



The Wider Impacts of Microcredit: Over-indebtedness and International Migration

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Microcredit can compel unwanted migration, and indebtedness exacerbates migrant vulnerability. Microfinance institutions and governments need to respond.

There is a growing recognition among development scholars that microcredit may be doing more harm than good. Ethnographic studies have documented the way that microcredit can cause economic and social dispossession, its role in turning poverty into a frontier of speculation, and its appropriation of women's honor and social networks. While randomized controlled trials offer more modest critiques, taken together they suggest that microcredit does not consistently reduce poverty, increase household well-being, generate microenterprise, or empower women.

Over the past five years my work in Cambodia has pointed to a different, but related concern: the degree to which microcredit can compel migration, and the vulnerabilities formal debt creates for migrant workers, particularly those without documents.

To understand how microcredit can compel migration, it is important to highlight four aspects of the microcredit industry in Cambodia. First, while the microfinance sector was initially dominated by social actors, this is no longer true. The biggest microcredit providers are now commercial actors with investors concerned with profit. Second, loans have become very large, in ways that are clearly out of step with changes in household income. Over the past decade, average loan sizes have grown four times faster than average household income (MIMOSA 2016). This trend directly relates to commercialization, as larger loan sizes are more profitable for MFIs than smaller ones. Third, while microcredit has been lauded as a development strategy on the promise of the creation of microenterprise, the majority of loans are not used for productive investment. Finally, most loans are collateralized, and include co-signers and/or guarantors who are held accountable (if not in court, via social pressure and threats) for loan repayment. To put it simply, MFIs have been granting very large loans, for non-productive purposes, to poor and near-poor households. By holding their homes and land as collateral they virtually ensure that borrowers will do anything necessary in order to repay. And borrowing is widespread: there is now a microfinance loan in Cambodia for nearly every household.

As microcredit has expanded, over-indebtedness has followed. A 2013 study found that 23% of borrowers in microfinance-saturated areas were insolvent (Liv 2013). Over-indebted households have two options: to default on their loan and risk the loss of land and community shame, or to do anything possible to repay. Most choose the latter. They borrow informally and engage in loan cycling. They sell assets and land. They work harder and limit consumption. Yet in many parts of the country the most common coping strategy for over-indebted borrowers is crossing the border to find work in neighboring Thailand.

There are now some one million Cambodians working in Thailand—most without full legal status. This work is not low-risk. Cambodians in Thailand experience routine forms of labor exploitation and their work often puts them at physical risk. In practice, they have little ability to access health and other

forms of social protection, and rarely are able to seek remedy when they experience labor abuse. Moreover, constant changes in Thailand's migration policies make it both difficult and costly for migrants to obtain legal status.

To be sure, not all Cambodians in Thailand are in debt to MFIs, and most migrated for a complex set of reasons. However both my own research and qualitative studies from a range of sites across Cambodia suggest the importance of formal debt in shaping migration decisions. In rural communities near the border, both MFIs and migrant households articulate this connection as common sense. When one is over-indebted, work abroad is the best way to earn quickly enough to finance repayment. MFI loan officers I have spoken with know that indebted borrowers migrate, but they view it as a positive act so long as migrants continue to service their debt. Indeed, some loan officers suggest borrowers send their children to work in Thailand as a means of coping with over-indebtedness.

While there is little indication that migrants are credit risks for MFIs, we do know that debt heightens vulnerability for migrant workers. Given the strong incentives to repay debts at home, indebted migrants often make riskier choices. Indebtedness has been identified as causing migrants to move into exploitive work, making it more difficult for them to leave bad working situations, causing anxiety and depression, increasing the likelihood of forced labor, and impelling them to run away from employment contracts, which can lead to the loss of legal status within their host country. A recent UNODC report on Cambodia even explicitly links microcredit debts to an increased risk of trafficking.

What should policy-makers do with this information? A small, but important first step would be to better understand both the scope of migration resulting from over-indebtedness, and over-indebtedness itself. To date, the research that has been done on the latter fails to interrogate lending practices as possible causes of over-indebtedness.

More broadly, there is a real and pressing need for greater regulation of the microfinance sector to curb predatory forms of lending and debt collection, and to place greater priority on consumer protection and the prevention of over-indebtedness. Widespread over-indebtedness does not arise from borrower behavior alone, it is also the outcome of poor governance within MFIs, predatory lending, and a lack of state regulation. Currently, the sector self-regulates through voluntary adherence to a set of consumer protection principles. While these principles are comprehensive and specific, without any enforcement mechanism they are broadly ineffective. A small, but meaningful first step would be to create such enforcement mechanisms. Until the structural causes of over-indebtedness are addressed, over-indebted Cambodians are likely to continue to see undocumented work across the border as the best possible way to repay their debts.

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