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# **The Agenda and Relevance of Recent Research in Microfinance**

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## **ABSTRACT**

*This paper studies recent research efforts in the field of microfinance. Two questions guide the study: What is the agenda of recent research efforts? And, for who is the research relevant? As for the agenda the “yin and yang” of microfinance; impact and sustainability, continue to influence most research efforts. The study illustrates that microfinance attracts mainly the interest of development researchers and journals. Accordingly the researchers seem mainly to interact with the donors’ and practitioners’ communities. The research produced seems to be relevant for them and less so for the governmental and banking communities. The paper concludes proposing the design of a new research agenda, this time in cooperation with the banking community.*

## 1. INTRODUCTION

This paper studies recent research effort within the field of microfinance. Researching research is becoming more important since increasingly researchers in most academic fields are being criticized for not studying issues relevant to practice (Tranfield, 2002). Ernø-Kjølhede *et. al.* (2001) describes the demand for more relevance in research as “*an increased articulation of societal expectation concerning the ability of public research to contribute to solving societal problems, wealth creation and other forms of utility*” (Ernø-Kjølhede *et al.*, 2001). Furthermore, Gibbons (1994) calls for a knowledge production system denominated “mode 2” where there is a considerable level of interaction between science and society. Hence, in this paper I seek answers to two questions: What is the agenda of microfinance research, and, for who is the research relevant? To answers the questions 130 articles related to microfinance and published in peer reviewed journals between January 2002 and September 2004 are reviewed.

This paper is organized as follows: Section two outlines the strand in literature regarding the research agenda in microfinance and identifies relevant communities with whom researchers could interact. Section three describes the methodology applied in the study followed by the presentation of the study results. Section five analyses the finding and points out relevant areas for new research efforts. The sixth section concludes the paper.

## **2. AGENDA AND RELEVANCE FOR MICROFINANCE RESEARCH**

### **The agenda for microfinance research**

Microfinance, understood as the supply of financial services to micro-enterprises and poor households, has become a popular development tool and is increasingly being mentioned as an interesting investment opportunity. Thousands of institutions and programs now serve millions of clients. Today microfinance is a major tool in poverty alleviation and also a major recipient of foreign aid. The UN declared 2005 the year of microcredit, and by the end of 2005, the Microcreditsummit campaign aims to reach 100 million poor with microfinance services ([www.microcreditsummit.org](http://www.microcreditsummit.org)).

There are many players in the microfinance industry and their missions seem to differ (Woller et al., 1999, Morduch, 2000). Different players have different agendas that are also being constantly revised. This has led to an industry-environment with many controversies and maybe even more misunderstandings. Especially a ‘win-win’ proposal, where increased institutional sustainability leads to increased alleviation of poverty, has created significant debate within the industry (Morduch, 2000, Rhyne, 1998). The debate is that those institutions able to expand on sound business principles and produce profits will be able to tap into standard financial markets as well as attract local savings. With access to such resources, the industry will be able to lend to millions more who need microfinance services. However, today the lack of strong sustainable institutions is recognized as a major bottleneck in the industry (C-GAP, 2004). The “Ohio School”, based at the Ohio State University, has been a main academic promoter of building a sustainable microfinance industry (Hulme and Mosley, 1996).

However, many practitioners, donors and researchers don't accept the 'win-win' proposition. Morduch states that *"the [win-win] vision is fully supported neither by logic nor by the available empirical evidence"* (Morduch, 2000). According to the "development school", microfinance is not a new way to do business, but a development instrument that should be judged on its efficiency in producing impact and not in producing profits (Maanen, 2004). Their fear is that impact and profits are not complementary and that the microfinance industry will eventually cease serving the poor if it becomes a market-based profitable industry.

Impact and Sustainability are central concepts in microfinance and have rightfully been referred to as the Yin and the Yang of microfinance (Rhyne, 1998). This article does not defend nor attack the win-win propositions, but uses the metaphor to obtain an overview of recent research efforts within the microfinance industry. Hence, research is catalogued into either that which is sustainability-oriented or impact-oriented. Furthermore, to better understand the agenda of microfinance researchers I categorise articles according to their content and research methodology.

### **Relevant communities for microfinance research**

In microfinance, who is the "society"? With which communities should researchers interact to assure the relevance of their research? For whom should their studies be considered relevant? The most obvious answer is off course the target market for microfinance services; micro-enterprises and poor households. However, to classify to what degree researchers have interrelated with micro-enterprises and poor household would be an impossible task. Hence, in this paper I concentrate on other communities that are important stakeholders in the industry; Donors, Governments and Practitioners (Micro Finance Institutions/Organizations). In addition I include the banking sector as a relevant community for microfinance research.

Just like banking microfinance is about the intermediation of money and the delivery of financial services. Hence, because microfinance is analogous to banking, the banking sector should be included when analyzing research efforts. By applying “mode 2” ideas for knowledge production (Gibbons, 1994), this paper will analyse the extent to which recent research on microfinance interacts with the communities referred to.

### **3. METHODOLOGY APPLIED IN THIS STUDY**

To obtain an overview of research within microfinance, the “EBSCO Host Research Databases” was searched within all hosted databases (see note 1 for an overview of hosted databases). The following limitations were set: “Find ‘microfinance’ or ‘microcredit’ in default fields in peer reviewed articles in periodical journals between January 2002 and September 2004.” The search revealed that only the research databases Business Source Premier, Econlite and Academic Search Elite had articles within the limits set. All together 84 articles were identified and ordered through the Bibsys library system ([www.bibsys.no](http://www.bibsys.no)).

Two journals specifically target the microfinance industry, The “Microfinance Journal” and the “Small Enterprise Development”. The “Microfinance Journal” only publishes material within microfinance, while the “Small Enterprise Development” has a broader approach and also publishes other material related to small enterprise development. Neither the “Microfinance Journal” nor the “Small Enterprise Development” are available in the databases hosted by EBSCO Host. These journals were therefore ordered separately. All articles published in “Journal of Microfinance” between January 2002 until September 2004, totalling 34 articles, were included in this study. A short review of all articles published in the

“Small Enterprise Development” during the selected period was conducted, and all the articles related to microfinance, a total of 25 articles, were included in this study.

The librarian was unable to trace five of the ordered articles. Of the articles collected from EBSCO Host, two were found to be duplicates, while six articles were removed from the study after reviewing them and finding that they had absolutely nothing to do with microfinance or they were from sources that could not be classified as peer reviewed articles in periodical journals. This left the study with 130 articles for examination. For an overview of the source of articles see table one.

(Insert table 1 here)

I recognize that the methodology applied does not cover all research efforts within the field of microfinance. Several journals are not available in the EBSCO hosted databases, and apart from published material in periodical journals, there are books, conference papers, occasional papers and working papers addressing microfinance. At the same time, multilateral agencies like the Asia Development Bank, the Inter-American Development Bank, the World Bank and others publish their own series where research efforts on microfinance are found. Furthermore, some bilateral donors, NGOs and consultants publish their own material. There might also be important published articles for the microfinance industry without necessarily using the words “microcredit” or “microfinance” in default fields (the limiters set in EBSCO).

When receiving the articles, the abstract, introduction and the conclusion of each article were reviewed as a minimum. When more information was required to enable an article to be classified, additional content was reviewed. The articles were then catalogued based on whether they mainly dealt with issues that could enhance sustainability or understand impact. The articles were also given a label indicating the main content of the article, and they were classified as descriptive, empirical or theoretical. Finally, the journals in which the articles were published were classified as banking/business/economy, development, microfinance and sociology/others.

To enable the classification between sustainability knowledge and impact knowledge the following selection criteria were established: Sustainability was defined as knowledge that could mainly be useful to improve or increase understanding of institutional and/or industrial sustainability in the microfinance sector. Impact was defined as knowledge that could mainly be useful to improve or increase understanding of the individual and/or societal impact of microfinance.

By giving a broad understanding of the selection criteria, nearly all articles could be catalogued in either the impact group or the sustainability group. Only four articles were not biased towards one of the two groups. Hence they were classified as both.

To enable a classification between descriptive, empirical and theoretical articles the following criteria was established: Descriptive articles were defined as articles that did not make use of any empirical data. They told a story, presented some lessons learned or some concepts and ideas. Some may argue that some of the articles classified as descriptive are case studies. This

might well be. Empirical articles were articles that made use of statistical data with or without relating the data to existing theories. Theoretical articles were articles that aimed at developing theory without using data.

The methodology, which is subjective, might have led to omission of some research. Other researchers might classify some of the articles and journals in a different way to this study. Placing an article in a single category is not easy. It can also sometimes be difficult to decide if a journal's main focus is sociology, development or business. Nevertheless, this study has been able to classify the articles and journals as mentioned, but at the same time highlights that the results are based on subjective assessments. Given the methodological limitations of this study, we are of the opinion that the study provides general indications regarding research efforts within the field of microfinance between January 2002 and September 2004.

#### **4. STUDY RESULTS**

In my view, the majority of the reviewed articles present valuable knowledge in the field of microfinance. The 130 reviewed articles came from 39 journals. Four journals, "World Development", "Journal of International Development", "Small Enterprise Development" and "Journal of Microfinance", represented 69% of all articles. The industry's own journals, "Small Enterprise Development" and "Journal of Microfinance" contained 45% of all articles published. 32 of the 39 journals had only one article on microfinance during the whole period, while three journals, "Development and Change", "Journal of Development Economics" and "Journal of Developmental Entrepreneurship" had 2 or 3 articles. For an overview of the number of articles published in the different journals, see table 2.

(Insert table 2 here)

As mentioned above, nearly all articles could be classified as dealing with either sustainability knowledge or impact knowledge. Only four articles needed to be classified as both. 60 articles presented knowledge mainly related to sustainability and 66 articles presented knowledge mainly related to impact. The difference between the journals is notable where “World Development” seems to be biased towards impact, while the industry’s own journals are biased towards sustainability. In the “Small Enterprise Development” as many as four out of five articles focus on issues that can lead to improved sustainability. In those journals with less than four articles, three of four articles deal with impact topics. An overview of the results is presented in table 3.

(insert table 3 here)

56 articles use mainly, according to the selection criteria established in this study, a descriptive methodology, while 60 were based on empirical data. Only one in ten articles was theoretical and in most of these cases the articles apply existing models or theories and apply

them to microfinancial issues. Very few new theoretical models were presented. Microfinance's own journals have a tendency to publish more descriptive material, while "World Development" nearly only publishes empirical articles related to microfinance. The type of articles in the different journals is presented in table 4.

(insert table 4 here)

The descriptive articles are more likely to discuss sustainability issues while the articles based on empirical methodology tend to discuss impact. How scientific methodology relates to the type of knowledge is presented in table 5.

(insert table 5 here)

As mentioned, the microfinance industry's own journals account for nearly half of all articles published. Four in ten articles are from journals covering development issues. Less than one out of ten articles are from journals related to business, banking and economy. If the "Journal

of Microfinance” and “Small Enterprise Development” are included as development journals, 84% of all articles are from development related journals. The type of journals and the number of articles published is presented in table 6.

(insert table 6 here)

The articles were labelled to obtain a broad overview of the important issues for microfinance researchers. The methodology enabled classification of the articles, independent of type of knowledge (sustainability and impact). Nearly one in ten articles deals with microfinance in developed countries, especially in the US. ASCA/ROSCA/SHG (see note 2 for an explanation of these acronyms) counts for 10 articles, market orientation 11 articles and poverty impact 26 articles. Table 7 presents an overview of the articles’ classification and their relation to impact or sustainability.

(insert table 7 here)

## 5. ANALYSIS

The data provides for a variety of analyses. This study concentrates on two main questions. First; with which community are the researchers communicating? Secondly, what is the research agenda?

### **Which community are the researchers communicating with?**

As indicated, microfinance researchers could interact with at least four communities; Donors, Governments, Microfinance practitioners and the Banking community. We will analyze the results in relation to each of these communities, starting with the banking community.

#### Banking community:

This study clearly demonstrates that the banking community is only being reached to a small degree by microfinance research. Of the 12 articles catalogued as being published in banking/business/economy journals actually only three were found in pure banking journals. Elisabeth Rhyne was right when she wrote: “*Microfinance is not yet really an industry in most countries, but rather a field within the development profession*” (Rhyne, 2001). When 84% of all material published on microfinance is found in journals dealing with development and the number of articles in sociology journals is almost the same as the number of articles in business and economics journals, it is no wonder that the microfinance industry cannot yet be described as an industry in itself or even a niche within the banking industry. If microfinance is to gradually be a part of mainstream finance, as several observers seem to promote, and the title of Tor Jansson’s report “From Village Street to Wall Street” (Jansson, 2001) is to be fulfilled, more research should be published in journals influencing the agenda of the banking community. Margurite S. Robinson writes in “The Microfinance Revolution”: “*Lack of*

*reliable information is the main reason for most of the unmet demand for formal sector commercial microfinance today” (Robinson, 2001). This study has found that a considerable amount of knowledge and information is being produced. However, as long as microfinance research continues to be mainly a narrow field in the development profession, it is unlikely that the banking industry will consider the research results to be reliable, if they know about it at all.*

#### Government community:

The government community is served to a limited degree by microfinance research. Impact is a concern for government, but the role of government in the industry goes beyond impact. Some articles deal with regulation of microfinance and others deal with general microfinance policy. However, the role of government in creating an enabling environment for the industry is rarely examined in the reviewed articles. Actually only three articles were in journals dealing with law and regulation. Another reason to assert a lack of interaction between researchers and the government community is the fact that except for articles published in “World Development”, few articles during the test period were published in highly regarded political agenda-setting journals.

#### Donor community:

Impact assessment has become increasingly important for donors (Hulme, 2000). Sustainability is also an important agenda for donors, as they search for intervention methods not requiring their constant participation. Therefore, there is little doubt that the donor community is well served by microfinance researchers. The knowledge produced seems relevant to the donors’ various agendas. It must be asked whether the high relevance for

donors is also a sign of the industry's dependence on donors, as well as researchers being funded by donors.

### Practitioners' community:

Microfinance practitioners are increasingly served by researchers. The sector's own journals, "Small Enterprise Development" and "Microfinance Journal", produce knowledge highly relevant to practitioners. The majority of articles in these journals demonstrate, according to my view, an in-depth understanding of the challenges facing practitioners. One question should be asked when it comes to the high proportion of descriptive articles, especially in the "Small Enterprise Development". Does this signal a lack of quality and solidity in the research effort? Is there a lack of substance in their findings? Or, is it a sign of a young industry where researchers still depend more on descriptive analysis than empirical and theoretical approaches? I suggest that the high incidence of descriptive articles in Small Enterprise Development and Journal of Microfinance can also be a consequence of a "mode 2" approach to research, where practitioners influence researchers to produce more "understandable" and practical-oriented research.

### **What is the research agenda?**

When searching for the research agenda, the division between impact- and sustainability oriented research can be helpful. I will mainly analyse the research agenda for sustainability issues, but some initial comments on impact issues might be useful. The study revealed that there is still a considerable debate about the effectiveness of microfinance as a means for directly reducing poverty. At the same time, the agenda seems to be shifting from direct impact on microfinance clients and their family members to considering wider impacts on health, community governance, post-war reconstruction, labour, finance markets and the

economy as a whole (Chowdhury et al., 2004). Considering the billions of donor-dollars being poured into microfinance it is interesting to note that there is still no clear consensus among researchers about the impact from getting access to the services. Can it be that the donors after some years will end up feeling like Thomas Dichter when he looks at the records of microfinance, dressed in “*the emperor’s new clothes*” (Dichter, 2003)?

The majority of sustainability research seems to be influenced by “best practices”. During the 1990s, best practices in microfinance were identified, documented and replicated. The USAID-funded projects GEMINI (Growth and Equity through Microenterprise Investments and Institutions) and later the MBP (Microfinance Best Practices) have been benchmarks in identifying, developing and replicating “best practices”. The GEMINI project resulted in the book “The new world of Microenterprise finance” (Otero and Rhyne, 1994), and the MBP ended in 2001 with the production of the manuscript for “The Commercialization of Microfinance” (Drake and Rhyne, 2002).

Comparing both books with this study’s research on sustainability reveals a red line. Savings, regulation and loan technology are key issues in Otero & Rhyne, while market orientation and competition are key issues in Drake & Rhyne. This study found that these areas continue to be important for researchers. However, there are at least five interesting differences. **First**, Where is the research on cooperatives and credit unions? This institutional form had its own chapters in both books, but is nearly absent in recent research. Has the microfinance community lost faith in the cooperative ownership form? Or is there a lack of researchers interested in this ownership model? European and US cooperatives and credit unions were extremely important in introducing the poor to a reliable banking system in these continents respectively during the nineteenth and early twentieth centuries (Hollis and Sweetman, 1998).

Today, the cooperatives are widespread also in developing countries, but often struggle with a bad image and slack performance. Can their image be restored and their performance be improved? Researchers are providing neither guidance nor answers.

**Second,** Where is the research on the role of NGOs in microfinance? Together with the cooperatives the NGOs by far outnumber other formal ownership forms. “*The evolution of nongovernmental organizations toward financial intermediation*” was a chapter in Otero & Rhyne, while “*Transformation, journey from NGO to regulated MFI*” was the theme in Drake & Rhyne. Transformation is, in my view, not the right recipe to strengthen most NGOs, but shouldn’t the role of these non-profit players operating billions of microfinance-dollars be debated? In the 1970s and 1980s the NGOs opened the door to a new era of microfinance. Are they now blocking further development? Or are they the doorkeepers the industry needs to avoid mission drift?

**Third,** Partly related to the role of NGOs and cooperatives is the question of ownership and corporate governance in microfinance. In “The Commercialization of Microfinance” there was one chapter on this important question. Where is the current research on this issue critical to long term sustainability? Marc Labie succinctly labels corporate governance in microfinance organizations “*a long and winding road*” (Labie, 2001). It will neither be shorter nor straighter if it is not researched.

**Fourth,** Finance for housing is now the new boom in microfinance. This trend was not captured by Otero and Rhyne (1994) or Drake and Rhyne (2002) but is captured in current research. With 1.5 billion urban dwellers in need of housing (Mitlin, 2003), there is definitely a market for MFIs and researchers demonstrate a “mode 2” operandi by studying it.

**Fifth,** An alternative to the financial institutional approach to microfinance promoted in Otero and Rhyne (1994) or Drake and Rhyne (2002) is the ROSCA approach (see note two for explanations of acronyms). This informal, but often highly efficient, way of organizing microfinance for the poor is experiencing increased attention. A ROSCA is a financial self-help group consisting of a limited number of people known to each other. The primary function of a ROSCA is to operate saving and lending between the members (Bouman, 1995). Fikkert reports ROSCA organizations in China 1200 years ago (Fikkert, 2003), while Davis tells about the rich traditions of “*kou/mujin*” (a form of ROSCA) in Japan from the 13<sup>th</sup> century (Davies, 2003). Today ROSCAs and related types of locally controlled organizations “*exist in virtually every village*” (Ashe, 2002), and is now receiving increased attention within the community of microfinance. Is this the way forward? Many stakeholders within microfinance wonder “*What would happen if these groups were “modernized” into effective locally controlled savings and credit groups?*” (Ashe, 2002), but Bouman (1995) warns against intervention by outsiders. Again, recent research demonstrates a “mode 2” by nurturing the debate.

An area of research that was neither an issue in the “best practices” projects nor in the research covered in this article requires mention - savings banks. Savings banks are often confused with cooperatives (Guinnane, 2002), but their legal status is different. Cooperatives are owned by members; however, the savings banks have a much more diverse ownership form. Often they are organized as foundations with or without the influence and participation of local authorities (Pampillon, 2003). Despite their historical legacy and impact, there is little research on savings banks. Savings banks were initiated as a pro-poor banking system in Europe more than two hundred years ago (Martinez, 1998). The savings banks system has

proved its efficiency in many countries in both impact and sustainability. Hence, there should be a need for research into the potential of savings banks in microfinance.

## **6. CONCLUSION**

This paper has studied recent research efforts in the field of microfinance. Two questions have guided the study: What is the agenda of recent research? And, for who is the research relevant? The study illustrates that the microfinance research agenda can be analysed by dividing research into either sustainability oriented or impact oriented. Regarding the latter a shift from individually impact assessment to a “wider impact” assessment is observed. This begs the question as to why this is occurring. Regarding recent research on sustainability this seems influenced by “best practices” developed mainly by USAID-funded projects during the 1990s. But some important issues raised by the “best practices” projects remain practically untouched by researchers today. This especially applies to questions related to the role of cooperatives and NGOs in the microfinance sector, and the need for more knowledge related to governance and ownership within the sector.

This study has shown that researchers mainly interact with the donors’ and practitioners’ communities. The research produced seem to be relevant for them and less so for the governmental and banking communities. The lack of interaction with the banking community is notable. This raises the question as to whether it is time to design a new research agenda, this time in cooperation with the banking community. A triple helix programme as described in (Ernø-Kjølhede et al., 2001) seems relevant to propose. In such the researchers, donors and the banking industry should together develop a research agenda and efforts should be made to publish results in banking related journals.

## NOTES

1. The databases at EBSCO Host are: Academic Search Elite, ATLA Religion Database, Communication & Mass Media Complete, MLA International Bibliography, Business Source Premier, Econlit, ERIC, MEDLINE, SPORTDiscus, Regional Business News, MLA directory of Periodicals and American Humanities index.

2. ASCA stands for accumulating saving and credit associations, ROSCA means rotating saving and credit association and SHG means self helping groups. These are all related and often just referred to as ROSCAs. They are all peoples' owned informal organizations pooling savings from and offering credit to their members. Typically around 20 persons participate in a ROSCA.

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**Table 1: Source of reviewed articles**

<b>Source of article</b>	<b>Number of articles</b>
EBSCO Host (Reviewed articles)	71
Journal of Microfinance	34
Small Enterprise Development	25
<b>Total number of articles reviewed</b>	<b>130</b>

**Table 2: Number of articles per journal**

<b>Journal</b>	<b>Number of articles</b>	<b>Percentage</b>
World Development	11	9%
Journal of International Development	20	15%
Journal of Microfinance	34	26%
Small Enterprise Development	25	19%
Other Journals with 3 or less articles	40	31%
<b>Total number of articles</b>	<b>130</b>	<b>100%</b>

**Table 3: Impact vs. sustainability knowledge in journal articles**

<b>Journal</b>	<b>Sustainability knowledge</b>	<b>Impact knowledge</b>	<b>Both</b>	<b>Total number of articles</b>
World Development	3	8	0	11
Journal of international development	8	11	1	20
Journal of microfinance	21	13	0	34
Small enterprise Development	20	5	0	25
Other Journals	8	29	3	40
<b>All journals</b>	<b>60</b>	<b>66</b>	<b>4</b>	<b>130</b>

**Table 4: Type of research method in different journals**

<b>Journal/Type</b>	<b>Descriptive</b>	<b>Empirical</b>	<b>Theoretical</b>	<b>Total</b>
World Development	1	10	0	11
Journal of Microfinance	16	12	6	34
Small Enterprise Development	18	7	0	25
Journal of International Development	6	10	4	20
Other Journals	15	21	4	40
<b>Total all journals</b>	<b>56</b>	<b>60</b>	<b>14</b>	<b>130</b>

**Table 5: Type of research method vs. type of knowledge produced**

<b>Article/Knowledge</b>	<b>Sustainability</b>	<b>Impact</b>	<b>Both</b>	<b>Total</b>
Descriptive	30	23	3	56
Empirical	24	35	1	60
Theoretical	6	8	0	14
<b>Total</b>	<b>60</b>	<b>66</b>	<b>4</b>	<b>130</b>

**Table 6: Type of journal**

<b>Type of journal</b>	<b>Number of articles</b>	<b>Percentage (%)</b>
Banking, business and economy	12	9
Development	50	39
Microfinance	59	45
Sociology and related fields	9	7
<b>Total</b>	<b>130</b>	<b>100</b>

**Table 7: Article label vs. type of knowledge**

<b>Article classification vs. knowledge type</b>	<b>Impact</b>	<b>Sustainability</b>	<b>Both</b>	<b>Total</b>
ASCA/ROSCA/SHG	1	9	0	10
Competition	0	3	0	3
Environment protection	4	0	0	4
Gender	8	0	0	8
Housing	2	4	1	7
Loan technology	1	5	0	6
Market orientation	0	10	1	11
Microfinance in developed countries	5	6	0	11
Microfinance development policy	5	0	1	6
Poverty impact	26	0	0	26
Ratings	0	3	0	3
Regulation	0	3	0	3
Savings	1	3	0	4
Other labels (1 or 2 articles each)	13	14	1	28
<b>Total number of articles</b>	<b>66</b>	<b>60</b>	<b>4</b>	<b>130</b>