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**ENTREPRENEURS****A Little Money Goes A Long Way**

Using the power of social networking to help small businesses around the world

Ann Brown and Maria Martinez have never met, but last March Brown loaned Martinez \$50. It was part of a \$400 loan Martinez needed to get her clothing store up and running in Danli, Honduras. She used the cash to buy colorful hairbands, bright shirts, frilly button-downs, and baby onesies. Sales have picked up, and now Martinez is paying Brown back in monthly installments via the Web site on which they found each other, Kiva.org. "When I was starting my handbag business, a neighbor wrote me a check for the startup capital," says Brown, who sells bags at the Pike Place Market in Seattle. "I had nothing, and that made it possible for me."

Friends and neighbors have been lending one another money forever, but as the Web makes virtual neighbors of strangers, Kiva, which is Swahili for "agreement" or "unity," is harnessing the power of social networking to support microenterprise in the developing world. From Honduras to Uganda, microfinance institutions post MySpace ([NWS](#))-like profiles of people who need capital to start or expand their businesses. Then lenders -- aka you and I -- can sift through pages of business ideas and grant loans in increments as tiny as \$25. PayPal ([EBAY](#)) processes the transactions for free, and lenders receive monthly repayments. The lender is out the money if entrepreneurs don't pay up, but microcredit has earned a reputation for high payback rates. In the five months since its launch, says Kiva, the site has had no defaults. It has processed \$200,000 in loans, disbursed among 450 entrepreneurs.

That might not seem like a lot of money. But a little goes a long way. A \$500 loan through Kiva has changed Elizabeth Omalla's life. The widow from Tororo, Uganda, supports 11 people by selling fish. Thanks to the loan, which she already has repaid, Omalla now sells more varieties of fish and, as she blogs on Kiva, has been able to "take my children to school, buy two cows and five goats, and open a savings account." It's this one-to-one interaction that has microfinance advocates praising the model. Says Alex Counts, president of Grameen Foundation, the pioneering microcredit institution: "Kiva could raise awareness about microfinance among people who might not otherwise learn about it."

## BYPASSING LOCAL BANKS

Kiva got started as an experiment after Stanford Business School students Matt and Jessica Flannery traveled to East Africa to review projects for the microlender Village Enterprise Fund. They noticed that VEF, like many of the 10,000 microlenders around the world, had to rely on local banks to provide capital for the loans it disbursed. These banks often charge interest rates of 12% or more. Because the microlenders must also cover hefty administration fees, loan recipients usually paid as much as 35% in interest. Matt Flannery knew of Web sites such as Prosper.com and Zopa.com that let folks in the U.S. and Europe extend personal loans to one another. Why not globalize it? The microlenders would bring loan requests directly to Kiva, cutting out local banks. Although they would still charge some interest to cover overhead, Kiva hoped to cut the cost of loans in half.

Within a year the couple got the site up and running. Matt quit his day job as an application developer at TiVo Inc. ([TIVO](#)) and recruited former PayPal executive Premal Shah to help run it. Kiva has since been inundated with potential investors, particularly post-B-school types in search of a socially meaningful side of the corporate world. Bill Gilroy, a 33-year-old vice-president at private-equity firm Global Reach Capital, invested \$100 last fall. He has received \$20 back so far. "I sent an e-mail blast out to 150 friends," he says, "and many have told me they've [loaned money], too."

As the number of microlenders partnering with Kiva grows, some causes are proving more popular than others. Widows in Africa are almost always funded immediately, but men in Central America often have to wait longer. The Kiva team plans to experiment with higher interest rates on less popular causes to help attract funders. With a bit more tinkering, they believe, the power of market forces will fix the disparity.

By Jessi Hempel