

## EBay: The Place for Microfinance

**On the online auction giant's new MicroPlace site, investors can lend as little as \$50 to would-be small business owners around the globe**

by [Catherine Holahan](#)

Tracey Pettengill Turner doesn't want to give handouts to poor people. But she does want to make investments in them. So on Oct. 24, Turner is launching MicroPlace.com, a Web site that lets small investors provide low-interest "micro" loans, of \$50 or more, to would-be small business owners. Her hope is to create sustainable economic growth in the world's most impoverished communities—and do her part to expand the reach of the microfinance industry to more than 1 billion people worldwide, from about 100 million people currently.

Turner's outsized ambitions are backed by an equally formidable player. Internet commerce giant eBay ([EBAY](#)) acquired the company in June, 2006, for a small, undisclosed, sum when it was little more than Turner and her business plan. MicroPlace benefits from the lessons eBay has learned working with the millions of small business owners and consumers who buy and sell on its family of sites. [PayPal](#), eBay's online payment service, will process the loans free of charge. "There are a billion people in the world who are self-employed, hard-working, and poor, and we are hoping to scale the industry to at least a billion," Turner says.

### Principal Plus Interest

EBay is no stranger to microlending. The company's founder, [Pierre Omidyar](#), and his wife, Pam, have devoted hundreds of millions of dollars to microlending through their foundation, the [Omidyar Network](#). The network is the lead investor in Unitus Equity Fund, an \$8.5 million microfinance venture investor that finances projects in Asia and Latin America. Pierre Omidyar also gave a \$1.4 million grant for the development of software that helps microfinance institutions collect and organize data. "Microlending is just a good fit for eBay," says eBay spokeswoman Catherine England. "It really leverages eBay's areas of expertise to address what we see as an emerging market." Omidyar is also an investor in [Kiva](#), a microlending site run by former TiVo ([TIVO](#)) executive Matt Flannery and former PayPal executive Premal Shah.

The key to microlending, says Turner, is that it fosters self-reliance and, eventually, sustainable economic growth in a way that charity does not. What's more, lenders stand to receive small financial benefits in the form of interest, which should encourage them to keep investing in other projects. The minimum investment for someone to get started on MicroPlace is \$100, though subsequent investments can be as low as \$50. Interest rates vary between 1% and 4%, depending on the amount and nature of the investment, says Turner. Investors receive a "You've Got Cash" message on the site when they see returns. "The intention is that you get your principal back with your rate of return," Turner says. "The goal is to reach the everyday investor."

MicroPlace cannot guarantee that lenders will make back their principal, much less the interest, but microlending experts say recipients of microloans have a solid track record on repayment. And MicroPlace is working with organizations on the ground in impoverished areas to identify loan candidates who have the potential to start businesses capable of changing family fortunes and creating new employment opportunities in their communities. The site works with the Calvert Foundation, a nonprofit that has worked in community investment for 10 years, and microfinancier [Oikocredit](#), which funds nearly 500 projects, ranging from a cassava processing plant in Ghana to small loans to entrepreneurs in Bolivia. As the site grows, it plans to expand its partners.

## **Making a Difference**

The focus on investing rather than giving is a change for Turner. As a student at the [Stanford Graduate School of Business](#), Turner started a Web site, [4charity](#), which helps people search a database of thousands of nonprofit groups for charitable causes. The goal was to encourage people to donate to help others. But Turner's focus changed after working in Bangladesh with [Grameen Bank](#), a microcredit institution that [pioneered the idea of microfinancing](#) ([BusinessWeek.com](#), 11/27/06) in the 1970s and in 2006 won the Nobel Peace Prize. There, she says, she met a four-foot-tall woman with arresting eyes who changed her life after receiving a \$50 loan. The woman used the money to buy a hand loom and weave fabrics that were then sold in a major market. "In the first year, she made enough profit to repay her loan, with interest, build a house, and pay for her kids to go to school," says Turner. "She brought me through her village as proud as can be."

Some critics say microlending is hardly the poverty panacea some proponents would make it out to be. The major capital improvements needed to foster economic development and bolster the poor's living standards, such as building roads and sewage treatment plants, are too large to be financed by a \$1,000 loan. And, with so little money to spare, some poor families may choose to direct a loan to food or medicine in lean months, rather than invest it in a business, making the loan little different from a charity donation.

Potential shortcomings are hardly throttling the growing popularity of the microfinance movement in the U.S. In 2005 Kiva and another site, [Prosper.com](#), [launched in San Francisco](#) (*BusinessWeek SmallBiz*, Winter 2006). Prosper has already raised more than \$7.5 million in venture capital, and has distributed tens of millions in loans at an average

of about \$5,000 per loan. Kiva has distributed more than \$13 million in loans, at an average size of about \$500, to [entrepreneurs in places such as Cambodia](#) (BusinessWeek.com, 8/15/06), Samoa, and the Gaza Strip.

Demand to invest at Kiva has been so strong, in fact, that after a September appearance on *The Oprah Winfrey Show*, the site temporarily ran out of people to help. On average, it takes one day for businesses to get funded, and new entrepreneurs are listed every day. "We started off doing microfinance to empower the poor, but when you give people the ability to help another person in a person-to-person way, they feel empowered," says Fiona Ramsey, public relations director at Kiva. "People have really embraced us as a way to make a difference." And with the introduction of MicroPlace, would-be investors will have another place to do the same.

[Holahan](#) is a writer for BusinessWeek.com in New York .