

The Occurrence and Theoretical Aspects of Microfinance

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ABSTRACT

Micro-lending is a financial instrument for providing small loans and other financial services (such as micro-savings and micro-insurance) for the poor segments of the population for the purpose of self-employment or to start-up their own businesses. This method enables them and their families to be employed and economically independent. To better understand the concept of micro-lending in a scientific sense, it is necessary to investigate the circumstances and factors that have created the occurrence of this form of financing. The research in this paper starts from Bangladesh which is considered to be the "cradle of microfinance" in the world. Although there are differences between the countries that have developed microfinance such as population, culture, history, geographical features, economic development etc., there are also significant similarities. The main objective of this study is to determine whether there is a common pattern and to define the corresponding moment of socio-economic development that affects the initiation and development of microfinance in the countries that are the subject of this research. The research question is: What are circumstances that caused the occurrence of micro-lending, with a focus on Bangladesh and other countries where micro-lending developed? The hypothesis proved in the paper is: Microfinance occurs in countries that have high levels of poverty and low level of economic development. The comparative method is used to prove the hypothesis.

Keywords: microfinance, poverty, loans, microcredit

JEL Classification: O16, G21, D21, I32

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