

Low-Dose Capitalism

Kiva.org's Premal Shah is extending microlending to some unexpected borrowers. By David M. Ewalt

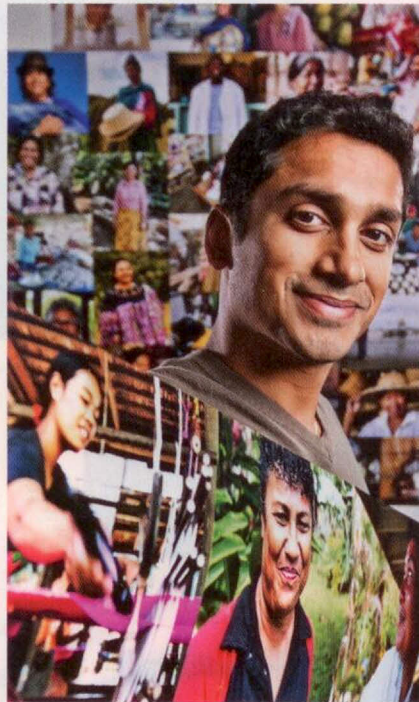
FREDERICK ANDERSON WANTED to start a business doing emissions inspections on cars in his Atlanta neighborhood. The 31-year-old former fire inspector couldn't find funding for the equipment. "I didn't have a long enough financial history," he says. But a sympathetic loan officer at Bank of America told him to talk to Accion USA, a nonprofit lender in New York. Accion connected Anderson with Kiva.org, which coordinates person-to-person loans to small businesses. In August Anderson landed a \$7,000 loan repayable over 32 months and funded by 194 people from 14 countries.

"That's the kind of stuff that inspires me to work harder," says Premal Shah, president of Kiva.org. "That's the power of this loan model."

Kiva (a Swahili word meaning "unity") has built a reputation for allowing wealthy Westerners to fund small businesses in developing nations with a few clicks of a mouse. But Shah has a vision for the site's future that is more complex than rich helping poor. New programs, like the one that helped out Anderson, turn the system upside down, allowing lenders in Cambodia or Nigeria to fund businesses in the U.S. And new kinds of services, including student loans and green loans, could turn Kiva into a one-stop shop for reducing poverty and promoting entrepreneurship.

Shah, 34, started thinking about ways to help the poor while he was an undergraduate at Stanford University. "I was studying economics," he says, "and when I first heard of microfinance, I said, 'Oh my God, it's a business approach to poverty alleviation.'" In 1997 he was awarded a grant to research microfinance in Gujarat, India. He found the work exciting but kept thinking there had to be a better way to manage the small loans given to entrepreneurs who were too poor to qualify for traditional funding.

After graduation Shah went to work as a product manager at PayPal. In 2005 he took a three-month sabbatical to volunteer in a women's cooperative in one of the slums of Ahmadabad, a city in western India. Frustrated by the poverty there, he decided to list an Ebay auction on behalf of one of the co-op's workers, soliciting



Helping me help you: Premal Shah of Kiva.org.

a \$100 loan. Ebay forbids loan solicitation and yanked the ad. But the idea stuck, and when Shah got back to Silicon Valley, friends introduced him to husband-and-wife team Matt and Jessica Flannery, who had recently launched Kiva as a nonprofit that made personal loans to businesses in Uganda. He quit his job and joined as the company's president.

Six months after its founding Kiva had 2,600 lenders funding \$21,500 in loans. Today Kiva boasts 572,000 lenders, who have made \$95 million in loans to 238,000 entrepreneurs. Kiva pays for its overhead (now running \$6.3 million a year) with donations, foundation grants and free services from corporate partners such as Ernst & Young, PayPal and Moody's.

The company works with 104 partners in 184 countries, which screen applicants for legitimacy and creditworthiness. Kiva posts a photo and biography of the borrower on its Web site; lenders can fund shares as small as \$25. "Kiva is kind of a line-blurring product," says Shah. "It's not exactly commercial investment, it's not exactly a donation, it's this 0% interest loan that you make [to] a total stranger." Kiva claims that its lenders get stiffed on only 1.6% of the amount lent, a default rate in line with the rest of the microfinance

industry. The average Kiva angel makes 4.8 loans.

"I think part of the success of Kiva is that you actually get to see where your money goes," says Shah. "You connect on a human level with who is using your money and their story. People love the idea of helping people help themselves."

In June Kiva opened its coffers to U.S. entrepreneurs. The pilot program has raised \$445,000 for 89 U.S. entrepreneurs, most of them near San Francisco and New York City.

Shah hopes to expand Kiva's services to include college loans (\$500 goes a long way in Peru) and loans to save energy (say, for solar-powered lighting). Kiva recently made public the software specs for its Web site, so that volunteers can add useful applications—like a Google map that displays would-be borrowers by region.

Shah's five-year plan calls for continued expansion of lending partners and disbursing \$1 billion in loans. "People-powered capital, \$25 at a time on the Internet, can be several factors greater than some of the largest institutions out there," says Shah. "And I think there's something about person-to-person lending on the Internet that allows us to aggregate a new kind of a risk-tolerant capital that the world has never seen."