

Microcredit is the extension of very small loans (microloans) to those in poverty designed to spur entrepreneurship. 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.

Microcredit is a financial innovation that is generally considered to have originated with the Grameen Bank in Bangladesh. In that country, it has successfully enabled extremely impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begin to build wealth and exit poverty. Due to the success of microcredit, many in the traditional banking industry have begun to realize that these microcredit borrowers should more correctly be categorized as *pre-bankable*; thus, microcredit is increasingly gaining credibility in the mainstream finance industry, and many traditional large finance organizations are contemplating microcredit projects as a source of future growth, even though almost everyone in larger development organizations discounted the likelihood of success of microcredit when it was begun. The United Nations declared 2005 the International Year of Microcredit.

The Grameen Bank is a microfinance organization and community development bank started in Bangladesh that makes small loans (known as microcredit or "grameencredit") to the impoverished without requiring collateral. The word "Grameen", derived from the word "gram" or "village", means "of the village". The system of this bank is based on the idea that the poor have skills that are under-utilized. A group-based credit approach is applied which utilizes the peer-pressure within the group to ensure the borrowers follow through and use caution in conducting their financial affairs with strict discipline, ensuring repayment eventually and allowing the borrowers to develop good credit standing. The bank also accepts deposits, provides other services, and runs several development-oriented businesses including fabric, telephone and energy companies. Another distinctive feature of the bank's credit program is that a significant majority of its borrowers are women.

The origin of Grameen Bank can be traced back to 1976 when Professor Muhammad Yunus, a Fulbright scholar at Vanderbilt University and Professor at University of Chittagong, launched a research project to examine the possibility of designing a credit delivery system to provide banking services targeted to the rural poor. In October 1983, the Grameen Bank Project was transformed into an independent bank by government legislation. The organization and its founder, Muhammad Yunus, were jointly awarded the Nobel Peace Prize in 2006; the organisation's Low-cost Housing Programme won a World Habitat Award in 1998.