pundits disagreed with this view. The World Bank and ACCION were original investors in Banco Compartamos. Maria Otero, the president and CEO of ACCION, argued that BC was establishing long-term viability by gaining full access to the formal financial system.[5] BC CEO Carlos Danel noted, "In the end the idea is to grow aggressively and to reach as many people as possible in a short amount of time. It's not popular for everyone, but we think that for our situation, this institution, it works."[6] BC reached 700,000 borrowers, almost 90 percent of whom returned for more loans.[7] The bank had a successful initial public offering in April, 2007, which valued the institution at $1.4 billion.

[2] Cynthia Haven, "Small Change, Big Payoff," *Stanford Magazine*, November/ December 2007.
[3] "Yunus Blasts Compartamos," *Business Week Online*, December 13, 2007.
[4] "Muhammad Yunus Challenges Compartamos Bank," *Private Sector Development Blog*, October 1, 2007.
[5] "Remarks by Maria Otero," *Microcredit Summit E-News*, Volume 5, Issue 1: July 2007.
[6] Ibid.
[7] "Muhammad Yunus Challenges Compartamos Bank," *Private Sector Development Blog*, October 1, 2007.

As microfinance gathered steam, critics of the discipline emerged. "Destitute and hungry people with no income or means of repayment need other kinds of support before they can make good use of loans,"[8] noted one organization. Fawzi Al-Sultan, president of the International Fund for Agricultural Development, urged proponents not to forget that a loan "constitutes a burden for the poor borrower."[9] In a similar vein, Paul Gosen of the United Nations Capital Development Fund said that credit "can even deepen poverty." He continued, "The poor are creditworthy, yes, but sometimes grants—such as the capital for start-ups, training programs, technology upgrades, capacity building and rehabilitation—are a more appropriate approach to reducing poverty than extending loans."[10] Other commentators questioned whether organizations that offered credit alone, as opposed to a holistic range of services (e.g., savings, insurance, cash transfers, management skill-building), would enable the poor to adequately afford food, shelter, education, and healthcare. In the mid-1990s, one observer noted, "After eight years of borrowing, 55 percent of Grameen households still aren't able to meet their basic nutritional needs.… Unless borrowers' graduation from low-level incomes to higher levels is encouraged or achieved, many members will become permanently dependent on Grameen Bank credit."[11] The suggestion also circulated that wealthy governments embraced microfinance because of its potential to reduce or transfer the financial burden posed by foreign aid budgets.

Despite these concerns, by 2006, there were approximately 10,000 MFIs in existence. An emerging group of funds that sought to link the microfinance industry to the capital markets began targeting the 200 largest and most established MFIs. These "Tier 1" MFIs had reached substantial size, were professionally run and offered transparent financial statements to the public. While this select group had ready access to capital, the other 9,800 MFIs continued to have trouble both raising debt on favorable terms and building up a level of creditworthiness that would enable them to someday become Tier 1 entities. These organizations typically had limited financial and organizational resources, were difficult to find and contact regularly, and were not always built on sustainable models.

In 2007, average microfinance loans were only a few hundred dollars, a fact which made scale an important component to the profitability of MFIs. Due to the relatively high expense involved with offering many small loans rather than a few large ones, microlenders covered their costs by charging interest rates well above average bank loan rates. MFI interest rates worldwide centered around 35 percent, and were ideally similar to local credit card interest rates. Loan repayment periods were relatively short, often between 6 and 12 months, and repayments were collected frequently (e.g., weekly). This system helped borrowers stay on track by managing regular, small payments on loans for specific purchases. For example, a farmer living in a dry region of sub-Saharan Africa might want to irrigate her land in order to produce a greater harvest. Borrowing as little as $100, she could invest in a water pump, use it to irrigate her fields, and if all goes well, pay off her loan plus interest within a matter of months. MFIs also typically required borrowers to become part of a lending group that served as a self-reinforcing community of support, encouragement, and accountability.

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[8] The Consultative Group to Assist the Poor, "*Key Principles of Microfinance*."

[9] Gina Neff, "Microsummitting," *Left Business Observer*, #77, May 1997.

[10] Ibid.

[11] Ibid.

In 2006, microcredit institutions reported reaching 113.2 million clients, 81.9 million of whom were among the poorest when they took their first loan.[12] Of these poorest clients, 84.2 percent were women. Women repaid loans more consistently than male borrowers. Additionally, MFIs viewed women as ideal clients due to the perception that they were more disciplined about reinvesting profits back into their businesses, or into improving their family's standard of living (e.g., health and nutrition, education for their children).

THE KIVA FOUNDERS

Jessica Jackley Flannery

Jessica Flannery graduated from Bucknell University in 2000 with a BA in philosophy and political science. In 2001, she became a staff member of the Public Management Program (PMP) at the Stanford Graduate School of Business (GSB), where she helped launch the inaugural Global Philanthropy Forum. In 2003, Flannery heard Muhammad Yunus, the founder of Grameen Bank, give a talk that inspired her to find an innovative way to lend to the poor. One year later, Flannery spent three months performing an impact evaluation analysis in Uganda for the Bay Area-based nonprofit Village Enterprise Fund (VEF). VEF's mission was to help start small businesses in East Africa through modest grants and loans. During that trip, Flannery brainstormed the idea behind Kiva (which means "unity" or "agreement" in Swahili) with her husband, Matt Flannery. The couple cofounded the organization while Jessica obtained her MBA from the Stanford Graduate School of Business (GSB). She graduated from the GSB in 2007 with Certificates in Global Management and Public Management.

Matt Flannery

Matt Flannery graduated from Stanford University with a BS in symbolic systems and a master's degree in analytical philosophy. An aspiring entrepreneur, he co-developed Kiva as a side-project while working as a computer programmer at TiVo, Inc. In March 2004, Matt spent a month with his wife in East Africa, recording her interviews for a documentary on small businesses in Uganda. "I witnessed firsthand the painful decisions familiar to anyone who has lived in poverty," Matt recalled. "Whether to pay school fees, put food on the table, or buy medicine for a child suffering from a curable sickness."[13] In December 2005 Matt left TiVo to become CEO of Kiva. In that role, Matt led Kiva's growth from a pilot project to an established online service. Matt Flannery is a Draper Richards Fellow and a featured blogger on the Skoll Foundation's Social Edge website.

KIVA: THE EARLY STAGES

Both Jessica and Matt Flannery had grown up sponsoring children in Africa through their churches and families. As the Flannerys traveled around Uganda during March 2004, they carried on a "non-stop" conversation regarding the best ways to help Africa's struggling entrepreneurs. The couple wanted to facilitate loans rather than donations, since, as Matt noted, "Lending to somebody sends the message that you're treating them as an equal, someone who

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[12] The Microcredit Summit Campaign: 2006 Report.

[13] Matt Flannery, "Kiva and the Birth of Person-to-Person Microfinance," *Innovations*, Winter/ Spring 2007, MIT Press. Unless otherwise noted, all quotes from Matt Flannery come from this source.

can participate with you in a business relationship. It's a really dignified way to interact."[14] They soon settled on the basic idea for Kiva—a self-regulating, online lending marketplace where microfinance institutions could raise loan capital to fund projects for small businesspeople in developing countries.[15]

Upon their return to the United States, the Flannerys set up meeting after meeting with contacts (no matter how distant) in microfinance. They also wrote an early business plan which described the key components of their venture in more detail. Kiva would be an online platform that provided opportunities for people to connect with and invest in individual small-to-medium enterprises (SMEs) in the developing world through loans as small as $25, each to be paid through Paypal and/or credit cards. Existing MFIs would partner with Kiva to identify appropriate SMEs and to facilitate the administration of the loans. Lenders would receive their money back over the course of a year, with interest rates capped at 5 percent. While the loan agreement was in place, lenders would also receive frequent, current updates from the MFIs on their borrowers.

The Flannerys ran into a tremendous amount of resistance from microfinance experts. Jessica noted, "We were told it was way too daring, way too scary."[16] Four obstacles were raised most frequently:

- **Legal issues** – the Flannerys wanted to offer interest rates on the website, which might mean that the loan would be considered a security rather than a donation. Offering an investment to the public triggered a long list of SEC requirements, including the necessity to sufficiently collateralize products and to invest only in entities that complied with U.S. equivalent accounting standards. In addition, a number of laws protected the private American investor from fraud, and the rules changed from country to country. "Legally, exchanging money on the Internet is a minefield," Matt said.[17]
- **Organizational type** – Setting Kiva up as a nonprofit was the fastest way for the Flannerys to get the site up and running. However, it was unclear whether a charitable organization with 501(c)(3) status could extend loans rather than donations on behalf of its participants. Complicated tax implications for both Kiva and its lenders might also arise upon the return of the principle or profit from a loan.
- **USA Patriot Act** – Kiva would allow lenders to connect with entrepreneurs in some of the most remote and unstable areas on earth. The U.S. Department of Homeland Security published guidelines for how to avoid mistakenly funding a terrorist group. However, there was no way to predict exactly who might be scrutinized for sending money to people in places like Iraq and Afghanistan, or precisely how one might violate the Act.
- **Scalability** – A common theory circulated that, for microfinance to have a significant impact on world poverty, MFIs would need to be integrated into the global economy and tap into the capital markets. Yet, most MFIs did not qualify for commercial grade investment. Rather, they relied on donations, especially during their early years of

[14] Amy Crawford, "I, Lender," *Smithsonian Magazine,* October 2007.
[15] Matt Flannery, op. cit.
[16] Cynthia Haven, op. cit.
[17] Ibid.

operation. Skeptics questioned how Kiva could find enough appropriate MFIs with a reasonable number of borrowers to help them establish a creditworthy track record.

Just Do It

By December 2004, after 10 months of skepticism, disapproval and rejection from industry insiders, the Flannerys questioned whether to go on. "The process of asking for permission had taken a toll on us. We had lost touch with the reason we'd started at all," Matt noted. "The only progress we had made for months were a few meetings and tweaks to the all-important business plan." The couple felt they faced a choice: to begin at once (and face potentially serious consequences) or to shut down the project. Matt recalled, "We decided to 'just start' and see how things played out over time."

During the first quarter of 2005, the Flannerys built a beta version of the website (**see Exhibit 1**). After calling 47 law firms, Flannery finally located an attorney willing to help establish Kiva as a nonprofit. In order to avoid running afoul of the SEC, they decided not to offer interest rates on the site. However, the MFI partners, who would distribute the loans to local entrepreneurs, would still lend at prevailing interest rates and would keep the interest income (**see Exhibit 2**). Any losses were to be borne by the lenders, not the MFIs.

The couple worked with Moses Onyango, a pastor they met during Jessica's VEF study, to identify seven Ugandan entrepreneurs who could benefit from small loans. In April 2005, the Flannerys e-mailed a description of Kiva, its mission and the businesspeople it currently featured, to a list of 300 friends. Within two days, the organization had raised $3,500 and all seven enterprises had been funded. In doing so, Kiva had become the first online peer-to-peer microcredit marketplace. Matt recalled, "We were blown away; everything worked. It was better than we expected."[18] Onyango used the Kiva website as a blogging platform and regularly entered updates and progress reports on the entrepreneurs (**see Exhibit 3**). His profiles became a reason for lenders to check back on the site, and perhaps to loan again.

The Spark

The Flannerys knew that they needed more scale to truly prove the model. Throughout the summer and fall of 2005, they worked with Onyango to find 50 additional Ugandan entrepreneurs. Once the SMEs had been posted to the site, Kiva sent out a press release. For the first month, there was very little response. Then, as Matt described, "something happened":

> My day started as usual. I took the Caltrain to work and logged into my computer. I had received nearly 1,000 e-mails to my Kiva address. I checked the database logs and saw that we had raised about $10,000 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.

Jessica said, "We were going to do this anyway, but to see other people respond was just the most exciting and affirming thing."[19] In short order, Matt quit his job at TiVo with Jessica's

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[18] Ibid.

[19] David Smith, "This Week We Want to Know About…Kiva.org," *The Observer*, December 10, 2006.

encouragement, and began building the organization. Although the couple had not raised any capital, Kiva attracted "a self-selected group of people who possessed more drive, energy, and pragmatism than money can buy."[20] The team grew quickly to include heads of partnerships, marketing, technology and public relations. Kiva also attracted Premal Shah, who became president. Shah, a six-year Paypal veteran who had recently spent a sabbatical in India working for an MFI, also brokered a deal with his former employer for free payment processing, which otherwise would have cost 3 percent of each transaction.

Lending Partners

The Kiva team decided to differentiate the organization by working with Tier 2 to 4 MFIs. Some would have access to formal investment capital, but most would not. The peer-to-peer model was a key factor in this decision. Matt noted, "Individuals lending small amounts at a time have a greater appetite for risk than commercial institutions." Furthermore, Kiva planned to use the Internet as a reputation-building mechanism, whereby MFIs could develop a track record for borrowing and paying back (similar to the way that eBay allowed lesser-known users to become major e-commerce players through credibility scores). They hoped the record would potentially lead to the inclusion of some MFIs into the capital markets. In its first year, Kiva broadened its geographic scope outside of Africa. Many small businesses from around the world were featured, including a hot dog vendor in Nicaragua, a bee keeper in Ghana, and a spinach farmer in Cambodia. The MFIs lent money at an average interest rate of 22 percent.[21] The rates, which ranged from 4-50 percent, varied based on the size of the MFI and the services it performed for borrowers as well as where it was located.

Revenue Model

Kiva had four revenue streams:

- **Optional Lender Fees** – 70 percent of Kiva's lenders chose to donate 10 percent on top of their loan directly to Kiva (e.g., a $2.50 donation would be added to a $25 loan).
- **Float** – Kiva received loans daily, but distributed the funds to MFIs monthly. In the meantime, the nonprofit captured interest on the capital accruing in its bank accounts.
- **Institutional Grants** – Foundations including Kellogg, Draper Richards, and DOEN, provided Kiva with large grants to fund its operations.
- **Payments for Services** – Credit card and other companies occasionally paid Kiva to design online tools for their employees to use in-house and to lend to the poor.

As they looked ahead, the Flannerys and their team also considered bolstering revenue by charging MFIs a small processing fee and/or capturing "breakage" (e.g., gift certificates or repaid loans that go unused for some specified period of time).[22] Before being implemented, these modifications would be subject to the law and the wishes of Kiva's users.

Although the nonprofit had made tremendous progress, it had also weathered some bumps. One of the most painful was the realization that Moses Onyango had committed a substantial fraud by siphoning off hundreds of thousands of dollars (which, in Uganda, had the purchasing power

[20] Matt Flannery, op. cit.
[21] Sonia Narang, "Web-Based Microfinancing," *The New York Times,* December 10, 2006.
[22] Kiva sold $2.2 million in gift certificates during the 2007 holiday season.

equivalent to millions of dollars) from Kiva lenders, who thought they were supporting the efforts of struggling small business owners. The Flannerys were dismayed on both personal and professional levels. Jessica noted, "Moses hosted me during my time in Uganda. We were extremely close friends—which made the depth of his deception all the more disappointing." It also jeopardized the site's credibility with lenders. Onyango had falsified everything from the entrepreneurs themselves, to his organization's legal documents, to the names of his employees. Once Kiva uncovered the fraud, Matt and several colleagues flew to Uganda with the objective of recovering the funds and starting legal action.

KIVA TODAY

By 2007, global investments into the microfinance sector had reached $2 billion, and 133 million families had received a microcredit loan within the past year.[23] Deutsche Bank projected that retail and institutional investments into microfinance would hit $20 billion by 2015.[24] Kiva itself received a substantial boost from a number of high-profile media successes. Former President Bill Clinton described the nonprofit in his bestselling book, *Giving*. The *New York Times* journalist Nicolas Kristof profiled his experience with Kiva in an editorial piece. Then, in September 2007, Oprah Winfrey featured Kiva on her daytime TV show, thereby attracting an enormous amount of interest from "Middle America." Demand was so high on the day the episode aired, that it crashed the site. By the end of the year, Kiva had become the fastest-growing nonprofit in history.[25]

While Kiva attracted increasing amounts of positive attention, other players started entering the market with variations of the nonprofit's model. For example, Microplace, a for-profit, wholly owned subsidiary of EBay, was an online, SEC-registered broker/ dealer that offered a portal where people could purchase investments for as little as $50 from microfinance security issuers (**see Exhibit 4**). Investors could choose a specific MFI in the developing world and would earn interest on a securitized loan. In addition, both mainstream banks such as Barclays and JP Morgan, and specialized microfinance banks, including the Nairobi-based Equity Bank, started entering the field and/or expanding their operations.[26]

As more and more mainstream users experimented with personalized microfinance for the first time, Kiva tried to provide as much information as possible to lenders so that each could make an educated risk assessment when choosing to partner with a particular MFI. Loan default and payment delinquency rates for MFIs were made available on the site and factored into a proprietary 1-5 star risk scale. Five stars indicated less risk and greater capability to handle debt capital and return it to lenders. The amount of money an MFI could raise each month for local entrepreneurs on Kiva depended on this risk rating. A well established 5 star MFI could post over $100,000 of loan requests to Kiva's website each month while a less established 1 star MFI could post no more than $10,000 monthly. The ratings were fluid — as a 1 star MFI proved itself over time, its risk rating would increase, which in turn increased its monthly fundraising limit. Almost all of the MFIs had zero percent delinquency and default rates.

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[23] Tavia Grant, "Microfinance Becoming Part of a Bigger World Picture," *The Globe and Mail*, December 21, 2007.
[24] Ibid.
[25] Ibid.
[26] Sarah Murray, "Charity No Longer Begins at Home," *The Financial Times,* December 11, 2007.

After catching Onyango's fraud, Kiva more rigorously vetted each MFI before partnering and also audited each MFI on an ongoing basis. Kiva considered whether each MFI had been in operation for at least two to three years, the size of the MFI's gross loan portfolio, whether the organization had at least 1,000 active borrowers, and the results of annual financial audits. "Fellows" (unpaid interns) performed a semi-formal auditing function by personally visiting partner MFIs around the world. Kiva also insisted that each partner MFI produce legal incorporation registration documents recognized by the local government. If available, Kiva employees reviewed independent evaluations of the MFIs and also contacted outside funders for references. Once an MFI began to receive funding from Kiva's lenders, certified local audit firms randomly checked its entrepreneurs to ensure that the funds reached the intended recipients. For select MFI partners with lower risk ratings (e.g. 1-2 stars), Kiva employees monitored the bank statements in order to verify the flow of funds and note any major discrepancies. If funds were mismanaged, Kiva posted the finding on its website and took a range of actions to resolve the issue, ranging from a warning to partnership termination to legal action in the case of gross funds mismanagement.

Building out the Team

Kiva was able to pass 100 percent of the loan on to its partner MFIs, in part by keeping its overhead low. No money was spent on advertising or marketing. Many of the 23 full-time employees (who were mostly in their twenties and thirties) had worked pro bono for months. According to Matt, Kiva staff members were "not looking to make a lot of money, retire and give it away. We're looking to live our whole life in an integrated way."[27] Roughly one-third of the employees were on the microfinance partnerships team, one-third were in the IT group, and the rest of the staff covered a range of responsibilities including public relations, customer service and administrative work. The nonprofit also leveraged over 250 active volunteers, who primarily provided translation services. Furthermore, Kiva filled out its board with well-known Bay Area executives, including Reid Hoffman, the CEO of LinkedIn (and the former executive vice president of Paypal).

Interest in Interest

One substantial change the Kiva team considered making was to charge interest rates for loans on the site, a factor that would likely necessitate a transition to for-profit status. Jessica and Matt believed that there were two main reasons to do this. First, Kiva's lenders chose businesses based on pictures, personal stories, and an MFI ranking on the site. They noticed that some businesses were funded much more quickly than others. For example, African women who wanted funding for an enterprise related to agriculture were the top picks. Central American men who wanted to build up taxi businesses had to wait somewhat longer. Enabling MFIs to also return to the lenders some of the interest that borrowers paid them would open up another mechanism of differentiation—and perhaps level the playing field for the entrepreneurs. Secondly, the Flannerys believed that charging interest would change the nature of the relationship between lender and borrower from one in which a benefactor charitably assists the "helpless" poor to an empowering business partnership. As Matt noted, "Allowing lenders to

[27] Cynthia Haven, op.cit.

make a small profit from lending to the poor on our site … is a key tool in bringing about social change."[28]

However, it was not clear that lenders agreed with the Flannerys on this issue. Many users expressed a preference for the "emotional return" they got from funding entrepreneurs in developing countries. A "feel-good" branding element thus existed in the organization's favor. A 2006 survey of Kiva lenders also showed that 50 percent of the user base would not lend on the site if Kiva adopted a for-profit model. In addition to the trust and goodwill of users, there were several other key advantages to operating as a nonprofit. Due to this status, Paypal donated free transaction processing, which would normally cost 3 percent of every transaction. Nonetheless, the Kiva team had never committed to remaining a nonprofit indefinitely, and identified pragmatic reasons for considering the shift. As Jessica and Matt often noted, "Being a nonprofit is a tax code, not a religion."

Results

By the end of 2007, Kiva had produced a number of compelling results. The site regularly "sold out" of loans. Every business listed on the site was funded within hours. New borrowers were added hourly and potential lenders were urged to check back often in order to participate. Kiva also capped loans at $25 so that more people had a chance to get involved. The loan cap itself received positive feedback. Gabriela Villegas, a Kiva investor, commented, "Twenty-five dollars, that's probably how much I spend on just one meal. But with that same money, I was able to change someone's life."[29] The nonprofit now had 77 field partners in 39 countries around the globe. Average loan repayment rates were above 99.5 percent. Matt noted, "Repayment rates in the microfinance industry are much higher than for U.S. domestic loan lending. That's because microfinance institutions are lending to people for whom getting a loan is their only shot at anything. If you're given a $60 loan, your chance of getting another loan is contingent on you paying that back."[30] Cumulative loan volume approached $16 million (**see Exhibit 5**). Both the number of lenders and the average number of businesses funded by each single lender had steadily increased since the beginning of the year.

CONCLUSION

The Kiva team felt affirmed by the growth of their organization, the positive media attention, and by the moving anecdotal evidence of poverty alleviation amongst the entrepreneurs listed on the site. Jessica noted, "Instead of sleeping on a reed mat, someone could buy a blanket. Instead of mud walls, they have concrete."[31] One loan officer told Kiva that a female entrepreneur had greeted him with tears of happiness—this was the first year she had been able to purchase textbooks for all of her children.[32] At the same time, the Flannerys hoped to capture more formal data regarding the true impact that Kiva was having on its borrowers. The quality and detail of updates from MFIs varied, and did not yet systematically address poverty alleviation (**see Exhibit 6**). Going forward, the Flannerys wanted answers to questions like how many borrowers

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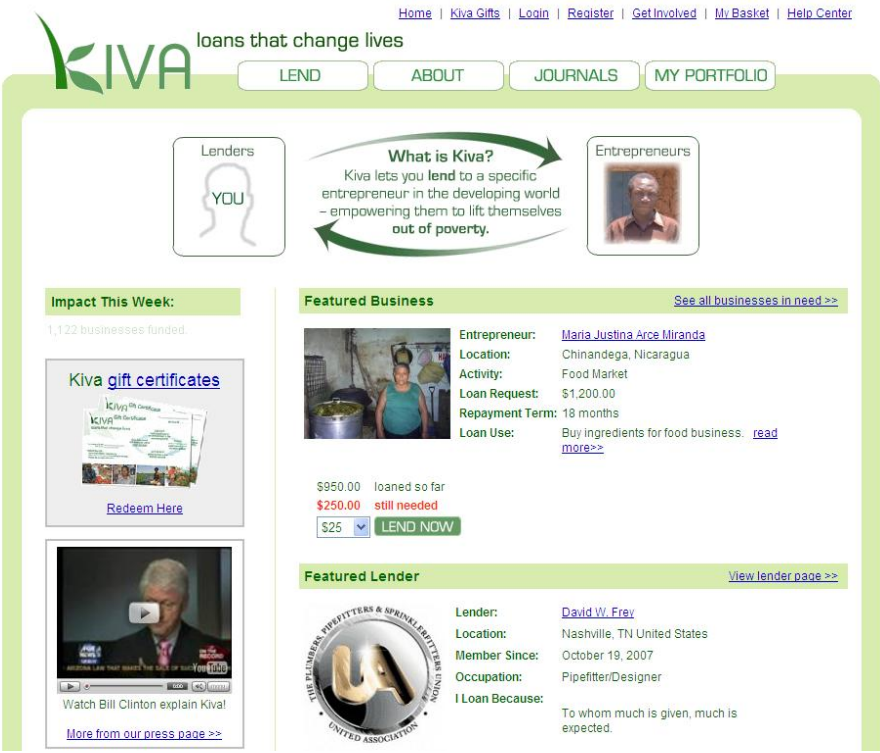
[28] Matt Flannery, op. cit.
[29] Joann Klimkiewicz, "Lending Hope over the Web," *Los Angeles Times,* October 18, 2007.
[30] Amy Crawford, op. cit.
[31] Cynthia Haven, op. cit.
[32] Ibid.

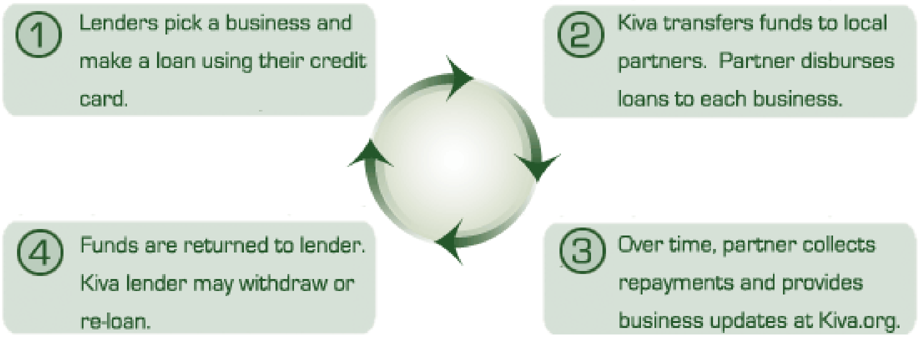
lived on $2 per day now rather than $1, how many could afford to feed their families at least two or three times daily, and how many no longer had to regularly choose between nutrition, schooling and medication for their children. However, that plan would require building out more technical infrastructure, training MFIs around the world and even more monitoring and auditing functions—demands that the organization could not meet at the moment. In the meantime, the Kiva team felt content to help the world's poor one entrepreneur at a time.

Exhibit 1
Kiva Homepage



Source: Kiva.org

Exhibit 2
Kiva's Loan Cycle



Source: Kiva.org

Exhibit 3
Example Blog Entry By Moses Onyanga

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.

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

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.

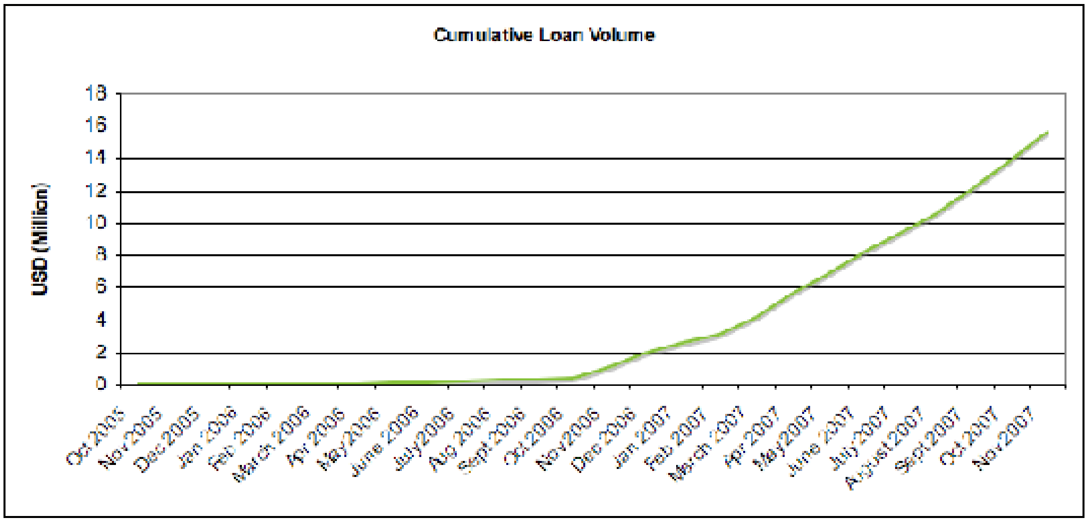
Thank you for making a difference in his life and in the lives of many, may God bless you mightily. Yours truly, Stedia, Reporter.

Source: Matt Flannery, "Kiva and the Birth of Person-to-Person Microfinance," *Innovations*, Winter/ Spring 2007, MIT Press.

Exhibit 4
Microplace Homepage

Source: Microplace.com

Exhibit 5
Cumulative Volume of Loans Made Through Kiva as of 11/30/07



Source: Kiva.org

Exhibit 6
Sample MFI Updates on Borrowers

Anna is a hard working woman with her loan she purchase Flour ,sugar,frying pan, frying spoon for the frying of puff -puff.she also bought a day old chicks and a pig.Her business is moving well but for the fact that there are high prices in the price of Vegetable oil and other things for her business.Also theives break into her house and collected all her pots and frying pan.She has just bought a new frying pan for her business but begging pots from friends and neighbor.

Emperatriz, twenty-five, and her husband continue to work diligently running their cafeteria. Their older child, seven, is in school, while their younger, three, stays home with Mom and Dad. While the couple has operated their cafeteria for more than four years, they are just now planning to buy a freezer, which can really improve their sales of fresh meat.

The Kiva loan the couple received through Fundación San Miguel Arcángel is at a rate much preferred to those they once received from a local moneylender. In the future, Emperatriz hopes that her cafeteria will be able to stock groceries and general food supplies, along with the meals she currently prepares. When discussing her hopes for the future Emperatriz remarks, “you get what you put in.” She certainly knows.

Felicitas’ bodega is a glorious shrine to all that is good in this world… soda, cookies, chocolate, and toys. Her walls are stocked thoroughly with colorful products that beg even the fullest of stomachs to partake in their deliciousness. The enticing selection she offers brings in a steady flow of regulars, on break from their duties at the nearby military compound, or laborers winding down their work day with a cold Inca Cola and the mood-boosting company of Felicitas.

Felicitas’ husband left her years ago to be a single mother raising six children. When this happened, she was in shock, not knowing where she would find the money to buy bread for her family. She started with no more than one dollar to her name. Now, she is running a successful business which she is constantly expanding (you have to keep one step ahead of the competition, she says), and is proudly watching her children grow up in their own successes. She credits her village bank with not only giving her the opportunity for financial stability, but also for stirring up in her the confidence and will to go it alone and raise her family with love and respect. She said, “without my loans, without Finca, where would I be? I don’t even want to think about it.”

Source: Kiva.org