

Are Migration and Microcredit Mutually Enabling? Evidence from Rural Cambodia

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Over the past three decades, access to credit has grown dramatically throughout the developing world. This expansion has been driven by microfinance institutions (MFIs), which offer relatively low-interest loans to previously 'un-banked' households.

This Development Viewpoint draws on research from rural Cambodia to explore the unexpected and overlooked impact of microcredit on international migration. Its focus is on 'migra-loans', microcredit loans that are used in tandem with household strategies of international migration.

Although MFIs have varied in their basic approach, the governing intention of mainstream microcredit programmes has been to support sustainable local income generation and self-employment. Thus, most research on MFIs has explicitly assumed that one of their broader impacts will be a reduction in the need for migration.

Mainstream theories of migration support this assumption by positing that lack of access to low-cost credit is a fundamental cause of migration. Thus, such theories suggest that increasing access to credit in rural areas will lead to a reduction in out-migration.

However, recent research findings from rural Cambodia have documented how the expansion of microcredit has enabled, sustained and promoted international migration (Bylander, Maryann (2014). 'Borrowing Across Borders: Migration and Microcredit in Rural Cambodia', *Development and Change* 45 (2): 284-307). These findings call into question some of the central assumptions about how both microfinance and migration function.

Trends in Rural Cambodia

Although microfinance came to Cambodia relatively late, starting only in the mid-1990s, its growth since then has been explosive. The country now ranks among the top five in the world in terms of the ratio of microfinance borrowers to the total population.

Table 1 highlights the growth of microfinance in Cambodia, showing the increase in the number of MFI institutions, the number of active borrowers and their average loan size.

Conventional wisdom would suggest that in areas where international migration is common, the expansion of access to credit (described in Table 1) would enable more people to stay home.

However, our research from a migrant-sending area where MFIs have been active does not support this assumption. Instead, microcredit finances, supplements and compels international migration.

Evidence from Chanleas Dai

Chanleas Dai commune is located at the western edge of Siem Reap province in Cambodia, approximately 100 km from the Thai border. Contemporary migration to Thailand from Chanleas Dai started in the early 1990s, and has expanded over the last 20 years as such migration has become lower cost and lower risk. By 2007, most households were using migration as their primary livelihood strategy.

Table 1: MFI Expansion in Cambodia, 1997-2011

Year	Number of MFIs	Total Number of Active MFI Borrowers	Average Loan Balance Per MFI Borrower (US\$)
1997	2	1,347	125
1999	4	117,156	138
2001	9	249,289	124
2003	12	355,221	174
2005	14	493,754	303
2007	15	799,414	586
2009	17	1,123,180	744
2011	17	1,386,772	1,170

Source: MIX 2013 Cross Market Analysis: <http://www.mixmarket.org/profiles-reports/crossmarket-analysis-report> (accessed 4 June 2013).

Borrowing has been a part of household strategies for as long as village elders can remember since it has helped families gain access to cash throughout the agricultural cycle. Through the early 2000s, households in Chanleas Dai relied on market-based moneylenders or informal loans from networks of relatives and friends. Often these loans helped maintain consumption levels,

finance health treatment or purchase small-scale agricultural inputs.

Microfinance institutions first came to the Chanleas Dai area in 2000, when ACLEDA opened a branch office in Kralanh, a town just eight km from the commune centre. In 2002 a second MFI followed, and by 2010 there were eight MFIs operating in the general area and several others planning sub-branch offices.

The rapid expansion of microfinance into the area has lowered the cost of both formal and informal credit, resulting in increased access to and use of various kinds of loans. Both moneylenders and MFIs have reported consistently expanding loan portfolios over the past decade, even though competition has intensified.

The Use of Migra-Loans

In general, expanded access to credit has not turned households away from their primary livelihood strategy of migration. Rather, borrowing and migration have often been used together.

In Chanleas Dai, migra-loans have functioned in three distinct ways. First, migra-loans have been used to finance the costs of migration for a household member. MFI officials acknowledge that such loans contravene lending policies, yet nonetheless they have occurred.

Second, households have taken loans for non-productive purchases, such as motorbikes or houses—with the explicit intention of repaying the loan through future remittances from migrant family members. Such remittance-led migra-loans could typically not be repaid through local livelihood strategies.

Thirdly, distress migra-loans have occurred when over-indebtedness has compelled the migration of a borrower or his/her family. In such cases MFI clients who have borrowed for a failed productive investment are forced to migrate in order to repay their loans.

Although conceptually different from the first two kinds of migra-loans (where migrant remittances are a planned means of loan repayment), 'distress migra-loans' imply that MFI debts are still the primary cause for migration and are repaid through remittances.

Why Does Borrowing Enable Migration?

Residents of Chanleas Dai often remark that local livelihood strategies are high-risk and low-reward in comparison to migration strategies. Stable, secure markets for local products are lacking, and even the most successful local strategies generate low profits.

Thus, very few livelihood strategies produce the kind of secure, regular income that is required to repay microcredit loans.

Moreover, despite the inherent risks of undocumented migration, residents in Chanleas Dai have developed various strategies and networks to mitigate vulnerability.

Migrants are generally optimistic about their ability to find and keep a job in Thailand and are familiar with the expected salaries in each sector. Therefore, loans are perceived as relatively unproblematic for households with migrant members. As a result, the perceived best use of newly available credit has been to reinforce the most successful, stable and desirable strategy — namely, migration.

Concluding Remarks

In Chanleas Dai, the factors shaping decisions to migrate are the same factors that encourage credit to be used for further migration—and explicitly not for local investment.

The risks associated with local production render migration desirable and, at the same time, local investment less desirable. At the same time, a strong and self-sustaining culture of migration encourages migration as a primary livelihood strategy and concurrently discourages the use of available resources for investment in local income-generating projects.

While little formal research has highlighted the connections between microcredit (or expanded access to credit) and migration, there are strong indications that this pattern is relevant beyond Chanleas Dai and Cambodia. Studies on Guatemala, India and Senegal have suggested similar patterns (Stoll, 2010; Taylor, 2011; Duffy-Tumas, 2009).

Thus, there is evidence spanning a variety of contexts to suggest that migration and expanded access to credit can be mutually enabling processes. Given the prominence of both microcredit and migration as development strategies, the prevalence, significance and consequences of migra-loans are key areas for future research.

References

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