



# Financial Inclusion Ambassador Toolkit

A How-to Guide to Expanding Financial Inclusion for All in the EU

## Financial Inclusion Glossary

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The purpose of the Financial Inclusion Glossary<sup>1</sup> developed by the Center for Financial Inclusion is to develop shared language about financial inclusion. The Glossary defines terms essential for extending financial services to all who can use them.

## Access

*The availability to a given person of affordable and appropriate financial services.*

Access is often seen as the goal of financial inclusion; however access is difficult to measure. [Usage](#) is often used as a proxy, although it can underestimate the number of households that have access because it fails to capture those who currently have access to a financial service but are not using it.

## Affordability

*A characteristic of [quality](#) financial services; describes products for which the price is in line with the client's ability to pay for them.*

Affordability is considered one of the greatest barriers to access.

## Agent Banking

*Also known as [correspondent banking](#), this is a model for delivering financial services whereby a bank partners with a retail agent (or correspondent) in order to extend financial services in locations for which bank branches would be uneconomical.*

Agents can be both banking (small banks) and non-banking correspondents (post offices, gas stations, and mom-and-pop shops). Agent banking is a [delivery channel](#) that holds high potential for closing the [location gap](#).

## AML/CFT

*An acronym for Anti-Money Laundering/Combating the Financing of Terrorism; policies to detect and reduce money laundering and terrorism financing.*

The term usually refers to the international standards on AML/CFT set up by the Financial Action Task Force (FATF), an inter-governmental body. While each country can choose how to adapt these international standards, in most countries financial institutions are required to apply certain [know your customer \(KYC\)](#) regulations to all customers, strengthen internal controls, and watch for suspicious transactions. These regulations, while important, can sometimes create barriers to financial inclusion.

## Appropriate Collections Practices

*[A Client Protection Principle](#) that states that the debt collection practices of providers will be neither abusive nor coercive.*

Appropriate collections practices, while they may be firm, treat clients with dignity even when they fail to fulfill their obligation and do not deprive them of the ability to earn their livelihood.

## APR

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<sup>1</sup><http://www.centerforfinancialinclusion.org/publications-a-resources/financial-inclusion-glossary>

*An acronym for Annual Percentage Rate; a form of stating an interest rate in which the interest rate is annualized and all fees are incorporated.*

APR does not include compounding interest unlike the [effective interest rate \(EIR\)](#), which does include compounding. Quotation of rates in APR terms facilitates price comparison. See also [nominal APR](#).

## **ATM Card**

*A plastic card that can be used with an ATM for deposits or withdrawal of funds in a bank account.*

ATM cards can use magnetic strips or [smart card](#) technology.

## **Avoidance of Over-indebtedness**

*A [Client Protection Principle](#) that states that providers will take reasonable steps to ensure that credit will be extended only if borrowers have demonstrated an adequate ability to repay and loans will not put the borrowers at significant risk of [over-indebtedness](#).*

## **Banking Outlet**

*A physical place where clients can access a financial service.*

The following can all be considered banking outlets: a bank branch, an ATM, a [banking agent](#) (such as gas station or post office that provides financial services), a retail store with in-store banking, a [mobile phone](#), a website (in the case of [e-banking](#)), or a [point of sale \(POS\) device](#) (these are portable devices with antennas or connected to tellers that function as quasi ATMs).

## **Biometric Card**

*A card that uses biometric technology to identify and authenticate the card user.*

Generally biometric cards use fingerprints to validate that the cardholder is the card owner. Biometric cards serve as effective identification cards for individuals who lack other forms of formal identification, or are illiterate. Biometric cards can be combined with [smart cards](#) to prevent use of the card in financial transactions by individuals who are not the card owner, making transactions more secure.

## **Biometrics**

*Technology for recognizing individuals based on physical traits, such as fingerprints. Used as a form of identification and access control.*

## **Branchless Banking**

*Banking models and delivery channels that deliver financial services to clients through outlets other than full-service bank branches.*

Branchless banking refers to [mobile banking](#), correspondent and [agent banking](#), [electronic banking](#), and the use of ATMs. The appeal of branchless banking in context of financial inclusion is its ability to close the location gap and increase affordability through automation.

## **Client Protection Principles**

*Standards of appropriate treatment that clients should expect to receive when doing business with a microfinance institution, as agreed upon by the microfinance industry-wide effort called the [Smart Campaign](#).*

The Client Protection Principles include: 1. Appropriate product design and delivery; 2. Prevention of over-indebtedness; 3. Transparency; 4. Responsible pricing; 5. Fair and respectful treatment of clients; 6. Privacy of client data; and 7. Mechanisms for complaint resolution.

## **Consumer Credit**

*Credit allowing an individual to purchase and/or use a consumer good or service while paying for it over a set repayment period.*

Consumer credit is in many countries the fastest growing financial service but not always the one of highest priority for financial inclusion. Consumer credit can be offered by retailers as merchandise purchase financing or by financial institutions as personal loans, or through credit cards.

## **Consumer Lending**

*The provision of [consumer credit](#).*

Consumer lending is often contrasted with [microenterprise](#) lending along several dimensions that characterize distinct lending models. Consumer lending is typically provided to salaried persons with recourse to employers in case of default.

## **Consumption Smoothing**

*Reduction in the variability in consumption by households, often through the use of financial services.*

Consumption smoothing is often cited as a benefit of access to financial services. The majority of the financially excluded are households in which income and consumption are characterized by volatility. As explained in [Portfolios of the Poor](#) financial services can help poor households (who despite living on less than "2 dollars a day" do not actually receive 2 dollars every day). Savings and loans allow people to tap into past income (through savings) or future income (through loans), helping them smooth consumption. Consumption smoothing can refer to short, medium, or life-cycle time horizons.

## **Continually Excluded**

*Individuals who are financially [excluded](#) despite progress to date toward financial inclusion.*

The continually excluded represent groups of people that are most difficult to reach with financial services, such as people with disabilities, rural and remote populations, and extremely poor populations. As financial inclusion pushes out the [viability frontier](#) the continually excluded segment will shrink but will continue to represent the populations which require the most innovation in order to serve.

## **Convenience**

*A characteristic of [quality](#) financial services; describes products that are easy to access and use.*

Convenience most often refers to the physical proximity to a [banking outlet](#). However it can

also refer to the requirements necessary to use a financial service (such as the number of documents required to open an account) and the time it takes to complete a financial transaction. It may also include adaptations for language or literacy level.

## Correspondent Banking

See [Agent Banking](#).

## Credit Card

*An electronic payment card allowing the holder to purchase goods and services on credit. Each card is associated with a credit line. A ceiling level, determined by the issuing financial institution, serves as a limit on the amount of debt the card holder can take on. Unlike a [debit card](#), matching funds do not need to be available on the card holder's account, but the card holder must generally pay interest on the debt incurred while using the credit card.*

## Credit Union

*A provider of financial services that is owned by its members under a cooperative form of governance.*

Credit unions usually provide savings services and loans to their members. They play an important role in financial inclusion because they often have greater presence in rural areas where traditional banks might not be present and because they often offer services at more [affordable](#) rates than other financial institutions. Credit unions are known by many names around the world including cooperatives, cajas (in many Latin American countries), and savings and credit cooperatives (SACCOs) (throughout Africa).

## Cross-Selling

*The practice of selling a new product to established clients who are currently using other products; for example, when a financial institution markets a new loan product to its savings clients.*

When done correctly, cross-selling can offer advantages to both clients and providers: new products increase revenue lines and customer loyalty and customers receive access to a wider product range from a provider with which they have an existing relationship. Cross-selling may also decrease costs because customer acquisition can become significantly less costly.

## Debit Card

*An electronic payment allowing the holder to deposit or withdraw funds to or from a bank account. May be used with an ATM or in retail stores for payments of goods and services, in conjunction with a [POS device](#).*

The amount available on the card matches the funds accessible in the corresponding bank account. Unlike a [credit card](#), debit card users do not accumulate debt as a result of card use.

## Delivery Channel

*A method of providing products or services.*

Examples of delivery channels include traditional [banking outlets](#) such as bank branches, ATMs, or [branchless banking](#) channels, such as [mobile banking](#) and [agent banking](#).

## Dignity

A characteristic of [quality](#) service delivery; this term is used by the Center for Financial Inclusion in its vision and definition of full financial inclusion to mean that clients are treated in a way that is consistent with the Client Protection Principles and receive services in a respectful manner.

## ebanking

Also known as electronic banking; a type of [branchless banking](#) that uses the internet to deliver financial services.

It is more frequently found in developed nations because it requires access to a computer that is connected to the internet.

## Effective Interest Rate

An interest rate that states the cost in terms of the fee plus the compounded interest rate.

An effective APR states the [APR](#), or annualized interest rate, in terms of the fee plus the compounded interest rate. The effective interest rate is one of the best methods to compare the cost of credit among loan products from different institutions.

## Electronic Wallet

A place to store electronic money to allow rapid and secure electronic transactions.

An electronic wallet can take the form of a [smart card](#) or a mobile phone. Electronic wallets allow individuals to store money in a secure place even if they do not have a bank account. In addition, users of electronic wallets can pay for certain products and services without carrying cash, making electronic wallets an alternative and safe way to transport money.

## Ethical Staff Behavior

A [Client Protection Principle](#) that states that staff of financial service providers will comply with high ethical standards in their interactions with microfinance clients, and providers will ensure that adequate safeguards are in place to detect and correct corruption or mistreatment of clients.

## Excluded

A term describing individuals who have access to none of the products in the full suite of basic services (savings, credit, insurance, and payment services) from a formal financial service provider.

## Financial Capability

The combination of knowledge, understanding, skills, attitudes, and especially behaviors which people need in order to make sound personal finance decisions, suited to their social and financial circumstances.

## Financial Deepening

The process of increasing financial intermediation or engagement within the financial system.

For example an increase in the amount and number of deposits in the financial system would indicate financial deepening. Financial deepening is sometimes used as a synonym for financial inclusion however it is important to note that these two are not the same. Deepening can happen without financial inclusion if volumes of financial flows increase while only a fraction of the population participates.

## **Financial Distress**

*A condition in which a borrower is unable or finds it difficult to repay his or her debt.*  
See also, [over-indebtedness](#).

## **Financial Education**

*The provision of education on the use of financial services.*

Financial education is important in the context of financial inclusion because as previously excluded populations gain access to formal financial services they need to be able to use these services in a productive and responsible manner that will not cause them harm. Financial education may be provided by schools, financial institutions, and others, through channels ranging from classrooms to mass media and direct contact with financial institution staff.

## **Financial Identity**

*Identification pertinent to a specific individual's financial activity linked to that individual's financial records and accounts.*

Account numbers, PIN numbers, passwords, and information on account balances and past transactions are all part of an individual's financial identity. Since lack of financial identity may be a barrier to access to financial services, the provision of financial identity may provide an entry for the previously excluded.

## **Financial Inclusion**

*A state in which all people who can use them have access to a full 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.*

## **Financial Literacy**

*The ability to understand how to use financial products and services and how to manage personal, household, or micro-enterprise finances over time.*

Improvements in literacy levels can be achieved through [financial education](#).

## **Formal Financial Service Provider**

*An institution that provides formal financial services, is formally recognized by the government, and is often (but not necessarily) regulated.*

Formal providers of financial services include commercial banks, state banks, rural/agricultural banks, savings banks, and non-bank finance institutions. Other financial institutions such as microfinance NGOs and credit unions can also be considered formal financial service providers despite not always being regulated.

## Full Suite of Basic Financial Services

*A group of core financial services that includes basic credit, savings, insurance, and payments services.*

These four services serve different needs that each household encounters, and ensuring access to this [product range](#) is an important goal of financial inclusion. Credit allows households to use future income to manage current vulnerabilities or to capitalize on investment opportunities. Savings provide a safe and value-retaining place where households can store funds, allowing them to tap into "past income" as needed. Insurance protects against vulnerability to shocks (e.g. death, illness, or disability in the family). Payments services allow people to carry out financial transactions without having to be face-to-face.

## Fully Included

*A term describing individuals who have access to the [full suite of basic services](#) (that generally include a savings, credit, insurance, and payments service).*

## Housing Microfinance

*Credit products specifically designed for low-income households (often with informal revenue streams and informal homes) to purchase, build, or improve a home.*

## Individual Development Account (IDA)

*A matched savings account in which each deposit by a client is matched in a fixed ratio by a deposit financed by some public or private charitable sponsor.*

IDAs are generally only used in developed countries and for specific populations or purposes (e.g. education).

## Informal economy

*A segment of the economic activity that is not controlled, supervised, or taxed by the government.*

The informal economy is where the majority of excluded populations reside and work.

## Informal Financial Service Provider

*An unregulated provider of financial services, which is generally not legally registered with the government.*

Informal financial service providers may include moneylenders, pawnbrokers, rotating savings and credit associations (ROSCAs) and accumulating savings and credit associations (ASCAs). Usually they are characterized by their community-based nature and their informality. Their services can be [convenient](#), but may also be costly and not always reliable. (ROSCAs and ASCAs are sometimes categorized as informal service providers although the debate on how to categorize them continues.)

## Installment

*One of many parts into which a debt has been divided so that repayment can be made at smaller and regular intervals; each installment usually includes a portion of the principal being repaid and a portion of interest.*

## **In-Store Retail Banking**

*A [delivery channel](#) and banking model in which a retailer sets up its own financial intermediary within its own retail stores to extend financial services to its customers (for example, Banco Azteca and Banco Wall Mart in Mexico) or in which a retailer allows a financial institution to operate an outlet inside its stores.*

## **Interest**

*The charge applied by a financial service provider to compensate for the use of money and cost of providing services.*

Interest on a loan covers the time value of money (cost of funds), costs to provide services, and expected loan losses. Interest on savings includes the time value of funds less the cost to provide services.

## **Interest rate**

*Interest charges expressed as a percentage of the principal value to be paid over a specific unit of time.*

Interest rates are the most important determinant of [affordability](#).

## **Interoperability**

*The ability of diverse information technology systems to work together so services can be provided across multiple providers.*

For example, interoperable ATMs allow a customer to withdraw funds from any ATM, not just those owned by her bank. Interoperability is important for scaling delivery channels such as [mobile banking](#). If a telecoms company's mobile phones are not interoperable with those of other companies, for example, customers will only be able to send money to a limited range of recipients, and may find the service of insufficient value to sign on.

## **Know Your Customer (KYC)**

*Regulation that requires all financial institutions to ensure that they validate the identity of all of their clients.*

KYC regulation is part of the [AML/CFT](#) standards, and while important, can sometimes create barriers to financial inclusion. For example, new KYC regulations require that providers review identity documents for new clients which many financially-excluded clients often lack (such as a passport, identification card, or employment documentation).

## **Life Insurance**

*An insurance policy that allows an individual's relatives to receive a preset sum of money upon the end of the insured person's life.*

## **Location Gap**

*The distance between a potential user of a financial service and the nearest location where he or she can access the service, when that distance creates a barrier to access.*

The location gap is an important challenge in the context of financial inclusion. In many countries, most of the financially [excluded](#) are located in rural areas that are too far away

from the nearest banking outlet. Alternative [delivery channels](#) can help to close the location gap.

## Microcredit

*The provision of small loans to the poor.*

Microcredit generally refers to small [working capital loans](#) but can also mean any small credit given to a low-income individual. Microcredit, in its modern form, began in the 1970s in several places around the world under different lending methodologies, including group lending and village banking. The microcredit movement made the important contribution of proving that the poor can use credit and repay, despite their small and volatile income and the lack of traditional collateral. The microcredit sector soon gave way to the [microfinance](#) industry which strives to provide not only credit, but savings, microinsurance, and other financial services to the poor. Today the microfinance industry is one of the main advocates pushing for full [financial inclusion](#).

## Microenterprise

*A very small enterprise, generally operated by a low-income person, usually the sole proprietor.*

In the developing world, most small businesses fall into this category and are generally part of the [informal economy](#).

## Microfinance

*The provision of financial products and services focused on serving low-income clients who often lack access to other forms of formal financial services.*

Microfinance is sometimes used as a synonym for [microcredit](#) although microfinance refers to the provision of services beyond credit, including savings, insurance, and payments. Microfinance as an industry has evolved from the first microcredit pilots a few decades ago that proved that the poor need and can use financial services. Microfinance as an industry has roots in and advocates the use of financial services in a way that enhances and does not harm the lives of its low-income clients. Despite its rapid growth, there are still over 2 billion people who lack access to financial services, and this has inspired the more recent push for [financial inclusion](#).

## Microfinance as a Platform

*The use of [microfinance](#) as a channel for increasing the access to non-financial products and services that improve lives, such as business development, health, energy or education.*

Financial institutions can play this role in at least three ways: 1. Providing specialized loans and insurance (for example an education loan, health insurance, or a [loan to purchase a solar lamp](#)); 2. Facilitating marketing and distribution of products to the institution's clients; 3. Microfranchising to provide clients with the training and resources necessary to become a retailer of non-financial products.

## Microfinance Institutions (MFIs)

*Institutions that provide financial services to low-income populations.*

Microfinance institutions can take many forms including banks, non-bank financial institutions, credit unions, or NGOs. The term MFIs often refers to institutions primarily

focused on serving low-income populations and who self-identify with the microfinance movement, often with a focus on microenterprise credit. The term can also be used to refer to any financial institution serving low-income populations.

### **Microfinance Plus**

*The combination of [microfinance](#) with the provision of supplementary non-financial services or products that can enhance the clients' livelihood or quality of life.*

Examples of Microfinance Plus include the provision of health education during meetings between loan officer and borrower groups.

### **Microinsurance**

*Insurance products specifically designed for the needs of low-income households and often characterized by very low premiums, small payouts, and very simple claims mechanisms.*

### **Mobile Banking**

*The provision of financial services via mobile phones.*

Mobile banking is an alternative [delivery channel](#). Mobile banking supports payment transactions including money transfers and in some cases loan repayments. Because in many developing countries mobile penetration is growing faster than the penetration of financial services, many point to mobile banking as one possible way to decrease the [location gap](#) and increase [financial inclusion](#).

### **Money Transfer**

*A [payments](#) transaction that moves money from one person or business to another.*

Money transfers allow individuals or businesses to make payments from one account to another (in order to pay a bill, pay taxes, or purchase a good or service). Money transfers also allow government to distribute money to households (in the form of tax rebates or welfare vouchers). Money transfers facilitate payments, which are one of the four basic financial services in the [full suite of financial services](#).

### **Nominal Interest Rate**

*An interest rate as commonly stated, without adjustment for inflation; contrasts with [real interest rate](#) from which the rate of inflation has been subtracted.*

### **Over-indebtedness**

*A state in which a borrower's debt service obligations are so high that they require the borrower to make sacrifices in her basic quality of life.*

Over-indebtedness can arise from excessive borrowing (especially from multiple institutions) or from unpredictable events or vulnerability. Over-indebtedness can be temporary or chronic. Also see [Avoidance of Over-indebtedness](#).

### **Partially Included**

*A state in which an individual has access to some financial services but not all four services in the [full suite of basic services](#) (savings, credit, insurance, and payments service).*

## Payments

*Transfers of money between two parties.*

Payments can include the transfer of money for a variety of reasons, including purchase of goods and services, government transfer of aid, bill payment, direct deposit of salary, or sending of [remittances](#).

## Point of Sale (POS) Device

*A small, portable device that facilitates an electronic financial transaction.*

POS devices can serve as a [banking outlet](#) in certain cases. Because they are inexpensive and easily transportable, they play an important role in closing the [location gap](#) and bringing access to financial services in rural areas and those with underdeveloped infrastructure.

## Privacy of Client Data

*A [Client Protection Principle](#) that states that the privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions, and such data cannot be used for other purposes without the express permission of the client (while recognizing that providers of financial services can play an important role in helping clients achieve the benefits of establishing credit histories).*

## Product Bundling

*A condition in which two or more products are sold together in one package.*

For example, some microfinance institutions bundle a loan with a savings account; in order to be approved for the loan the client must open a savings account. Loans are often bundled with credit life insurance. Product bundling can also be voluntary. Product bundling can generate cost-savings for a provider, increasing product [affordability](#), but can also discourage customers who desire greater freedom to choose the products they use.

## Product Fit

*A characteristic of [quality](#) products; describes products that are well-suited and tailored to the needs of clients.*

Products that are not tailored to client needs can cause harm for clients, such as [over-indebtedness](#), or can simply fail to provide value.

## Product Range

*The variety of different financial products and services available to households.*

In the Center for Financial Inclusion's vision for financial inclusion, households have access to a [full suite of basic financial services](#). Product range is highlighted because the poor can use and benefit from financial services that provide a range of tools for managing finances.

## Quality

*One of the four dimensions of the Center for Financial Inclusion's vision of financial inclusion, describing how financial services are provided.*

Quality financial inclusion includes the following traits: [affordability](#), [convenience](#), [product-fit](#), safety, [dignity of treatment](#), and [client protection](#). Quality refers to product design and delivery traits that enhance the value of services to clients.

## Real Interest Rate

*An interest rate that takes inflation into account by subtracting the inflation rate from the [nominal interest rate](#).*

Real interest rates identify whether an account balance to which interest is applied retains its real value (purchasing power) over time.

## Redress of Grievance

*A [Client Protection Principle](#) that states that providers will have in place timely and responsive mechanisms for resolving complaints and problems of individual clients.*

## Remittances

*Funds, generally a portion of a salary, transferred from one individual to another.*

International remittances are funds transferred by a foreign worker to his/her home country, while domestic remittances are funds within one nation, generally from a worker in an urban area to a household in a rural area.

## Savings Account

*An account that allows a client to store and withdraw money.*

Savings accounts are often the entry product for the newly included. Savings accounts are offered by a wide range of financial institutions, licensed by the government. Forms of savings accounts include basic savings (few restrictions on deposits or withdrawals), programmed savings (restrictions on withdrawals, focus on specific purpose), and checking accounts - a savings account with check-writing privileges.

## Smart Campaign

*A global effort to embed a set of [Client Protection Principles](#) firmly into the practices of the microfinance industry.*

[The Smart Campaign](#) works with microfinance leaders around the world to provide microfinance institutions and related organizations with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients and ensure that the Client Protection Principles are implemented permanently.

## Smart Card

*A payment card with an embedded computer chip that stores customer account information.*

Smart cards can function as [credit cards](#), [debit cards](#), and as [electronic wallets](#). Smart cards can be used in locations with poor communications technology because they store all relevant information. They can also store [biometric information](#).

## Stored Value Card

*A payment card, often prepaid and anonymous, where all account data is stored on the card. It only allows for payment in a preset number of outlets.*

Stored value cards provide an alternative to cash for individuals who do not have a bank account and cannot use traditional credit and debit cards.

## Traditional Bank

*A commercial or state bank that provides financial services to the clients generally of middle and upper class.*

Until recently most traditional banks did not know how to extend financial services to the poor and did not believe that such clients could be served profitably. Today traditional banks are taking interest in serving lower-income clients, or downscaling, and in doing so they can play an important role in financial inclusion.

## Transparency

*A characteristic of quality financial inclusion; complete disclosure of information by a financial service provider.*

Transparency toward the public and funders includes full disclosure of the provider's financial condition and performance. Transparency toward clients includes full disclosure of all pricing, terms, and conditions of products in a form understandable to clients.

## Transparent and Reasonable Pricing

*A [Client Protection Principle](#) that states that the pricing, terms and conditions of financial products (including interest charges, insurance premiums, all fees, etc.) are adequately disclosed in a form understandable to clients. Responsible pricing means that pricing, terms, and conditions are set in a way that is both affordable to clients and sustainable for financial institutions.*

In the context of client protection, transparency goes beyond disclosure to include the responsibility to ensure that clients understand the information provided.

## Usage

*The act of employing or utilizing a financial service.*

Usage is often used as a proxy for [access](#) because it can be measured directly. The difference between these two terms is important to note when assessing levels of inclusion because clients may have access but decide not to use a service.

## Viability Frontier

*The line between individuals or businesses that can be provided financial services in a commercially viable way with existing technologies and those who cannot.*

The Center for Financial Inclusion's vision for financial inclusion indicates that the population beyond today's viability frontier requires special attention in the pursuit of full financial inclusion. Cost-cutting innovation, technology, and creativity can push the viability frontier out so that more households can be served. Households that remain beyond the frontier require ongoing subsidies to serve.

## Working Capital

*The cash or available funds required by an enterprise to manage day-to-day operations.*

## Working Capital Loan

*Loans whose purpose is to provide working capital.*

Such loans for the poor were the first form of microcredit.

