

Designing a Foreign Direct Investment Assignment Employing KIVA Micro-Lending as an Experiential Learning Platform

**Thomas M. Fitzpatrick
Husson University**

The purpose of this paper is to introduce the use of KIVA micro-lending as an experiential learning opportunity for students in the context of a foreign direct investment assignment in an undergraduate International Business Management course or a Global Strategic Planning graduate course. Over the past six years KIVA has been employed by the author as a platform for teaching students about the process of foreign direct investment and engaging them in an experiential learning opportunity. The 1000 students have made over 1000 loans to 45+ countries in a variety of industries from retail, agriculture, fishing, construction, transportation, and manufacturing industries. Many of the students have continued making microloans even after their classes have long since ended. The intent behind this article is to share what has been a very valuable and rewarding learning experience for both students and faculty.

INTRODUCTION

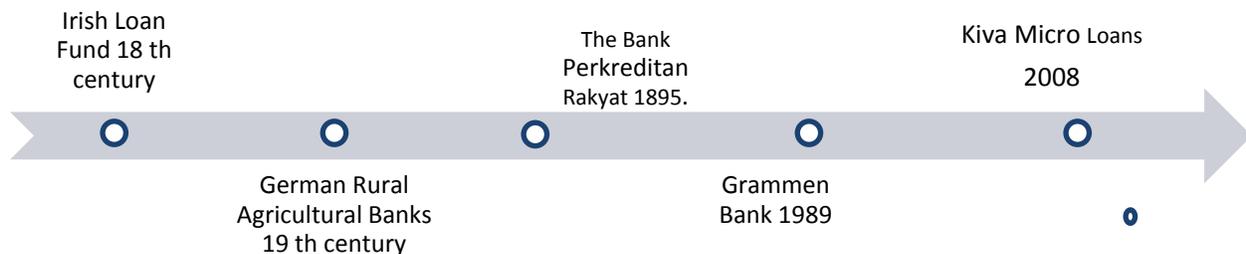
For the past eight years the author's undergraduate and graduate students in International Business Management and Global Strategic Planning have experienced the due diligence process of foreign direct investment by making a microloan through the KIVA micro-lending platform. As a teacher, KIVA allows one to use its platform as an experiential pedagogical tool to introduce students to the process of country profiling; historical and cultural analysis; political and economic risk assessment; and financial risk analysis during the foreign direct investment process. This assignment also introduces students to the concept of social entrepreneurship and their personal power to engage in the world in a meaningful way. Designing a foreign direct investment assignment through KIVA has been a very valuable and rewarding learning experience for both students and faculty worthy of adoption for classes in higher education.

HISTORICAL OVERVIEW OF MICRO-LENDING

It is a common misconception that micro-lending is a late 20th century economic development phenomenon beginning with Dr. Mohamed Yunus's creation of the Grameen Bank in Bangladesh in the 1980s. While the success of Dr. Yunus's program is the pinnacle of micro-lending achievement, the actual origins of micro credit begin centuries earlier in a variety of nations or cultures across the planet. "The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world" (Administrator, Global Envision, 2006). <http://www.globalenvision.org/library/4/1051> Historically micro-credit is typically the response to

disenfranchisement of the poor from access to financial capital in an economy, be it the poor of Ireland in the 1700s, the Germans in the 1870s, America in the 1890s, or Pakistan in the 1950s with the creation of credit groups, cooperatives, credit unions, micro lending field offices. “One of the earlier and longer-lived micro credit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift. Swift's idea began slowly but by the 1840s had become a widespread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods. At their peak they were making loans to 20% of all Irish households annually” *“<http://www.globalenvision.org/library/4/1051>. In Germany, “Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural Germany.^[10] In the 1950s, Akhtar Hameed Khan began distributing group-oriented credit in East Pakistan. Khan used the Comilla Model, in which credit is distributed through community-based initiatives <http://en.wikipedia.org/wiki/Microcredit>. The Bank Perkreditan Rakyat opened in 1895. The BPR became the largest microfinance system in Indonesia with close to 9,000 units. In constructing the micro-lending timeline depicted below you can see that micro finance is a centuries old practice that has evolved over time into the modern institutions that we know today as Grameen Bank, Accion and KIVA to name but a few.*

FIGURE 1
HISTORICAL TIME LINE OF SIGNIFICANT MICRO-LENDING DEVELOPMENTS



MICRO-LENDING A TALE OF TWO VIEWPOINTS

It is necessary to address issue of recent controversies that have developed in the field of micro lending. “A few years ago, microcredit and microfinance were seen as world changing endeavors that could drastically change alleviate poverty by enabling those without the ability to get a traditional bank loan to receive funding for their business or household....The biggest criticism seems to stem from the extremely high interest rates microcredit loans have. (Nate Mook 2011) http://www.ted.com/conversations/288/is_microcredit_a_flawed_idea_t.html

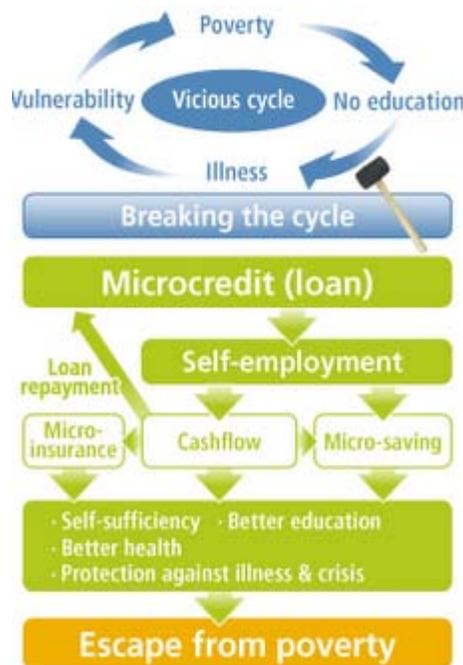
The list of criticisms is lengthy, occasionally warranted and sometimes driven by the ideological divide between those that believe in free markets/capitalism and those that do not. It is not the intention of this paper to address these issues comprehensively but rather to simply acquaint the reader with their existence. Micro lending organizations are criticized for charging “usurious” loans rates, promoting un-serviceable debt loan, and inflated claims of its impact on poverty. It is necessary to note that as you search this topic one will find well researched academic treaties that will differ in viewpoint and conclusion but also the search will quickly devolve into the nonacademic realm of “internet trolls and bomb throwers” who offer little constructive input on the subject other than tired anarchist and Marxian diatribes. Now having made that disclaimer it is important to note the difference between traditional non-profit micro lenders and new market entrants of for profit traditional banking enterprises that are now managing micro-loan portfolios. KIVA the platform that has opened micro-lending to the masses is a non-profit entity that partners with local micro-lenders in each of the 70 plus nations. The typical KIVA loan interest rate will range between 16% and 30% with most loans falling closer to the 30% level. One of the

questions that concerns students is the interest rate and the explanation that I give is that in emerging markets access to capital is difficult and street lenders typically charge up to 300% in interest, so while 30% may seem high given the risk of the loan and the alternatives, micro-loans are the best alternative for the world's poor. (It should be noted that American credit card companies routinely charge up to 27% for credit card holders with questionable credit standing.) *The GB is approved to charge a maximum interest rate of 27 per cent interest rate annually (market rate plus a mark-up for higher admin costs of making small loans). This is a legal cap that must be followed by all microfinance groups in Bangladesh. However, the maximum interest rate that the GB charges is 20 per cent (7.0 per cent below what it is approved to charge).*"Munir Quddus <http://www.muhammadyunus.org/index.php/yunus-centre/yunus-centre-highlights/803-a-rebuttal-of-the-criticism-of-mi>

I had the opportunity to ask Dr. Mohammed Yunus at a recent conference "how does a supporter of micro-lending respond to the critics" and he said philosophically that some critics "simply do not have the eyes to see" the impact of micro lending". Recently Dr. Yunus has suggested that micro-loans should charge no more than 15% in interest. My final thoughts on the critics of micro-lending is that frequently in the effort to criticize or impugn micro-lending the critics employ a standard of perfection that is unattainable and I believe that "perfection should never be the enemy of good" a quote attributed to Voltaire.

Depicted below is a chart that articulately depicts the philosophy, action and hopeful outcomes of micro-lending.

FIGURE 1



<http://m61.org/microfinance.html>

For this author micro-lending is an exciting grass roots initiative that allows us to engage in a one to one basis in the process of economic development across the globe....it is the original "crowd funding". Micro-loans fill a necessary gap in the capital markets of developing nations allowing loan applicants to deal with an organization that is not a street level loan shark motivated by predatory instincts.

BACKGROUND ON KIVA

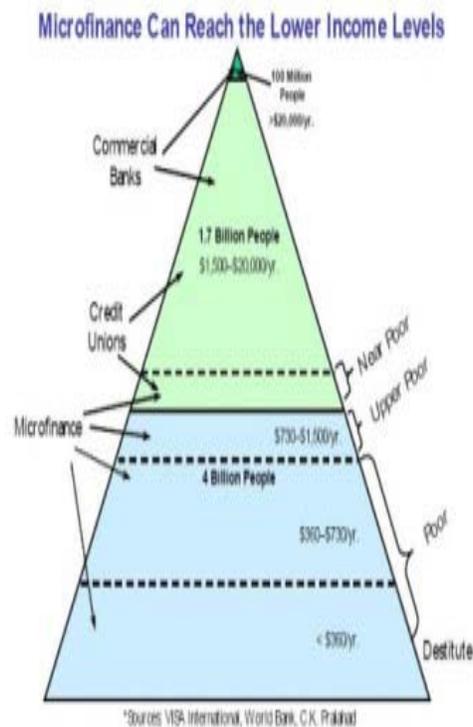
Kiva founded in 2006 by Jessica and Mathew Flannery is based upon the convergence of technology, social entrepreneurship and crowd funding to reduce poverty from the grassroots level. The term grassroots level is used as Kiva connects people from across the globe in a one to one direct relationship that represents the best of the “long-tail solution” to global social problems. Here is Kiva’s description of themselves “We are a non-profit organization with a mission to connect people through lending to alleviate poverty. Leveraging the internet and a worldwide network of microfinance institutions, Kiva lets individuals lend as little as \$25 to help create opportunity around the world.”

KIVA AT A GLANCE

FIGURE 3

Total Amount Lent	\$546,875,250
Kiva Users	1,686,270
Kiva Users Made a Loan	1,133,039
Borrowers Funded	1,274,553
Number of Loans	687,296
Kiva Field Partners	241
Countries	88
Repayment Rate	98.93
Average Loan Size	\$416.53
Average # loans Kiva Member	9.97

FIGURE 4



Kiva in response to the critics of micro lending has provided a sample of their success stories. *“Empirical evidence shows that, among the poor, those participating in microfinance programs who had access to financial services were able to improve their well-being-both at the individual and household level-much more than those who did not have access to financial services. In Bangladesh, Bangladesh Rural Advancement Committee (BRAC) clients increased household expenditures by 28% and assets by 112%. The incomes of Grameen members were 43% higher than incomes in non-program villages. In El Salvador, the weekly income of FINCA clients increased on average by 145%. In Ghana, 80% of clients of Freedom from Hunger had secondary income sources, compared to 50% for non-clients. In Lombok, Indonesia, the average income of Bank Rakyat Indonesia (BRI) borrowers increased by 112%, and 90% of households graduated out of poverty.”* Kiva is a remarkable organization as you can see from their statistics they have reached over a half-billion dollars in loans to over 1 million entrepreneurs worldwide. To share a personal anecdote I tell my students that *“Jessica Flannery co-founder of KIVA is the only the person in the world that I have ever envied because she found her calling in life at such a young age.”* Kiva as an economic initiative is worthy of a Nobel Prize and hopefully we will see that recognition bestowed in the not to distance future.

MICRO-LENDING FROM THE CLASSROOM TO THE WORLD

At this juncture let us move to the actual purpose of this paper to share the experience and excitement of almost 1000 students who have participated in micro-lending over the past eight years. The creation of KIVA in 2006 provided a platform that made micro lending personally accessible for millions of people across the globe to invest in millions of individual entrepreneurs across the globe. As a teacher it meant that I could couple the teaching of foreign direct investment with micro-lending in a manner that makes it experiential and meaningful for my students in International Business Management and Global Strategic Management at the MBA level. Over the past 7 years it has been used to engage approximately 1000 students at two institutions at the undergraduate and graduate level with tremendous success. Below are guidelines that students receive for the project and the format for the paper. This assignment has been used in traditional classroom settings and in on-line asynchronous courses this form of detail guidelines is necessary to reduce confusion for students. Below are the actual guidelines that are provided for to students in the research and writing of their micro-lending paper.

MICRO-LENDING PAPER GUIDELINES

The Micro Lending paper is designed to give students the experience of engaging in the due diligence process of Foreign Direct Investment (FDI).

Students will select a nation, industry, and entrepreneur that they will loan \$25 (refundable) loan to over the course of the semester.

The students will engage in the same process of due diligence as an MNC does before committing to foreign direct investment. \$25 versus \$25,000,000

They will assess the economic, financial, and political risk associated with the nation by engaging in research on the nation the industry, micro lending field office and the entrepreneur.

Having done the risk assessment the student will then commit \$25 through KIVA to the entrepreneur of their choice for a period of three to six months.

The default rate is less than 2% on all KIVA loans but varies from micro-lender and nation.

At the end of the loan period the student may cash out the loan or as many students do then re-loan to another entrepreneur in the same or another nation.

The Micro Lending paper is designed to give students the experience of engaging in the due diligence process of Foreign Direct Investment (FDI).

Students will select a nation, industry, and entrepreneur that they will loan \$25 (refundable) loan to over the course of the semester.

The students will engage in the same process of due diligence as an MNC does before committing to foreign direct investment. \$25 versus \$25,000,000

They will assess the economic, financial, and political risk associated with the nation by engaging in research on the nation the industry, micro lending field office and the entrepreneur.

Having done the risk assessment the student will then commit \$25 through KIVA to the entrepreneur of their choice for a period of three to six months.

The default rate is less than 2% on all KIVA loans but varies from micro-lender and nation.

At the end of the loan period the student may cash out the loan or as many students do then re-loan to another entrepreneur in the same or another nation.

MICRO-LENDING PAPER FORMAT

The paper will be comprised of the following segments:

History of micro-lending 1.5 pages

Country profile that acquaints the reader with the form of government, economic system, level of economic development and culture of the nation. 3 to 4 pages

Industry profile within the nation-how developed is the industry ½ to ¾ page

Discuss your rationale for selecting your loan recipient. ½ to ¾ page

Evaluation of the risk associated with the loan through the micro-lending field office ½ to ¾ page

Conclusions about your experience in making your first FDI. 1 page

The paper will be 6 to 8 pages single spaced with an 11 point font. You should include a print out of your KIVA loan page showing your entrepreneur and confirmation of the loan.

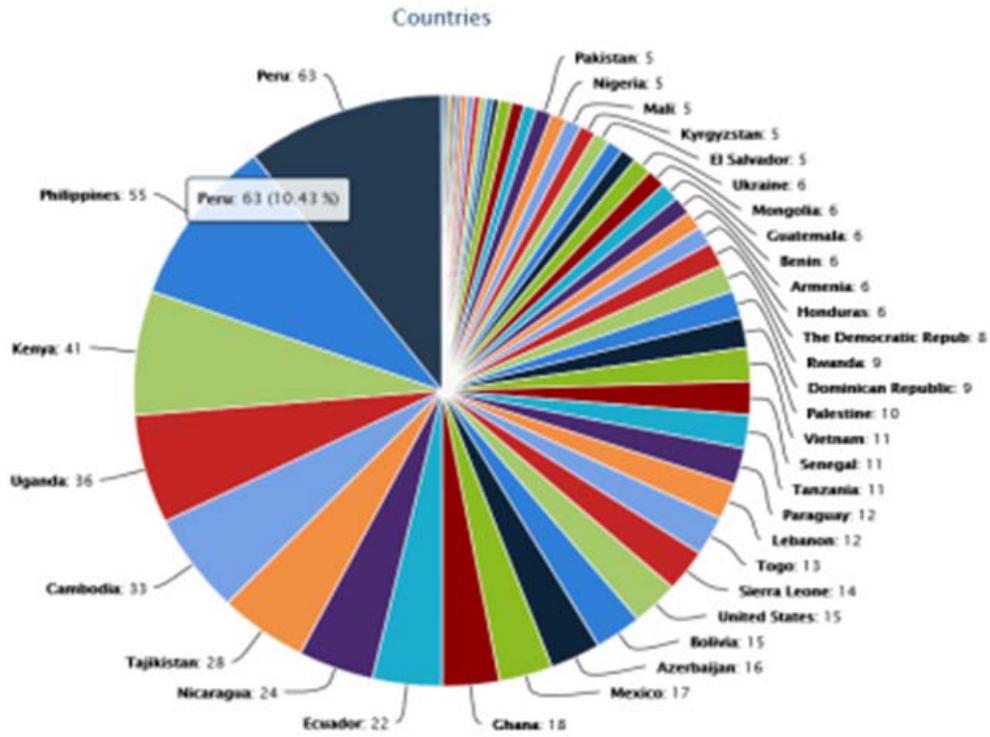
Outcomes

Approximately 1000 students have made micro-loans through this assignment over the past 7 years and many are still rolling that loan over and making more loans even after they have graduated. The following tables represent loans made by two institutions Saint Anselm College and Husson University

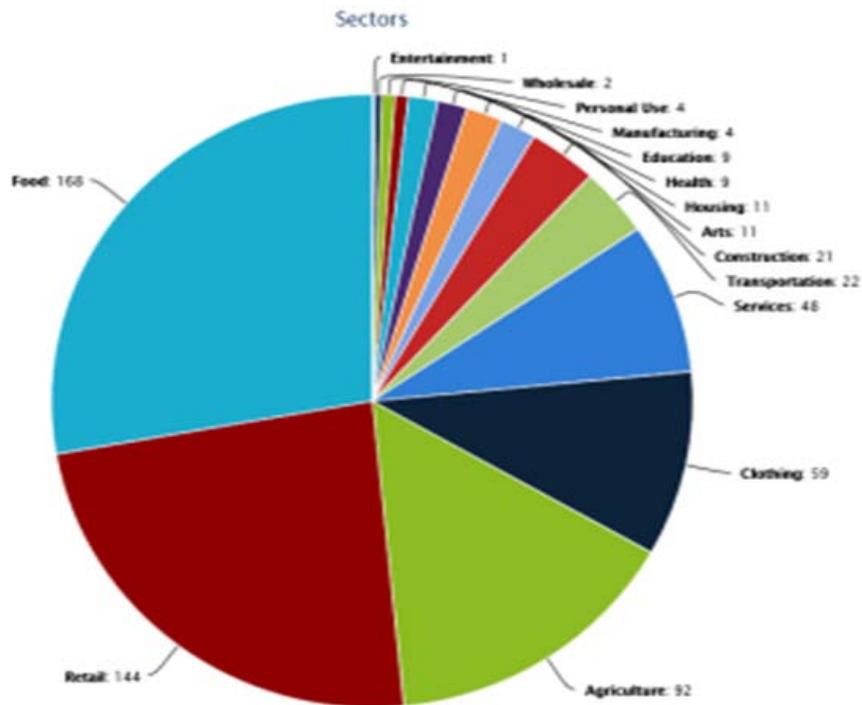
FIGURE 5

Saint Anselm College SIFE Micro-lending Team	
KIVA Team Members	359
Total Amount Loaned	\$16,450
Total Number of Loans	638
Loans per Member	1.8

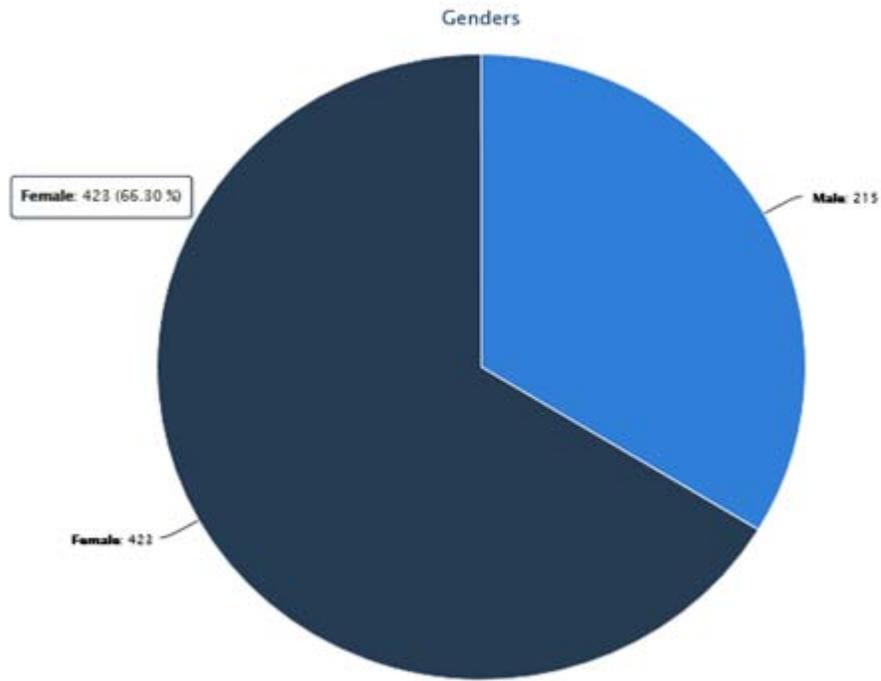
**FIGURE 6
LOANS BY COUNTRIES**



**FIGURE 7
LOANS BY INDUSTRIAL SECTORS**



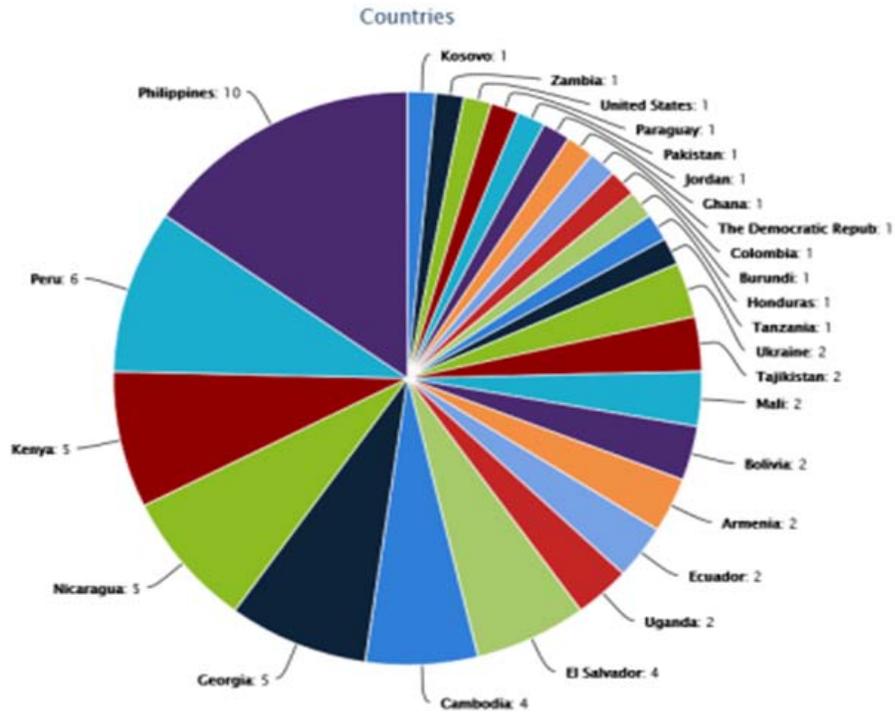
**FIGURE 8
LOANS BY GENDER**



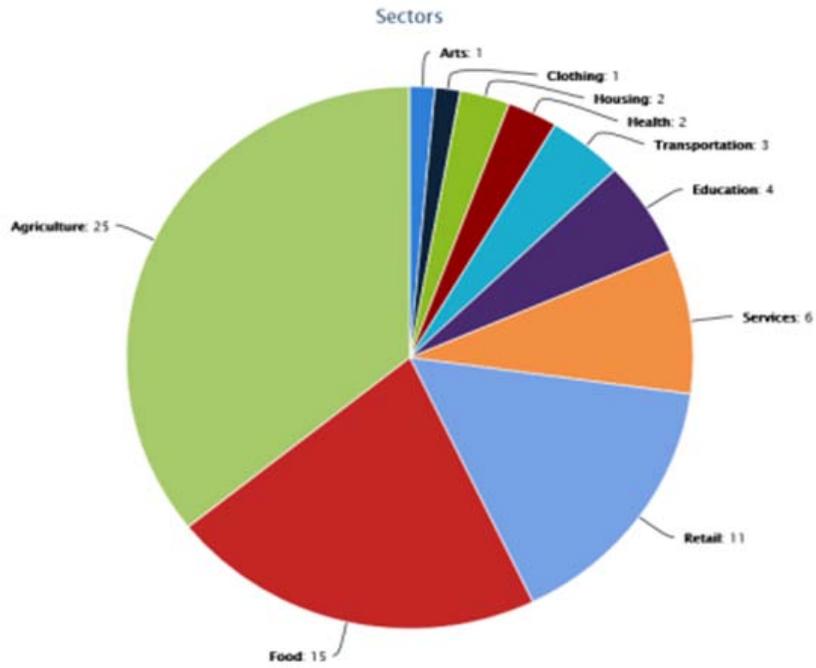
**FIGURE 9
HUSSON UNIVERSITY SIFE MICRO-LENDING TEAM
(established 2012)**

Husson University Enactus Micro-Lending Team	
KIVA Team Members	192
Total Amount Loaned	\$5250
Total # of Loans	204
Loans Per Member	1.1

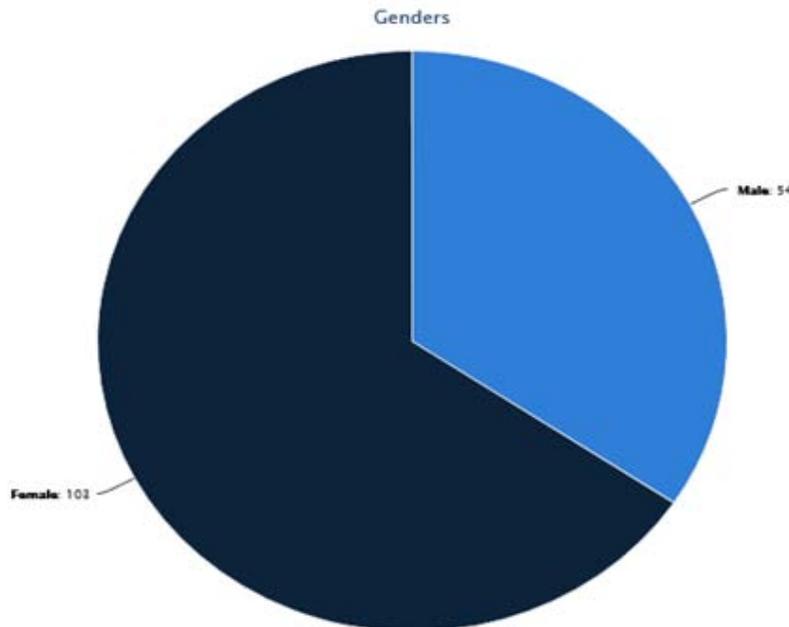
**FIGURE 10
LOANS BY COUNTRIES**



**FIGURE 11
LOANS BY INDUSTRIAL SECTOR**



**FIGURE 12
LOANS BY GENDER**



STUDENT REACTIONS AND EVOLUTION OF THOUGHT

When your syllabus tells the student that they have to buy a book, software program or simulation that is a traditional request and easily accepted.... but when you tell them that they have to make a loan to a stranger, in a far- away land, that can and does raise questions. In the past six years and almost 1000 students that have participated in the micro lending experience only 6 have opted for the book review alternative assignment and only one complained about the Micro-lending assignment after having completed it.

Here are some of the more skeptical reactions:

- *When I started on the process of my first FDI, I honestly wasn't sure if this was for me."*
- *I'm not much of a gambler—I don't play scratch tickets and really have no interest in the casinos—and making loans to new business entrepreneurs across seas, is a gamble.*
- *One slight mistake and the business you supported could go under and you may never see your money again. Even though our loans were only \$25, being a college student I couldn't help but think of the opportunity cost that go along with this risk. (This observation demonstrates that even with a 2% default rate and the minimal cost of the loan the student feels the real life implications of losing the investment. One of the comments made to students about the assignment is that if you place a comma behind the 25 and add six zeroes making it \$25,000,000 you are engaged in the same due diligence for your micro loan as you were making a more substantial FDI loan.)*

Here is one unabashedly enthusiastic response to the assignment:

- *Yessss! The kind of experience I have been waiting for! This student came up with her own comparative value analysis 25 cups of coffee= \$25 micro loan.*

COMPARATIVE PURCHASE VALUE OF THE LOAN

To assist the student in understanding the comparative value of their loan I use the example of a pizza and a six pack of beer. Also it is important to impress upon the students that within three to six months depending upon the term of the loan it will be repaid and then if they choose they can enjoy their pizza and beer.

FIGURE 13



The students are also given an option of doing a book review on *The Improving State of the World*, by Induri Goklany and out of almost 1000 students only a handful of 6 or 7 students have chosen that option.

CHRONICLE OF A SKEPTICAL STUDENT'S THOUGHT PROCESS ABOUT THE ASSIGNMENT

“Initially I had misgivings about loaning my money to some halfway around the world, why should I have to do this and will the money be repaid. However, once I started looking into these loans I became more and more interested. Once I decided on where I wanted my loan to go, I lost that feeling of uncertainty. I felt good about the decision I made and that my money was going to help somebody accomplish their dream and make a better life for themselves and their family. I really felt a connection with Ntalasha and have become his biggest fan and hoping him all the success in the world—and that’s not just because I’d like my loan back. Now that I have finished by Kiva loan and I’m looking back on it all, I’m glad I had the opportunity to experience this. Not only was I able to see how the process of FDI’s work and some of the complications that go along with it, I was also able to do something productive and helpful with my own funds. This was a great assignment and I can certainly see myself renewing my Kiva loan and continuing on with the process.” (Student 2013)

CONCLUSIONS

As you have probably noted from the student quotations this assignment does evoke a range of emotions beginning with skepticism, incredulity you are asking us to do what with our money and then the process of awakening as the student grasps the insignificance of \$25 to them and the significance of it to the loan recipient. The movement along this evolutionary awakening is typically short as soon as the student starts exploring KIVA and can see the short biographies of the loan applicants and their aspirations and needs. For one student it was the recognition that for her it was simply giving up 12 cups

of coffee to make the \$25 loan. *“This is much more than an educational assignment, it is an experience, which is something that most often, college degrees lack.”* As you noted in my paper guidelines I offer an alternative assignment, a book review of *The Improving State of World* by Induri Koklani and out of almost 1000 students only 6 have selected that option. One student noted after opting out and seeing the postings of their classmates, *“it appears I have missed out on something”*. Also out of 1000 students only one has complained about the assignment after it was completed, the vast majority praise the assignment for its originality and experiential nature. *“A project that many students will be doing for more than just a grade; A project that leaves you with a feeling of fulfillment, appreciation and understanding.”* -Student 2013 I would estimate that approximately 15 to 20% of the students continue making loans after their original loan has been repaid and many have continued making loans for up to eight years after their introduction to KIVA. This residual impact is of particular note because how many class assignments have the potential to move forward with the student as they progress in their studies and in life. I will close with a student observation about the micro-lending assignment *“I remember my father saying to me as a young girl, every farm starts with one seed. Interesting, I guess he was on to something.”*– Thank-you for this assignment, much more than completing a task to get marks, this was a journey, for me anyway, that is only beginning. –Student 2013

REFERENCES

- Administrator, Global Envision, 2006). <http://www.globalenvision.org/library/4/1051>
<http://en.wikipedia.org/wiki/Microcredit> April 15, 2014
Mission 61 <http://m61.org/microfinance.html> February 2012 March 20, 2014
Mook Nate http://www.ted.com/conversations/288/is_microcredit_a_flawed_idea_t.html September 22, 2014
Kiva (<http://www.kiva.org/about/microfinance#IV-I>) April 18, 2014
Munir Quddus <http://www.muhammadyunus.org/index.php/yunus-centre/yunus-centre-highlights/803-a-rebuttal-of-the-criticism-of-mi> September 22, 2014