

# Glossary of Microfinance Terms

**Collateral** is an asset pledged by a borrower to secure a loan. Collateral can vary from fixed assets (a car, a sewing machine) to cross-guarantees from peers.

**Credit Union** is a nonprofit, cooperative financial institution owned and run by its members. Members pool their funds to make loans to one another and elect a volunteer board to run their credit union. Most credit unions are organized to serve people in a particular community, group or groups of employees, or members of an organization or association.

**Financial Self-Sufficiency (FSS)** is total operating revenues divided by total administrative and financial expenses, adjusted for low-interest loans and inflation. A microfinance institution is financially self-sufficient when it has enough revenue to pay for all administrative costs, loan losses, potential losses and funds.

**Housing Finance** is a specialized loan that allows households of both microentrepreneurs and wage-earners to finance home improvements or additions. Loans tend to be longer-term, and in larger amounts, than traditional microenterprise loans that are focused on providing working capital. Home improvement loans may enhance at-home businesses.

**Informal Sector/ Economy** is a subset of the economy consisting of self-owned enterprises and the enterprises of informal employers, in both urban and rural areas. Businesses within the informal sector are not registered with any taxation or regulatory bodies. The main features of the informal sector are ease of entry, self-employment, small-scale production, labor-intensive work, lack of access to organized markets, and lack of access to traditional forms of credit.

**Microcredit**, a component of microfinance, is the provision of relatively small loans to low-income entrepreneurs. Microcredit is often offered without collateral and may be lent to either a group or an individual.

- **Group lending** allows a number of individuals to borrow collectively. The incentive to repay is based on friendship and peer pressure; if one member of the group defaults, the other members have often pledged to make up the payment amount. The member who defaults is expected to reimburse the group as soon as possible.
- **Individual lending** focuses on one client, usually one with a successful business and a proven repayment record as a group member. Individual loan amounts are generally higher than group loans.

**Microentrepreneurs** are individuals who own and operate small-scale businesses. Typical microentrepreneurial businesses can include retail kiosks, sewing workshops, carpentry shops, and market stalls selling both purchased and homegrown or homemade foods or other goods.

**Microenterprise development** has various meanings. It is the term often used in the United States to refer to microfinance. It may also mean the provision of non-financial services and training to microentrepreneurs including business and leadership training, mentoring and financial planning services.

**Microenterprise** is a business in the informal sector, usually employing fewer than 5 people, and often based out of the home. A microenterprise may provide the sole source of family income, or it may supplement other forms of income.

**Microfinance** targets low- and moderate-income businesses and households with financial services ranging from loans (microcredit), savings, insurance, transfer services (remittances), and other services such as business training.

**Microfinance Institution (MFI)** is a financial institution that offers financial and, sometimes, other business services to low- and moderate-income clients.

**Microinsurance** is a growing sector of microfinance that provides property, health, life and business insurance products to microentrepreneurs and employees in the informal sector which allows them to concentrate more on growing their businesses while mitigating other risks affecting property, health or the ability to work.

**Microsavings** are deposit services providing low- and moderate-income individuals with a secure place to save small amounts of money, often without minimum balance requirements. Typically, contributions are made weekly along with loan and interest payments. Savings programs allow low- and moderate-income individuals to cover unexpected medical expenses and plan for future investments such as their children's education and their own retirement.

**Remittances** are transfers of funds from people in one location to family and friends living in another location either from one country to another or within a country.

**Unbanked** describes people who have little or no access to affordable financial services (such as savings, credit, money transfers, insurance or pensions) through any type of formal financial sector organization. Implicit in this definition is that financial services are usually available only to those individuals termed “economically active” or “bankable.”

*Portions of the Microcredit Glossary are borrowed from:*

*Year of Microcredit 2005 Website: <http://www.yearofmicrocredit.org> and*

*Accion International Website: [http://www.accion.org/micro\\_glossary.asp](http://www.accion.org/micro_glossary.asp)*