THE BROOKINGS INSTITUTION

GLOBAL YOUNG PROFESSIONALS PROGRAM LAUNCH

FEATURING MATT FLANNERY

Washington, D.C.

Wednesday, February 27, 2008

6:30 p.m.

INTRODUCTION:

Lael Brainard -- Vice President and Director, Brookings Global Economy & Development

MODERATOR:

Raji Jagadeesan -- Chief of Staff, Brookings Global Economy & Development

FEATURED SPEAKER:

Matt Flannery
CEO and Co-founder of Kiva.org

P R O C E E D I N G S

DR. BRAINARD: -- Good evening and welcome. I’m Lael Brainard, the Vice President and Director of Brookings Global Economy and Development, and I’d like to thank you for joining us for the launch of our Global Young Professionals program. Brookings has established its reputation for quality, independent and innovative research in public policy through visionary recommendations that have helped shape major efforts, including the organization of the United Nations, the design of the Marshall Plan and creation of the Congressional Budget Office.

The Brookings Institution has been around for about 90 years, and we try to have some impact in the policy realm, but in the last few years we started focusing on a set of issues that Brookings hadn't been as involved in recently and, in particular, on issues having to do with global poverty, globalization, the rise of new powers, and international drivers like climate, trade, etc.; and so as part of this new program, we started focusing on next-generation leaders, because, again, for Brookings the whole point is to have impact, and so that is the genesis of this program tonight. So we look forward to starting a dialogue with you – a generation of emerging and global leaders in Washington – in hopes that we can offer you deeper insight into policy issues, and help foster collaborations and solutions through dialogue.

I wanted to just point out Ann Doyle, whose brainchild it is to bring younger leaders, and because I'm going to leave I want to thank her now for her efforts in this area.

(Applause)

MS. DOYLE: Thank you.

DR. BRAINARD: And if any of you have thoughts about future speakers, formats, other audiences that we should be reaching out to, could you please get hold of Ann and give her some ideas there, because we really would like -- this is a first pass at something that I'm sure will evolve over time.

Secondly, I just wanted to briefly say that this couldn't be a better person to start off with this night, because Matt Flannery, who Raji will introduce, is a young leader. We had the pleasure of spending some time with him this summer out at Aspen -- and you'll find the Aspen report out front; you might want to take a look at it -- looking at some of the new actors that are really reshaping the development landscape, and one of the things that you will find is that he's one of the most dynamic people, but also one of the most modest people in this space with a really terrific business model that is very exciting.

So, with that, I want to hand over to the Chief of Staff of the Global Economy and Development Program at Brookings, who really is just the chief of the program, and she will take forward the program for this evening. Again, I hope it's both interactive and I hope it is the start of a really productive set of programs. Please, you know, give us your serious and frank feedback so that we can continue to evolve this into a forum that serves your purposes.

Raji.

(Applause)

MS. JAGADEESAN: Well, I just wanted to start off by doing a little bit of housekeeping before we talk about Kiva.

As Lael mentioned, there are surveys on your seat, if you could take a moment to fill them out. We started this program because we wanted to get your feedback on how we could actually make this work to engage young people better at Brookings, so take a few minutes at the end of the program. There will be staff walking up and down the aisles afterwards, and you can hand them to them.

Another thing I wanted to quickly mention -- still see a bunch of people standing in the back -- we got an overwhelming response to this event, which is a testament to how Kiva is so exciting but also to perhaps our inability to plan that we were going to get so many people. So, I just want to let you know for people who are standing in the back, I think there are some overflow rooms if you want to sit somewhere else. If you don't, feel free to stand in the back, and then the reception on the second floor afterwards, you know, just excuse it if the hors d'oeuvres and the refreshments aren't as bountiful as they might otherwise be.

A final bit of housekeeping, again, afterwards please feel free to take copies of the report that Lael mentioned. It's from a conference we did over the summer where we first got to know Matt and Kiva, and talks about the issues we're going to talk about tonight in a more policy-related way. And also, again, turn the surveys in after you're done.

So, now for the reason we're all here tonight. Matt Flannery is the co-founder and CEO of

Kiva.org, a micro-lending site. It operates on a people-to-people model, which means that private individuals are allowed to make loans directly to developing-country entrepreneurs around the world. This week's issue of *Fortune* magazine actually profiles Kiva and, in it, it has an interesting description. It says, "Kiva is a nonprofit with the heart of a silicon valley web startup," which I think Matt would definitely agree with. Matt began developing Kiva in 2004 with his wife, Jessica, when he was actually a computer programmer at TiVo, and so it was a side project that he developed into a full-blown organization.

Kiva's origins literally come out of the Silicon Valley internet-based technology revolution, but I think what's more interesting is that it's tapped into the ongoing social revolution of people directly getting involved in solving policy problems.

As CEO, Matt has led Kiva's growth from a pilot project to an organization that's attracted more than a quarter million donors, individuals who have lent money abroad. Kiva expects to disperse something on the order of $100 million by the end of this decade, all at a $25-at-a-time contribution limit, which is astounding.

So, please welcome Matt with me, and then afterwards we'll engage in some Q&A and talk about the broader issues. Thanks.

(Applause)

MR. FLANNERY: Hello, everyone. Thank you for coming. I'm a bit intimidated, maybe perhaps because we're at a think tank in Washington, D.C, something I've never done; perhaps because the title of this event is Young Professionals and I'm not sure which half of that I live up to, but I hope that I live up to half of that title. But thanks for coming, thanks for listening. I'm going to talk for I think 15 minutes, and then we'll just have a Q&A. So, I'm going to tell you a little bit about Kiva, and I'm going to focus on stories and how we started it.

This is how we started it. This is our Web site. During most of January it actually looked like this, meaning that it was out of loans. Kiva's a place where people loan money to other people, and for most of January it was out of loans, so you couldn't find a person to lend to. So, the number of people lending money far exceeded the number of people borrowing money, and this is a problem we've had for most of our two-and-a-half-year history, so for that most of that time we've been teetering on the edge of running out of inventory. People say "inventory." That's a weird word to talk about people. But we've been running out of loans. Let's talk about why that is.

So, I'm going to start a little bit back to 2004 when we started Kiva. I started Kiva to address a marriage problem. Simply, it was a love problem. My wife and I started Kiva together, and right before we got married she had seen Dr. Muhammad Yunus. She heard of Dr. Yunus and has his work, and she proclaimed to me one day -- at this pre-engagement class, she said in front of the class, "I want to move to Africa and work in micro-finance," and then it was my turn to say --

(Laughter)

MR. FLANNERY: -- it was my turn to say what I wanted to do, and I said, "I want to move to San Francisco and work in a tech startup." So, that was a problem. There were two places. Those are rather far away. I don't know if you've been to either of them, but they're -- it's not an easy commute. So, we really had to figure out how to make this work and in short time, because we were getting married.

So, you know, that really causes a lot of pressure. That really causes a lot of motivation to be creative, and under that circumstance we started Kiva, which is a high-tech startup based in San Francisco but works a lot in Africa. So, we spend a lot of time in Africa as well.

Now, we had this idea when in Africa to start a website where people in the USA could lend to people in Uganda. And after we came back from Africa, we went around and talked to everybody that we knew and talked about this idea and wondered would it work or would it not work. What are the problems? And we really ran into a lot of naysayers. So, for about a year we spent our time talking to people -- talking to people in Washington, D.C., at big organizations; talking to people -- venture capitalists on San Hill Road. We heard a lot of negative feedback.

We heard three main things: That can't scale; that's illegal; and that's not charity but that's not a real business either. So, when people said that can't scale, the question was: can you create a website where people lend to people and there's a picture of every person borrowing the money? So, the model was to work with micro-finance institutions all over the world that posted up the individual loans onto this website one at a time and people would lend to them, and the big feedback we had was, you know, we are trying to scale MFIs -- I'm going to use that word a lot -- we're trying to scale MFIs from 10,000 clients to a million clients in ten years. How are you going to do that one picture at a time? That seems really burdensome. That won't scale. And especially how are you going to do that from Uganda, because the internet doesn't work very well? Even the power doesn't work very well, and power's out maybe half the time in the last few years there.

Another thing we ran into a lot was that's illegal. Who's going to govern this international transaction between two people? The person lending to a person? Who's going to govern it? What is that transaction subject to? Does the FCC want to regulate that? Is that an investment product? Are you illegally selling stocks and bonds on the internet to people? Are you going to fund terrorists? So, I had this vision that, you know, if we start it people would show up at our door in helicopters and suits trying to shut us down. And so that really caused us to pause and say okay, this idea that was going to solve our marriage problem that we had in Uganda wasn't realistic

-- Jessica, let's be real here and let's get back to work on building a career. So, we really stopped for a long time, and we didn't start.

And then we tried to get funding, and people say that's not charity when you're loaning to people. You want the money back? That's not very charitable. We don't want to fund that. And then you go to DCs and they'd say well, you know, you're asking for a low-interest loan on the internet. That's not very lucrative. That's not very profitable. We're not going to fund that. And who are you anyway? So, we ran into a lot of problems.

And then we just started. So, we had three offices in this short period of time. Our first office was TiVo -- sounds like "Kiva" -- because that's where I was working when we were just beginning to develop Kiva. So, we sort of set up working there at nights and part of the day when I was supposed to be doing other things.

(Laughter)

MR. FLANNERY: That was our first office. That's where we created the logo. That's where we got the domain name. That's where we built the website. That was our first funder essentially. A day job was my first source of funding for Kiva.

(Laughter)

MR. FLANNERY: And Jessica had a day job as well. And our second office was the donut shop. I live in the Mission. Anyone been to the Mission in San Francisco? It's my favorite neighborhood. I lived in there, and there are a lot of cafes. They all close at different times, so there's a café that closes at 10, one that closes at 11, and if you're really bad, if you have a really tough night, you end up working at the donut shop, which is open 24 hours a day. So, turns out we built most of the software at this donut shop during this period where we had no office, which was about nine months.

And then finally in late 2005, we actually got an office in this brick building in the Mission, and that's pretty close to where we work right now in a fourth office. But it's been a long journey, because we had no funding. So, we had to be really scrappy, and we had to just start doing what we were doing, because there was no clear way to make a lot of money and we were shut out of the foundation community, so we had to be scrappy.

And we got really lucky. One time we were almost running out of money. We had very high-paid employees, and then we started getting a lot of press, and that really saved us. So, who knew. I don't think it's because I'm really charismatic. We got a lot of press. There's a picture of Oprah Winfrey that cut off. But all of a sudden -- she's not -- that void right there. I don't what happened over e-mail. But we got a lot of press, and it was really startling, because we thought of this as a side project or something that was pretty interesting but would not necessarily scale. We kind of believed the critics. And so we started to get a lot of press, and that was really our seed funding that subsidized our business, and it helped us get to cash flow break even and helped us start creating a staff, building a business that can really last. So, we really relied on that, and without that I don't know how we would continue. We were really lucky to get that.

I'm going to talk a little bit about what Kiva does and who we are and why we do it.

So, this is probably the wrong crowd to educate about micro-finance. I think most of you probably really know about this. But to start with the basics, micro-finance is the space where Kiva works.

Kiva works on the internet and in the micro-finance world, and we're sort of bridging those two industries. Most of the people in the world live on less than $2 a day, although that's changing. As the dollar fluctuates, I think that number is going down.

(Laughter)

MR. FLANNERY: But no one ever says that. It's interesting. It's a widely used statistic, but our currency is fluctuating very widely as well, and no one tracks that, so I wonder how that number is fluctuating. Maybe we should start talking about Euros per day.

(Laughter)

MR. FLANNERY: But most of the people, because they're so poor, run small businesses, and these are in the informal economy, and micro-finance institutions provide financial services to these people -- low-income entrepreneurs working in the informal economy that are otherwise unbankable. So, MFIs provide savings products, loans, and insurance products and other things to help people get out of poverty.

In the micro-finance world, there's a big need for more loans. There's a big need for more credit, and the need is far outstrip -- the need far outstrips the supply of this credit. So, there are many, many MFIs all over the world. Most of them claim their main constraint to growth is lack of funding, and so Kiva can help alleviate this problem by providing more funding from every one of us and other people lending $25 at a time to MFIs and -- to borrowers, really, through MFIs.

So, just to explain what our website is, it's an all-night marketplace that connects lenders to borrowers, but we rely on local field partners -- MFIs. So, the MFIs transfer money and information between entrepreneurs and internet lenders. When we first started out when we were working in Uganda with seven people, there's my family and friends loaning to these people through an MFI there, and it was interesting. It really created a lot of confidence in me in our product when throughout that year my friend at a bar would say, “oh, I just heard back from Martha today and she had trouble with her water cooler business, but I think she's doing okay,” or another friend saying, “oh, I don't think Rosie's paying back my loan, I think she's having a lot of challenges.” In both cases when there are good things and bad things, it was interesting to see that people cared about someone half across the world and whether they were succeeding or failing, and I really think a loan is an interesting way to connect people in a way that a donation does for positive or sometimes challenges.

So, what we have on our website is a transfer of money, and, really, money is just a form of information. When you get repaid a loan, you learn something, and that's what's exciting. That's what really excites me about our businesses -- the education aspect, how we have over 250,000 lenders that are learning about micro-finance and learning about what it means to be poor in a new way, which really excites me.

These are real people. The people on our Web site are real. They're actually getting a loan in real time and paying it back in real time. They're not poster children. They're not marketing collateral. I grew up sponsoring children, and sometimes in that aspect it was really expensive, and in child sponsorships some of the people were just poster children, fake, representing something larger, representing whole crowds. But with Kiva, what we've learned is that the internet actually reduces cost so that people can make one-to-one connections, and it's not that expensive to actually interact financially with a real person in real time over the internet.

So, now I'm going to talk about the lenders. We have about a quarter million of them. Right now we send them about a thousand a day. We have individuals. Most of our lenders are American. About 80 percent are in the USA. Most of them are Caucasian, too. It's interesting. But we have lenders in Malaysia; we have lenders in Mexico; we have Mexicans lending to Mexicans on our site. So, what we're really seeing is the learning of the lines between the third world and the first world.

We have family foundations. We have whole foundations lending their corpus on our internet at zero percent to other people as part of their mission, which is real interesting. We have organizations. And we have businesses. We have small businesses advertising themselves on our site. On our site when you loan, you get to see your portfolio, you get to see your logo, and so a lot of businesses use it as advertising and to publish their business, and they put some of their profits into it, which is really fascinating.

Let's talk about our partners. I have about five minutes. I'm going to wrap up, but we have about

80 partners, MFIs -- small MFIs, big MFIs; we have startup MFIs that were started just in the last few years that are growing fast; we have tier 1 MFIs, which are big and have branch offices all over the country, work in 40 countries. Most of our partners are smaller or medium sized. Most of our partner base lies in the tier 2 and tier 3 section of micro-finance -- the micro-finance industry. Tier 1 MFIs usually are banks, and they're regulated as banks, so we don't work with many of those. But we work with a lot of near banks or NGOs that are on their way to becoming more commercial.

So, in micro-finance, there's this thing called the long tail of MFIs, a term I invented. It's an abuse of a Web 2.0 term, which is meant to talk about music or books or other things. But it applies sort of to what we are doing, meaning that there's a vast array of small and medium-sized MFIs that are being left out of the international investing market, and that is because it's costly to transact with them, and it's risky to transact with them. So, with the internet, one of the cool things is you can distribute risk among a larger number of organizations, a larger number of entities. So, that's essentially what we're doing with Kiva -- is we're investing little, smaller amounts in more organizations with a risk tolerance set of lenders that lends $25 to a person and want information more than their money back. So, the whole credit equation becomes different when you have -- they're social lenders rather than people putting their pension funds at risk or hedge funds trying to maximize profit.

So, we think this is a huge investment opportunity, the tier 2 through tier 4 and the 5s, and that's what we're really focusing on, and that's what the internet can focus on much better than a hedge fund or mutual fund or pension fund can. That's what excites us.

MFIs are adopting Kiva, because it's cheaper. Kiva costs zero percent with an asterisk. Now, the industry average for cost of capital, meaning MFIs typically borrow at about 10 percent, so if you run an MFI, if you lend to the poor and you're an NGO, you need a wholesale lender. You need to borrow money in order to lend it out again. And so we asked ourselves why are interest rates so high in micro-finance? Why are they 30, 35 percent? Well, it has a lot to do with the cost of capital. At least that's part of it. And Kiva's helping reduce that, and we hope in the end that will reduce the interest rates that borrowers are charged worldwide.

Now, the asterisk's there, because Kiva actually does cost money. It costs time, which translates into money, so to use our site you have to upload a lot of information. You have to take pictures. You have MFIs taking pictures in Sudan using our Web site that had never taken a digital photo before, and so that costs time and upload time as well, which is a hidden cost of using Kiva.

So, we're going to talk about the borrowers on our site and then wrap up. This is one of the first borrowers on our site. This represents a really popular borrower. African women are so popular on our site. It's really, really amazing. Our lenders prefer them almost ten to one over someone from Eastern Europe, for instance. This woman is buying a hybrid goat. I don't know what that is. I think it's a really efficient goat, but --

(Laughter)

MR. FLANNERY: You know, I thought it was interesting. This is a woman in Samoa just starting a popcorn business, and that was really interesting to our lenders as well. This is a man, a butcher in

Kabul. Butchers aren't so popular. Americans don't like butchering businesses for some reason. They prefer organic businesses. They prefer African rural businesses for some strange reason. I don't know how to explain that. But this guy got funded as well but much slower than an African woman on our site.

And this guy is an example of, like, one of the most unpopular things on our site. He's a taxi driver from Eastern Europe, Central Asia, and he got funded for $1800, but it took him months to get funded. Luckily he did, and he was able to expand his taxi business.

And this is interesting. This is actually an outlier on our sites, an Iraqi woman, whose identity is protected. When we put up the Iraqis, we were working in Kirkuk with an FMI. When we put those up, it became wildly popular, perhaps more popular than the Africans, but just for a few days. They were protected. Their identity was protected because the MFI that's actually funded by USAID and protected by the military wanted to protect their identities as well in order to downplay the fact that they're actually being funded by Americans.

Okay, just to talk about progress, we've loaned about 22 million from 240, 250,000 lenders in about 70 countries. So, it's really taken off. And back in October, November, down there that's when you started getting the press, and that really allowed us to escalate the growth. We rely on donations. After people loan, we send a hundred percent of the money to the poor, but we allow you to tip us, and so we charge this transaction-related tip, and that's actually keeping us basically cash flow break even. We had a big month in December where we raised 400,000 in these internet tips. So, the optional fees is what we call them, and we get about 10 percent. So, if you loan $3 million in a month we get almost $300,000 in tips, and that pays the bills for us at the donut shop. So.

I'm going to wrap up and move ahead. I'm going to talk -- this is the last slide. Here are some crazy ideas that Kiva could become. It could become a place where borrowers become lenders. You can imagine micro-borrowers actually become micro-lenders. It can become a place where lenders make money. One day maybe you'll be able to make money at Kiva. A profit. It can be a place where you can lend money directly to someone in Africa on their cell phone instead of using an MFI. It can be a place where researchers can learn more about business and statistics in a developing world. It could be a place where entrepreneurs use Kiva as a credit score. So, you might be able to take your Kiva credit rating and move from Kenya to Tanzania and actually cite this online example as the first public record of my existence, because I don't have a social security number in Kenya. I don't have a FICA score in Kenya. But you might be able to have your own lender reputation similar to how small shoe stores have used their eBay rating to help get more credit, because that's an identity-tracking mechanism. It could be a place where hedge funds used to scout for future MFIs to invest in promising ones. In a sense, we're just looking to connect millions of people across the world who all work for a living, so, that's really the goal, and we're building the world's largest database of small business information.

Thank you, and let's wrap it up.

(Applause)

MS. JAGADEESAN: Well, I think we were going to open this up to Q&A with the audience, but do we have a mike? So, we're going to open this to have Q&A with the audience, but I wanted to ask a few questions based on what you just talked about.

We've been doing a lot of research here at Brookings about the new era in global poverty where there are a lot of untraditional actors, and Kiva seems to represent a model where you can actually mobilize hundreds of thousands of private individuals to get involved. But one of the things that it raises is an issue that traditional donors like the World Bank or USAID have often struggled with, which is the issue of accountability. You raised the issue of how your donors -- I think you said by ten to one prefer African female entrepreneurs over others -- how do you deal with the issue of donor bias, donor preferences? How do they react to failure when borrowers don't repay? And how do both your donors and your borrowers define success?

MR. FLANNERY: Okay, I'll try to remember all three questions. Not very good at keeping them in my head.

So, for the first one about how do we react to donor bias, essentially we don't. We let the donors rule -- for good or for bad. So, if donors want to send all their money to Afghanistan right now for some strange reason, we don't really try to stop that. What we try to do is protect them from risk. We try to protect them from the idea of sending way too much money to one MFI, but other than that we don't try to say, you know, you should send your money here because you can really make the most impact here or here's the place to spend your money -- because I think the whole idea and one of the big parts of the future in philanthropy is people connecting with people in doing commerce, so switching from a model where there's a few people at a big foundation making all the decisions with all the money to an idea where there's millions of people making all the decisions, transacting with each other. And it's going to be really hard to stop that from happening, and Kiva's just one example where that happens.

MS. JAGADEESAN: All right, let me just ask one more question just because you had a chart up there that showed how fast you're growing; and the internet, without a doubt, is a highly scalable platform for an enterprise like Kiva. Where do you think you're going in terms of size and scale, and what are the constraints that you're facing?

MR. FLANNERY: Okay. I think this year we'll probably lend 40 to 50 million dollars. Last year we lent 17 million. So, it seems to be basically doubling every year, and that has a lot to do with the fact that people get repaid and then reload their money. They don't get repaid and go out to dinner; they get repaid and they reload. So, you have a fund that compounding just by its very nature every year.

And what was the second question?

MS. JAGADEESAN: I was just curious what your constraints were.

MR. FLANNERY: Oh, the main constraint traditionally has been a lack of credible, established MFIs that can absorb that. That's really, really hard. That's been constraining our growth every since we started.

MS. JAGADEESAN: Okay.

Let's open this up for questions. There's going to be someone I think with a microphone walking through the aisle, so maybe we can start with the gentleman over there, and when you start your question, if you can identify yourselves and the organizations that you're with.

MR. CANTOR: Sure. My name is Scott Cantor. I'm a student at Johns Hopkins CISE across the street. I have a more technical question, but you sort of brought it up yourself -- the following the dollar.

How does your organization deal with exchange-rate risks and currency hedging as far as Americans making loans in dollars and these MFIs making loans in local currency?

MR. FLANNERY: That's a really, really wonderful question. It's been a big challenge of us. It's actually one of the constraints to growth -- is hard currency versus local currency lending. The fact that the dollar has depreciated so much since we started has been good for Kiva so far, because it makes Kiva cheaper. Our partners like that. They get paid in dollars and then 12 months later they pay us back in dollars and it's changed 10 percent, and so they've been profiting off of that, but I imagine there'll be a time where they don't profit off of that, and that's really dangerous.

What we need to do is start lending in local currency, and that's what we're working overtime to do. I don't think it'll make sense to hedge for us. I think what it'll make sense to do for our model is to allow -- the numbers on the site are actually in Ugandan shillings, and right when you lend you see the amount of dollars that converts to, and when you get repaid you see the amount that converts to, and the lenders actually concede the loss. And that's actually I think where we'll probably go, because we have social lenders, and so we can take advantage of that, because hedging is very, very expensive, and a hedge fund or pension fund will need to hedge. But Kiva, since we have people in Des Moines, Iowa, lending $25 they seem to mind less the idea of absorbing currency risk. I think that's where we'll go.

MS. JAGADEESAN: Great. I think in the back there's a woman in black in the back.

MS. CURTIS: Hi, my name is (inaudible) Curtis, and I work at USAID, over at the State Department actually, and I think your product is amazing, and I gave actually everybody in my family a gift certificate for Christmas to loan to somebody, which then introduced them to this concept, which I think was really exciting for them.

So, my question is the platform. It seems like you have more supply of loans than you have -- than you actually have MFIs or people to absorb it right now. Has anyone approached you to sort of copy your model to, you know, start up another Kiva, and what is your stance on that or how would you deal with that -- a proposal like that if it has not yet happened?

MR. FLANNERY: Yes, so, many people have been inspired or done similar things to Kiva since we started, and our stance has always been to help them. Short of allowing them to plagiarize, like, our website or our trademark, we've been always willing to help them. So, I think some notable examples are:

Opportunity National. They have their own network of MFIs all over the world, which are very good. They're starting their own opportunity version of Kiva or similar product -- inspired product. So, we've been working with them to help them do that.

There's an organization called MyC4 in Denmark that's sort of taking Kiva to a different level and a different place. It's really, really fascinating, so we're learning a lot from them. And we basically don't try to stop that.

There's also this organization called MicroPlace, which is inside of eBay. It's a different model, but it's similar, and so we've worked alongside them as well.

MS. JAGADEESAN: Okay, here and there's a woman in the -- right there.

MS. KRISHNAN: My name is Neesha Krishnan, and I'm a student over at Johns Hopkins. I was wondering -- I know that you have a Fellows program that you advertise on your website, and are they primarily there to help you find more MFIs, because you were talking about that being a constraint. And so how does the Fellows program work? And I guess the second part of the question is how do you find more MFIs that are credible, that can sustain the business for you?

MR. FLANNERY: Okay, yeah, we have a Fellows program, because what we noticed is there are so many people that want to spend a few weeks, a few months in the developing world and actually get exposed to micro-finance, so we have this big resource of volunteerism. At first we couldn't really handle it, but we've managed to sort of harness it a little bit through this program where we send about 25 people a quarter to do volunteer work -- MFIs -- and essentially what they do -- they don't help us find new MFIs; they help support the existing partner basis, so typically -- you saw the asterisk up there -- they try to reduce the cost, they take pictures, they blog, they train the organization on how to use our software and how to use the internet in general, and they have a pretty interesting experience. They also provide us with information so we know, you know, if there's anything shady going on. The MFI's, sometimes a Fellow, might find that out. That's really interesting.

What was your second question?

MS. KRISHNAN: How do you source new MFIs?

MR. FLANNERY: How do we source new MFIs? It's usually through networks now, so, you know, going to the Opportunity International Network Conference, going to Axion's conference. There are a lot of places where CEOs and executive directors of good MFIs gather, and so we go there and try to sign them up.

MS. JAGADEESAN: More questions. I think there is someone standing up in the back all the way against the wall.

MR. LAWSMAN: Hi, my name is Ben Lawsman. I work for an organization called Ashoka's Youth Venture, and currently I'm working with some students and grad students from UPenn who've been inspired to take the Kiva model to Palestine and set up -- I'm not sure if you've spoken with them or if you've heard of their plans. They're still in the planning stages now, but their goal is basically peace through employment and franchisement, and I'm wondering what you foresee -- because you've told us Kiva's basically hands off, it's all about the power of micro-finance whereas this is micro-finance as a means towards a larger goal -- and I'm just curious as to what you think the successes and challenges they might face.

MR. FLANNERY: Well, I'm sure exactly what they're doing, but they're doing a Palestinian-based Kiva model, so they're actually setting up their organization in Palestine. The website will be built -- because Kiva actually has worked in that area not -- we've worked in the Gaza Strip, for instance, worked in Lebanon. It's not Palestine, but -- so, Kiva can work with MFIs there, and we're just based in the USA. But what are they doing differently than that?

MR. LAWSMAN: In terms of the structure, I'm not sure what structural differences, but the main difference is that the goal of the organization -- it's called Lend for Peace right now -- so the goal is specifically employment and job creation amongst young males particularly who are specifically at risk of radical recruitment.

MR. FLANNERY: I mean, it sounds wonderful. I think the challenge will be to find -- because we're really a tech company, so we don't really promote any one kind of micro-finance in Palestine or in Uganda or wherever we work. We just work with MFIs that we believe in. Some of them have ancillary missions. Some of them are religious and they do ministry. Some of them are environmentally focused and do some environmentally focused lending. Some of them do health care. If we worked at -- we would be open to working one that promotes peace as well. It's just a minimum criterion as are they lending to the poor in order to alleviate poverty.

MS. JAGADEESAN: More questions. Here's one right here. Right there at the --

MR. GARNET: My name is Jeff Garnet. I work at a small private firm outside of D.C. You mentioned earlier how you were turned away by the foundation community when you were looking to launch your model. I'm wondering now if you've been approached by them and, if so, how might that work in terms of receiving large donations from, for instance, Gates Foundation and how might you process that? You mentioned how you kind of have a lender-driven focus of how, you know, money is allocated. How would a new large stakeholder change the governance in that respect?

MR. FLANNERY: Okay, yeah, I did talk about how we were underdogs and left out of the foundation community. I didn't probably talk about how all of a sudden then we got all this support from the foundation community.

(Laughter)

MR. FLANNERY: Left that out conveniently, but we've got a lot of support after we were able to show some success, some proven results. Gotten big grants from the Kellogg Foundation, the Rockefeller Foundation. So, we've really been embraced by smart funders in the foundation community to help us grow faster. So, it's been really amazing. They haven't been actually lending on our site. If one of them -- if the Gates Foundation started lending money on our site, they could just sneeze and wipe out our whole inventory, so we really --

(Laughter)

MR. FLANNERY: We really discourage that, because $22 million by 250,000 people is great but the Gates Foundation would spend that in a few hours. So, we try to promote individuals lending small amounts, not foundations using our site, because it's really optimized for a mass market.

MS. JAGADEESAN: There's a -- I think there's a man in the back, right in the back row, right there.

MR. RAGLAND: Hi, my name's Will Ragland. I'm with the House Committee on Oversight and Government Reform, and I was just wondering -- besides the obvious countries of Iraq/Afghanistan/Palestine, what are some of the regions or certain countries that have a hard time repaying? Or, is there a certain region or countries that have a hard time repaying I guess is my question?

MR. FLANNERY: Yeah, well, it's too early to really tell, but I can tell you my subjective experience, which isn't really objective, because we have a skewed partner base, but for us our partner in Iraq has repayed totally faithfully; our partner in Afghanistan has repayed on time faithfully; in the Gaza Strip, there was an Intifada, and so they weren't able to repay; in Kenya there's been this ethnic unrest, and that has caused mass delinquencies there. In Africa in general I've experienced -- it has to be the hardest place for us to work. More fraud, more misappropriation of funds than anywhere else that I've seen, and just difficult to get transparent data from there. So, that's my initial read, but it's too early to tell.

MS. JAGADEESAN: Okay, other questions?

Right up here in front.

MS. BRADLEY: Hi, my name is Moira Bradley. I work at FINCA International, a local market finance organization here in town. I was wondering, do you have any metrics to measure your lenders and if the loans are doing any good, and do you follow them over time?

MR. FLANNERY: Okay, so she asked the question about metrics, and, you know, what we really don't have is social metrics on our site, and that's really missing, and that's something we're working on in the next year, to get some basic poverty metrics on the site. Does this woman -- what's her net income, for instance, and how has that changed over time; but that's a really difficult thing to do on the, you know, mass market, thousands and thousands of loans level. So, it's our next big challenge. We really want to do that. We actually work at FINCA in Peru, so maybe we can talk about making them -- or having them help out with that.

MS. BRADLEY: Thank you.

MS. JAGADEESAN: All right. I think there's someone over here.

CHRISTINE: Hi, I'm Christine. I'm here at the Brookings Institution, and I just actually wanted to know how you hold your partner MFIs accountable, like what sort of process is there and how do you -- if, like, they default several times, do you sort of say we want to end this partnership, and how does that work?

MR. FLANNERY: Great question about keeping our partners accountable. I think when we started we got overwhelmed by money and we just were throwing it out there, and there wasn't much accountability, and we had some troubles. We had some fraud, mostly in Kenya and Uganda. The way we uncovered that was by auditing and visiting. So, we're starting to do more and more audits all over the world to say did this person on the site get the money? That's one big question. Another question we've always been getting is did the MFI pay us back? So, that's -- just getting paid back is one set of accountability, one way to get accountability, but also, you know, there's a ground reality, because who knew they could be investing that money in the stock market. So, we've actually seen organizations that took pictures of people and then didn't give them the money and used it for other purposes. And so that's what we really are working overtime to stop. We work at Ernst & Young to do all these audits all over the world, and we send $25 a quarter, and we've weeded out some bad apples there, but I'm sure -- I think that'll be always happening, that it will always be happening to me, waking up in the morning with a phone call from Ghana saying guess what I found, you know? And it's really a difficult thing but something we have to do.

MS. JAGADEESAN: More questions. There's someone right here, gentleman right here in the middle.

SPEAKER: Hi, my name is Shagune (?) (inaudible). I have a couple of questions, and the first one is really why $25 and why not more? And the second question I'm going to have to remember later, so why don't you tackle the first one.

(Laughter)

MR. FLANNERY: Couldn't remember why I waxed on that $25.

I just chose $25 when I was in my office at TiVo. It sounded like a good amount, because it was divisible into a hundred. I didn't want it to be too cheap. I didn't want it to be $5. For some reason, that felt too inexpensive. Really, we -- there are no costs. We could make it $1, and it wouldn't affect our economics. But to me, from a product standpoint, I felt that amount sounded like a real commitment but not prohibitive to getting, like, a college student or, you know, an average-income person to donate money or lend money. But it's not scientific at all.

And did you think of a second question?

SPEAKER: Not yet.

(Laughter)

MS. JAGADEESAN: A question right here.

MS. DOYLE: Two questions for you, Matt, so it'll be complicated I know, but the first question is you started with a personal story about how your wife was more interested in development than you are. I'm wondering how this process has changed that for you and kind of what maybe your -- as you've traveled around and done this -- the most interesting things you can think of in terms of new insights. And then the second one is, you make it sound super easy, right? Like, sit in your cube and come up with that new way of doing development. But can you talk a little bit about some of the challenges and maybe times you thought about giving it up and didn't think it would succeed?

MR. FLANNERY: Okay, the first question was about how it's affected me. Well, I wasn't totally --

I thought, you know, poverty or charity was something in the good works category of my life or something, a sideline, something in this life where you make money during the day and then you might give some of it away, and that really flipped me when I was able to spend some time in Uganda, actually, and I was really experiencing poverty first hand and living there for only a month. You know, it wasn't like I was Mother Teresa or anything. I was just living there for a month, and it had a real impact on me. The thing that -- you know, what was interesting to me was, okay, I knew there was poverty, I knew there was suffering, but I could impact it, and it was actually really empowering to be there and see that people like me could have a massive impact and really transform someone's life with a hundred dollars, and that -- when you actually realize that that's true, it's pretty hard to stop doing it. So, that was it for me.

And then the second question -- I have a terrible memory.

MS. DOYLE: Challenges --

MR. FLANNERY: Challenges, okay. Oh, we thought about stopping so many times. There are so many challenges. And it really fizzled on for a long time. It was just this sideline thing. We put it away for months because of some challenge. I think the biggest challenge for us was inactivity. I think that's the number one problem of any venture like this. It's not the risk of getting shut down by the cops. It's not the risk of having someone steal the money. It's not all these other risks that people are focused on. It's not the risk of scale. I think the biggest risk is the risk of nothingness. And so the risk of getting no help, the risk of getting no one to the site, and the risk of getting no enthusiasm is the most damaging, difficult, and depressing risk. And once we overcame that, it's been a lot easier.

MS. JAGADEESAN: Great.

More questions. There's a woman on the back wall.

MELISSA: Hi, my name is Melissa. I run a startup NGO, so I definitely understand all of those challenges. My question is, have you thought about the potential for Kiva's model to work with scholarships?

MR. FLANNERY: Yeah, have we thought about the idea of Kiva's model working with scholarships? In micro-finance we have to work with local lending institutions. We have worked with some that lend money for education loans. Typically, it's school fees, not for raising scholarships. But we -- we're sort of agnostic as to the use of the loan now. We used to only loan for business creation, but since then we've been challenged to loan for homes, so we've had home loans on the site, mini-mortgages. We've had education loans, essentially scholarships, and we would love to do that. It just has to be, you know, an appropriate loan amount. So, in some countries that falls within a thousand dollars and below. In the USA it would probably be too much.

MS. JAGADEESAN: A couple more questions. In the back. There's someone right there.

SPEAKER: You talked about how early on it was very important for you to get press coverage for Kiva. How did you generate that press coverage, and then how do you sustain interest in the site when that press coverage dies out?

MR. FLANNERY: I really don't know how we got press coverage. I was still working at TiVo, driving to work one day, and then I got to work and I had a thousand emails. Who knew? Because over the night a big blog called Daily Kos wrote about Kiva, and I really don't know how they found out about it. Ever since that happened, we've been getting steady press coverage, just because of that one blog. They grew it from, you know, a place where 30 people a day saw our Web site to a place where 30,000 a day saw our website pretty fast. That just happened because of a few bloggers. So -- and then it's just been, like, it's a mind of its own. We haven't generated it at all. It's like getting on the Oprah Winfrey Show. It's crazy. And just all that stuff has just --

(Laughter)

MR. FLANNERY: We were in President Clinton's book, and the genesis of that was my co-worker, Premal, at a party in Greenwich Village talking to a woman who happened to be his secretary. So, it -- just random things, and it seems to have a life of its own, and it's definitely not because we're charismatic or really handsome or something. It's just --

(Laughter)

MR. FLANNERY: It's just having a life of its own.

MS. JAGADEESAN: There's a woman over there.

ELIZABETH: Hi there, my name's Elizabeth. I work for the Peace Corps, and I'm wondering if you have something to say about the cross-cultural communications that maybe you and your Fellows have learned in working with all of these countries. Obviously, the concept of lending and money and business is different from what we learned in school than what people are practicing around the world. If you have anything that you've learned that might be useful for us to hear from you, or if there's some, maybe, advice you give to your Fellows before they're about to go overseas.

MR. FLANNERY: Okay. Well, with cross-cultural stuff, we've been so happy and so thankful to work with local institutions that are usually run by people embedded in those cultures that come from it. So, it's really hard to lend money. A lot of NGOs come in from outside and do aid work from the outside in. That doesn't really work well with lending. When there's a Mazulu, Caucasian person like me, lending money in Uganda, they probably won't get paid back. So, you really need locals that are deeply embedded in the community to do lending wherever they are and do it in a way that works. We have worked in a lot of Muslim countries, and it works totally differently there, because the whole idea of charging interest is totally different in Sharia, and there are gender issues.

We've had problems in Senegal, with Togo, with Muslim women, that their husbands don't want them to be on a Web site. They don't want their picture taken, so you have men standing up for their wives, getting their picture taken on behalf of their wives, so there's all sorts of local nuances that we are just discovering and sort of running across. And we just had to adapt, like with that picture of the woman whose face is obscured. We had to let that happen, because we couldn't work in Iraq without that.

And then with advice, we have our Fellows come to our office and they get trained for a week about micro-finance, how it works, accounting systems, and all sorts of local issues that help them prepare to have a big impact.

MS. JAGADEESAN: We've got time for a few more questions, and so what I'm going to do is ask maybe three people and we'll combine the questions together and then we'll wrap up.

There's a woman right here and then one here and then one right here. We'll do that.

MS. FEINBERG: Hi, I'm Susan Feinberg. I'm a professor at Rutgers, and I'm one of those researchers who's been pining after your data for a long time. I guess a bunch of us have been discussing getting in touch with you guys for your data, and one of the things that interests us in particular is the notion that I guess success is when a project gets funded, but when you really care about poverty and development, you care about what happens after that, too. Are they -- you know, what happens to their success? What are they doing with that? You know, are they hiring people or are they growing even more? Do they then have access to local capital? You know, are there community effects from that? So, I guess what's the process of getting your data like, and would you have any interest at some point in keeping in touch with a limited number of people who you do fund to find out how they grow afterwards?

MR. FLANNERY: Great question. All our data is available on the website. We basically don't have much more data than what is on the site, but be happy to help you use it better.

One big problem with Kiva is we don't get enough feedback. We don't get enough social impact metrics. And that's a matter of cost. We used to get a lot of stories coming back, so in the course of one 12-month loan you'd get two or three stories over the year, but one thing that happened is that our partners stopped doing that or they reduced the amount of journals they did write, because they're not getting paid to do that. So, there's no market incentive. Every loan they ever post to our site gets funded, and it's free money, so, you know, doing social metrics and writing stories and keeping track of someone costs money, and if you're not -- someone's got to be getting paid for it, and unfortunately in the Kiva system no one's getting paid for it right now. So, the amount goes down. So, in the future we might look for a way to have a market-based incentive for social metrics reporting.

MS. JAGADEESAN: Here's one over here.

MR. MARTIN: Hi, my name's Adam Martin. I'm a consultant for the wireless industry, and I was curious about the -- Kenya's -- you said that there was micro-loans going directly to cell phones rather than through an MFI, and I was really curious if you'd talk more about that.

Also interested -- and you can ignore this one if we're limited to one question. But you were talking about your imitators and the other organizations that are springing up, and I was wondering if their model -- how are their models are different from yours in a way that would prevent you from joining or merging, and are there synergies that you've found in certain other organizations that you -- where you've thought, well, let's just combine our efforts?

MR. FLANNERY: Okay, the first question is about cell phones, so there is this worldwide movement where peoples trade money on cell phones now. I'm most familiar with it in Africa. Everything I say is about there, because that's what I know best. But the -- there's this idea, sort of a long-term idea. It's actually have people lending to other people on the internet without the -- a local money lender there, without a local loan officer there, because that would make it more efficient and reduce costs. But we haven't been able to pull that off, because that's a pretty complicated idea. You can imagine all the scams or just money transfer issues as well that might -- and identity tracking, identity fraud that might spring up if you did that. So, we'd have to be so careful about doing that. We haven't been able to do it yet.

The other thing is about competitors or related organizations. A funny thing happens with nonprofits I think when you mention related organizations. People say why don't you just combine forces or socially focus entities for profits and nonprofits? And I think there's a -- competition's great or some aspect of different minds doing the same thing in different ways is great. So, I don't necessarily think if we all just combined we'd do better. Some of those organizations are inspiring us to think differently, and we're inspiring them, and I think it's great when you inspire each other and maintain a friendly relationship that way and realize that in the end you're in it for the right reason.

MS. JAGADEESAN: One last question. Right here.

SPEAKER: I was wondering how your relationship with YouTube started, because there was a study done a few months ago tracking nonprofits that have been featured in advertising on YouTube, and Kiva's prominence really was beyond everybody else's that was, you know, on the site as comment advertising. So, how did that start?

MR. FLANNERY: How did it start with YouTube? (Inaudible) this issue with Steve Chen, the founder of YouTube.

SPEAKER: Oh, okay.

MR. FLANNERY: But it's just totally random, like all this stuff. It's just completely random. Serendipity. My co-worker, Premal, used to work with Steve Chen, the founder of YouTube at PayPal, so it's just when you're friends of friends of friends in Silicon Valley, you know, things happen. So, we've gotten over 16 million banner impressions on YouTube, and that's just because Steve Chen knows Premal.

(Laughter)

MS. JAGADEESAN: Well, on that note, that's actually probably a good way to end tonight. Part of the reason that we started this Young Professionals Program is to do some of that networking actually in the Washington community, and there's a reception upstairs. We can continue that process where people can get to know each other, and we can help as well if you fill out those surveys so that we get to know you a little bit better.

The next event that we're actually going to do is on April 29th with Moisés Naím, who is the editor-in-chief of *Foreign Policy* magazine next door. If you've registered for this particular event, you are in our database. If you haven't registered and you came, just drop your business card outside in the box, and please feel free to take copies of the conference reports that were mentioned. I think they're purple, and they have a picture of Bono on the cover, so you can't miss it. But it talks about this broader phenomenon where I think Kiva in some ways is the tip of the iceberg of celebrity activism, of social entrepreneurship, of people-to-people lending, and all of the different things that are changing in the world development. So, we thank you for coming.

There's a reception upstairs on the second floor. If you go outside, we'll have staff there to help you find it, and we hope that you enjoyed Matt and all of his insights.

MR. FLANNERY: Thank you.

(Applause)

* * * * *