

As financiers have replaced philanthropists in the microfinance industry, consumer protection has been weakened. Taxpayer-funded development banks, which could fix the problem, are instead channeling hundreds of millions of dollars earmarked for poverty alleviation into some of the most predatory lenders.

Interviews with dozens of borrowers in Cambodia, Jordan, Sri Lanka and Mexico, as well as with lawyers, academics and human rights groups, paint a picture of a changing industry, one that's offering new types of loans, including consumer finance, as some lenders prioritize profits over helping the poor.

In Cambodia, the average loan provided by so-called microfinance institutions has ballooned sevenfold over the past decade to about \$4,200, almost three times the country's average household income, data compiled by the Cambodia Microfinance Association show. Women there have been pressured to sell their homes to repay loans, according to human rights groups and academics who have studied the matter. In Jordan, one of the few countries that still imprisons people for nonpayment of debt, more than 23,000 women were wanted by the police in 2019 for owing less than \$1,400 each, Justice Ministry officials have said. In Sri Lanka, consumer-advocacy groups estimate 200 women indebted to microfinance companies committed suicide in the past three years.

Watch the Bloomberg documentary "The Dark Side of Microfinance" →

Yet the World Bank, the European Investment Bank, the U.S. International Development Finance Corp. and other development banks continue to invest billions of dollars of public money. More has come from commercial banks and impact investors. Citigroup Inc. had lent about \$1 billion to 89 microfinance institutions as of January 2020. Japan's Sumitomo Mitsui Financial Group has invested billions of dollars in Asian firms, including in Cambodia. JPMorgan Chase & Co. sold a \$175 million collateralized loan obligation in 2019 backed by microfinance and small-business repayments. Among the 26 lenders it's funding are three accused of pressuring borrowers to sell land in Cambodia. JPMorgan declined to comment, and Sumitomo didn't respond to inquiries.