

Lending a Hand

Lending a Hand Challenge Activities & Worksheet
Learner Resource



Name(s): _____

Please read and go through these mini activities and worksheet as it will help you better understand what concerns funders have when lending money in Part A. The second half, Part B, will require you to get in groups and select a borrower which you want your class to support. Part C will get those groups to further investigate microfinance organizations. This research will help you decide which microfinance organization you want to fund the class in raising money based on who/what the class is raising money for (this will be decided as a class). Part D deals with further research on the microfinance organization that your class decided upon and their policies regarding their loans and payments. Finally, Part E teaches you how to properly calculate compound interest.

Part A: Microfinance and Sustainability

Financial institutions are primarily concerned with the economics of a business loan. They are concerned with the financial “bottom line”. However, many private funders have wider concerns and aspirations when lending money. They ask more questions than just, “Will this loan get repaid?”. Some things they ask include:

1. “Is this project good for the environment?”
2. “Is the entrepreneur attempting to minimize the environmental impact of their business activity?”
3. “Will the project improve people's lives?”
4. “How is the entrepreneur treating other people?”

What these lenders are considering is known as the “triple bottom line” that consists of the economic, environmental, social impacts to achieve sustainability. Please watch the following video to get a better understanding of this concept:

https://www.youtube.com/watch?time_continue=88&v=2f5m-jBf81Q&feature=emb_title

Triple Bottom Line Breakdown:

Environmental	Social	Economic
<ul style="list-style-type: none"> • minimize possible environmental side effects • promotes a healthy environment for the workers and the broader local community • considers the ecological footprint of a project • aims to be ecologically sustainable (rather than wasteful and polluting) 	<ul style="list-style-type: none"> • generates more than just profit for one person • helps the community grow • generates indirect benefits for the local community • leads to more employment in the community • is a safe and healthy project for the workers • does this enhance local culture and traditions? 	<ul style="list-style-type: none"> • has economic capacity • has economic capital • strong personal character indicates stability • can offer collateral • outside conditions and circumstances are right

This is often referred to as “Triple Bottom Line Accounting”. As you research the world of microfinance and prepare to lend money to someone who can change their lives with your help, be sure to think of all three of these measures.

Discussion:

Protecting the planet and helping other people as well as making profit seems like the right thing to do, but why does it also make good business sense to focus on all three? Use a real-life example in your discussion. Which of the three elements is most important to you?

Part B: Selecting a Borrower

Microfinance sites are connected to thousands of borrowers. Each one has a profile that helps you become familiar with who they are and why they need the money for their enterprise.

In small groups (4 groups is best), assigned by your educator, you will decide which borrower you want your class to support! The below questions should help guide you on your journey. Once your group has decided on your borrower, develop a pitch to persuade the class to your decision. Each group will be given 5 minutes to present their pitch. To help find a borrower you want to support use the microfinance sites found in Part C of this worksheet.

5 minute Pitch

To help guide your decision, these questions can be answered when choosing which borrower, you want to support:

1. Is there a particular area of the world you are interested in?

2. Would you like your borrower to be working in a certain sector (e.g. agriculture, clothing, manufacturing, education, etc.)?

3. Is there a particular attribute to the situation that interests you (e.g. fair trade, conflict zone, environmental focus, etc.)?

Try to imagine what the life of this person is like to help guide your decision. Think of the following:

- How did you figure out which person to lend to?
- Think about the different aspects of their life?
- What challenges do they face every day?
- What is their family like?
- What do they eat?
- What holidays do they celebrate?
- What would they consider a 'treat' for themselves or their family?
- What do you have that they probably do not have?
- On the other hand, what do you have in common?

Imagine that your group knows details of your chosen person’s life and finances. You don’t know these people well and a microfinance organization would not want to put their personal financial information on the Internet for privacy reasons. Your class has learned about global poverty and you can conduct research into the country and region where their borrower lives. As a result, you can imagine some of the expenses they have. This will only be a very rough approximation, but it will give you a sense of how financial institutions have to estimate the reliability of a loan (think of the 5 C’s of Credit), will your borrower have a good chance of paying the loan back?

This is what you need to know to convince the rest of the class that your borrower is the best to support!

Scoring the Pitches

Use the scoring card below to give a score of 1 – 5 (5 being the highest) for each category, then add up the columns and see which borrower you think is the best!

Criteria	Group 1	Group 2	Group 3	Group 4
Environmental				
The project examines possible environmental side effects				
Promotes a healthy environment for the workers and the broader local community				
Tries to reduce the ecological footprint of this project				
Is ecologically sustainable (rather than wasteful and polluting)				
Social				
This enterprise will offer more than just profit for one person				
It will help the community grow				
Will have indirect benefits for the local community				
Could lead to more employment in the community				
Is a safe and healthy project for the workers				
Enhances local culture and traditions				

Economic				
The borrower has the capacity to repay the loan				
Has a sufficient amount of capital				
Their personal character indicates stability				
They are able to offer collateral				
The outside conditions and circumstances are right for this loan				
They have offered convincing evidence				
Total =				

Using the criteria chart above of all the learners' scorings, have a class discussion and come to an agreement on the borrower that will receive the loan from the class.

Our class decided on (borrower): _____

Part C: Microfinance Organizations

There are many organizations that offer microfinance style loans to people around the world. With your small group that was assigned by the educator, research the following organizations. As a class decided which one you think will be best to use in lending money to who/what your class has previously decided on in Part B. Each group in your class will research key microfinance organizations and use the criteria chart below to help them decide. The question you will be answering is, "Which microfinance organization do we recommend that our class use to help us lend the money we raise?".

Use the following links to help guide your research for each microfinance organization:

1. Kiva: <http://www.kiva.org>
2. Plan Canada: <http://plancanada.ca/microfinance>
3. Finca: <http://www.fincacanada.org>
4. Zidisha: <https://www.zidisha.org>
5. Lending Loop: <https://www.lendingloop.ca>

Criteria Chart:

Criteria	Kiva	Plan Canada	Finca	Zidisha	Lending Loop
Works in areas that we want to target					
Has a good reputation					
Provides enough economic information					
Provides enough social information					
Provides enough environmental information					
Allows contact with borrowers					
Offers a variety of services					

Using the above chart, be sure to answer the question, “Which microfinance organization do we recommend that our class use to help us lend the money we raise?”. This will be the organization that your class will use in the Lending a Hand Challenge.

Our class decided on (microfinance organization): _____

Part D: Loans and Payments

When an individual wants to receive a microfinance loan, they have to go through a step-by-step procedure to obtain that loan. The different microfinance organizations have some specific differences, but generally, these are the steps for your classroom microfinance loan:

1. An individual goes to a microfinance field partner and applies for a loan.
2. Their risk profile is studied.
3. If approved, their loan request is posted.
4. People choose that borrower and the loan is made.
5. The loan is aggregated with other small loans.
6. Money goes to the field partner who gives the funds to the borrower.
7. The borrower uses the money for their purpose and starts to generate income.
8. They begin to make regular re-payments which include paying down the principal and the interest.
9. The microfinance organization repays the loan to the class.

Investigate

Investigate the website in Part C of this worksheet of the microfinance organization that your class has chosen and fill in the details for this timeline.

1. What is the interest rate for the loan?

2. What are the repayment terms?

3. How frequently are payments made?

When you have the details above, use an online calculator (such as the ones listed below) to calculate and get a sense of the loan and how it works.

- Online Loan Calculators:
 - <http://www.thecalculatorsite.com/finance/calculators/loancalculator.php>
 - <https://www.vancity.com/Loans/LoanCalculators/>

Part E: Calculating Compound Interest

Compound Interest Rates:

- Interest that is added to the sum of the loan at the beginning of the term. This means that interest is earned on the total sum of the loan with accumulated interest.
- Remember when calculating with interest rates, 10% = 0.10 (move the decimal place 2 places to the left)
- Periods can be Annually (once a year), Semi-Annually (twice a year), Monthly (12 times a year)

Complete the chart below with the following information to determine the loan value at the end of year 2.

Amount of loan at the start: \$ 1000

Interest Rate: 15%

Periods: Yearly

Year	Loan at Start	Interest Amount	Loan at End
0	Amount of loan at the start?	Loan at Start (Year 0) times Interest Rate?	Loan at Start plus Interest Amount?
1	Loan at the End of Year 0?	Loan at Start (Year 1) times Interest Rate?	Loan at Start (Year 1) plus Interest Amount?
2	Loan at the End of Year 1?	Loan at Start (Year 2) times Interest Rate?	Loan at Start (Year 2) plus Interest Amount?

Questions

1. What was the loan value at the end of year 2 from the above chart?

2. Using the same knowledge that you have gained from above, create a new table for the following information to answer questions 3 & 4.

Amount of loan at the start: \$2500 starting at January 1, 2022

Interest Rate: 10%

Periods: Monthly

Month	Loan at Start	Interest Amount	Loan at End

3. What is the loan amount at the end of May 2022?

4. What is the loan amount at the beginning of August 2022?

Advanced Questions

1. Is there an easier method to calculating the loan at the end of a period using compound interest instead of using the chart? How?

2. How can exponents be incorporated into the formula to further develop it?

3. Use your formulas to answer the question 1-4 again. Did you get the same answer?
