

Small lenders help developing entrepreneurs

By Joe Loncraine

Alvin's Guide To Good Business, BBC World, Tanzania & California



Atuna has put the loan to good use in her fried cassava business

The sun is yet to rise.

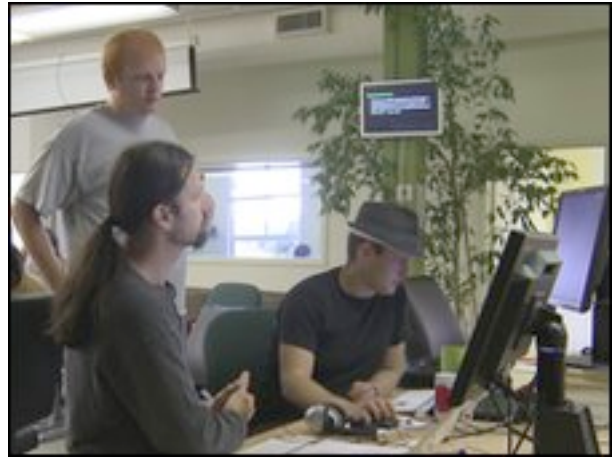
Atuna, a single mother, carries her stock of cassava through the narrow winding alleyways of Dar Es Salam, Tanzania.

Fried cassava is a popular breakfast food in East Africa and for Atuna it is her new business opportunity.

Like most of her customers, and over half the adults in Tanzania, she has no access to conventional banking services.

But she has just got a loan, a loan she hopes will help her build her business and plan for her daughter's future.

This loan is not from a back alley loan shark - all too common here - but has been supplied via Kiva.org, a California-based website. Kiva, which is hailed by celebrity supporters such as Bill Clinton and Oprah Winfrey, enables its users to make personal loans to entrepreneurs, mostly in the developing world.



The relaxed atmosphere belies Kiva's serious mission

Person-to-person loans

On the other side of the world - in every respect - is Kiva's San Francisco headquarters.

It is everything you would expect from a Californian IT start up. Laid-back attitude, pets in the office, bar football table in the lunchroom and feet up on the conference room table.

But do not be fooled. Kiva is a hive of activity with a serious work ethic. Founder Matt Flannery and Kiva president Premal Shah firmly believe it is what their organisation is trying to achieve that has inspired and enthused their staff.

Kiva's goal is at once simple and extremely ambitious - to reduce world poverty through small, person-to-person loans, known as microfinance.

Relending the money

The entrepreneurs seeking loans on Kiva range from taxi drivers in the Middle East to farmers in South America.



Kiva founder Mr Flannery wants to reduce world poverty



We've seen Kiva grow in terms of site traffic and number of people who are willing to make a loan pretty quickly, even without the interest rate component

Kiva president Premal Shah

The amounts they are looking for range from a couple of hundred dollars to more than \$1,500. Kiva's default lending rate is just 2%. Since it was founded, more than 400,000 users have loaned more than \$120m.

Usually, the loans are funded by dozens of different people, each lending as little as \$25.

Lenders get updates about the entrepreneur and their business, along with a warm fuzzy glow.

And with Kiva, you can get that same feeling over and over again, if you choose to relend your money once it

has been paid back.

Atuna, who is getting the loan, even extends credit to her customers.

"They usually pay me every day," she says. "Within two weeks all payments should be finished."

It's Kiva's own model in miniature.

Social impact

Entrepreneurs such as Atuna have to pay interest on their loans.



439,000 users have funded loans
\$127m has been lent
321,000 entrepreneurs in 53 countries
have received loans

Source: Kiva

But neither Kiva nor its lenders receive any interest back.

As a registered charity, they are not allowed to profit from the loans.

Initially, Mr Flannery was keen to change this.

"It would take it one step closer to a more dignified relationship between lender and borrower and I would see that as a positive dignified step, but not everyone's there," he says.

In fact, for many potential lenders, receiving interest from some of the poorest people in the world would

be seen as exploitation rather than dignity.

Yet even without this cash incentive, Kiva is growing fast.

Mr Shah certainly has no wish to change, even if the law would have allowed it, insisting those who lend are more interested in social impact than in rates of return.

"Thus far, we've seen Kiva grow in terms of site traffic and number of people who are willing to make a loan pretty quickly, even without the interest rate component," he says.

Local lenders

So why do the borrowers have to pay interest?

TANZANIA v CALIFORNIA

Population - 44 million v 37 million

Per capita GDP - \$1,353 v \$38,956

Life expectancy - 50 years v 80 years

Sources: UN, IMF, WHO, CBEA, CDC, NCHS

Kiva itself keeps the lights on through grants and an optional donation they encourage users to make with each loan.

But they do not actually hand the money over to borrowers.

Instead, they work with many local partners on the ground, established microfinance institutions who collect interest to cover their overheads.

These are high, as inevitably it costs more to manage 50 \$100 loans than one of \$5,000.

Business woman

But in the end, the efforts provide great support for entrepreneurs such as Neema, a single mother who sells fabrics door to door and is a singer in a band.



Neema's entrepreneurial spirit was supported by a loan

Neema has an energetic entrepreneurial spirit. Earlier, she also tried running a pharmacy, but the high costs of drugs and regulation defeated her.

When it failed, she decided to start selling charcoal.

But though versatile, the risk is that Neema will be spreading her activities too thin, so she realises that at some stage she will have to decide which of her activities

satisfies her the most. It will not be an easy decision.

"I have been a singer for so many years, so singing is a big part of me," Neema says.

"But I have also seen people make a success of businesses and that is my dream. I want to be a successful business woman too."

US lending

Kiva may not be looking to build wealth, but they are looking to increase the impact they have.

To do so, they recently decided to expand into a very different market, offering loans to business owners in the USA.

This proved to be very controversial. A vocal few believe Kiva should focus on the developing world as they feel providing loans in the US will spread the same pot of money more thinly.

Kiva hopes instead it will draw in more people to the website, increasing the size of the pot for all.

The irony for Mr Flannery is that the US launch was in response to the views of many members of the public.

"For years, we've been getting hate mail about why are you funding these people in Africa when in our own back yard people need the help," he says.

There are many issues raised by what Kiva is trying to do.

They have ambitious goals and the way they are trying to achieve them may not be perfect.

But although their processes can clearly be improved, the hope and optimism that the loans had provided to two women in Tanzania is clear.

"Now I have the money to take my child to school, I can pay for her transport and tuition," says Atuna.

"And for me, I have money for my personal use."

Alvin's Guide To Good Business, transmission on BBC World News: 1 April at 0130 GMT and 0830 GMT and on 2 April at 1530 GMT and 2130 GMT.