



## Learning through Lending: Kids as Angel Investors

**M**ost kids don't have a clue about investments and their importance to overall financial health. A few may have heard of investing in the stock market, but their knowledge is generally limited. So how can we introduce the concept of investing in a way that engages kids' interest and promotes interactive experiences? I suggest sharing the concept of angel investing and encouraging them to actively participate as "angels" who invest in business startups of Third-World entrepreneurs.



Angel investors are individuals who provide financial backing or seed funding for startups or entrepreneurs in return for ownership equity or debt repayment. Many of these investors are wealthy entrepreneurs or business owners who remember how difficult it was to get their own venture going. Now that these investors are successful, they want to assist others who need financial help in order to reach their entrepreneurial dream.

Since kids don't have the capital to make large investments, they can become angel investors of another sort. By sponsoring microloans to Third-World entrepreneurs for use in starting small businesses, kids can truly make a difference in the lives of others by helping them become self-sufficient.

A great way to introduce microlending to younger kids is by sharing the book *One Hen: How One Small Loan Made a Big Difference* by Kate Smith Milway. The book tells the story of a boy from Ghana named Kojo who buys one hen, which in turn lays eggs and hatches more hens, until he becomes the largest chicken farmer in the country. Kojo then begins to help others start their own small businesses. The book is inspired by the true story of Kwabeno Darko of Ghana and is motivational to read.

To familiarize kids with the lending process, start by defining "microloan" as a small amount of money lent by an individual (rather than a bank) to a business startup or self-employed person. This small loan helps the entrepreneur buy capital resources, or goods made and used to produce other goods and services. Once these resources are purchased, the entrepreneur can begin to develop their product, such as jewelry, clothing or soap, to sell in the marketplace. Or they may use their loan to buy seeds and fertilizer to grow vegetables, or raise chickens or sheep to sell. Once the entrepreneur's business becomes successful, they will earn a profit or extra income after paying production costs. The microloan will be repaid to investors through this extra income.

There are a number of websites that match entrepreneurs with microlenders. For example, Kiva (<http://www.kiva.org/>) is an organization with a mission to alleviate poverty

by connecting people through lending. This nonprofit currently has 1.5 million lenders who have loaned \$838,000 to entrepreneurs in 84 countries. Anyone can invest and can begin with loans as small as \$25. The investor, or microlender, can choose who to lend to by viewing the entrepreneur profiles posted on the website. Once an investor has identified a borrower to support, he or she can decide on an amount to lend. Kiva field partners in the borrower's country receive that money through wire transfer. The partners disburse the money accordingly and collect repayment to send back to Kiva. Kiva does not charge entrepreneurs interest or pay interest to their lenders. The microloan repayment rate is approximately 98 percent within two to three years. Lenders can choose to have their repayment deposited in a PayPal account, use it to fund another borrower, or donate a portion to Kiva to cover operating expenses.

Another nonprofit in this field is Zidisha (<https://www.zidisha.org/>), which is Swahili for "grow or expand." This microlending community connects lenders and entrepreneurs directly without a "middleman" or field partner. Investors can deposit a microloan amount of one dollar or more in a Zidisha account, which is then transferred via mobile phone payment directly to the entrepreneur. Lenders can communicate person-to-person with the borrower using the "Discussion" tab on the profile page to receive project updates on the business. Volunteer mentors or interns are available in the entrepreneur's region to monitor or assist them with their startups. Once the entrepreneur is successful, repayment can be made in weekly or monthly installments into the lender's account. These funds can be

withdrawn or reinvested in new loans.

A necessary part of teaching kids about microloans is discussing the possibility of a loan default, when the borrower does not repay due to business difficulties or personal issues. An important point for kids to understand is whether they think the rewards of investing outweigh the risks. Although many organizations, such as Kiva and Zidisha have people who work to ensure borrowers repay loans there's always a possibility of default.

One thing to discuss with kids is the satisfaction they will receive from helping others achieve their goals is worth the investment. The "feel good" emotions that they will experience from the microloan process may incentivize them to continue their philanthropic interests long into the future.

**Editors Note:** Michele Wulff has offered practical advice on how to educate young people on personal financial matters since the column's inception in 2009. This is her final column for the magazine. Wulff retired from the Kansas City Fed in June after almost a decade of service as an economic education coordinator. Actually, this is her second retirement. She came to the Bank after working 30 years as a public school educator. She also is a recipient of the national peer award "Excellence in Teaching Economics." The TEN editorial staff will miss her experience, expertise and candid insight.

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## Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Fed's role by providing resources for teachers, students and the public. Visit our website at **KansasCityFed.org** for more information. The resources below are a few of many available on the subject.

### FEDERAL RESERVE RESOURCES "One Hen: How One Small Loan Made a Big Difference"

This activity's questions can be used after discussing the book's content and the story's purpose see book under "Fiction Books". For ages 5-8. [www.stlouisfed.org/education/parent-resources/one-hen-how-one-small-loan-made-a-big-difference-q-and-a](http://www.stlouisfed.org/education/parent-resources/one-hen-how-one-small-loan-made-a-big-difference-q-and-a)

### "Common Cents: Paying It Forward: Kids as Philanthropists"

This article discusses how to develop philanthropy in kids by introducing them to charitable organizations they can help through donation. For all ages. [www.KansasCityFed.org/publicat/education/teachingresources/Common-Cents-Fall-2012.pdf](http://www.KansasCityFed.org/publicat/education/teachingresources/Common-Cents-Fall-2012.pdf)

### FICTION BOOKS

#### "One Hen: How One Small Loan Made a Big Difference"

by Kate Smith Milway

A young boy buys a hen, which lays eggs and hatches more hens, until he becomes the largest chicken farmer in Ghana. For ages 5-8.

#### One Hen Inc.

This related website has resources to introduce kids to social entrepreneurship as well as personal finance and global awareness. [www.onehen.org/resources.html](http://www.onehen.org/resources.html)

### NON-FICTION BOOKS

#### "Beatrice's Goat"

by Page McBrier

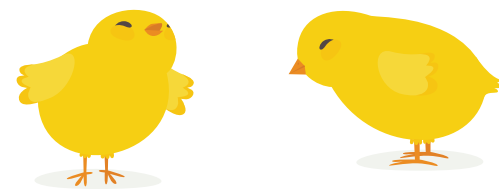
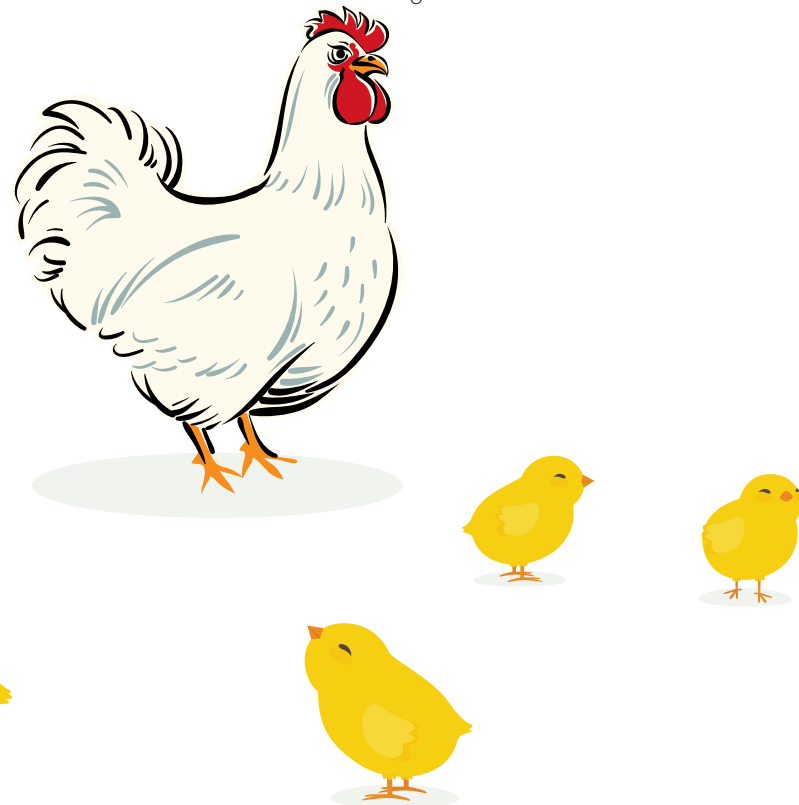
A true story about an African girl who receives a goat as a gift through Heifer International and sells its milk to get the money needed to attend school. For ages 5-8.

#### "Banker to the Poor" by Muhammad Yunus

Memoir of the Nobel Peace Prize-Winner and founder of the Grameen Bank, which began the microfinance revolution. For Adults.

#### "The International Bank of Bob" by Bob Harris

Bob begins micro lending and follows his loans to their destinations around the globe. For Adults.



Microlending decisions: Answer the questions below to choose which entrepreneur you would like to support.

- 1 Would you like to help a male or female entrepreneur? Male Female Either
- 2 Is there a continent or country you would like to support? \_\_\_\_\_
- 3 What type of small business would you like to focus on?
  - agriculture     art     clothing     food     health
  - housing     services     transportation     other \_\_\_\_\_
- 4 How much would you like to donate? \$ \_\_\_\_\_

Choose a microloan organization and read the profiles to find a borrower who matches your decisions above. Record information on the entrepreneur you choose below.

### My Entrepreneur's Profile:

Name of Borrower: \_\_\_\_\_

Country: \_\_\_\_\_

Small Business Description: \_\_\_\_\_

Amount Needed for Business: \$ \_\_\_\_\_

Percent Currently Funded: \_\_\_\_\_ %

Still Needed: \$ \_\_\_\_\_

I Loaned: \$ \_\_\_\_\_ on \_\_\_\_\_ (Date)