Lending a Hand

Backgrounder & Worksheet
Learner Resource

Name: ___________________________________

History of Microfinance

Microfinance is financial products and services including, among others, loans, saving schemes, money transfers and insurance for low-income populations. This concept dates back to the 18th century in England and Germany. However, the movement experienced a boom in the 1970s in Bangladesh and Latin America. The year 2005 was declared the "International Year of Microcredit" by the United Nations, and in 2006 Muhammad Yunus, who founded the successful Grameen Bank, a pioneering institution in the microfinance sector in Bangladesh, received the Nobel Peace Prize.

Micro-lending

The worldwide web has allowed for the rise in micro-lending. It allows those who wish to put their savings to good use by lending them to those who seek loans through the internet. Micro-lending helps entrepreneurs in developing countries start their own small businesses by providing them with loans that they cannot obtain from banks. Lenders have no collateral on the money they invest, thus they risk losing all their money. However, lenders could potentially earn a better return value than traditional saving accounts. Due to the risk, a lender faces when lending their money, lenders tend to invest a small amount of money per loan. This results in borrowers receiving funding from a number of lenders that each contributes a small amount of money towards their final total. This is what it is termed (micro) or more specifically lending in small loans (microloans) to entrepreneurs.

Credit Unions

Credit unions are driven and regulated by customers, thus they are more keen and open to the ideas and needs of customers. Credit unions are operated as not-for-profit institutions, thus the needs of the customers come before profit. Credit unions use a democratic style of operation, which is a fair power structure in which each member of the union gets one vote. Thus, everyone gets equal representation, regardless of how many shares they own. The power lies within the majority and the issues that affect everyone will be better heard. In addition, credit unions are smaller, more local and invest their profits back into the community through local programs, businesses and governments making sure that the community is cleaner, more successful, and happy.

Sustainability

Sustainability is the capacity to endure. It is how biological systems remain diverse and productive indefinitely. This also applies to humans. The Brundtland Commission of the United Nations declared that "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

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Read the following quote and answer questions below:

"Give a person a fish, they will eat for a day. Teach a person to fish, they will eat for a lifetime."

Why is it better to teach a person how to fish?

What is the wider meaning?

A Hand Up, Not a Hand Out

What is a "hand up" versus a "hand out"?

If people do not have enough food, or enough money for heat and shelter, or enough money to start a small business they need help. Whatever the solution, many experts agree that people need to be involved in the solution and that the solution needs to be something that helps them change their situation. This leads to long-term development, not just a short-term 'band-aid' answer to a situation. Fill out the table below that gets you to think of various examples of a "hand up" and "hand out":

	Hand Up	Hand Out
Examples in Your Community		
Global Examples		
Benefit to the Receipt(s)		

What are the advantages of a "hand up" rather than just a "hand out"?

Barriers to Getting Started

In Canada and around the world people go to financial institutions to get a loan. Credit unions and banks are examples of these financial institutions here in Canada.

Banks versus Credit Unions

What factors make a Credit Union more "sustainable than a "traditional bank"?

Credit unions are driven and regulated by customers, whereas banks are regulated by the government. This means that overall, credit unions are more keen and open to the ideas and needs of customers. Additionally, they are more community-invested and less profit driven than traditional banks.

Credit unions are operated as not-for-profit institutions. This means that the needs of their customers come before their want to make money and expand. They focus on creating customer satisfaction and prioritize solving the financial needs of their customers.

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Unlike banks, credit unions use a democratic style of operation. In banks, a small group entitled the Board of Directors makes decisions on behalf of all employees, shareholders and customers of the bank. This means that power is put in the hands of those with large shares and amounts of money and results in unequal representation for the millions of small shareholders in the company. Credit unions use a fair power structure in which each member of the union gets one vote. Thus, everyone gets equal representation, regardless of how many shares they own. Power lies within the majority and the issues that affect everyone will be better heard.

Community investment is another factor in which credit unions are more sustainable. When both banks and credit unions get money in the form of deposits, they are able to make profits by lending these deposits out as loans. The actions of taking deposits and giving loans creates a large cycle in which these institutions make money through charging rates and interest fees. Credit unions and banks differ in that the profits banks make go towards investing in very big global businesses. As credit unions are smaller, they are more local and invest their profits back into the community through local programs, businesses and governments making sure that your community is cleaner, more successful and happy.

5 C's of Credit

Wherever a person applies for a loan, they need to prove to the financial institution that they can repay the loan. This is usually done using some variation of the five C's of credit. Your task is to examine the "5 C's of Credits" list and determine what would be a good risk for a bank or credit union to take a chance on.

Capacity refers to considering your other debts and expenses when determining your ability to repay the loan. Creditors evaluate your debt-to-income ratio, that is, how much you owe compared to how much you earn. The lower your ratio, the more confident creditors will be in your capacity to repay the money you borrow.

Capital refers to your net worth or known as the value of your assets minus your liabilities. In simple terms, how much you own (for example, car, real estate, cash, and investments) minus how much you owe.

Character refers to your current stability to lenders. Stability can be things such as how long you've lived at your current address, how long you've been in your current job, and whether you have a good record of paying your bills on time and in full. If you want a loan for your business, the lender will consider your experience and track record in your business to evaluate how likely you are to repay.

Collateral refers to any asset of a borrower (for example, a home or shop) that a lender has a right to take ownership of and use to pay the debt if the borrower is unable to make the loan payments as agreed.

Conditions refer to when a lender(s) considers a number of outside circumstances that may affect the borrower's financial situation and ability to repay. Examples of this are what's happening in the local or regional economy. If the borrower is a business, the lender may evaluate the financial health of the borrower's industry, their local market, and the competition.

What would be a good risk for a bank or credit union to take a chance on?

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