Mini Review



# How does microfinance affect out–migration?

**Keywords:** microfinance, migration, strategies, international, borrowers, households, philosophy, socioeconomics, diversification

Volume 2 Issue 6 - 2018

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**Received:** October 21, 2018 | **Published:** November 12, 2018

## Background

Microfinance is one of the most widely used international development strategies to reduce poverty and enhance economic growth especially in developing countries.[1,2] The philosophy behind microfinance is that access to small loans could help poor people end the vicious cycle of poverty. Since microfinance offers the "collateral–free" credit, it frees poor people from the high interest rates of traditional moneylenders and assists in improving their quality of life on a long–term basis. In theory, microfinance supports the economy by making credit available to very poor households, which do not have collaterals to access loans from established banks; microfinance empowers its clients by providing financial education and independence; microfinance gives opportunities to borrowers to make decisions at microenterprise and household levels; microfinance enhances the well–being of poor people by increasing life satisfaction, addressing self–esteem and optimism as well as reducing stress level.[3]

Traditionally Microfinance Institutions (MFIs) address poverty by organizing poor households in saving and credit networks that have access to finance and information to develop and maintain microenterprises. Microfinance Institutions (MFIs) are excellent distributers of microloans to vulnerable populations, and in 2017 only, these institutions provided microloans to support microenterprise development to almost 200 million poor households around the world.[4] Even though Grameen Bank in Bangladesh began the model of microfinance by providing small loans to poor people who were traditionally considered credit unworthy by existing banks, now microfinance has become a global phenomenon. While evaluations show mixed results of the impact of microloans on poverty reduction, experts agree that microfinance decreases loan defaults and promotes social cohesiveness among group members.[4] All microfinance loans are meant to be for self–employment and microenterprise development.[5] The access to microfinance should enable borrowers to build their businesses, and as a result, their financial situations should improve.

There is a plethora of literature that deals with the relationship between microfinance and poverty. As a result of the recent expansion of Microfinance Institutions (MFIs), millions of poor households have access to microfinance.[6] Despite the growth of microfinance, very few studies focus on the relationship between microfinance and migration.[7] One of the reasons to have limited literature on the relationship between microfinance and migration is the assumption that poor people are less likely to be involved in migration than the resource–rich people,[8,1,9] or poor people are reluctant to or only migrate in exceptionally difficult situations.[10] Another assumption is that, because of the better financial situations, the borrowers of microfinance would not involve in out–migration as out–migration is the result of excessive competition over land, inheritances, employments and rare opportunities for upward mobility.[11] After all, how does microfinance influence out–migration? Because of the limited study, the migratory behavior of the poor has remained a myth for a long time. Hence, it is important to understand the influence of access to microfinance on out–migration.

### Access to microfinance enhances out–migration

Migration is an important social phenomenon that affects socioeconomics and politics of both the receiving and origin places or countries.[7,12] Literature shows that access to microfinance enhances both internal and international out–migration.[13,6,7] Shonchoy[7] found that in Bangladesh, people who have access to microfinance are more likely to be involved in seasonal migration than those who do not have access to microfinance. Similarly, according to Bylande & Hamilton[6] in Cambodia, the households which are involved in the microfinance program are more likely to have migrants than the households which do not have access to microfinance, irrespective of purpose and amount of loan. Guatemalans use loans borrowed from formal and informal financial institutions to finance international migration to the United States.[11] In Nepal, access to microfinance does not discourage Nepalese from involving in out-migration.[14] Why do people who have access to microfinance migrate instead of being involved in their microenterprise business as expected? This is an important question because one of the goals or expected outcomes of microfinance or microcredit programs has been noted as the reduction in out–migration.[15]

According to Shonchoy[7] there could be two possible explanations behind the positive association of microfinance with out–migration. First, microfinance may not generate enough household income to encourage the borrowers to leave their places to earn the additional income. Microfinance program gives a high priority for repayment of loans. Maintaining a good record of repayment and loan settlement is very important to get future loans from the microfinance institutions. If this is true, it is self–explanatory that borrowing microcredit or debt inherently contributes to creating a situation for a seasonal migration.[1]11 Secondly, microfinance could be helpful in generating sufficient household income that supports the cost of seasonal migration in the time when business suffers. The out–migration in this case indicates the diversification of household coping strategies and enhances the purchasing capacity of households.[16] In both cases of income, sufficient and insufficient, microfinance encourages out–migration (Figure 1).

[1]Seasonal migration is also known as "Temporary internal migration," "circular migration," or "oscillatory migration".[7]

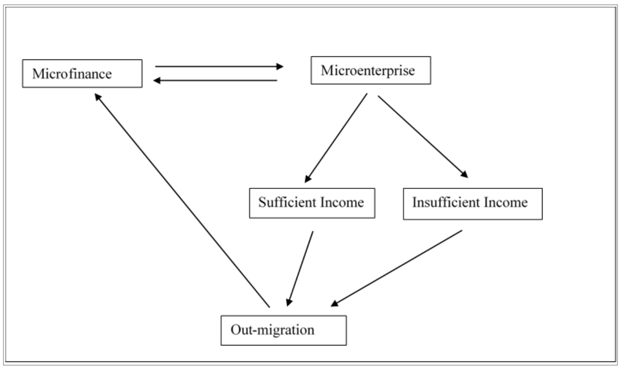


**Figure 1** The relationship between microfinance and out–migration.

### Research findings contradict with the theories

There are two theories, the Neoclassical Economic theory and the New Economics of Labor Migration (NELM) theory, related to the access of finance and migration. According to the Neoclassical Economic Theory, the absence or limited access to financial services is the fundamental reason for out–migration.[6,17] The argument of the Neoclassical economic theory is that out–migration is the result of geographical differences in labor supply and wage rate.[18] Workers migrate from the area of high labor supply and low wage to the area with short labor supply and high wage. In addition, for The Neoclassical Economic theory, the nature of migration is permanent, and individuals take decisions based on the cost–benefit analysis of net lifetime gains across the labor markets.[19] The priority of the Neoclassical economic theory is on labor markets, individuals, and permanent migration ignoring several critical aspects of migration such as migration is often temporary. Migrants remit the large portions of their earnings to the places of origin.[6,20]

The New Economics of Labor Migration (NELM) theory addresses the limitations of the Neoclassical Economic Theory and proposes that households, not individuals, make decisions about migration. For NELM theory, migration is a response to the available insurance and credit in markets along with the labor supply. This theory understands that migration is not just for income maximization; rather, it has multiple purposes.[21–24] Migration is a household decision and through involving family members, households diversify their earnings that helps to cope during vulnerable situations such as failure in enough crop production due to drought or other reasons. Hence, migration is a risk–minimization strategy that replaces unavailability of credits or insurance. Additionally, recipients can enjoy the remittances for household consumption and investment. According to Massey[8] in the areas where banking services are poorly developed, migrants can be attracted to out–migration as an alternative source of capital generation. The absence of loans can be motivation for seasonal or short–term migration. The NELM theory predicts that migration is a substitute for inaccessible credit markets.[25] These theoretical arguments are the basis for policy recommendations, which suggest making credit (and insurance) accessible in markets could decrease out–migration from rural, remote, and resource poor areas.

### What could be the reasons?

The positive influence of microfinance on out–migration challenges both the Neoclassical and New Economics of Labor Migration theoretical models. These theories advocate that workers out–migration can be taken as a substitute for credit. But, people who have access to microfinance get credit when they are in need. Then, why do poor people who borrow micro–loans migrate instead of being involved in their own microenterprise development? Most literature assumes credit constraints as the main obstacle for micro–enterprise development.[26] The microfinance sector pays more attention to savings and credit constraints and pays little attention on business skill training. We can argue that the access to microfinance should overcome the problem, and businesses of the microfinance borrowers should run optimally.[26] However, access to microfinance alone is not sufficient to generate desired business growth.[27] In reality, poor people rarely have any formal business experience and skills.[26,28] Studies with microfinance borrowers in Peru and Philippines show that formal training to microfinance and business skills have a positive impact on the ability to cope with risk, strengthen community ties and increase access to informal credit.[3,26] Microfinance Institutions have done a wonderful job in reaching out to poor and very poor people, but microfinance as a sector is struggling to create sustainable institution. They lack sound infrastructures and struggle covering their costs because of low profitability and high transaction cost while attempting to reach to the maximum number of the needy who are expecting microloans.[29] Self–sufficiency in operation is crucial for a long–term service to poor people. Being weak institutionally, it cannot support enough for enterprise development.[30] For the sustainability of the microfinance sector, development and enforcement of appropriate regulations, diversification of microfinance products, increased use of information technology, and provision of infrastructural facilities such as network of transport and power supply as well as capacity development of microfinance professionals and institutions are desirable. [31–33] Poverty related problems such as low literacy, inadequate infrastructure, poor health and low numeracy skills are other reasons that obstacle the borrowers to take advantages of microfinance in implementing successful microenterprises. [28,34]

## Conclusion

Despite assumptions of the Neoclassical Economic theory and the New Economics of Labor Migration (NELM) theory, which are widely used in migration research, studies show that access to microfinance increases out–migration. These two theories assume that the removal of financial constraints or access to microfinance should stop out–migration. Clearly, microfinance has limited impact on poor, and it does not completely transform the lives of its' borrowers.[2,35,36] Our assumption may not capture the reality of life of poor people. Our perspective is shallow, and it has not been drawn from the complex social-economic structures of poor people's lives.[10] The literature on the linkage among microfinance, migration, and poverty is still evolving and faces many controversies. We may not have understood the massive scale of problems poor people face,[37] and they deserve valuable, empirical studies. It is impossible for poor households to address their problems by limited income generated from microenterprises and must diversify their income to meet expenses required for household consumption and investment such as food, health, education and residence.

## Acknowledgements

None.

## Conflict of interest

The author declares that there is no conflict of interest.

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