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**Writing Sample**

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## **Crowdfunding: Finding Financing for Small Startups**

What do you do if you want to start a small business but you don't have money to get it off the ground? Here's an idea: check out microlending, peer-to-peer lending, and crowdfunding. They're all part of the concept of microfinance, which can be a lifesaver for small startups.

### **So *That's* What That Means...**

Have you heard the saying "You have to spend money to make money"? It means entrepreneurs have to invest money into their businesses in order to make a profit. An example would be a corner grocery store that spends money advertising a sale; the sale prices bring in more customers than usual, and those customers spend money in the store. If you need money to invest in your business and you can't get a traditional bank loan, there are lots of alternatives.

### **Microfinance to the Rescue**

Microfinance simply means lending money to people in need, and in some cases it can help people raise themselves out of the poverty pit. Low-income individuals and families often can't get the banking services available to middle and upper class households. Banks are not likely to lend money to someone who doesn't have an obvious means of paying it back. A loan from a microfinance institution (MFI) might be the only way to get a small business up and running.

### **Let's take a look at the different types of microfinancing:**

- **Microlending** enables individuals to make small loans to impoverished entrepreneurs in developing countries. Kiva.org, the first microlending website, allows lenders to view photos and brief descriptions of borrowers and their projects, and then choose the recipient of the loan. Borrowers pay back the loans according to the terms of the loan agreement, at which point most lenders choose to put the money into another loan. Kiva enjoys an astonishing 98.83% repayment rate on its loans.
- **Peer-to-Peer Lending** at sites like Prosper.com and LendingClub.com is a type of microlending that focuses on helping entrepreneurs in the U.S. rather than in developing countries. Peer-to-peer borrowers can use the loan to refinance debt or start a business, among other things. Peer-to-peer loans are easier to obtain than a bank loan and usually carry a lower interest rate.
- **Crowdfunding**, also called crowdsourcing, enables a group of people to contribute money to an idea or business. Funds are often given to creative projects such as documentaries and consumer products. Crowdfunding contributors don't get their money back, but instead receive a "reward" such as a DVD of a documentary they helped fund. Kickstarter.com is one of the most well known crowdfunding sites, and it is fairly strict with those who set their project

costs too high. Entrepreneurs who don't reach their fundraising targets don't get any money at all. That seems like kind of a drag, but it's a chance many entrepreneurs are willing to take.

### **Do It...It Will Make You Happy**

All MFIs have one thing in common: they exist so that people can help other people meet their business goals and achieve their dreams of becoming entrepreneurs. So when you graduate and start making money, consider helping those who are less fortunate than you. You can make a Kiva loan for as little as \$25. It doesn't seem like much, but when hundreds or thousands of people lend along with you, it adds up quickly to an amount that can literally change the life of a person in need.

### **For Further Research**

[www.kiva.org](http://www.kiva.org)

<http://mashable.com/2011/09/15/crowdfunding-history/>

<http://mashable.com/2011/01/17/kickstarter-crowd-funding-infographic/>

<http://www.pleasefund.us/blog/article/crowdfunding-where-it-started-and-where-its-going>

<http://www.pleasefund.us/blog/article/10-crowdfunding-tips-an-easy-way-to-raise-money>