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The only nonprofit that matters

Add one part tech, one part business smarts, hold the do-gooderism. What do you get? A whole new approach to charity.

By **Jeffrey M. O'Brien**, senior editor

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(Fortune Magazine) -- Peter Mukasa needs \$250 to buy some hooch. Care to help a guy who's down on his luck if he promises to pay it back? Oops, too late. Mukasa, the owner of a closet-sized liquor store in the Ugandan village of Makindye, posted his funding request on Kiva.org one afternoon in mid-November. Within hours, ten lenders ponied up \$25 each to help the man stock his shelves. Case open, case closed.

That's how quickly things happen at the hottest nonprofit on the planet. The toast of Oprah, the Today show, and Bill Clinton's latest tome, Giving, Kiva is a way for First World lenders to link with developing-world entrepreneurs, be they Peruvian farmers, Afghan basket weavers, or even Ugandan liquor store owners. And if someone like Mukasa seems unlike the typical charity case, well, this is not the typical charity.

Kiva is a nonprofit, but it has the heart of a Silicon Valley startup. Executives call it a "company." Rather than tax-deductible donations, users pledge interest-free loans. Standard-issue charities take as much as 40 cents on the dollar for administrative costs, but Kiva directs 100% to borrowers, thanks in part to free payment processing from PayPal. (Kiva keeps the servers running and the 16 employees paid by tacking on an optional donation of 10% of every loan.)

And whereas charitable giving often resembles investing in a mutual fund — i.e., write a check and let the experts do the work — Kiva treats lenders the way a full-service broker services a big-money client, providing risk assessment upfront and a steady stream of post-investment information. Every borrower has an associated risk rating. The number of defaults sits out in the open (currently 0.14% of all loans), a few clicks from photos of deadbeat borrowers. The organization discloses scams immediately, not to mention good news from the entrepreneurs themselves. "We think the users want information more than they want their money back," says Matt Flannery, the 30-year-old CEO who founded the site with his

wife, Jessica, in the fall of 2005. Jessica (Kiva's chief marketing officer, also 30) saw Nobel Prize winner Muhammad Yunus speak at Stanford about eradicating poverty through micro-finance, which inspired her to take a three-month trip to East Africa. Matt joined Jessica, and when they came back they spent a year exploring the idea behind Kiva. Once the site went live in the fall of 2005, Matt quit his engineering job at TiVo to devote himself full-time.

So far Kiva has attracted nearly 250,000 lenders and disbursed \$22 million across 40 countries. Lenders may withdraw loans upon repayment, but 90% recirculate the funds, so the kitty keeps growing. Kiva expects to have doled out \$100 million by 2010 and \$1 billion within a decade, \$25 at a time. "To get everyone a piece of the action, we had to set a limit on the size of the loans," says 32-year-old president Premal Shah, who came to Kiva from his product manager position at PayPal in March 2006. We're sitting in Kiva's conference room at 6 P.M. on a Friday, surrounded by a gritty section of San Francisco's Mission District. "When's the last time someone put a cap on your philanthropy?"

The Flannerys and Shah resemble your average do-gooders in one way: They're out to end poverty and injustice. But Shah has to be the least pious charity executive ever. He has the megawatt smile and looks that got him a starring role in a BlackBerry ad campaign, the stage presence to merit a speaking gig at the Clinton Global Initiative, and the good sense not to tell people where to put their money. Matt Flannery majored in computer science and philosophy at Stanford and has a wide range of interests and duties as CEO. Shah, on the other hand, has a Stanford BS in economics; he's all business, constantly exploring ways to expand. While old-school philanthropy is the province of the rich and superannuated, Kiva is wooing everyone from the penny-pinching grandmother to the 22-year-old fantasy-football addict who doesn't know Uganda from Utah. A February 2006 survey showed that Kiva donors were evenly distributed between 25 and 60. Slightly over half were males, and 65% made more than \$50,000 a year. But a \$25 cap on individual donations is causing the demographics to spread; more older, younger, and less-well-off people are signing up. "This is a low-friction gateway for people to give a damn," says Shah. "We have about 15,000 to 20,000 visitors a day coming to the site now. It's becoming a movement."

Kiva may be at the front end of that movement, but it's not alone. Several upstart charities are gaining traction on the web, including Global Giving and Progreso Financiero. But if Kiva has a peer, it's DonorsChoose.org, an education-oriented site founded by former Bronx high school teacher Charles Best. DonorsChoose.org differs from Kiva in that it's U.S.-only, and users make donations rather than loans. But as with Kiva, DonorsChoose.org connects donors and recipients over the web. It also aims to tackle a big problem - underfunded public schools - by breaking it into small chunks, letting donors effect change in very specific ways.

For example, a biology teacher in Oregon submits a funding proposal for \$703 to buy 20 chest-waders for high schoolers who operate a salmon hatchery on the Coquille River. A prospective donor concerned about both science education and salmon depletion (like me) can search on "salmon" and fund the whole project or whatever he can afford. DonorsChoose.org then buys the materials and ships them to the teacher. The teacher and students, in turn, provide regular progress reports. "You could type in 'hiking in the Sierras' and get projects specific to that area of interest," says Best, holding forth at the crowded and bustling DonorsChoose.org headquarters. "Right now there are 10,000 live projects that range from therapeutic horseback riding for disabled students to teaching Catcher in the Rye."

Also like Kiva, DonorsChoose.org has ties to Silicon Valley. The organization recently went live in all 50 states, thanks to a \$14 million donation that included money from eBay founder Pierre Omidyar and Yahoo co-founder David Filo. Super-VC Vinod Khosla also contributed and helped structure the funding to be less restrictive than a typical grant. He ranks DonorsChoose.org alongside the most innovative tech companies. "It's like eBay. It's leveraging the connectivity that the Internet brings," says Khosla. With DonorsChoose.org, a donor can allocate 100% of a donation to a particular project or peel off 15% to cover overhead; 90% choose the second option. "It's hard to imagine how you can be a

self-sustaining startup focused on education," adds Khosla, "but Charles has figured out a way."

The \$45 million or so that Kiva and DonorsChoose.org have doled out is, of course, a tiny sliver of the \$300 billion charity pie. But the organizations are having an outsized influence on the rest of the sector. "There's accountability. You know when you go there that you can make an impact for as little as \$25, and that's bringing in people who didn't have the means to give," says one William Jefferson Clinton, who, in addition to being the 42nd President, knows a thing or two about philanthropies. Should United Way be working on a Kiva clone? "If they did, they would raise more money," he says. "I think the capacity to expand is infinite."

As it turns out, United Way, the nation's largest charity (\$4 billion in aid per year), has been paying attention to Kiva. It's obvious that lenders feel an incredible connection to Kiva as an organization, and that's something United Way could use more of. Everyone's heard of that organization, but most probably have no idea what it does. With Kiva and DonorsChoose.org, says Michael Schreiber, United Way's chief technology officer, "instead of just helping end homelessness, I'm helping a single guy named Bob. This is very compelling. Our role is to help take these successful concepts like Kiva and try to scale to a broader set of constituents and issues."

It was mid-December, and Shah was on his way back from Uganda by way of Rome, where he stopped to speak at a Free Markets and Christianity conference outside the Vatican. Unfortunately, his bags didn't make it to Italy. "So I was there in my Kiva hoodie and track pants, talking about the blogosphere and the Internet's effect on the public good," he says now with a laugh. "And the guy sitting right next to me is named Lord something."

It was the only snafu on a two-week journey. His mission was to touch base with the microlending intermediaries that help make the Kiva model possible and to sign more NGOs onto the platform. Kiva's presence in the developing world consists mainly of volunteers (recent MBAs and college students, usually) running around in jeans and college T-shirts. But nothing says commitment like having the president of the organization take a 30-hour plane ride.

Shah dropped in on Peter Mukasa, the liquor store owner. His shop is surrounded by a grocery, a bar, a beauty salon, and a butcher, all funded by Kiva lenders. The experience reinforced for Shah the idea that loans put lenders and borrowers on equal footing. "I was asking, 'How's business? How's your profit margin?' We weren't focused on poverty, but on their skills as businesspeople. It's such a dignified relationship, rather than, Here comes the rich business guy with the camera."

The lenders feel similarly. Elisabeth Idnurm, a 30-year-old Australian investment banker living in New York, does volunteer work and donates money to breast-cancer research. She has an obvious charitable streak, but nothing to compare to her addiction to Kiva. She signed on as a lender in the fall, and she already has a portfolio of 300 loans that she checks daily. "You know what their business plan is, you see their picture, you get regular updates," she says. "The thing that brings me back is that one-on-one you get with entrepreneurs. For me, the satisfaction comes simply from that fact that I'm helping people do what they have chosen to do."

Such stories, along with the suggestion that the United Way is watching, thrill Shah. "Dude, seriously, this thing is executionally so ridiculously hard - until it's actually working, and then it's a flywheel effect," he says, referring to Jim Collins's metaphor in *Good to Great*. "The first crank is really hard, but by the 100th turn, it's just moving by itself. And before you know it, people will quit their jobs and go out and work in Uganda for four months."

Or at least put up \$25 and try to find Uganda on a map. ■

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