

Microfinance Glossary

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KEY TERMS

Microfinance:

Practice of providing financial services, such as microcredit, microsavings or microinsurance to poor people. By helping them to accumulate useably large sums of money, this expands their choices and reduces the risks they face. As suggested by the name, most transactions involve small amounts of money, frequently less than US\$100

Microcredit:

Extension of very small loans to the unemployed, to poor entrepreneurs and to others living in poverty who are not considered bankable. These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Microcredit is a part of microfinance, which is the provision of a wider range of financial services to the very poor.

MICROFINANCE APPROACHES

Individual Lending:

Provision of credit to individuals who are not members of a group that is jointly responsible for loan repayment. Requires frequent and close contact with individual clients to provide credit products tailored to specific needs of the business. Most successful for larger, urban-based, production-oriented businesses and for clients who have some form of collateral or a willing cosigner.

Grameen Solidarity Group Lending:

Peer groups of five unrelated members are self-formed and incorporated into village "centers" of up to eight peer groups. Attendance at weekly meetings is mandatory. Savings must be contributed for four to eight weeks prior to receiving the loan and must continue for the duration of the loan term. While group members mutually guarantee each other's loans, they are not responsible for paying off loans of other members. However, no further loans are available if any one member does not repay her loan on time. Loans are made to individuals within the group by the local credit officer at the weekly meetings. Branch staff verify information and make periodic visits to client businesses. Clients are from rural and urban areas and are usually women from low-income groups.

Latin American Solidarity Group Lending:

Individual loans to members in groups of four to seven. The members cross-guarantee each other's loans to replace traditional collateral. Access to subsequent loans is dependent on successful repayment by all group members. Payments are made weekly at a program office. Loan approval is done through a credit officer based on minimal economic analysis of each loan request. Loan disbursement is made to the group leader at the branch office, who immediately distributes to each individual member. Credit officers make brief, occasional visits to individual clients. Clients are mostly urban and have small to medium incomes.

Village Banking:

Community-managed credit and savings associations established to provide access to financial services in rural areas, building a community self-help group, and help members accumulate savings. Membership usually ranges from 30 to 50 people, based on self-selection, and financed by internal mobilization of members' funds as well as outside loans. To eliminate the need for collateral, these banks rely on a system of cross-guarantees, where each member of a village bank ensures the loan of every other member. This system gives rise to an atmosphere of social pressure within the bank.

Village banks elect their own leaders, select their own members, create their own bylaws, do their own bookkeeping, manage all funds, disburse and deposit all funds, resolve loan delinquency problems, and levy their own fines on members who come late, miss meetings, or fall behind in their payments. The management committee of the village bank must receive outside training in order to function autonomously. The goal of the village banking model is for the bank to become both self-reliant and to serve the entire village.

SAVING ASSOCIATION (NON-MICROCREDIT)**ROSCA:**

Rotating Savings and Credit Associations. An association formed upon a core of participants who make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation. No outsiders are involved, no one is beholden to anyone else and the process is efficient and reliable. Rather than storing cash, money is passed directly from one member to another. Finding a safe place to store savings is not easy for those living in developing countries, and savings clubs offer a physical means to protect that savings.