Microfinance: Glossary of Terms

Active Clients: The number of clients with loans outstanding on any given date.

Credit Union: A member-driven, self-help financial institution. It is organized by and comprised of members of a particular group or organization, who agree to save their money together and to make loans to each other at reasonable rates of interest.

Cooperative: A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise.

Consumption Smoothing: Reduction in the variability in consumption by households. The majority of the financially excluded are households in which income and consumption are characterized by volatility.

Development Services: A range of technical assistance aimed at implementing long-term solutions to inequity and access concerns in healthcare, food security, water and sanitation, and disaster relief, in developing and emerging economies, while ensuring capacity building.

Double Bottom Line: While all businesses have a conventional bottom line to measure their fiscal performance—financial profit or loss—enterprises that seek a second bottom line look to measure their performance in terms of positive social impact (a Social Bottom Line). **Triple Bottom Line: Financial, Social, and Environmental measurements of performance*.

Economic Resilience: The ability to financially recover and mitigate losses from unexpected shocks.

Financial Inclusion: Financial inclusion is a state in which all people who can use them have access to a suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations.

Group Lending: Lending mechanism, which allows a group of individuals—often called a solidarity group—to provide collateral or loan guarantee through a group repayment pledge. The incentive to repay the loan is based on peer pressure—if one group member defaults, the other group members make up the payment amount.

Individual Lending: Single-client lending where repayment relies solely on the individual.

Microcredit: Another name for a micro-loan. A part of the field of microfinance, microcredit is the provision of credit services to low-income entrepreneurs.

Micro entrepreneur: Micro entrepreneurs are people who own small-scale businesses that are known as microenterprises.

Microenterprise: A small-scale business in the informal sector. Microenterprises employ fewer than 5 people and can be based out of the home.

Microfinance: The practice of providing financial services in very small increments to the working poor.

Microfinance Institution (MFI): A financial institution that provides microfinance products and services to the world's poor. It can be a nonprofit organization, regulated financial institution or commercial bank and is often not licensed in the same way as banks, so in some cases they cannot legally take deposits or handle many financial transactions.

Microinsurance: A system by which people, businesses and other organizations make payments to share risk. Access to insurance enables entrepreneurs to concentrate more on growing their businesses while mitigating other risks affecting property, health or the ability to work.

Microsavings: Savings in very small increments, frequently starting with just 1 USD and followed with very small deposits.

Non-Financial Services: In the context of microfinance, non-financial services is essentially the addition of education components ranging from financial and business literacy and management to reducing violence against woman and girls.

Unbanked: A term used to describe the world's working poor who are not able to participate in the formal banking sectors.

Ultra poor: Low income people living on under a dollar a day.

Upper Income: Low income people living on $2-$5 a day.

Village Banks (VBs): VBs are community-based credit and savings associations of low income individuals seeking to improve their lives through self-employment. Loan capital may come from an external source, but the members themselves run the bank by choosing members, electing officers, establishing by-laws, distributing loans, and collecting payments and savings. Loans are backed, not by goods or property, but by moral collateral: the promise that the group stands behind each individual loan.

Voluntary Savings: Deposits from loan clients that are not maintained as a condition for accessing a current or future loan and are held with the institution.