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Turning your \$25 into loans for students in developing nations

Vittana enables the average person to help low-income learners in places such as Nicaragua and Vietnam. There's a 97% return rate, on average.

1 2 [next](#) | [single page](#)



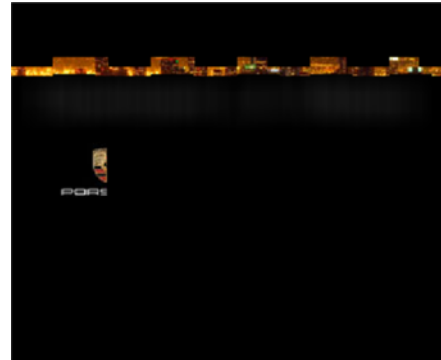
Vittana CEO Kushal Chakrabarti is grateful that people at Cerritos High and UC Berkeley were "willing to take a risk on me," he says. "A lot of these students are asking for the same thing." (Robert Durell, For The Times / March 4, 2010)

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By Amina Khan, Los Angeles Times
June 12, 2010

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As she stood onstage at her graduation ceremony in Managua, Nicaragua, Luceymi Maria Lopez Lopez described how the diploma felt in her hand.

"Grandioso," she said. "Superbien."

"I never thought I would be able to finish," Lopez said.

Two years ago, she might have been right. Until 2009, the loans that financed her college education didn't exist.

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But these days, thanks to the efforts of 27-year-old Southern California native Kushal Chakrabarti, a nonprofit is tapping the microcredit market to fund loans for low-income college students in developing nations — a need that has been largely unmet by traditional banks.

Vittana, named after a Telugu word for "seed," pools funds from Internet users all over the world and then partners with local microfinance banks in countries such as Nicaragua and Vietnam to provide loans to students when typical banks won't.

Banks may see these students as risky prospects. But Chakrabarti, chief executive of Seattle-based Vittana, sees just one difference between these students and himself — and it's not one of drive or intelligence.

Chakrabarti says he would have failed math and science at Cerritos High School if not for tough love from his teachers. In college, he again put his graduation at risk.

And yet the UC Berkeley alumnus went on to lead the design and development of Amazon.com's popular "You might also like" feature, a personalized recommendations engine, before co-founding Vittana in 2008.

The reason for his unlikely success, he said, was support: "I had a lot of people willing to take a risk on me. And a lot of these students are asking for the same thing."

Large, traditional banks will readily dole out hundreds of thousands of dollars to finance a home or a company, but generally avoid giving small loans to poorer clients. A microcredit bank doesn't deal in such large amounts — it may lend a total of \$300 to, say, an enterprising mother who sets up a business sewing clothes. The payoff may be lower, but so is the risk.

But students carry high risk of default, need large loans and often can't repay until they find a job, said MIT economist Abhijit Banerjee.

In an unstable country without a robust credit market, Banerjee said, "no lender wants to take that risk on someone for so long."

With such limited access to credit, students such as Lopez often see little choice but to drop out.

Two years after she began studying systems engineering in 2005, political shifts in Nicaragua cost Lopez, 24, a scholarship that covered nearly half of her \$40 monthly tuition. Then there was the \$900 fee many Nicaraguan students must pay to complete a thesis and obtain a diploma. She didn't have that kind of cash.

But Lopez knew that without an engineering degree, she could hope only to make about \$200 a month. With it, she could earn five times as much.

She considered putting school on hold to earn the money, but her older brothers, Jose Nadir and Oscar, had already given up on their degrees to pay the bills. And in countries such as Nicaragua, student loans have not "even entered into the collective consciousness," said political scientist David Close.

"One, it takes a sophisticated banking system to make it work," he said. "Two, it's extra money governments don't want to spend. And three, I'd be worried about getting it paid back."

But when Chakrabarti looks at Lopez and other struggling would-be students in developing countries, he sees a good bet.

The idea behind Vittana is simple, Chakrabarti explained. A bank might not be willing to hand out the average \$657.50 that students listed on Vittana's website need to get their degree, but maybe a couple dozen people would be willing to lend \$25 or \$50 each, with a 97% chance they'll get it back.

1 2 [next](#) | [single page](#)

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