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KIVA MICROFINANCE: ETHICALLY AND EFFICIENTLY REDUCING GLOBAL
POVERTY ONE LOAN AT A TIME

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ABSTRACT:

This thesis will demonstrate why microfinance is an efficient *and* ethical solution to global poverty reduction. The organization Kiva, which describes itself as “the world's first person-to-person micro-lending website, empowering individuals to lend directly to unique entrepreneurs around the globe,” has developed methods that have advanced and expanded upon the idea of microfinance. Their efforts have made it possible for people from all walks of life to become involved with the global microfinance initiative. This thesis will examine the company Kiva and demonstrate why giving small loans to needy “entrepreneurs” is more efficient than charitable contributions. Positive effects on the lender, loan recipient, family and community of the loan recipient, and the global economy will be discussed. It will also be demonstrated why Kiva (or microfinance in general) will have a stronger impact on poverty reduction when used in combination with policy reform and other macro-level development efforts. Ethical implications of poverty and inequality in today's society will also be discussed.

KEYWORDS: Microfinance, Kiva, Ethics

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I. Introduction

Today's world is advancing rapidly. Scientific innovations have led to major improvements in medicine, new technologies have made our lives easier, and globalization paired with more advanced modes of communication have led to the increased sharing of ideas. Although the world seems to be becoming smarter and more efficient, one age-old problem still exists: poverty. At least 80% of humanity lives on less than \$10 a day. Worse yet, almost half of the world's population live on less than \$2.50 a day¹ (Shah, 2009). One may ask how in a world of such advancement so many people continue to live in poverty. The answer to this question may stem from the fact that until somewhat recently, poor people in our world did not have access to basic financial institutions. For-profit banks had established in the past that they did not see enough of an economic incentive to reach this portion of the world's population.

This thesis will explore microfinance and its effects on poverty. More specifically, the company Kiva, which has revolutionized the idea of microfinance, will be discussed. Kiva uses the Internet to connect micro-entrepreneurs around the world with private lenders willing to make microloans in order to help people become self sufficient. The effects of Kiva on the lender, recipient of the loan, recipient's family and community, and the global economy will be explored. This discussion will demonstrate that Kiva microloans are a more effective mode of poverty reduction than charity, and can yield tremendous results when paired with macro-level development efforts. Once the efficiency of Kiva is demonstrated, it will be necessary to explore the ethical implications of inequality of opportunity and poverty. Kantian and Aristotelian ethics

¹ See Figures 1A and 2A in Appendix.

will be discussed in relation to Kiva microloans. The economics of giving will also provide an outlook on altruism.

Lastly, the success of Kiva will be made apparent through observations of demonstrated social performance, signs of success through the media, and the overcoming of common microfinance criticisms. Once it has been exhibited that making microloans through Kiva is an ethical and efficient mode of reducing poverty, which greatly increases the welfare of individuals and promotes equality of opportunity, the choice of participation will be left to the reader.

II. Historical Background

Muhammad Yunus and Grameen Bank

Muhammad Yunus, 2006 Nobel Peace Prize winner and founder of the Grameen Bank in Bangladesh, realized the extreme problem of poverty and has spent much of his life trying to change the structures of financial systems in our world. He is considered the pioneer of microfinance for both the development of the theory and the effort necessary to put that theory into practice. Yunus first became interested in the idea of opening financial markets to the poor as an economics professor in the United States. His ultimate goal became to create a bank, which would be an independent financial institution owned exclusively by the poor people who borrowed from it. In order to achieve this goal he had to overcome many struggles and setbacks. (Counts and Counts, 2008)

He began his efforts by giving small personal loans to poor people in Bangladesh. In order to achieve his intended goal, Yunus first sought to convince people that lending to the poor could be viable. He repeatedly asked banks to consider the poor as possible clients but was always rejected. The reasons for this continuous rejection were that first, the poor would be incapable of providing collateral and second, the loans suggested were considered far too small to be worth the repayment risk to the bank. Lastly, proposals could not be written by the borrowers themselves because the majority were illiterate. These factors all deterred banks from complying with the ideas Yunus had proposed.

He finally made some headway when he was told that he could run a branch of a bank in which loans would be administered to poor clients if, and only if, each client had a wealthy guarantor to back their loans. Muhammad Yunus generously offered to take

this role for ALL of the borrowers, even though this caused the threat of personal loss or even a jail sentence if the loans could not be repaid. Yunus's confidence in the project succeeded, though, and after success in this initial branch, his goal was finally achieved on October 1, 1983 with the launching of the Grameen Bank. This bank, which began as the small branch run by Yunus, took the role of administering loans to the poor of Bangladesh. (Counts and Counts, 2008)

The project, which began with a spontaneous \$27 loan from Yunus's own pocket, grew into a flourishing bank successfully administering to the poor of Bangladesh. By 1996 Grameen had lent its billionth dollar, and just over two years later it reached its two billionth dollar lent. This exponential growth and success was made possible by the trust given to the borrowers and the resulting 98% repayment rate. (Yunus, 1999, p.199)

If Grameen was to work, we knew we had to trust our clients. For one day we knew there would be no room for policing in our system. We never used courts to resettle our payments. We did not involve lawyers or any outsiders. Today, commercial banks assume that every borrower is going to run away with their money, so they tie their clients up in legal knots. Lawyers pore over their precious documents, making certain that no borrower will escape the reach of the bank. In contrast, Grameen assumes that every borrower is honest...Grameen would succeed or fail depending on the strength of our personal relationships. We may be accused of being naïve, but our experience with bad debt is less than one percent. (Yunus, 1999, p.70)

With this success, Grameen Bank was able to meet skepticism as a peer institution that used concepts such as honesty and trust and as a result, was able to financially outperform commercial banks. (Yunus, 1999)

Yunus believed that it was not enough for an institution to successfully sustain itself; in order to be truly successful, it must also be capable of doing something useful for its members. Grameen Bank allowed Yunus to bring this belief into practice through the use of microfinance. "Microcredit, or its wider term, microfinance, the extension of

small amounts of collateral or free institutional loans to jointly liable poor group members for their self employment and income generation, is a Grameen Bank innovation.” (Islam, 2007, p. 2) While traditional banks are based on the Western-style approach of legal contracts, micro-finance programs are designed after the Asian approach of trust for and confidence in their clients. Muhammad Yunus and Grameen Bank functioned on the belief that if credit is extended to the poor at reasonable terms and conditions, it can generate self employment and thereby improve economic conditions. (Islam, 2007)

The success of Grameen Bank proved to the world that microfinance is a worthwhile endeavor. The United Nations even included the theory into its method for achieving development goals. “Micro-finance has the potential to have an impact on the wider dimensions of poverty as well and hence to contribute to the achievement of the MDGs.” (Copestake et al., 2005, p. 4) The MDGs mentioned here are the Millennium Development Goals established by the United Nations. These goals are as follows:

1. To eradicate extreme poverty and hunger
2. To achieve universal primary education
3. To promote gender equality and empowerment of women
4. To reduce child mortality
5. To improve maternal health
6. To combat HIV/AIDS, malaria, and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

The Millennium Development Goals were put forth by the United Nations with the intention of being achieved through global cooperation by the year 2015. The UN believed in the potential of microfinance to such a degree that they actually dedicated 2005 as “The International Year of Microcredit.” (Copestake et al., 2005) According to a report by the United Nations Millennium Project, “Microfinance is one of the practical

development strategies and approaches that should be implemented and supported to attain the bold ambition of reducing world poverty by half. Indeed, microfinance is interwoven into many of the recommended strategies to achieve the Millennium Development Goals. It is an important means of halving poverty by 2015.” (UNDCF, 2005, p.1)

The United Nations is not the only group to recognize the potential of microfinance. Due to the success of Grameen Bank's microfinance initiative, governments, private donors, non-profit organizations, and even some commercial banks are making efforts toward new microfinance development projects. The microfinance revolution has “radically overturned established ideas of the poor as clients of financial services. In the process, it has shattered stereotypes of the poor as not bankable, spawned a variety of lending methodologies demonstrating that it is possible to provide cost-effective financial services to the poor, mobilized millions of dollars of social investment for the very poor, and given rise to thousands of MFIs [micro-finance institutions] dedicated to serving the poor” (Islam, 2007, p.2). One such microfinance institution is the organization Kiva, conveniently found at www.kiva.org.

Kiva: The Future of Microfinance

The founders of Kiva, Matthew Flannery and Jessica Jackley, are both very passionate about the plight of the poor and seek to do their part to alleviate poverty. They were first introduced to the idea of microfinance as graduate students at a lecture given by Muhammad Yunus himself at Stanford University in 2003. They realized that today's age of increased technology and communication is making the world more connected than ever. They also realized, through previous endeavors, that the poor of our world are

perfectly capable of possessing a strong spirit of entrepreneurship if given access to the right tools. Lastly, they realized that personal stories connect people in a powerful way. These three realizations were the seeds that later grew into what is now their successful website. Flannery and Jackley discovered that if people felt connected through hearing each other's stories, making small loans to low-income entrepreneurs via the Internet could be a radical and successful way toward poverty reduction. Their ideas were made reality in October 2005 with the launching of www.kiva.org. (Kiva, 2010)

On the website Kiva describes itself as, “the world's first person-to-person micro-lending website, empowering individuals to lend directly to unique entrepreneurs around the globe.” Through its partnerships with many excellent microfinance institutions, Kiva allows people from all walks of life to connect through the lending and borrowing of small loans. This truly unique company's methods are paving the way for the future of microfinance. Kiva is taking the microfinance theory a step further by opening loans to private investors. It is an easy website to use and is efficient for all agents involved.

Kiva connects people around the world by linking borrowers and lenders together in the global market. While visiting kiva.org, one may browse the many entrepreneurs' profiles, choose one or several individuals to lend to, and watch as the entrepreneur makes the journey toward financial independence. The lender receives email notifications on the progress of their entrepreneur through journal entries and tracking of repayments. The loans are repaid over the course of six to twelve months in equal increments.

As well as connecting lenders to entrepreneurs, Kiva makes their website as transparent as possible, so that lenders can rest assured knowing that their loan is being delivered in full to the intended recipient. Kiva's overhead costs are partially covered by

a seven dollar donation requested by Kiva to each new lender on a voluntary basis. Kiva also makes unpaid internships available on a voluntary basis, which proves effective at cutting costs as well. Due to its transparency, Kiva has been very successful in achieving its goals. The following table contains statistical information found on Kiva's website.

Table 1:

Total value of all loans made through Kiva*: \$124,742,985
Number of Kiva Lenders: 683,479
Number of countries represented by Kiva Lenders: 194
Number of entrepreneurs that have received a loan through Kiva**: 313,559
Number of loans that have been funded through Kiva***: 174,989
Percentage of Kiva loans which have been made to women entrepreneurs: 82.33%
Number of Kiva Field Partners (microfinance institutions Kiva partners with): 143
Number of countries Kiva Field Partners are located in: 57
Current repayment rate (all partners): 98.38%
Average loan size (This is the average amount loaned to an individual Kiva Entrepreneur. Some loans – group loans – are divided between a group of borrowers.): \$397.81
Average total amount loaned per Kiva Lender (includes reloaned funds): \$182.62
Average number of loans per Kiva Lender: 5.3

*Fully funded and in the process of repayment

**Some loans are made to groups

***Fully funded loans (Statistics as of March 10, 2010 www.kiva.org)

As of early 2010, Kiva had enabled lenders to send well over one hundred million dollars to budding entrepreneurs in need around the world. In fact, in January 2010 the popularity of Kiva had risen so much that every loan posted on the website had been fully funded thanks to the diligent community of Kiva lenders. Support for the cause was so strong that more lenders joined Kiva than had ever been expected. Not many non-profit organizations can make the claim that people's generosity and willingness to work toward a good cause outweighed the availability of people the organization aimed to help. Once there were no more loans that needed to be funded, Kiva offered the opportunity for lenders to donate money to the operating costs of the organization. Kiva replenished its

profiles of available entrepreneurs and continues working diligently to connect poor people around the world in need of loans with the willing community of Kiva lenders.

Kiva's efforts and success are not independent. They heavily rely on the cooperation and support of not only their lenders but also their partner microfinance institutions. The partner MFIs take the role of choosing qualified entrepreneurs in their designated areas. As Kiva explains,

Kiva partners with existing microfinance institutions. In doing so, we gain access to entrepreneurs from communities world-wide. Our partners are experts in choosing qualified entrepreneurs. That said, they are usually short on funds. Through Kiva, our partners upload their entrepreneur profiles directly to the site so you can lend to them. When you do, not only do you get a unique experience connecting to a specific entrepreneur on the other side of the planet, but our microfinance partners can do more of what they do, more efficiently. (Kiva, 2010)

This idea allows the efficiency of microfinance to be increased even further. Since microfinance institutions are usually short on funds, teaming up with Kiva is profitable for both Kiva and the MFIs. Kiva, through its community of lenders, provides funds to the MFIs who, in turn, use their expertise to connect Kiva to the qualified entrepreneurs who receive the loans. This means that Kiva does not have to hire microfinance experts in countries around the world, and MFIs can spend more time doing their work and less time focusing on fund raising. The following flow charts explain how Kiva works with its microfinance institutions, or field partners.

Figure 1:

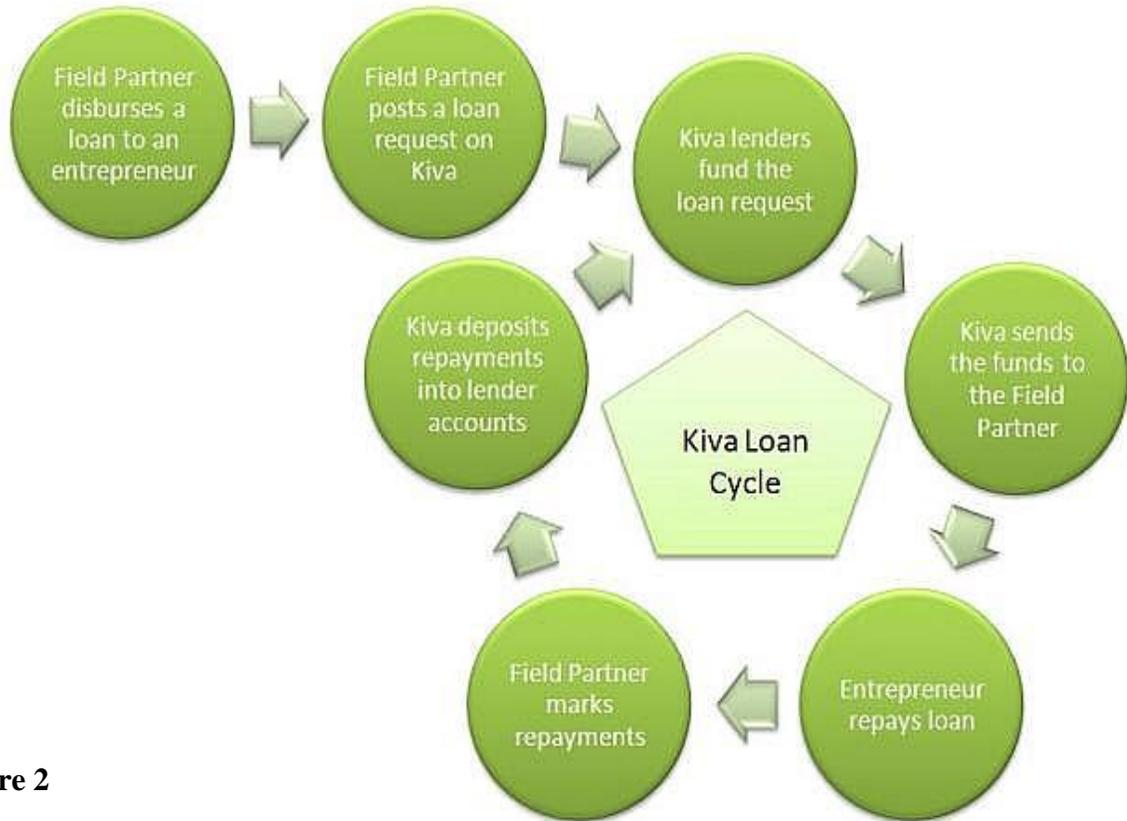
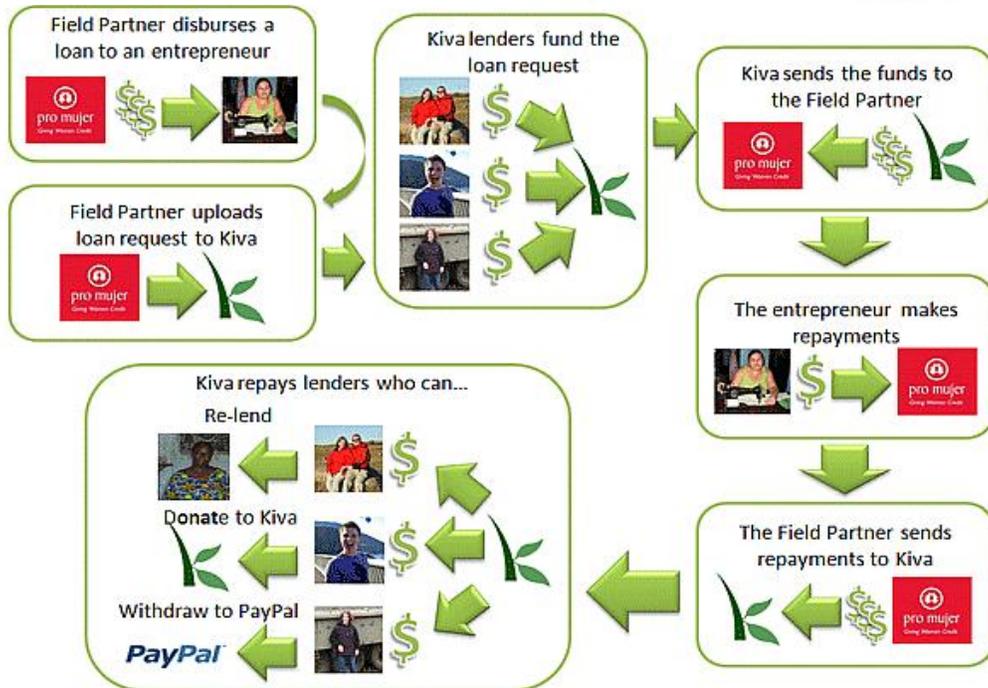


Figure 2



(Kiva, 2010)

In order to give a concrete example of a Kiva loan, I will briefly describe a loan that I have made. This loan was given to Fatima Idowu of Lagos State, Nigeria through the microfinance institution, LAPO (Lift Above Poverty Organization). Fatima was seeking loans in order to “buy more provisions and foodstuffs to sell” since she is the owner and manager of a food market. This fifty dollar contribution was combined with small loans from other lenders to grant Fatima a \$325 loan, which was to be repaid monthly for eight months. All of the loan repayments were received on time in \$6.25 increments, and the loan was fully repaid as of April 2010. Upon receiving a loan repayment, the choice was given to the lender of re-lending, donating the money to Kiva, withdrawing, or giving the money to a friend as a gift certificate in order to encourage that person to begin making loans through Kiva. Fatima is now running a successful food market, which she hopes to eventually turn into a supermarket. This example shows how Kiva connects people (i.e., a lender in Pennsylvania, USA with an entrepreneur in Lagos, Nigeria) in a unique way.

Kiva has taken the successful theory of microfinance and combined it with available technologies to allow more people to become involved in the effort. Kiva has efficiently created a market, which is desirable to both buyers and sellers of a product or asset. Although there is an ethical aspect to Kiva as well, as a company it saw the need for a new market and efficiently created that market. Through this efficiency, they have effectively allowed for more than one hundred million dollars worth of loans to reach entrepreneurs around the world in need of financial assistance. In the next section, it will become even clearer why Kiva, and microfinance in general, is such an efficient and effective mode of reducing global poverty.

III. The Efficiency of Kiva

It has been demonstrated that poverty is and continues to be a tremendous problem in our world, that microfinance was created to alleviate poverty, and that the company Kiva has taken this process a step further by allowing individuals to engage in micro-lending through the use of their unique website. Kiva is using the basic principles of economics to create a market. A market occurs when consumers create demand for a good that a producer can supply. Kiva is neither the consumer nor the producer, but the intermediary connecting the consumers, or recipients, and producers, or lenders. The company Kiva uses the technology of the Internet to connect people who would not be directly connected without the existence of such a unique market. Kiva increases total welfare, because the lender, borrower, local communities and global economy as a whole are made better off. Since total welfare of all players involved increases, the presence of Kiva is pareto optimal from the perspective of the world economy. This section will discuss the ways in which Kiva is both efficient and effective.

Kiva is Beneficial to the Lender

The first player in this equation to be discussed is the lender. The lender invests in the budding entrepreneur in hopes that this person will be given a chance to make something of herself. In addition, granting this investment also allows the investor to making something of himself. In his 1943 paper entitled “Theory of Human Motivation,” psychologist Abraham Maslow presented what is now known as Maslow's hierarchy of needs. This psychological theory explained the needs of humans and the relative importance of each category of needs. This hierarchy of needs will help address the benefit to the lender of a Kiva loan.

Maslow explained that there are five categories of needs. The categories do not necessarily range from least important to most important, but it is necessary to note that one category of needs cannot be obtained until the preceding category of needs is met. These needs begin with the physiological, which include breathing, sleeping, eating, and sex. The next layer of needs pertains to safety and includes the security of one's body, employment, family, property, and health. The next category of needs is that of love and belonging. Within this category is the need for romantic intimacy, friendship, and family. Above love and belonging is the need for esteem, which includes confidence, reputation, and respect from others. The highest category of needs, which can only be met if all the other needs are first met, is self actualization. Self actualization includes morality, problem solving, creativity, and lack of prejudice. (Maslow, 1973)

Self actualization can be achieved through micro-lending. Helping others to help themselves and contributing to reductions in poverty are self actualizing actions. The lender of a microloan is fulfilling his or her needs along with the needs of the recipient. This is an added benefit of micro-lending for the lender. On every Kiva lender's profile the question is asked "Why do you lend?" David, from Muncie, Indiana, writes on his Kiva profile "Helping someone else means more (and the satisfaction lasts longer) than does spending money on myself, and the small sum of money involved goes so much further in the developing world than it does here." Lorana from Zürich, Switzerland writes "At the moment I can do it, and I feel good doing it knowing I am helping people to help themselves. I think it is the best way to help." Since interactions through Kiva allow for the self actualization needs of the lender to be met, these interactions increase the lender's total welfare.

The previous example showed one reason why making microloans through Kiva is effective. Lending through Kiva is efficient as well because microloans achieve the same goal as charity in a more efficient manner. Many people throughout the world give aid to others in the form of charity. However, with most charities, a lump sum of money is given to an organization in need and is never seen again by the charitable giver. Kiva is more efficient than basic charitable organizations for two reasons. First, when one gives to charity they are unsure of exactly where the money will be spent. Kiva allows the lender to know exactly where the money is going and how it will be used. Moreover, in the case of microloans, the money that is invested in a person is assumed to be repaid. Kiva and their partnering microfinance institutions help to ensure that these loans *will* be repaid. Once the loan is repaid, the lender can either give that loan to a new recipient or reclaim his or her money. Through this micro-lending process, the same amount of money is used to affect many more lives than a single charitable gift would be capable of affecting. Therefore, Kiva microloans are more efficient than charitable gifts, because they allow for the same amount of money to affect the lives of many more people in need.

Kiva is Beneficial to the Recipient of the Loan

There are many other reasons why micro-lending is a more efficient and effective option than charitable gift giving. These reasons, though, have more to do with the recipient of the loan than the lender. If someone receives a charitable gift, it can be spent on anything, from repaying old debt to expenditures on consumption goods. Microloans on the other hand are given under the condition that they will be spent on investment rather than consumption goods. When a microloan is given through Kiva, it goes toward

the prospective business of the borrowing entrepreneur. Since the loan is given with the expectation that it will be repaid, the borrower must be productive in order to repay that loan on time. Furthermore, most microfinance institutions that partner with Kiva distribute loans on a graduated basis. Therefore, if a loan is successfully repaid, the next loan will be larger until the borrower becomes self sufficient and no longer needs to take out loans. This graduated system creates repayment incentives for the borrowers.

Unlike charity, loans create a sense of accountability and encourage hard work and dedication, which has the potential to lead to success on the part of the borrower. This hard work and success will ultimately contribute to the borrower becoming self sufficient, financially independent, and able to provide for herself and her family. The investments made through use of microloans help increase the borrowers' total welfare. "I always have food and I don't have to beg anymore. Begging made me feel like I wasn't human, people looked down on me. Now I feel like a real person. I want microfinance to help others just like it helped me." (Juran, 2010, p.4) This quote from Rabia, a microfinance loan recipient in India shows why comparing charity to microloans seems to illustrate the old adage "Give a man a fish and he will eat for a day; Teach a man to fish and he will eat for a lifetime."

Borrowers also benefit from microloans because without them they would otherwise borrow informally. Although the range of interest rates charged by partnering MFIs varies greatly, the average interest rate on a Kiva loan is 35% (Kiva, 2010). Kiva explains,

Self-sustainability is critical to creating long-term solutions to poverty, and charging interest to entrepreneurs is necessary for microfinance institutions to achieve this. Our Field Partners are free to charge interest, but Kiva will not partner with an organization that charges exorbitant interest rates. We also require Field Partners to fully disclose their interest rates. Microfinance is an expensive

business, which is essentially the reason small loans are not provided by large banks. Charging interest to entrepreneurs enables our Field Partners to bear these costs and achieve self-sustainability. (Kiva, 2010)

Although the average interest rate may seem high, it is a much better option than borrowing in the informal sector. Before access to financial systems, many poor people would borrow from acquaintances who were also not very financially stable. This often led to loans being given with extremely high interest rates, which could not easily be repaid. With such loans, starting a business seems close to impossible. Microfinance, on the other hand, provides a viable option for people faced with poverty. CGAP (Consultative Group to Assist the Poor), an independent policy and research center housed at the World Bank, aims to promote financial access to the world's poor. They are comprised of some of the world's leading microfinance experts. On their website, they adequately explain some of the benefits for people engaged in microfinance:

By reducing vulnerability and increasing earnings and savings, financial services allow poor households to make the transformation from "every-day survival" to "planning for the future." Households are able to send more children to school for longer periods and to make greater investments in their children's education. Increased earnings from financial services lead to better nutrition and better living conditions, which translates into a lower incidence of illness. Increased earnings also mean that clients may seek out and pay for health care services when needed, rather than go without or wait until their health seriously deteriorates. (CGAP, 2009, p.1)

Unlike charity, which only helps smooth consumption, microfinance encourages saving and investments. In this way, one can effectively use loans to ensure a better future.

Externalities of Kiva: Benefits to Recipient's Family, Community, and the Global Economy

There are many benefits incurred by the recipient's family as well. Increased education and health are two very important aspects of the benefits to the family of a

Kiva entrepreneur. When a person successfully receives and repays Kiva loans, she become capable of helping herself and her family in a number of ways.

Things are going well. My oldest son is doing his first year in college and we have not taken any loans for that. It is all paid for with the profits from our family business. We used to go to the government hospital, but now we go to a private hospital and the waiting time is much less. We eat meat once a week, we used to eat meat only once every twenty days. We have also improved our house. It used to be a thatch house and now we have made the walls concrete. (Juran, 2010, p.2)

This quote by Ankamma, another microfinance recipient from India, illustrates some of the benefits of microfinance to the recipient of a loan. The ability to send children to school creates social mobility within a family. This means that not only is the entrepreneur lifting herself out of poverty, she is allowing her children and future generations to create a better life for themselves and their children as well. Increased health is another benefit that leads to a better standard of living for the entrepreneur's family. The earnings created by the new business immediately fuel health related needs such as proper nutrition and care. Also, the saving that occurs as a result of a prosperous business allows the family to prepare for and adequately tend to medical emergencies. This financial security inevitably increases the family's total welfare.

In his book, *The Fortune at the Bottom of the Pyramid*, C.K. Prahalad explores possible profitable "Bottom of the Pyramid" markets, which will not only help reduce poverty but will also create a more inclusive type of capitalism, in which everyone, no matter what income level, may participate. He discusses microfinance with the example of the Indian ICIC bank. The ICIC bank stresses that one of the root goals of micro-finance is "enabling the poorest of the poor to become active and informed participants in socioeconomic processes as opposed to passive observers" (Prahalad, 2006, p. 117).

Similar to Kiva, ICIC has utilized available technologies in order to reach the poorest of

the poor as a possible new market. Kiva seems to share the goal of ICIC of transforming the poor into active participants of socioeconomic practices. This transformation not only benefits the poor who are transformed but also their larger community as a whole.

In fact, the greater community benefits in many ways from the effects of microloans. The externalities of micro-financing within a community are caused mainly by the decreased poverty observed in that community. One example of such an externality is the fact that as more borrowers find their way out of poverty through becoming entrepreneurs and running their own businesses, the local community benefits from the existence of these businesses. More goods and services become available to the community. Many of the microloans made through Kiva are to borrowers in rural and somewhat remote villages (Hence the name “Kiva”, which is Swahili for “village”). For this reason, the start up of only a few small businesses can greatly affect the larger community. (Kiva, 2010) These businesses also create employment opportunities for people in the community. The employment opportunities, although limited, will eventually help lift others out of poverty as well.

Another possible positive externality for the greater community is improved health. As illustrated by the discussion of the family, decreased poverty due to successful microloans leads to improved health for the recipient and the recipient’s family. This improvement in health naturally affects the surrounding community. Less disease in one family translates to less disease for the entire community. This type of reasoning also applies to empowerment. The empowerment felt by a woman who is a flourishing entrepreneur, because of the success of Kiva microloans, is contagious. By seeing a successful woman, other women will feel empowered. This empowerment often times comes in the form of a new client for Kiva. A community member who sees the success

of her neighbors is likely to seek similar success for herself. Contagious empowerment is another positive externality of the decreased poverty that occurs in areas touched by the successes of Kiva microloans. The following quote from another Indian microfinance recipient, Uma, illustrates some of the positive externalities of microloans.

I want to take another microfinance loan so I can make more money, but also because it allows me to help others when I employ them. The women who work for me help support their families with their salary. I pay them \$23 per month. I am awaiting a second loan and I plan to buy two more sewing machines. Then I will be able to hire two more women from the neighborhood. I am happy about what microfinance has done for me. Now my sister and mother have both taken microfinance loans. (Juran, 2010. p.1)

Uma's account of her tailoring and garment production business illustrates the ripple effect a microfinance loan can have on the family and community of the recipient.

After exploring the beneficial side effects of Kiva microloans for the lender, recipient, recipient's family, and larger community, it is safe to say the Kiva microloans are effective. The gain in welfare to the agents involved and those exposed to positive externalities leads to a more efficient global economy as a whole. As stated before, if microfinance continues to grow and affect more lives, we will begin to see a more inclusive form of capitalism that reaches many more people than was once capable, by including rather than excluding the poorer population. A good definition of capitalism is "an economic system in which investment in and ownership of the means of production, distribution, and exchange of wealth is made and maintained chiefly by private individuals or corporations, especially as contrasted to state-owned means of wealth." (dictionary.com unabridged, 2009) Keeping this definition in mind, if capitalism is assumed to be efficient (which by almost every economist it *is*), successful micro-financing will increase efficiency by expanding capitalism.

As the reach of microfinance institutions such as Kiva continues to grow, government foreign aid may be able to concentrate on specific needs that cannot be achieved by individual loans on a person-to-person basis. This shift to less public and more private aid would be another way in which microfinance could improve global capitalism. Although this is far from the current situation, it is a hopeful forecast, which if implemented could lead to many improvements such as decreased deficits for many of the wealthier federal governments. This prediction is not as far fetched as it may seem after looking at a few statistics. The Center for Global Prosperity published an Index of Global Philanthropy in 2006, which gave the following statistics regarding American private contributions:

1. International giving by US foundations: \$3.4 billion
2. Charitable giving by US businesses: \$4.9 billion
3. American NGOs: \$9.7 billion
4. Religious overseas ministries: \$4.5 billion
5. US college scholarships to foreign students: \$1.7 billion

(Shah, 2009, p.9)

Although it is impossible to obtain complete figures for private giving, these statistics based on estimates for the year 2006 make it quite clear that the American public is very generous. Dr. Carol Adelman, the director of the Center of Global Prosperity, stated “Americans privately gave at least \$34 billion² overseas—more than twice the US official foreign aid of \$15 billion at that time” (Adelman, 2002, p. 2). This figure is from 2002 but the comparison between American private contributions and foreign aid has remained the same. Although the motives behind giving are diverse (which will be explained in detail in the next section) the proof remains that people *are* generous. With these statistics in mind it becomes easy to imagine how private giving guided in the right

² This figure includes personal remittances from the US to developing countries.

direction (toward sustainable microfinancing) would be very successful and could someday significantly decrease the scope of government foreign aid.

One stipulation must be addressed when discussing the trade off between microloans and foreign aid. Microloans are NOT a substitute for foreign aid. Although corruption can occur when it comes to foreign aid, it is still necessary for such endeavors as the improvement of infrastructure. For example, although microfinance may increase the welfare of many individuals and therefore increase the welfare of a nation through externalities, it will not build roads or schools or hospitals.

Nevertheless, it is also probably true that the best anti-poverty strategy is to use microcredit along with other social investments, not just to reduce poverty, but to expand a country's basic social resources. Employment programs and education programs can make the poor more employable. Improvements in public infrastructure and the introduction of schools and hospitals can benefit communities. And all programs require a legal and regulatory framework, which is controlled on the policy level. Microfinance by itself would be more effective in conjunction with policies that bring other services to poor communities as well. (Ruben, 2007, p.2)

Thus, foreign aid is still a necessary method to promote economic development and poverty reduction. Microfinance, however, can help foreign aid concentrate on the public goods needed and leave the private investments to generous microfinance lenders.

The supplement of foreign aid with many individual microloans would be efficient and effective for several reasons. Often times, foreign aid is given to a country in order to help alleviate poverty and improve the country's infrastructure. This aid, however, does not always go toward achieving these goals. Often times corrupt government officials take the aid and reinvest it in a more stable economy for their own personal gain. This capital flight of foreign aid weakens the economy of the country, because in the case of loans rather than grants, not only does the country's debt increase,

but the current problems are not addressed. With person-to-person micro-lending, such corruption could not tamper with the intended outcomes of the loans. Therefore, micro-lending on a mass scale (i.e., mass in percentage of the population partaking in the exchanges) would be more effective in combating the problems of individuals, such as the reduction of poverty, than foreign aid. More needs would be met, less corruption would occur, and deficits would decrease for wealthy federal governments.

Micro-lending through Kiva is beneficial to the lender, the recipient of the loan, the recipient's family, local communities, and the global economy as a whole. Microloans could be seen as a Pareto improvement, which in the study of economics means an option that makes at least one agent better off without making any other agents worse off. Micro-lending increases the utility of both players involved and has positive externalities on many other people, uninvolved in the lending process. Kiva uses the available technology to create an efficient market, which not only meets the needs of both parties involved, but also increases the scope of global capitalism.

Upon receiving the Nobel Peace Prize for his theory and practice of micro-finance, Muhammad Yunus spoke these words in his acceptance speech:

Poverty is created because we built our theoretical framework on assumptions which under-estimate human capacity, by designing concepts, which are too narrow (such as concept of business, creditworthiness, entrepreneurship, employment) or developing institutions, which remain half-done (such as financial institutions, where poor are left out). Poverty is caused by the failure at the conceptual level, rather than any lack of capability on the part of people. (Yunus, 2006, p.13)

If microfinance organizations such as Kiva are as efficient and effective as they seem, society should embrace these institutions as the new basis for change. Poverty does not have to be a problem forever. Muhammad Yunus later declared:

To me poor people are like bonsai trees. When you plant the best seed of the tallest tree in a flower-pot, you get a replica of the tallest tree, only inches tall. There is nothing wrong with the seed you planted; only the soil-base is too inadequate. Poor people are bonsai people. There is nothing wrong in their seeds. Simply, society never gave them the base to grow on. All that is needed to get the poor people out of poverty is for us to create an enabling environment for them. Once the poor can unleash their energy and creativity, poverty will disappear very quickly. (Yunus, 2006, p.13)

IV. Making Microloans through Kiva is Ethical

The Equality Efficiency Tradeoff

Many people believe that there is a tradeoff between equality and efficiency, and thus, one must be sacrificed to gain more of the other. “To the extent that the system succeeds, it generates an efficient economy. But that pursuit of efficiency necessarily creates inequalities. And hence, society faces a tradeoff between equality and efficiency.” (Okun, 1975, p.1) Equality and efficiency do not, however, always have to be viewed as dichotomous or mutually exclusive. Kiva demonstrates a way to increase equality AND efficiency. Making private loans to those in need is more efficient than giving charity, but it also levels the playing field by increasing equality of opportunity. By providing the poor with access to financial institutions, inequality is being combated efficiently through increasing equality of opportunity.

In the literature regarding the equality efficiency tradeoff one concern of efficiency advocates is that equality is often achieved by taking from the rich and giving to the poor. Kiva's method takes a more capitalistic approach at gaining equality by allowing a market rather than government intervention to level the playing field. With people voluntarily choosing to give private loans, there would be less of a need for the government to intervene through taxing the rich and subsidizing the poor. Government reallocation has been described through the analysis of a leaky bucket. “The program has an unsolved technological problem: the money must be carried from the rich to the poor in a leaky bucket. Some of it will disappear in transit, so the poor will not receive all the money that is taken from the rich.” (Okun, 1975, p.91) In taking from the rich and giving to the poor, many funds are lost along the way. If all able individuals took it upon themselves to invest in the well being of others, there would be no need for government

reallocation. This would clearly be a more efficient road to equality.

It has been exhibited that microfinance in general, and the company Kiva specifically, is efficient and effective at reducing global poverty and increasing equality of opportunity. If this assertion is taken to be true, individuals should embrace Kiva as the new method of change when it comes to poverty reduction. In fact, the effectiveness of Kiva that has been demonstrated would not exist without the support of individuals who are dedicated to the cause. Although it may be effective to legally oblige every citizen to help others, this does not seem ethical. If helping those in need is not a legal obligation, it must become a moral obligation in order for change to occur in society. This section will explore the ethical implications of inequality and poverty related suffering in our world and how these implications can be tied to Kiva microfinance.

Is Microfinance Ethical? A Look at Kant's Categorical Imperative

In order to discern whether helping others receive an equal opportunity at life via granting them access to capital is ethical, we must first discuss how to distinguish an ethical or moral action from an unethical or immoral action. Immanuel Kant, eighteenth century German philosopher, is well known for answering this question through the use of his categorical imperative. The categorical imperative states that there is a single moral obligation and it is derived from duty. Kant believed that this duty was an a priori good in and of itself prior to experience. “A categorical imperative would be one which represented an action as objectively necessary in itself, without reference to any other purpose” (Kant, 1785, p.31).

Kant described a method in which one could discern whether an action would fall under the categorical imperative. This method is a hypothetical thought experiment that can be applied to any action in question. Thus, Kant's thought experiment can be applied to loans made through Kiva microfinance in order to determine the morality of the action. The method states that one must act in such a way that the maxim of one's action can become a universal law. A maxim is a subjective principle or a rule that one makes for oneself. The first step is state your maxim. The second is state your maxim as though it were a universal law. The third step is state the outcome of such a universal law. Thus, in the case of Kiva the thought experiment would go as follows:

- I can lend money to those in need.
- Everyone who is able should lend money to those in need.
- Equality of opportunity would be increased and fewer people would struggle in the world.

Although this seems somewhat intuitive, the most important step has not yet been discussed. The final question that should be asked in this thought experiment is: does the outcome of the universal law bring us closer to the "Kingdom of Ends"?

Kant's Kingdom of Ends is a somewhat utopian ideal of the perfect society in which all people are rational beings who operate under the categorical imperative. In order for an action to lead us closer to the Kingdom of Ends it must treat every individual as an end in himself and not simply as a means to an end. "Act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end" (Kant, 1785, p. 30). This last step is very important, because without it many immoral acts could be disguised as moral. For example this argument was once made:

- I can obey orders and follow laws.
- Everyone should obey orders and follow laws.
- Order will be established and safety will be promoted.

Although this reasoning sounds legitimate, this is the exact argument made by Nazi Lieutenant Colonel and “architect of the holocaust” Otto Adolf Eichmann. (Arendt, 1963)

What Eichmann failed to realize is that his view of Kantian ethics left out the most important question: does your action bring society closer to the Kingdom of Ends?

To determine the morality of making microloans via Kiva, the outcome of the action must be viewed in comparison to the Kingdom of Ends. If all capable people lent to those in need for the sake of others’ well being, people would be used as ends in themselves and society would be brought closer to the kingdom.

Morality is thus the relation of actions to the autonomy of the will, that is, to a possible giving of universal law through its maxims. An action that can coexist with the autonomy of the will is permitted; one that does not accord with it is forbidden. A will whose maxims necessarily harmonize with the laws of autonomy is a holy, absolutely good will. The dependence upon the principle of autonomy of a will that is absolutely good (moral necessitation) is obligation...The objective of an action from obligation is called duty. (Kant, 1785, p. 36)

Thus, if we are to follow Kantian ethics it can be said that making microloans through Kiva in order to promote the well being of others is not only a moral action, but a moral *duty*.

From Kantian to Aristotelian Ethics

Although many people are advocates of Kantian ethics, there are numerous critics as well. “Kant's ethics has been criticized for having a 'thin' moral psychology (i.e., Kant does not adequately account for the important role of feelings and emotions in moral agency).” (Arroyo, 2007, p.1) Aristotelian ethics, on the other hand, takes the role of emotions and feelings to be very important in the quest for virtue. Although Aristotelian and Kantian ethics are contradictory due to the fact that Aristotle concentrates on developing a virtuous character while Kant focuses on specific virtuous actions, they can both be used to support the statement that making microloans through Kiva is ethical.

Aristotle believed that virtue was the path to living well and that it consisted of “The Golden Mean.” This meant that virtuous actions were the mean between two extremes, excess and deficiency, which were considered vices.³ “And it is a mean state between two vices, one of excess and one of defect. Furthermore, it is a mean state in that whereas the vices either fall short of or exceed what is right in feelings and in actions, virtue ascertains and adopts the mean.” (Aristotle, 1934, p.1107)

Every action, according to Aristotle, is done with a goal in mind and every good goal is preceded by another goal until the ultimate goal or highest good is reached. The highest good in Aristotelian ethics is eudaimonia, which is often translated as “living well” or acquiring happiness. “What is the highest good in all matters of action? As to

3 This is not to be taken as moral relativism though, since certain things are evil in and of themselves and thus, are outside the range of extremes included in the ethics. “Not every action or emotion however admits of the observance of a due mean. Indeed the very names of some directly imply evil, for instance malice, shamelessness, envy, and, of actions, adultery, theft, murder. All these and similar actions and feelings are blamed as being bad in themselves; it is not the excess or deficiency of them that we blame.” (Aristotle, 1934, p.1107)

the name, there is almost complete agreement; for uneducated and educated alike call it happiness, and make happiness identical with the good life and successful living.”

(Aristotle, 1934, p. 1098)

Aristotelian ethics can be applied to the action of making Kiva microloans in the following manner. Aristotle described the virtue of generosity in Chapter Seven of the *Nicomachean Ethics*⁴. He described the extremes as wastefulness and stinginess with generosity being the virtue between these two extremes. A person making a microloan through Kiva is not being stingy, because they are sharing their money with others in need. Furthermore, they are not being wasteful, because they are giving money to an efficient organization, which will help that same amount of money reach many more people in need. Therefore, a Kiva lender is practicing the virtue of generosity when making a microloan. The next question though, is the motivation for making a microloan.

When a person makes a microloan the goal is to give funds to someone so that the recipient of the funds can use them to start a business. The goal of doing this is to help the person lending actualize their potential as humans by increasing the well-being of the recipient of the loan. Both of these goals are achieved with the ultimate goal of happiness in mind. Aristotle believed that happiness was not found through the mere attainment of material goods, fame, or fortune, but through actualizing one's human potential. He believed that reason alone set apart humans from other living beings. Therefore, to reason is to practice one's humanness, which will lead to happiness. In

⁴ The *Nicomachean Ethics* were written by Aristotle for his son, Nichomachus, as a way to live a virtuous life. He considered it his most important work because it was not just theoretical but practical, since it not only contemplated how things were but also showed one how to live virtuously. To this day, the *Nicomachean Ethics* are considered one of the most important historic philosophical works ever written.

order to become an ethical person, according to Aristotelian ethics, one must combine practical wisdom with virtuous ethics once their reason has fully developed.

If we are to take the wisdom of Aristotle, namely, that an ethical person not only acts virtuously, but also uses practical wisdom and reason, one could make the argument that making microloans through Kiva is even more ethical than giving charity. Although both are done with the highest good of happiness in mind, if the information regarding efficiency is presented, in particular the amount of people a microloan can help compared to a charitable donation of the same amount, one could use reason to discern that making a microloan is the choice that will lead to more happiness. This use of reason combined with virtuous action is what constitutes an ethical person for Aristotle. Therefore, according to Aristotelian ethics, making microloans through Kiva is a virtuous and ethical endeavor. Although these descriptions are in no way all-encompassing of the many topics and arguments involved in Kantian and Aristotelian ethics, they seem sufficient in proving that making microloans through Kiva in order to better the well being of others is an ethical action.

The Economics of Giving: An Economic Analysis of Altruism

Although making loans through Kiva has been demonstrated philosophically to be an ethical action, it would be insufficient to omit the economics of giving. Economists analyze the motivations behind altruism in order to assess the effects of such motivations in several ways. Economists group altruistic motives into two categories private and public. “Donors may focus on the well-being of charity recipients. In this case, the benefits from giving have a public nature. If the well-being of recipients is tied to the charity’s activities, donors derive benefits from giving in the same way they derive

benefits from public goods such as national defense.” (Hernández-Murillo, 2005, p.1) On the other hand, people can also benefit from the private nature of giving. “Donors may focus on the enjoyment they receive from the act of giving itself- that is, the internal feeling they derive from ‘doing their share’ or ‘giving back to society.’ Donors may also care about public recognition or about signaling wealth status.” (Hernández-Murillo, 2005, p.1)

This differentiation is important to economists, because it affects the way people give. If someone receives private benefits from giving, they are only concerned with their individual contributions and not that of society. On the contrary, if someone receives public benefit from giving they will be more inclined to reduce their personal contributions if things such as government intervention solve the problem.

Economists predict that according to the public benefits view, government subsidies to charities that are funded with increased taxes on donors will have no effect on the total contribution. This is because the donors will reduce their private contributions by the same amount of the tax because they do not care whether they are giving on their own or indirectly through the tax. (Hernández-Murillo, 2005, p.1)

This example is used to show why economists are concerned with the motivations behind altruism.

If the economic analysis is taken to be true, there will be implications on the ethical analysis previously presented. If the motive of giving is to primarily provide benefit to oneself (as opposed to the person receiving the loan), then according to Kantian ethics making microloans through Kiva is not ethical. Kant clearly stated that in order for an action to be ethical it must treat people as ends in themselves and not as means to ends. For Aristotle on the other hand, the economic analysis of motivations would have no effect on the ethicality of Kiva microloans. This is due to the fact that Kantian ethics

is a motivational based system of analysis whereas Aristotelian ethics is consequential. For Aristotle, as long as the virtue of generosity is practiced and happiness is enhanced, motivation cannot negate the ethicality of the action.

The economic analysis of altruism makes the argument of ethicality regarding microloans more challenging. It does not however prove that making microloans is unethical. According to Aristotelian ethics, making Kiva microloans is always ethical. According to Kantian ethics, making microloans through Kiva is only ethical if the lender makes the loan with the intention of helping the recipient gain a better standard of living. Just like this ethical analysis was challenged by the economics of giving, the economics of giving could be challenged by a philosophical analysis. Although it might sound radical to say that people actually *are good* and *enjoy* helping others for the mere fact of improving their well being, many philosophers will make this claim. If the philosophers are correct, the economics of giving leaves out a third category, which does not include benefit to the giver. The loans made by people under this third category would be considered ethical by motivational and consequential analyses alike.

IV. Other Factors of Success

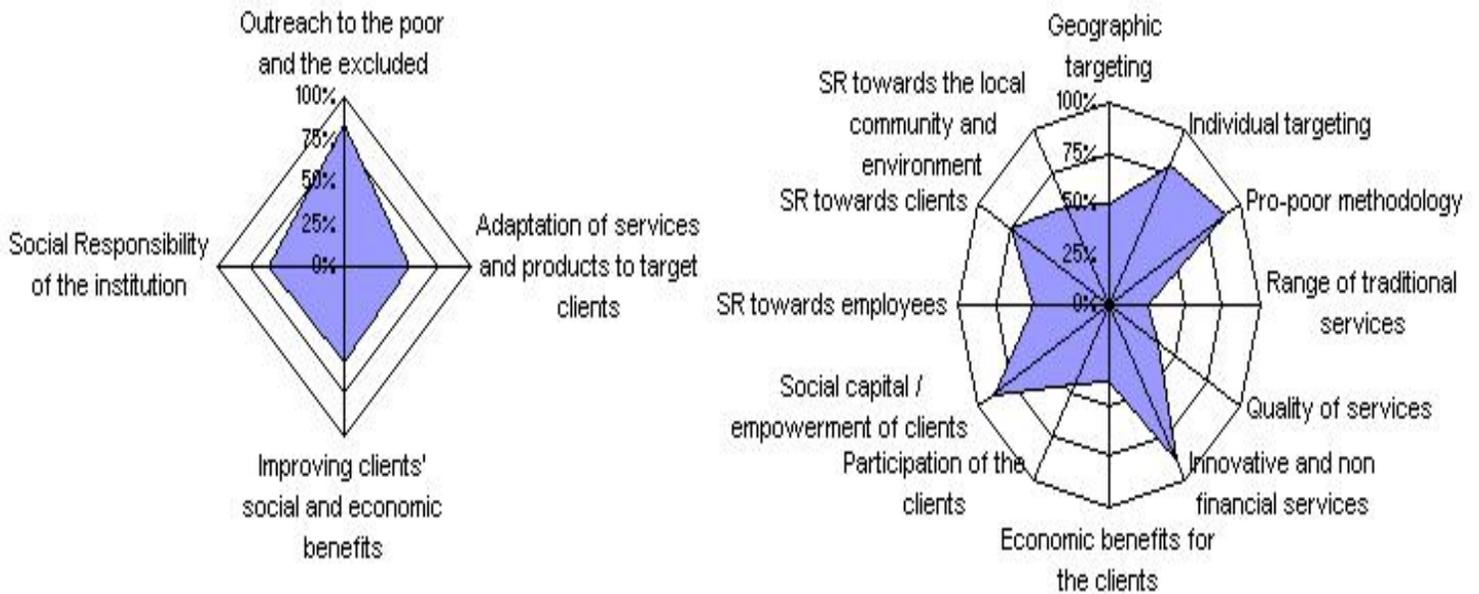
Social Performance

Ethical business practices are important for the success of any company. For this reason, although the lenders and borrowers seem to be making efficient progress, Kiva has recently attempted to more closely monitor the social performance of their partnering MFIs. Aspects such as outreach, services being offered, benefits to the clients (borrowers), and social responsibility are all taken into account when tracking social performance. Kiva states, “Our goal is to have 100% of our long term MFI partners (MFIs that were partnering with Kiva by the end of 2009) reporting to the CERISE SPI by the end of the year.” (Barres, 2010, p.1) The CERISE SPI is the social performance indicator’s audit tool. CERISE describes their social performance indicator in the following way:

Today, microfinance institutions (MFIs) want (and are obliged) to show not only that they are viable, but also that they are of real social benefit. SPI responds to this need by assessing through a questionnaire the principles, actions and corrective measures implemented by an MFI to achieve its social aims in the light of the four fundamental dimensions of:

- 1: outreach to the poor and excluded
- 2: adaptation of services and products to the target clients
- 3: economic and socio-political benefits for clients and their families
- 4: institution's social responsibility (towards staff, clients community and environment) (Bedecarrats, 2009, p.1)

Figure 3:



(Bedecarrats, 2009 p. 2)

Figure 3, an illustration of the results given by the SPI, gives a clear image of a MFI's social performance, which can be compared to other MFIs. The illustrations and their accompanying reports are very detailed and thus avoid oversimplifying the various aspects that contribute to social performance, namely sustainability, impact, and outreach. These reports serve as a source of monitoring, which increase transparency and decrease the risk of moral hazard taken on the part of the MFIs. This monitoring will allow Kiva to make sure that the MFIs are acting ethically and efficiently. Aside from allowing Kiva to monitor the MFIs the reports also encourage the MFIs to self assess their own social responsibility. By viewing their strengths and weaknesses, relative to other MFIs, the institutions will have the information necessary for improvement.

Risk and Due Diligence

Like many other websites, Kiva.org does not forgo fine print. The fine print on all Kiva pages does warn, “Lending to the working poor through Kiva involves risk of principal loss. Kiva does not guarantee repayment nor do we offer a financial return on your loan.” Just what risk do Kiva lenders face? There are three levels of risk taken when lending to a micro-entrepreneur through Kiva. The first level of risk deals with the reliability of the entrepreneur. Before being administered a loan, an entrepreneur is screened by the partnering MFI (field partner). Such things as viability of business ideas, history of past loans, and reputation are taken into account. One method implemented by many partnering MFIs to increase the credit-worthiness of borrowers, is joint liability via borrowing groups. Joint liability means that a loan to one member of the group is contingent on the successful repayment of loans by the other borrowers. This group aspect was one of the core ideas on which Yunus founded microfinance and it continues to be proven successful today. Unfortunately though, sometimes unforeseen factors such as crop failure, health issues, or family emergencies can result in an entrepreneur defaulting on his or her loan. (Kiva, 2010)

Until February 2010, if an entrepreneur defaulted on a loan, the partnering MFI would cover the loan and repay the lender. Kiva took away this option after receiving feedback from lenders stating that they would rather have a closer connection with the entrepreneur they are lending to, even if that connection came at the cost of higher risk. The institutional repayment of loans may have skewed loan repayment statistics, so this change will also serve in making information given on Kiva.org more accurate. Now, the repayment of loans is directly tied to entrepreneurial success. Even after this important

change, the repayment rate on Kiva loans is an average 98.83% as of March 2010.

(Niemira, 2010)

The second level of risk comes from the partnering MFI. Even if an entrepreneur is able to repay the loan, a loss of principal could still occur due to poor management, fraud, or bankruptcy on the part of the field partner. The SPI tool discussed earlier is used by Kiva to monitor their field partners in order to reduce the risk of adverse selection and moral hazard. By knowing details about the operation of and actions taken by the MFIs, Kiva can help reduce lenders' risk by applying ratings to each MFI ranging from one to five stars. Less asymmetric information regarding field partners equates to less risk taken by lenders.

Table 2:

Indicators supporting Field Partner's Repayment Reliability	Corresponding Risk Rating
Risk Rating Very Significant (<i>Lower Risk</i>)	★★★★★
Significant (<i>Low Risk</i>)	★★★★☆
Moderate (<i>Moderate Risk</i>)	★★★☆☆
Limited (<i>High Risk</i>)	★★☆☆☆
Very Limited (<i>Higher Risk</i>)	★☆☆☆☆

(<http://www.kiva.org/about/risk/kiva-role>)

The third level is risk associated with the country to which the loan is being sent. Political factors such as changes in policies, economic factors such as currency devaluation, and the threat of natural disasters are a few examples of macro-level risks that one may face when making an international microloan. Change in currency is an especially important factor to discuss. Since currencies change in relation to each other, both the lender and MFI face the risk of currency devaluation. Kiva recognized this risk and made an offer to field partners to protect themselves from fluctuations in currency. This offer stated that if the US dollar were to appreciate by more than 20% in relation to

the MFI's local currency, the field partner would only have to cover the first 20%. If the MFI opts for the currency exchange loss protection the remaining cost of appreciation after the initial 20% will be covered by the lender. For this reason, currency fluctuation is one of the largest areas of risk that is taken when making a Kiva loan. When choosing an entrepreneur to receive your loan, information is given regarding whether currency exchange loss and default protection are covered. Information is also given on the probability of currency exchange loss. Again, the transparency Kiva provides on their website helps lenders exercise due diligence in order to decrease the amount of risk accompanying their loans. (Kiva, 2010)

Common Microfinance Criticism

Many critics argue that microfinance is not a successful method of reducing poverty on the aggregate level. They do however recognize that millions of individuals have been affected and welfare of the poor has increased due to microfinance. In discussing this problem, one may recall the popular story of the starfish thrower. The story portrays an old man walking along a beach covered in starfish that have washed ashore. The man approaches a young boy who is throwing the starfish into the ocean one by one. When the old man asks the boy what he is doing, the boy replies that he is throwing starfish into the ocean so that they will not dry up and die. The old man replies by informing the boy that there are way too many starfish, and that he will never be able to make a difference. The boy replies by picking up another starfish, throwing it into the water, and declaring, "It made a difference for that one!"

Just as the boy aimed to solve the problem one starfish at a time, Kiva takes on the problem of poverty by trying to reduce its effect one loan at a time. Although the story illustrates the ethical aspect of Kiva, it may need to be adjusted in order to also incorporate the efficiency of Kiva as well. Instead of the boy throwing the starfish back into the ocean with his hands one at a time, we can imagine him implementing a starfish throwing machine, which would use available technology to solve the problem in a more efficient manner. This would allow the boy to help more starfish in need. Similarly, Kiva uses values such as treating every person as an end and not a means to an end, while simultaneously implementing the available technology of the Internet in order to increase efficiency by widening the scope of their moral efforts. In this metaphor, the boy throwing the starfish into the ocean can be considered charity, while the starfish-throwing machine illustrates microfinance. Although both have similar missions, the increased efficiency demonstrated by Kiva allows for increased impact and outreach. This metaphor also demonstrates that although in the past microfinance may have only proven to succeed at improving individual welfare, with increased efficiency more people will be reached and we may begin to observe impact on an aggregate level.

Another criticism of microfinance points to the fact that many MFIs are dependent upon government subsidizations, private funding, or donations and thus are not self sufficient. This is taken to be a lack of sustainability, which causes critics to call the efficiency of microfinance into question. The rebuttal then becomes- if the purpose of microfinance is to reduce poverty, can organizations such as Kiva really be called ineffective due to the mere fact that they rely on lenders who are eager and willing to cooperate and partake in a common goal?

Advocates of self sufficiency are most strongly opposed to government subsidization. Kiva presents a new solution to this subsidization problem by acting as an intermediary between eager voluntary lenders and MFIs in need of funding. With the connection Kiva provides, MFIs do not need to be reliant on government subsidization. Therefore, governments can use the funds that would have gone to MFIs instead to build infrastructure, make reforms, and focus on the aspects of poverty which are outside the reach of microfinance. If critics still wish to disparage the dependence on private donors/lenders, who are accused of being whimsical at times, they should be reminded of the success Kiva demonstrated in January of 2010. As described earlier, it was during this time that the number of eager lenders outweighed the number of loans in need of funds posted by Kiva's 143 partner MFIs. This event again demonstrates Yunus's idea that poverty exists because we have built a theoretical framework which undervalues human capacity and potential. People, if given the chance, are willing and able to make a change in the world. Kiva's success can stand as testimony to these claims.

Signs of Success

The success of Kiva certainly has not gone unnoticed. Since it was founded in 2005, Kiva and its employees have received many prestigious accolades. TIME magazine named Kiva one of the top fifty websites of 2008 and 2009. A TIME Magazine article discussing Kiva noted, "Kiva claims a 1% default rate and a 97% on-time repayment rate, which means that, right now at least, your money is safer in the hands of the world's poor than in your 401(k)" (Fisher, 2009, p.1). Fortune Magazine

named Kiva co-founder Matthew Flannery and president Permal Shah⁵ two of businesses' hot rising 40 under 40. Marshall Loeb, former editor of Fortune, Money, and the Columbia Journalism Review, now writes for Dow Jones' MarketWatch. In 2008 he included Kiva in his money tip of the day, "5 ways to give like an entrepreneur." Kiva has also been featured on ABC news, FOX news, MSNBC, CNBC, Good Morning America, The Oprah Winfrey Show, and The Today Show to name just a few. (Kiva, 2010) The word *is* getting out about Kiva and its success. Now it is up to capable people to take action.

⁵ Permal Shah, Kiva president, was formerly a product manager at PayPal. PayPal provides Kiva with *free* payment processing. Kiva is the first account at PayPal with a free payment processing agreement.

Conclusion

It has become quite apparent that microfinance is changing the way we view the poor and Kiva is changing the way we view microfinance. Kiva has demonstrated extraordinary success in its first five years of operation, and is sure to prove continued success in the future. As innovations continue to occur while more people gain knowledge about the accomplishments Kiva along with its generous lenders and partnering MFIs have made, epic results should be expected in the future.

Throughout this thesis, it has been shown that humans are generous. If people used their ethical code to embrace generosity, but focused that generosity in an efficient method, poverty could be defeated. A poverty-free world would be economically much stronger and far more stable than the world is today. Less impoverished people would equate to more income earners and spenders. More consumption power would lead to increased demand and global market growth. An increase in human capital would lead to advancements and innovations and would increase global productivity. Furthermore, individuals would flourish due to the self actualization that would be able to occur due to equality of opportunity. Most importantly though, the world would be devoid of an ill that has plagued humanity for centuries; an ill that is dehumanizing and undeserving of a place in society.

Poverty does not belong in a civilized human society. Its proper place is in a museum. That's where it will be. When school children go with their teachers and tour the poverty museums, they will be horrified to see the misery and indignity of human beings. They will blame their forefathers for tolerating this inhumane condition and for allowing it to continue in such a large segment of the population until the early part of the twenty-first century. (Yunus, 1999, p. 249)

Although Yunus's words may seem somewhat overly optimistic to some, it was this type of optimistic determination that resulted in the microfinance phenomenon that we are

witnessing today. His words can be seen as a call to arms to all members of humanity to put an end to the problem of poverty by refusing to tolerate the inhumanity that it presents in society. This refusal can begin one loan at a time.

Appendix

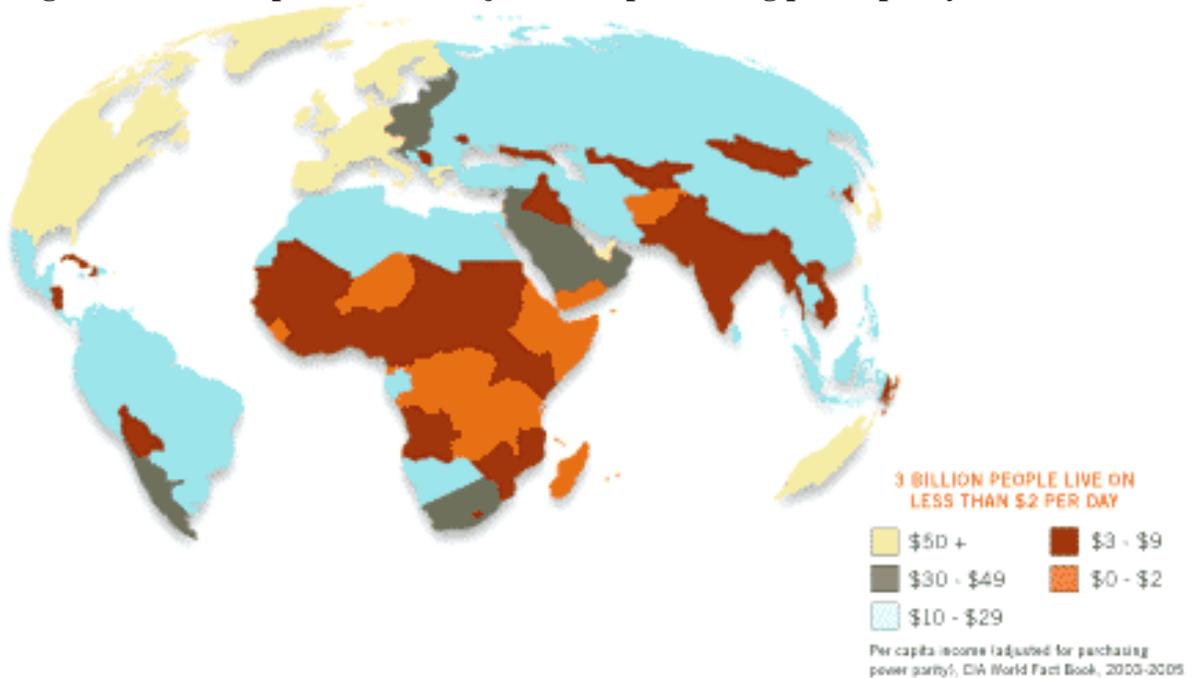
Table 1A: Table and credit options show a typical lender’s “My Credit” page:

Loan	Price	Date / Time (PST)	Type	Description	Paypal Transaction ID	Credit Balance
	\$57.50	Aug 06, 2009 8:09am	Deposit	User deposit from PayPal.	*****	57.50
	(\$7.50)	Aug 06, 2009 8:09am	Donation	Donation of \$7.50.		50.00
Fatima Idowu	(\$50.00)	Aug 06, 2009 8:09am	Loan Purchase	Loan Purchase of \$50 to Fatima Idowu (business id=127247)		0
Fatima Idowu	\$6.25	Sep 15, 2009 11:14am	Loan Repayment	Redeemed Loan Repayment Fatima Idowu (id=127247) \$6.25		6.25
Fatima Idowu	\$6.25	Oct 15, 2009 2:59pm	Loan Repayment	Redeemed Loan Repayment Fatima Idowu (id=127247) \$6.25		12.50
Fatima Idowu	\$6.25	Nov 15, 2009 5:08pm	Loan Repayment	Redeemed Loan Repayment Fatima Idowu (id=127247) \$6.25		18.75
Fatima Idowu	\$6.25	Dec 15, 2009 5:23am	Loan Repayment	Redeemed Loan Repayment Fatima Idowu (id=127247) \$6.25		25.00
Fatima Idowu	\$6.25	Jan 15, 2010 6:54am	Loan Repayment	Redeemed Loan Repayment Fatima Idowu (id=127247) \$6.25		31.25
Fatima Idowu	\$6.25	Feb 15, 2010 4:01am	Loan Repayment	Redeemed Loan Repayment Fatima Idowu (id=127247) \$6.25		37.50

Available Kiva Credit: \$37.50 RELOAN

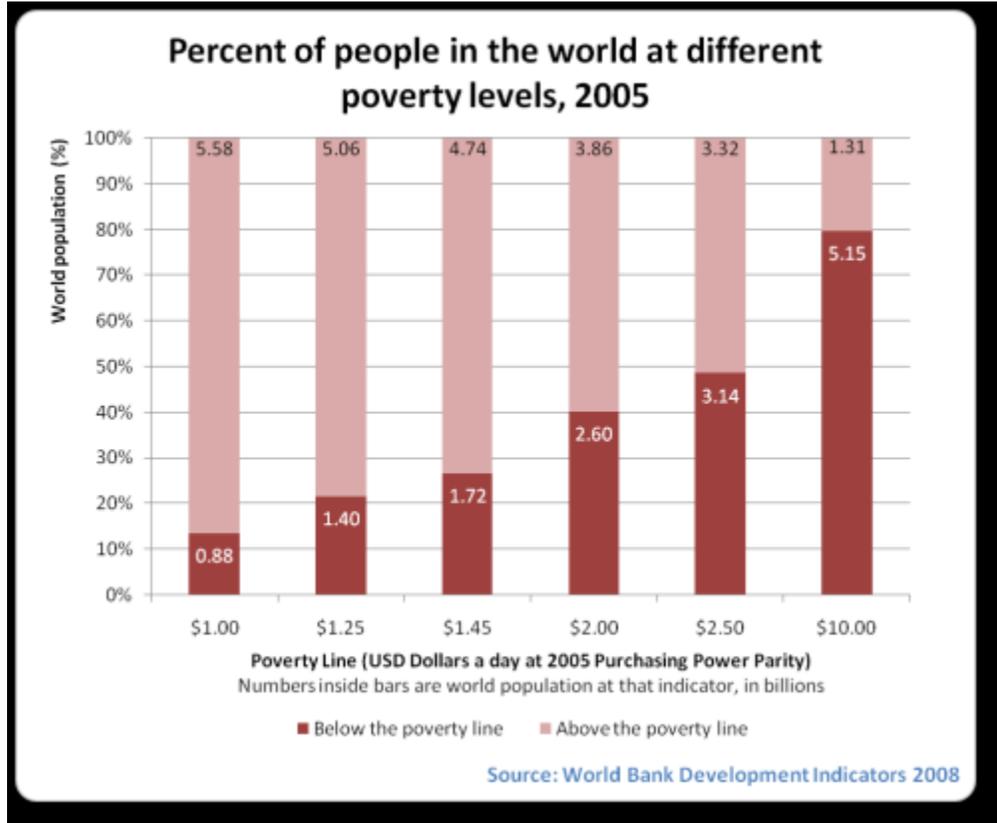
Add Credit | Donate to Kiva | Gift It | Withdraw

Figure 1A: Per Capita Income (adjusted for purchasing power parity)



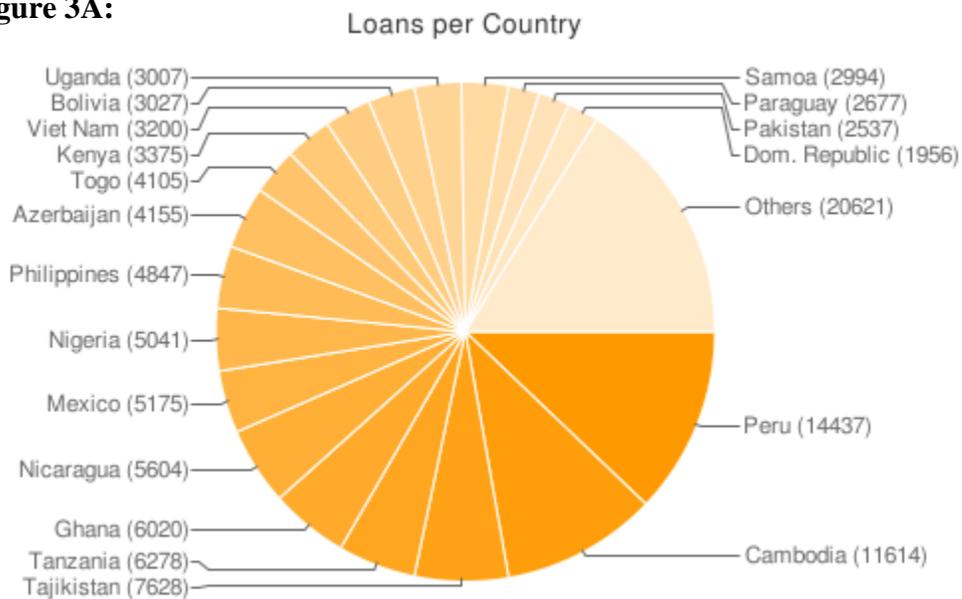
(Ruben, 2007)

Figure 2A:



(Shah, 2009)

Figure 3A:



(Kiva, 20010)

Figure 4A: Loans per Region per Quarter

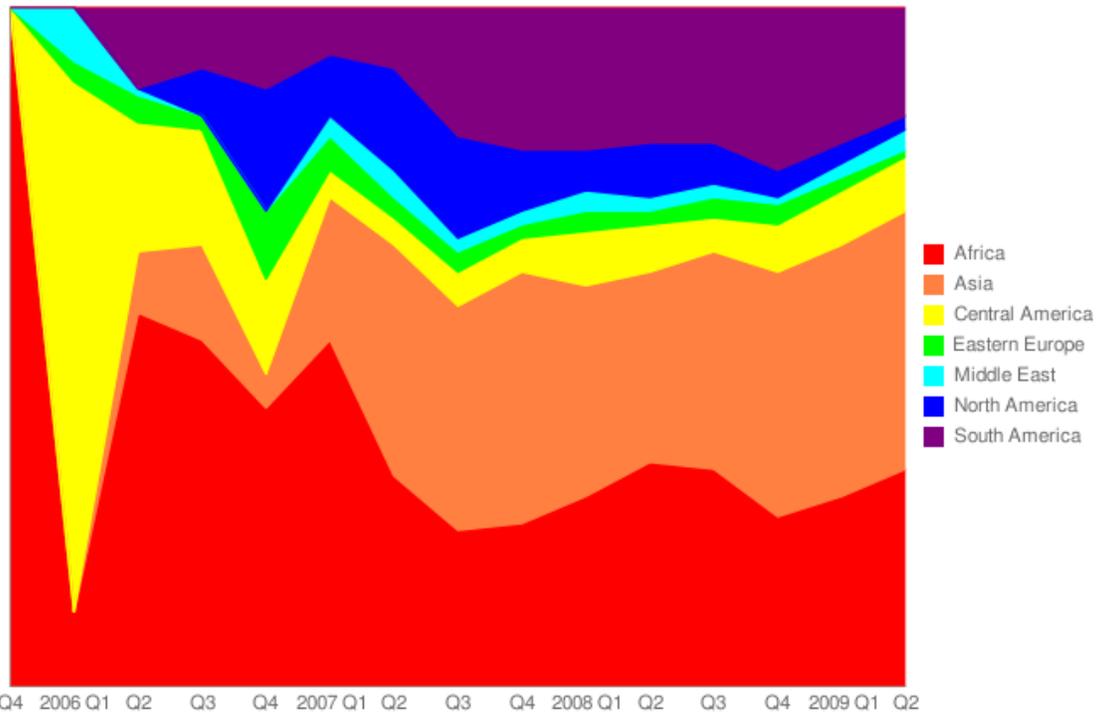
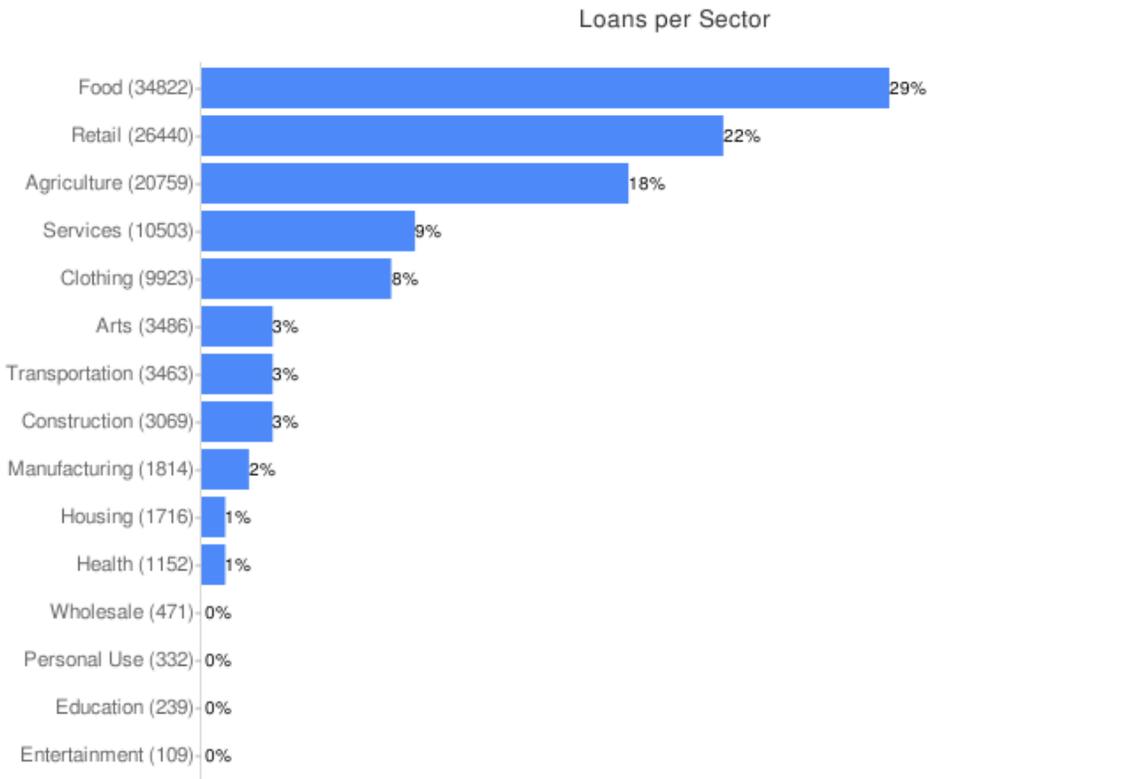


Table 2A: (Kiva, 2010)

Countries per Region	
Region	Countries
Africa	Benin, Cameroon, Cote D'Ivoire, Ghana, Kenya, Liberia, Mali, Mozambique, Nigeria, Rwanda, Senegal, Sierra Leone, Sudan, Tanzania, The Democratic Republic of the Congo, Togo, Uganda
Asia	Azerbaijan, Cambodia, Indonesia, Kyrgyzstan, Mongolia, Nepal, Pakistan, Philippines, Samoa, Tajikistan, Viet Nam
Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
Eastern Europe	Bosnia and Herzegovina, Bulgaria, Moldova, Ukraine
Middle East	Afghanistan, Gaza, Iraq, Lebanon, Palestine
North America	Dominican Republic, Haiti, Mexico, United States
South America	Bolivia, Ecuador, Paraguay, Peru

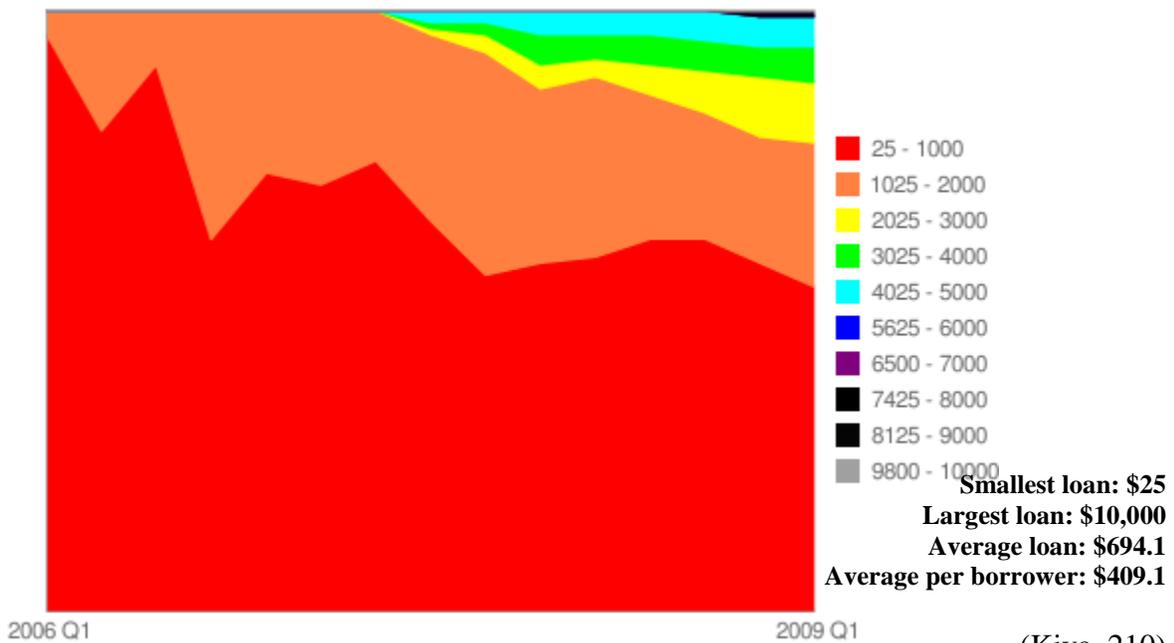
(Kiva, 2010)

Figure 5A:



(Kiva, 2010)

Figure 6A: Loan amount sum per size per quarter



(Kiva, 210)

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Noelle St.Clair Academic Vita

Education

Schreyer Honors College at the Pennsylvania State University University Park, PA
Bachelor of Arts in Economics; Bachelor of Arts in Philosophy expected May 2010
Expected **Honors** in Dual Degrees
Minor in International Studies
Cumulative GPA: 3.87

Semester at Sea through The University of Virginia Spring 2009
Circumnavigated the globe and traveled through twelve countries to learn about and experience new cultures.

Honors

- Pennsylvania State University Dean's List Fall 2006- current
- Liberal Arts Academic Excellence Scholarship 2010
- Economics Honors Program-**fifteen students chosen from entire major** 2009-2010
- Philosophy Academic Excellence Scholarship 2009
- Pennsylvania State Philosophy Study Abroad Scholarship 2008
- Schreyer Honors College Travel Grant 2008
- Daughters of the American Revolution Good Citizen's Award 2006

Work Experience

TASAAGA GROW Microfinance Project Kampala, Uganda
Field Project Officer Expected May-June 2010
Will be meeting with local Ugandan women to oversee the administration of small loans and assess/evaluate the progress of their business initiatives.

Department of Economics at Penn State University Park, PA
Undergraduate Grader for Intro to Microeconomics September 2008 – May 2010
Assisted with the administration of lectures; graded exams, homework, and other assignments; proctored exams.

CPA Solutions Merchantville, NJ
Administrative Assistant September 2003-May 2006
Filed documents, answered phones, prepared and sent out mailing lists, delivered packages.

Volunteer Experience

Penn State Dance Marathon ("THON")
Committee Member 2007-2010
Participated in the **largest student run philanthropy in the world** raising over 7 million dollars in 2009 for pediatric cancer research and treatment.

International Service Learning on Semester at Sea Spring 2009
Completed various service projects in the twelve countries visited including advocating for increased education in Guatemala and establishing after-school activities to decrease gang related violence in Cape Town, South Africa.

Bishop Eustace Outreach June 2006
Lived on the Pine Ridge Indian Reservation working to bridge the cultural gap and raise awareness about the struggles of the Lakota Indian tribe.