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Community Development Pioneer Available to Discuss Possible Collapse of World's Largest Microfinance Industry in India

Media Relations

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November 18, 2010

DURHAM, N.H. – Community development pioneer Michael Swack is available to discuss the possible collapse of India's \$5 billion private microfinance industry – the largest microfinance system in the world – as well as the underlying problems with microfinancing worldwide.

Swack is a professor of economics and management at the University of New Hampshire Whittemore School of Business and Economics and a fellow at the Carsey Institute at the University of New Hampshire.

"Microfinance has become a darling of the popular media. Since Mohammed Yunus won the Nobel Peace prize for his pioneering work in developing the Grameen Bank in Bangladesh, many have seen microfinance as a way to solve poverty throughout the world. But, in fact, the field is addressing many complicated issues from commercialization to high interest rates to unscrupulous lenders," Swack says.

According to Swack, microfinance worldwide is experiencing "mission creep," a transition from nonprofit management with the goal of poverty alleviation to private management driven by profits. Among the criticisms are that for-profit companies are drastically increasing interest rates on loans to low-income borrowers in an effort to reap huge profits. As a result, borrowers are defaulting on loans.

"In some respects, microfinance in developing countries is the equivalent of our sub-prime market. Expanded financial options can offer valuable services to low-income and unbanked people, but bad practices, products and even institutions often harm consumers, legitimate lenders, and the broader financial system and economy," Swack says.





As it grows, the microfinance industry needs to ask tough questions about the longer-term viability of its new products, practices, risk management techniques, and financing strategies, according to Swack.

"It should anticipate credit cycles and periodic crises, especially in fast-moving emerging markets. In particular the industry needs to focus more attention on ensuring that clients understand their rights and obligations, in general, as well as specific products and all its features," he says.

The crisis in India also suggests the need for client protection principles to ensure that providers of financial services to low-income populations take concrete steps to protect their clients from potentially harmful financial products and ensure that they are treated fairly, Swack says. Such principles have been developed and endorsed by a broad coalition of microfinance institutions (MFIs), networks, funders, and practitioners through the Center for Financial Inclusion. For more information, visit <http://www.smartcampaign.org/>.

"India has the largest microfinance system in the world so it is important to watch its progress and how it handles this crisis," he says.

Michael Swack has more than 25 years of experience in the fields of economic development, finance, and development banking. He is the founder and former dean of the School of Community Economic Development (CED) at Southern New Hampshire University. He has been involved in the design, implementation, and management of a number community development lending and investment institutions both inside and outside the United States. He was the first chairman and served for 17 years as a board member of the New Hampshire Community Development Finance Authority (CDFA), a state-chartered equity fund for community economic development ventures and projects. He is the founding president and a current board member of the New Hampshire Community Loan Fund. He was a founding

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board member of the National Association of Community Development Loan Funds (now the Opportunity Finance Network), a trade association of Community Development Finance Institutions, and a current member of the Community Development Advisory Council of the Federal Reserve Bank of Boston. Internationally he has been involved in development finance and microfinance work in Africa, Asia, and Latin America.

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