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Should Kiva pay interest to lenders

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Kiva

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MATT'S DILEMMA

Kiva is structured as a nonprofit organization that exemplifies social entrepreneurship (see appendix). It facilitates small loans from individuals to entrepreneurs, primarily in Third World countries. The organization is relatively new, founded in 2005, but it has experienced rapid growth in loan funds received and loans made through partners, as well as the revenues and expenses associated with growth. Matt Flannery, Kiva's co-founder, is questioning the way Kiva rewards lenders. Currently lenders receive no return on their loans. Should there be a structure in place that allows lenders to earn some interest on their investment? If so, what issues does Kiva have to resolve in order to implement and sustain this change?

OVERVIEW[1]

Matt told his personal story in the article he authored entitled "Kiva and the Birth of Person-to-Person Microfinance." Jessica, then his fiancée, worked at the Stanford Business School. She invited Matt to accompany her to a speech by Dr. Mohammed Yunus,[2] the founder of the Grameen Bank. Matt thought it was a great story told by an inspiring person, but for Jessica, "it was more of a call to action that focused her life goals" (Flannery, M. 2007, p. 32). This coincided with the 13-week pre-engagement class at their church. They proved compatible in the exercises completed, but their career goals were different. Matt wanted to be an entrepreneur in the Bay Area whereas Jessica wanted to do microfinance in Africa.

Jessica went to Africa shortly after their wedding and told Matt by phone of the impact she had observed in the evaluation study she was doing for the Village Enterprise Fund, a not-for-profit agency. She saw that small family businesses could have a positive impact on the welfare of poor families. Among the typical business challenges faced by the African entrepreneurs was access to capital. Matt and Jessica had both grown up sponsoring children in Africa through their churches and families and thought that a similar approach could be used to help entrepreneurs. They would somehow provide loans instead of donations, an approach they regarded as more dignified than a hand-out, which they would have considered charitable as opposed to developmental.[3] Jessica's commitment to microfinance provided the needed push to get Matt focused on Kiva. Matt and Jessica Flannery founded Kiva when they were 28 and 27 respectively. Before starting Kiva, Matt Flannery was an engineer at TiVo.

1 Kiva's website (http://www.kiva.org/about/what/) provides current information about the organization, paraphrased and summarized in the case. Students should read the personal narrative by Flannery describing the creation and development of Kiva. The reference is Flannery, M., "Kiva and the Birth of Person-to-Person Microfinance." Innovations: Technology, Governance, Globalization. Winter/Spring 2007, Vol. 2, No. 1-2: 31–56. The article is available free of charge at http://www.mitpressjournals.org/toc/itgg/2/1-2 and on Kiva's website at http://images.kiva.org/content/about/images/INNOV0201_flannery_kiva.pdf. See also http://www.gsb.stanford.edu/news/perspectives/2007/flannery_kiva.html for an interview with Jessica Flannery, Matt's wife, who was the inspiration and early driving force behind Kiva. Jessica graduated from Stanford's MBA program in 2007. Another source of personalized information is Matt's blog, found at http://www.socialedge.org/blogs/kiva-chronicles.

2 Yunus later shared the 2006 Nobel Peace Prize with the Grameen Bank, which he founded. The prize was awarded "for their efforts to create economic and social development from below." (Downloaded on August 5, 2008, from http://nobelprize.org/nobel_prizes/peace/laureates/2006/index.html.)

Matt and Jessica concluded that three factors made Kiva possible:

- technology connected Kiva to the developing world quite readily,
- the poor were very entrepreneurial, and
- Matt and Jessica believed that potential lenders would find the stories of the entrepreneurs of the developing world compelling.

Kiva is a 501(c)(3) nonprofit organization[4] that was incorporated in November 2005. "Kiva" is a Swahili word that means "unity" or "agreement." It was the world's first online micro-lending platform and began lending in March 2005. In October 2005, a blog about Kiva was featured, resulting in the funding of all of its outstanding loan requests in a matter of hours. In February 2006, Kiva began working with its microfinance institution (MFI) partners, referred to as Field Partners. Kiva is headquartered in San Francisco, CA.

The Silicon Valley context was also important to Kiva. Silicon Valley is known for innovation. "Six of the top ten cities in the nation for patent registrations are located in Silicon Valley…" (2007 Index, Joint Venture: Silicon Valley Network, p. 14: www.jointventure.org). Price Waterhouse Coopers Moneytree (www.pwcmoneytree.com) regularly shows that a significant portion, often over one third, of venture capital recorded with its sources in the United States is invested in Silicon Valley. Silicon Valley has reinvented itself in terms of industry clusters from time to time (e.g., semiconductors, software, biotechnology, nanotechnology,and clean tech). Clusters include networks of suppliers (including service providers such as as lawyers and accountants), universities, and governmental agencies that contribute to competitiveness. Such clusters enhance the productivity of companies within the cluster, drive innovation, and stimulate the formation of new businesses within the cluster.

Reflective of this context was CEO and Founder of Linked-In, Reid Hoffman. He joined Kiva's Board of Directors in July 2006. Kiva had used a startup mentality in constructing its board; it sought out people active in the entrepreneurship network that characterized Silicon Valley. A benefit of being in Silicon Valley was the presence of wealthy and well-educated people who were concerned about social issues; such people view Kiva as representative of social entrepreneurship. Kiva planned to build its board strategically and gradually. Matt said,

> "I'm glad we didn't just add members to our board without thinking about who we wanted. …We've decided to seek out board members that are very influential. We want several young angel investors or venture capitalists, one microfinance luminary, a high-tech executive, and a chair that's a good steward with relevant experience who can represent us publicly."

In the fall of 2006 Kiva started getting the widespread press coverage it has enjoyed for the past few years. Premal Shah, its president (previously a product manager at PayPal), was a guest panelist at the Clinton Global Initiative in New York City, and Frontline/WORLD aired a documentary on Kiva causing its website to crash initially, but over $250,000 was loaned in the following week. Over the next few years Kiva grew rapidly.

Kiva's leadership team is listed on the website. Of the 30 individuals (i.e., all the employees) listed on August 4, 2008, 7 are graduates of Stanford (including Matt Flannery, the Co-Founder and CEO, and Premal Shah, President), 17 others are graduates of other private American universities, 8 listed experience as founders or managers of start-ups, and 19 listed international travel or an international background as significant. The influence of Stanford and private American education, an entrepreneurial spirit, and international travel and experience all appear significant to Kiva's leadership team. Kiva also uses over 400 volunteers.

Kiva has enjoyed extremely positive press since its inception. Articles, videos, and interviews mentioned on its website have all portrayed it in a positive light. In terms of promotion, Kiva had organized social networking among lenders and Kiva's supporters through gatherings held in San Francisco and Los Angeles. It also posted pictures and descriptions of lenders. Lenders got involved with Kiva through the Internet, and blogging was part of the experience for some. Kiva didn't have to invest heavily to become popular in that the media quickly saw it as attractive, and then more and more articles ensued. Kiva developed enthusiasm for its method and tremendous social contagion had fostered a social movement of providing loans to the poor. When asked about how Kiva was able to receive such extensive free promotion, Fiona Ramsey, Public Relations Manager of Kiva, replied (via email on July 23, 2007): "I've never pitched … The product sells itself."

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[3] How best to help poor people is an age-old debate. Matt and Jessica thought of donations as charity and less effective than loans focused on developing business potential. Other people working with the poor see a role for donations too. The microfinance industry was predicated on loans. Since Kiva worked in this industry, loans were the logical choice.

[4] This is the Internal Revenue Service categorization of a charity to which one can make tax deductible donations.

As of August 4, 2008, Kiva had not had an external audit, though it began lending in March 2005. Its financial manager stated, on August 05, 2008, "The audit will take place when we close our year-end, which is December 2008." It publishes its 990, the obligatory report the Internal Revenue Service requires of 501(c)(3)s, and the most recent balance sheet and annual income statement online.[5]

LENDING PROCESS

Kiva allows individuals to lend money to the working poor to alleviate poverty. It empowers people to lend to specific entrepreneurs in the developing world through its website. Lenders receive periodic email updates about the entrepreneur or small businessperson and when the loan is repaid the lender can re-lend it to another person listed on Kiva's website, donate it to Kiva, or reclaim the funds. A key to Kiva's growth is its partnership with existing microfinance institutions (MFI), which choose the entrepreneurs/small business people and service the loans.

The process for the lender is as follows: from the website, choose an entrepreneur/small business person (step 1 in Figure 1), lend funds using one's credit card (step 2), get repaid (step 3), and finally, once the loan is entirely repaid, lenders can reclaim their money, re-lend to someone else in need, or donate the repaid loan to Kiva to cover its expenses (step 4), all over the Internet. Borrowers pay interest to the Field Partners that manage the loans overseas, but Kiva does not receive any of this interest.[6] Kiva is a conduit for funneling money from lenders to individuals using local Field Partners (i.e., nonprofits); it does not lend directly. It does not pay interest to lenders because to do so could require SEC approval to attract investors and pay returns, something charitable organizations typically do not do. Once active, lenders have access to detailed information on the borrowers, including descriptions of their businesses and balances. Lenders can also review all the historical activity of their portfolio.

Figure 1: Kiva's Lending Process

FIELD PARTNERS AND LOANS

Kiva partners with 101 (as of August 4, 2008) microfinance institutions ("Kiva Field Partners") worldwide, with the following listed as active and having managed more than $1 million in loans thus far (as of August 4, 2008):

- CREDIT, a partner of World Relief, Cambodia: $1,987,925
- Admic Nacional, Mexico: $1,428,050
- South Pacific Business Development (SPBD), Samoa: $1,352,875
- Lift Above Poverty Organization (LAPO), Nigeria: $1,316,850
- Fundación Paraguaya, Paraguay: $1,201,025
- Microfinanzas PRISMA, Peru: $1,158,225
- Norwegian Microcredit LLC (Normicro), Azerbaijan: $1,156,400
- Microfund, Togo: $1,146,675
- MLF MicroInvest, a partner of ACDI/VOCA, Tajikistan: $1,129,075
- Komak Credit Union, Azerbaijan: $1,005,550

[5] On August 6, 2008, the financial statements available were from September 30, 2007. Dated financial statements don't give an up-to-date description of a rapidly growing organization such as Kiva.

[6] To save space, the descriptive information may be incomplete for a given reader's questions. Please refer to Kiva's website.

Ten Field Partners were listed as "paused;" this means the "partner is temporarily unable to raise funds on Kiva due to either partner or Kiva request …." Another 12 were listed as "closed;" Kiva no longer worked with these partners. Some of the problem partners are listed below:

- The largest partner with the lowest risk rating was MIFEX of Ecuador, with loans of $1,396,800, which was categorized as "paused."
- East Africa Beta had a default rate of 9.19% and had been closed.
- The Regional Economic Development Center (REDC Bulgaria) had a delinquency rate of 100.00% and a default rate of 10.81% and was categorized as "paused."
- Supporting Enterprises for Economic Development (SEED Development Group) of Kenya had a default rate of 18.73% and had been closed.
- The Women`s Economic Empowerment Consort (WEEC) of Kenya had a default rate of 38.00% and had been closed.
- The Shurush Initiative of Gaza had a default rate of 57.16% and had been closed.

Premal Shah, Kiva's president, addressed a group of business students at the University of Chicago on May 9, 2008, and told them, "As our auditors uncover this information all over the world, we want to put it right back on the website and email you. Last year, we had $250,000 embezzled in Uganda. We emailed 5,000 people who had loaned the money to tell them what had happened. The most shocking thing to me was that people loved that we told the truth and that we were checking on their money."[7]

Kiva lists the risks entailed in lending. There are risks faced by the individual entrepreneur, such as business issues (e.g., crop failure), health issues, and others, including theft and pressing household needs such as school fees that preclude timely loan repayment. Field Partners also present risks due to potential bankruptcy, fraud, and mismanagement (e.g., poor systems and procedures in loan management). Finally, Kiva determines the country risk.[8] Kiva notes the risks on its website.

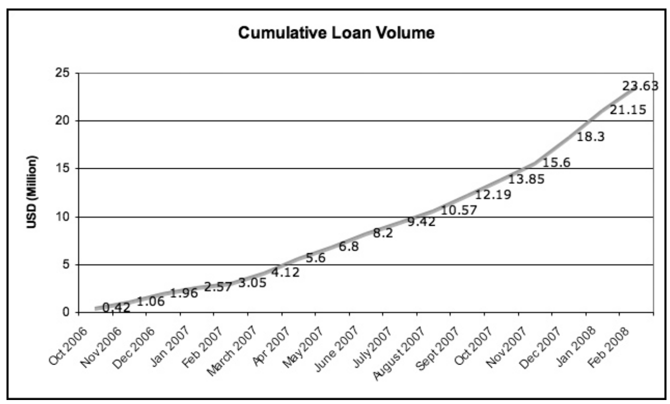
Table 1: Overall Kiva Loan Portfolio as of August 4, 2008[9]

Total loans	$37,865,510
Delinquency Rate	3.80%
Default Rate	1.67%
Amount of Ended Loans Not Repaid In Full	$207,638
Amount of Ended Loans	$12,411,010
Number Of Ended Loans Defaulted	1,117
Refund Rate	1.45%
Average Interest Rate Borrower Pays To Kiva Field Partner	22.77%
Average Local Money Lender Interest Rate	83.96%

In spite of some problems with Field Partners, such as those noted above, the overall loan portfolio, as described below, shows a low overall delinquency rate of 3.8% and a low default rate of 1.67%. One must recall that these loans are made to people who are very poor.

The Field Partners depend on the interest paid by the borrowers to defray the costs of managing the loan portfolio. The average interest paid of 22.77% may seem high to the average American. However, compared to the 84% the average Kiva borrower would normally pay to local lenders, Kiva's loan terms are reasonable. One can readily appreciate the steady growth in loan volume shown below:

Chart 1: Cumulative Loan Volume



[7] The information was taken on August 7, 2008, from "How Kiva Became 'the eBay of Microfinance'": http://www.chicagogsb.edu/news/2008-05-23_kiva.aspx.

[8] Kiva bases country risk on perceived

[9] More complete information about loans is available on the website.

[10] The latest posted financial statement was from September 2007, which doesn't give a current view of an organization that had grown so rapidly. More recent financial information can likely be obtained on the Kiva website at http://www.kiva.org/about/help/questions?subtopic=General%20Questions. If the link does not work, please contact Kiva and ask for the most current financial statements as well as the 990 and audit letter, if they should be of interest.

According to Matt (August 7, 2008), Kiva's loan base now entails "101 MFIs from 45 countries representing more than 1.3 million active borrowers – growing at roughly 3 MFIs/month. Kiva has raised $35 million in loans, growing $1 million every 10 days. Kiva's lender base totals 313,000 individuals from more than 70 countries, growing at roughly 3,000 a week. A loan was made on Kiva.org every 37 seconds on average throughout Q1 2008." Site traffic totaled 100,000 site visitors a week, with over 5 million page views per month.

BUSINESS MODEL [10]

According to a recent communication with Matt Flannery (August 7, 2008), "Kiva's operational revenue increases with site usage. Operational revenue is defined as the sum of the optional lender fee + net interest income + gift certificate breakage + Kiva credit breakage + business development revenues. To date, Kiva has covered as much as 70% or more of its operating expenses though operational revenue, making it far more sustainable than the typical nonprofit model." These terms are defined as follows:

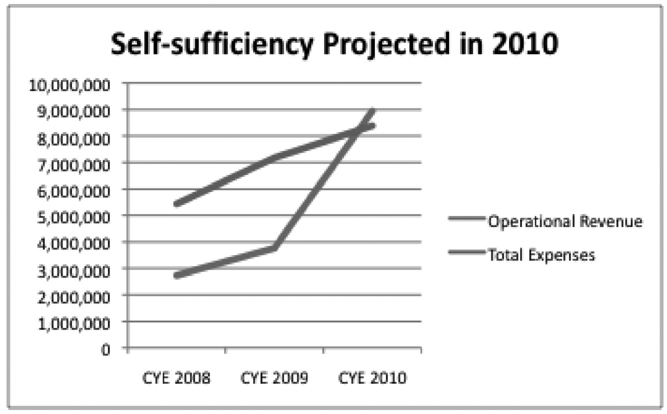
- optional lender fee = 10% some lenders pay
- net interest income = float on money temporarily held for transfer abroad
- gift certificate breakage = gift certificates purchased for others but not redeemed by them
- Kiva credit breakage = uncollected funds from loans repaid; funds could have been reclaimed or loaned again but remained uncollected. Matt estimates that Kiva credit breakage will not be realized until late 2010. Matt stated, "With 5% breakage, we should get to break-even."
- business development revenues = this includes money made from co-branding with a company; for example, see http://www.kivab4b.org/ADV/Kiva/Kiva.page. Kiva reportedly made $100,000 of this deal.

Kiva also seeks out operating grants from donors to assist with operating expenses.

Kiva's Chief Financial Officer explained via email (August 11, 2008): "Of the $1.8M in ordinary expenses incurred in the first half of 2008, approximately $970,000 (53%) was covered by online donations, another $190,000 (10%) was covered by interest income, and another $145,000 (8%) was covered by donations received offline. The remainder was covered by foundation grants."

According to Matt, "Looking ahead, Kiva expects to generate $2.7M in operational revenue in 2008 and $3.7M in 2009, covering just over half of Kiva's operating expenses as we add new capacity. Estimates predict break-even by the end of 2010 as operational revenue approaches $9M, enabling Kiva to reach self-sufficiency along its current trajectory. A major influx of growth capital would enable self-sufficiency at greater scale with higher levels of service and impact."

Chart 2: Kiva Self-sufficiency Scenario



Kiva reduces its operating costs through its partnerships with numerous organizations. To name just a few listed on the website (http://www.kiva.org/about/supporters):

- "PayPal provides Kiva with access to technology, research, workplace resources and employee volunteers. Additionally, PayPal provides Kiva with free payment processing—Kiva's largest variable cost …
- YouTube has generously donated 120 million free banner placements to Kiva …
- Kiva is a Google Grants recipient, receiving free advertising through Google Adwords. …
- Yahoo! provides Kiva with free Yahoo! Search Marketing keywords that enable more internet users to become aware of Kiva and the opportunity to lend to a developing world entrepreneur online. …
- Oliver Wyman has entered into a strategic partnership with Kiva as part of the firm's industry-leading Nonprofit Fellowship (NPF) program. The Oliver Wyman–Kiva partnership provides Kiva with dedicated, ongoing support from Oliver Wyman consultants, who spend between 4-6 months at Kiva's … office working alongside Kiva staff to tackle pressing business issues. …
- (mt) Media Temple hosts the Kiva website …
- Lenovo helps support Kiva's mission by donating PC products, primarily laptops, to Kiva. Kiva distributes some of the laptops to equip Kiva's qualified

microfinance partners, and uses the other laptops to support Kiva staff and field representatives. Lenovo also provides Kiva with grants for operational expenses and to fund an engineering employee.

- Orrick, Herrington & Sutcliffe LLP is … is providing Kiva with pro bono legal services and advice on entry into new countries, including capital restrictions, foreign exchange restrictions, and other relevant taxes and tariffs…"

Kiva's website (http://www.kiva.org/about/microfinance/) provides a detailed description of microfinance, including its importance to women borrowers. According to the Grameen Foundation (www.grameenfoundation.org), a leading MFI:

> "Microfinance consists of making small loans, usually less than $200, to individuals, usually women, to establish or expand a small, self-sustaining business. … Microfinance institutions offer business advice and counseling, while clients provide peer support for each other through solidarity circles. … An equally important part of microfinance is the recycling of funds. As loans are repaid, usually in six months to a year, they are re-loaned. This continual reinvestment multiplies the impact of each dollar loaned. Microfinance has a positive impact far beyond the individual client. The vast majority of the loans go to women because studies have shown that women are more likely to reinvest their earnings in the business and in their families. As families cross the poverty line and micro-businesses expand, their communities benefit. Jobs are created, knowledge is shared, civic participation increases, and women are recognized as valuable members of their families and communities."

WHAT ABOUT INTEREST RATES?

According to Matt, "While our financial model has now proven itself, we would still like to realize our original vision of having interest rates on the site. The fact that we had to remove them is a sore spot with me." Still, Kiva found that its Internet users prefer a connected experience, not a commercial one. Matt knew that Kiva's current users would not lend on the site if Kiva adopted the for-profit model, with interest rates paid to lenders. This option was available at MicroPlace.

Still, even though eight out of ten repaid lenders lend to a new business, Matt believed that Kiva should pay lenders interest. Kiva could differentiate future lenders between those that choose emotional versus financial returns. Partners that managed the loans overseas could return a percentage of the interest rates paid by borrowers to lenders. For example, some borrowers might appeal less as an emotional case than others, but could be attractive to some lenders if interest were paid, in Matt's view.

Matt struggled with the issue and professed not to have an ideological view but rather one focused on Kiva's success. According to Matt (Kiva Chronicles, 30 January 2007 Tax Status Revisited):

> "I'm not religiously tied to the nonprofit structure. It's working for us now, and has several advantages. Prominent among these is user goodwill and branding. …There is a level of trust we gain as a nonprofit that would be harder to gain as a for-profit. Equally important are variable cost savings because of donated services. Right now, PayPal has donated free transaction processing to us…."

Early on in the creation of Kiva, while Matt was still at TiVo, he called the SEC to get an opinion about a charity making loans and possibly paying interest (Flannery, 2007, p. 41). Though the SEC lawyer declined to offer a "formal" opinion, Matt understood that if Kiva paid interest to lenders, Kiva might appear to be issuing securities. At that time, Matt and his team decided to begin Kiva without interest paid to lenders.

Matt stated (Flannery, 2007, pp. 53-54) that Kiva should pay interest because:

1. MFIs might differentiate themselves by interest rates paid. Paying interest could enhance the attraction of the loans that were less appealing emotionally.
2. Paying interest changes the relationship from benefactor-to-dependent to business-to-business.
3. In Matt's words, "When you receive repayment with interest from an entrepreneur in the developing world, you learn something: you can have a transformational impact in this world by relating to others as a business partner."

Though Matt continued exploring this issue, he felt that "this is mostly out of our hands. … We are currently working with a legal team to make this happen, but will ultimately need to defer to the SEC to help bring our vision to ultimate reality."

In the current business model, Kiva essentially avoided the taint of charity because borrowers paid interest overseas and the benefit accrued to the lender was the satisfaction of helping. The lenders that had chosen Kiva thus far were not looking for a return. If lenders were looking for a return, most would want more than 2%, but there would no doubt be some that would prefer interest as well as the psychological benefit of helping a poor person with a loan. Some lenders appreciated the straightforward approach of the current arrangement; some may find any of the above options to be unnecessary complications.

The regulatory concerns included 1099s (the IRS form used to report nonwage income, including interest) and miscellaneous matters listed below. Kiva would have to clarify these matters with the various governmental agencies involved at the federal and state levels. Prosper.com, a commercial MFI, only sent a 1099 to the IRS when annual interest earned exceeded $600 per lender. Few if any of Kiva's lenders would exceed the $30,000 total annual loans needed to earn $600 at 2% interest. Still, technically anyone to whom Kiva paid more than $10 of interest during the course of a calendar year was subject to 1099 reporting. Since Kiva's lenders were not in the trade or business of lending money, the government could hold Kiva responsible for reporting at the $10 level. But a way out could be that there was no requirement to issue Form 1099 for loans between individuals or for interest that was paid between a non-U.S. payer and payee even if the payments were administered by a U.S.-based company. Some companies that served as administrators of loans issued Form 1099 because the rules were vague; it was easier to issue the 1099 than collect all the data to prove that the payer was exempt from 1099 reporting. If a recipient failed to supply Kiva with a taxpayer identification number, Kiva was required to withhold 28% federal income tax and 7% California income tax from the payment and remit it to the respective agencies. In sum, 1099 reporting was not impossible, but it would be time-consuming and expensive, according to Matt's accountant, and both time and money were scarce resources to Kiva. However, Kiva was particularly strong in software systems, so a decent accounting information system could automate whatever reports needed to be generated.

Matt added to the discussion (email communication, October 30, 2007) by stating: "We could offer interest rates today, but have a significant supply and demand problem so we are holding off. We often run out of inventory. One thing to note is that the nonprofit status actually would help us offer interest rates to our lenders. It's easier to do as a nonprofit. Those regulatory bodies concerned with interest rates are primarily the SEC and state departments of corporations. This isn't a 501(c)(3) IRS issue really."

In October 2007, eBay launched MicroPlace (https://www.microplace.com), a for-profit microfinance competitor to Kiva. It provides U.S. investors with a modest return (e.g., 2-4%) on funds lent to poor business people in developing countries. According to its website:

> "In order to offer investments to you on the website, MicroPlace must be registered as a broker-dealer with the Securities and Exchange Commission (SEC), a government agency that sets rules for the securities industry. As a registered broker, MicroPlace must also join the Financial Industry Regulatory Authority (FINRA), the organization that provides compliance oversight for the SEC. FINRA was created through the recent consolidation of the National Association of Securities Dealers (NASD) and the member regulation, enforcement and arbitration operations of the New York Stock Exchange (NYSE).

Matt wondered, "If Kiva were to get involved in paying interest, would it too have to register as a broker-dealer with the SEC and also join FINRA?"

Matt reflected on the email he had just sent regarding the issue of paying interest: "We just continue to put it off—our users don't seem to want it … . It will probably come back one day though ..." (email August 5, 2008). Matt wondered, "When should we renew the planning for the transition to paying interest?"

APPENDIX: SOCIAL ENTREPRENEURSHIP[11]

According to Ashoka (http://www.ashoka.org), a leading organization in promoting social entrepreneurship, "Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change." Social entrepreneurs offer systemic solutions that they promote. They attack problems with commitment, fulfilling both a visionary role and also implementing it. They mobilize people to embrace their vision.

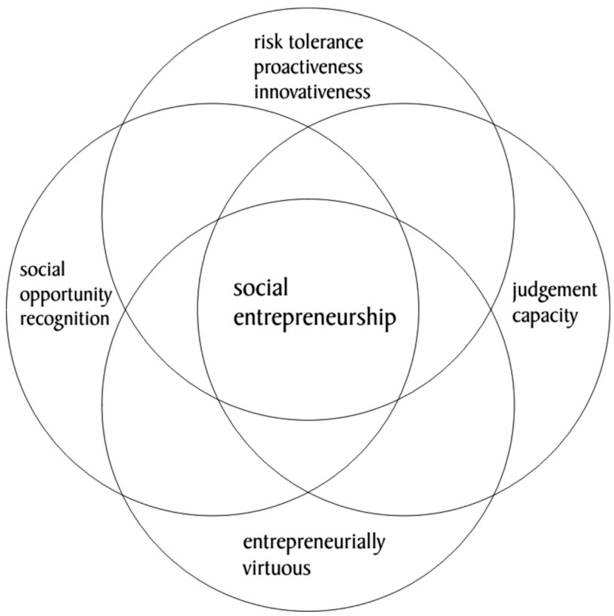
Weerardena and Mort (2006) define social entrepreneurship "as a behavioral phenomenon expressed in a NFP organizational context aimed at delivering social value through the exploitation of perceived opportunities" (p. 25). NFP refers to not-for-profit organizations. Social entrepreneurs generate support by framing their work in terms of significant social values, thereby generating support from followers (Borins, 2000; Lewis, 2980; Waddock & Post, 1991; all cited by Weerardena & Mort, 2006).

Weerardena and Mort's (2006) formula for social entrepreneurship follows: Social entrepreneurship could be conceptualized as Social Value Creation = function of (Innovativeness, Proactiveness, Risk Management) subject to Sustainability, Social Mission, Environment (p. 32).

Figure 2 depicts how Mort, Weerawardena, and Carnegie (2003) portray social entrepreneurship.

[11] Students could enrich their understanding of social entrepreneurship by applying the concepts to Kiva.

Figure 2: Multidimensional Social Entrepreneurship Construct



Three criteria determine if one is entrepreneurially virtuous:

1. the agent is aware of what he or she is doing; the virtuous act is not accidental or coincidental,
2. the agent performs the virtuous act for its own sake, not an ulterior motive,
3. the agent follows through until the virtuous act is established; it's not merely an idea or concept

Social entrepreneurs form balanced judgments displaying "a coherent unity of purpose and action in the face of complexity …" (p. 83). Social opportunity recognition requires that social entrepreneurs recognize that their fundamental value proposition fulfills the intended need. The last criterion is that social entrepreneurs demonstrate tolerance for risk, proactiveness, and innovativeness in their decision making risk.

Peredo and McLean (2006) state "that social entrepreneurship is exercised where some person or group: (1) aim(s) at creating social value …; (2) show(s) a capacity to recognize and take advantage of opportunities to create that value …; (3) employ(s) innovation … in creating and/or distributing social value; (4) is/are willing to accept an above-average degree of risk in creating and disseminating social value; and (5) is/are unusually resourceful in being relatively undaunted by scarce assets in pursuing their social venture" (p. 64).

Dees (1998, 2001), in one of the more cited papers on the topic (147 times according to Google Scholar on August 6, 2008), defined social entrepreneurship using the following attributes: "Social entrepreneurs play the role of change agents in the social section, by:

- Adopting a mission to create and sustain social value …,
- Recognizing and relentlessly pursuing new opportunities to serve that mission,
- Engaging in a process of continuous innovation, adaptation, and learning,
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created" (p. 4, 1998).

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