

## **Has microfinance lost its moral compass?**

The industry that provides financial services for people on low-incomes and without access to traditional banking services is morally reprehensible according to new research from The University of Manchester.

Microfinance is the term for financial services typically targeted at the poor who do not have access to mainstream banking services and relates to the supply of small loans (\$25-\$500) and sometimes savings.

The research published today, by the Brooks World Poverty Institute based in The University of Manchester, principally questions whether microfinance has lost its moral compass by failing the very people it is meant to support.

Much of the data was collected by the PhD researcher Mathilde Maitrot, who has been working in Bangladesh. She said: "Microfinance is frequently cited as a great success for people living in poverty but our research has shown that this is not always the case and often the opposite is true. The reality is that people living in poverty in countries like Bangladesh actually have very little control over their loans."

Professor David Hulme, the Director of the Brooks World Poverty Institute based at the University, suggests that the Occupy movement and other activists should also focus their attention on the injustice created by microfinance in cities such as Delhi and Dhaka as well as London and Washington."

Professor Hulme said: "In North America, Europe and Japan the media routinely presents microfinance as a great success but we've exposed its unsavoury dark side.

"Whilst mainstream financial companies clearly reap the benefit from encouraging micro finance and incentivise their staff with personal financial performance targets, the impact of loans on client welfare seems to have been forgotten."

In 2009 and 2010 a spate of suicides by borrowers in Southern India, allegedly due to strong-arm recovery practices by the micro finance loans officers, hit the headlines.

Professor Hulme continued: "Our findings have uncovered a culture rife with demanding branch managers focused purely on financial performance that put terrible pressure not only

on clients but also on staff. The leaders of the microfinance industry, including Nobel prize-winner Professor Muhamad Yunus, need to look at what is happening and stop these abuses.”

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