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1. Introduction

In October of this year, the Grameen Bank will celebrate 40 years since its founding. Hand in hand with that, however, it will be a celebration of the wider global movement that it started. 4 decades ago, Muhammad Yunus and his rural bank revolutionized the way we look at credit. Through commitment and will, Mr. Yunus showed that even the poorest of the poor can benefit from access to loans and paved the way for what we now call Micro Finance. The purpose of this literature review is to unify the current opinions on the Micro Finance movement, as ample quantity of both critique and praise can be found among economists.

2. Literature review

The difficulty of trying to assess any general conclusions regarding the impact of Micro Finance is that it is hard to measure precisely (Hermes and Lensink, 2007). Unlike in a laboratory, the researchers studying the effects of MF (Micro Finance) in the real world, often do not have better tools available than anecdotal evidence. Countless interviews with the poor recipients of MF loans have produced vast literature on the topic, but there is only so much one can learn from those (Hermes and Lensink, 2007). The much-needed statistical data that could help enlighten us is hard to come by, as both the privacy regulation of banks and the number of variables defining a person's benefit from MF makes research tricky. Despite this challenge, Adam et al. (2021) conclude that the Ultra Microcredit initiative in Indonesia provides positive outcomes for the clients taking part in the initiative. Similar results have been found by another team of researchers (Pantaleo and Chagama, 2018) in Tanzania. Those, who take on MF loans tend to have higher monthly income than those, who do not (Pantaleo and Chagama, 2018). In other parts of the world, the positive conclusion has been replicated. Dupas et al. (2018) showed that in Malawi, Chile and Uganda poor people do benefit from the access to banking services. What is more, the research illustrates that there can be vast differences in the impact these services have depending on the country. Around 80% of the research subjects in Malawi and Uganda did not utilize a free banking account when they were provided with one, whereas most of those in Chile, where people are generally better of, did (Dupas et al., 2018).

Vatta (2003) suggests that one of the most effective ways of distributing micro credit is through self-help groups (SHG). These groups are informal substitution for formal bank loans. In an SHG, participants collect and pool thrift, which is then disbursed as micro loans back to its members. Vatta (2003) emphasizes the aspect of women empowerment as a natural benefit of self-help groups and the wider Micro Finance space overall. Benefits in income and employment for SHG members have been captured by the research of Kalia and Kapila (2022) who found 82.95 % increase in income and 61.91 % increase in employment for participants joining SHGs in Punjab, India. High increase in income was similarly found by Pawar (2016).

Critique of the Micro Finance movement and some of it practices is plentiful and very well worth studying. Singh and Dara (2007), while maintaining a positive overall picture of MF, name bureaucratic procedures, lack of proper legislation, corrupt practices of loan officials, political interference as problematic aspects in need of addressing. Possible solutions include frequent evaluations of microfinance institutions' social performance, educating and retraining bankers, eliminating the government's exclusive control over creating official institutions, and improving infrastructure to decrease transaction costs (Singh and Dara, 2007). Vatta (2003) concedes, that it might be challenging to offer micro credit to non-farm economic activities. In agriculture, there is a large enough profit margin for farmers to be able to borrow and subsequently cover their interest payments. Other micro business endeavours might not yield sufficient profit in sufficient time. Adam et al., too, note that the interest rate usually charged on micro credit might be too high for some to access it. Moreover, Pantaleo and Chagama (2018) illustrate that while micro credit loans do help rise income of recipients, it does not automatically result in a wider range of household assets being owned. Assets in households tended to remain at the same level regardless of whether the individuals had access to Micro Finance or not. The size of the loan matters significantly, too, as lower impact on income and employment was found when the borrower borrowed less (Kalia and Kapila, 2022).

3. Conclusion

To conclude this literature review, I would like to return to the beginning. It has been long 40 years since Muhammad Yunus made that critical realization in a small Bangladeshi village that poor people, too, could be banked. Over that time Micro Finance has flourished over the world and the space has matured substantially. Despite this progress, however, as should be apparent from the gathered literature, there is still not a general consensus among experts on the topic. Most of them do agree that Micro Finance can be a positive driving force for poor entrepreneurs, but there is much debate as to what extent. Then there are critics, too, all readily available to point to flaws in need of solving. It is the existence of this constructive critique, however, that should excite researchers, because it means there is still much research to do and relationships to discover.

4. Resources:

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