

LOAN CHOICE AND INDEBTEDNESS OF BANGLADESHI RETURN MIGRANTS

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Scope of the paper

Key questions:

- **What characteristics influence migrants' decision to financing migration through loans?**
- **Are their differences in the characteristics of the different sources of loans?**
- Do these differences affect debt burden upon return?

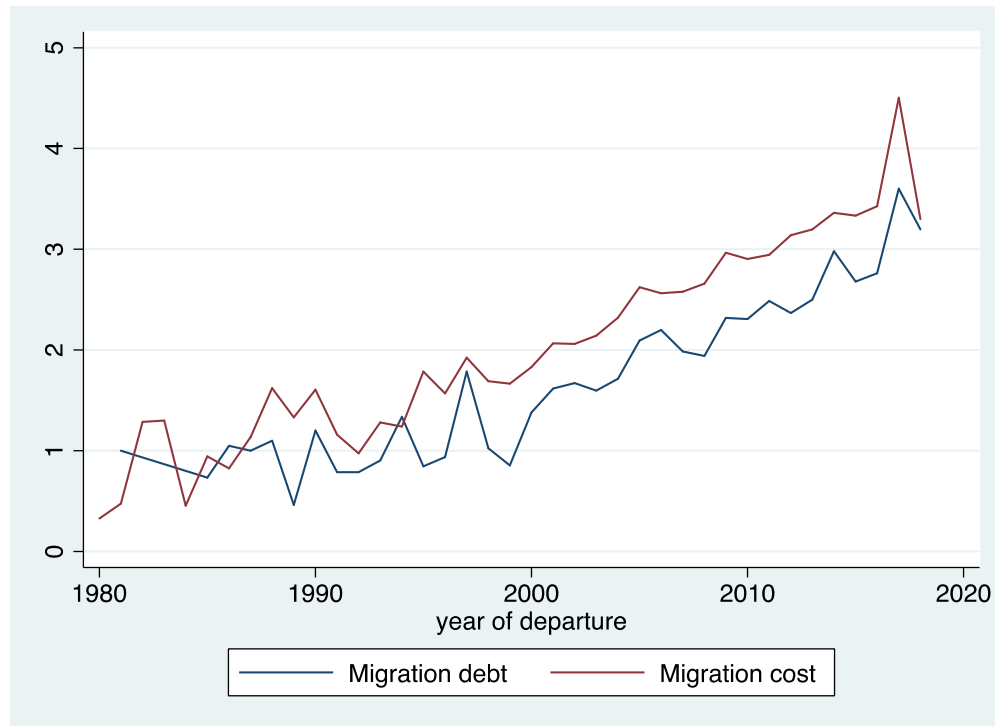
Draw on Bangladesh Return Migrant Survey 2018/19 (BRMS)

Inform policies and programs to:

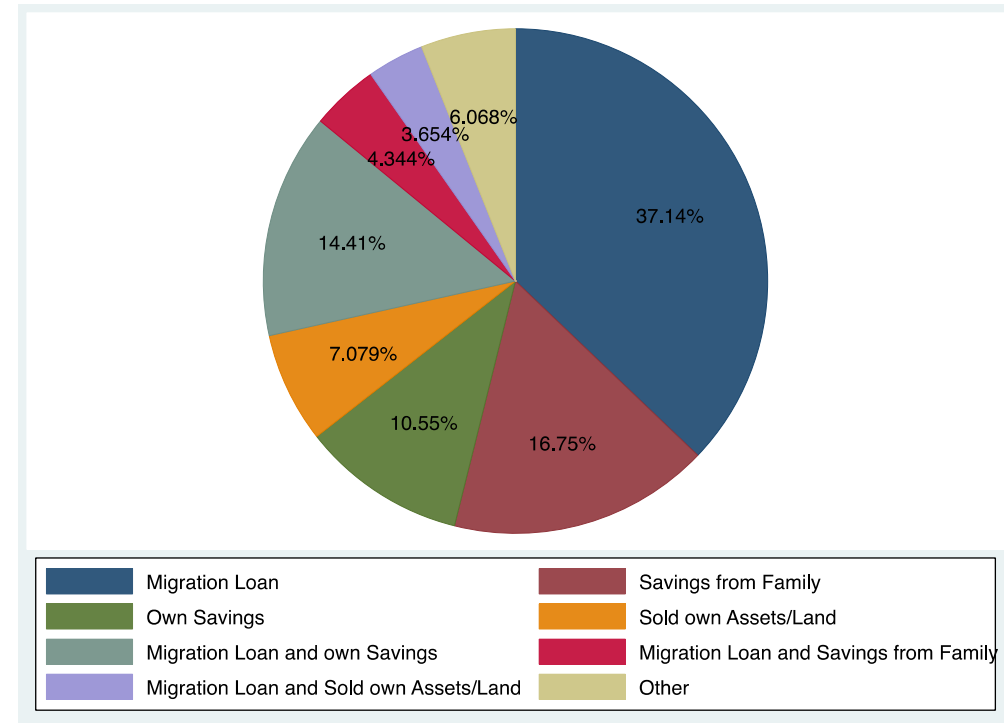
- Reduce barriers to migration
- Reduce vulnerability

Costs for economic migrants from Bangladesh are among highest in the world

Migration costs and the amounts borrowed over time (100,000s of BDT, per migrant)



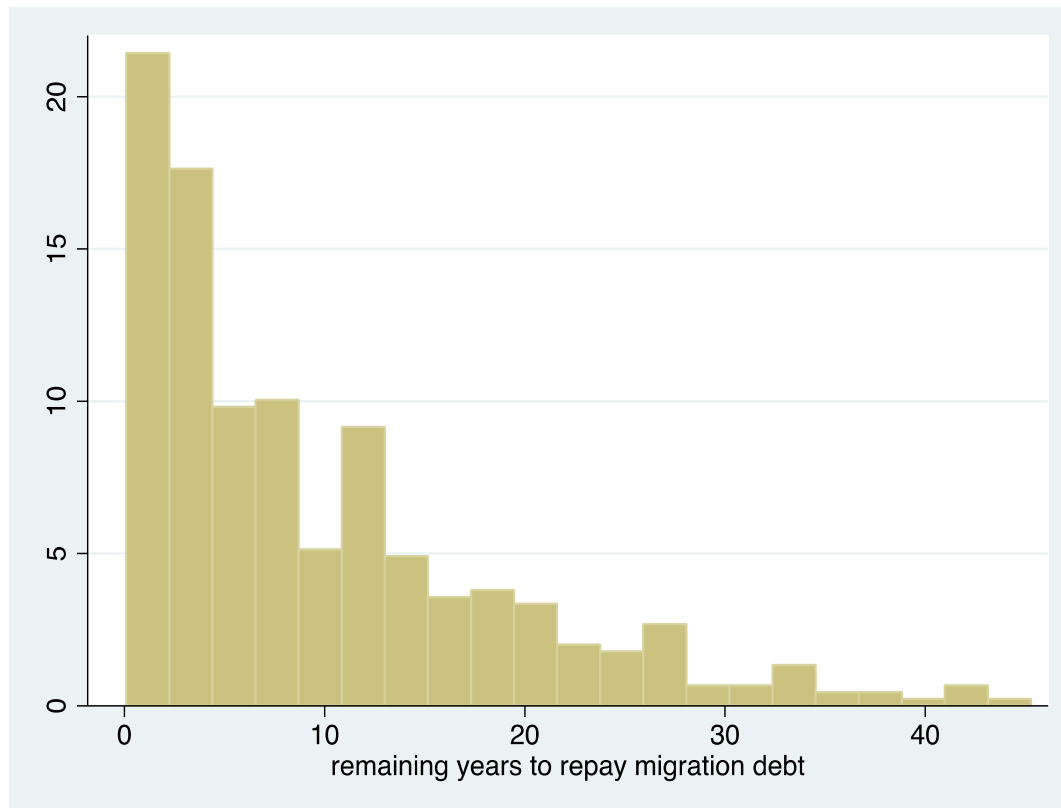
Sources of migration financing (%)



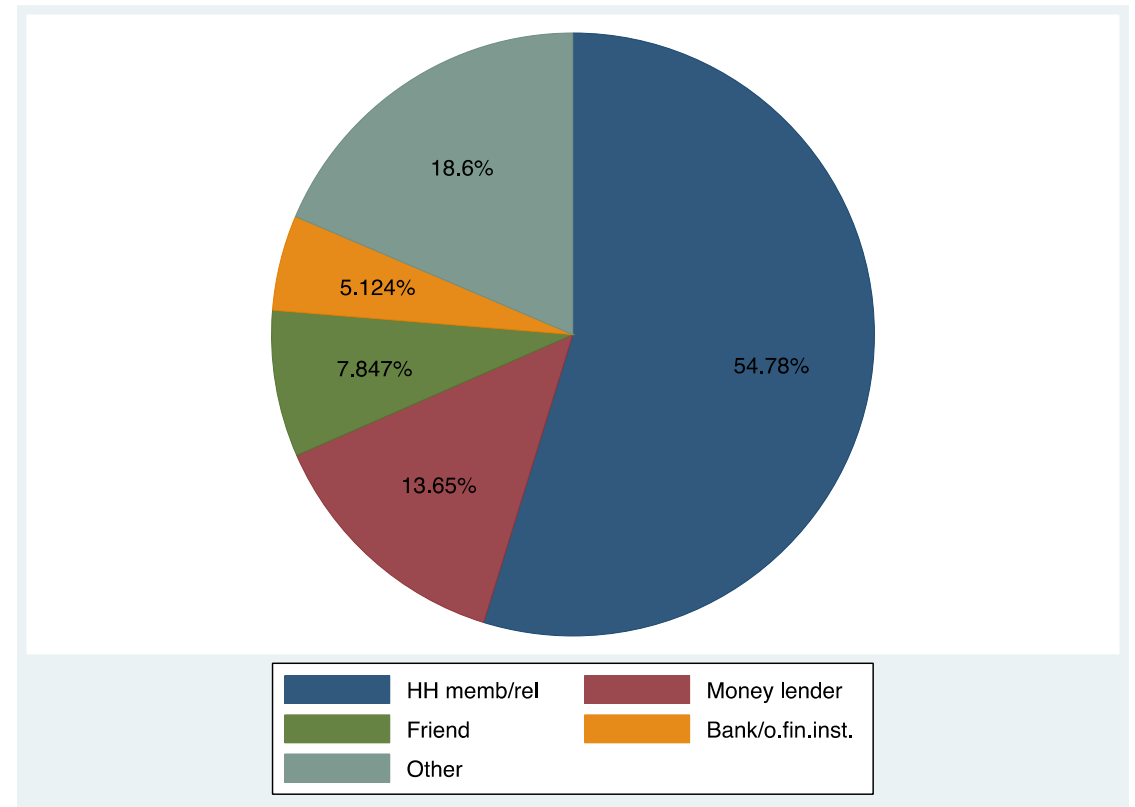
Note: Data from BRMS 2018/19

Loans can take a long time to repay and come from many sources

Est. average years need to repay migration debt
(distribution in %)



Source of loans (%)



There are differences in loan characteristics across sources

Characteristics	HH memb./rel.	Friends	Bank/oth. fin. Inst.	Money lender	Significance test (1 vs 2)	Significance test (1 vs 3)	Significance test (1 vs 4)	Significance test (2 vs 3)	Significance test (2 vs 4)	Significance test (3 vs 4)	Significance test (1 vs 2 vs 3 vs 4)
Amount of debt (in BDT)	224,723	198,196	227,937	227,226	**	*	*		*	*	
Interest rate (IR) (in %)	10.055	8.98	11.31	15.39	*	*	***	***	***	***	***
Period of IR being repaid	Year	Month	Year	Year	***		***	***	***		***
Collateral (yes) (in %)	4.94	5.02	9.09	10.24		**	***		**		***
Collateral (in BDT)	219,054	188,333	295,833	199,213							

VARIABLES	(1)
log(cost) _i	0.143*** (0.0172)
age at departure _i	0.0190* (0.0110)
age at departure ² _i	-0.000359** (0.000172)
education at departure _i	-0.0166*** (0.00379)
land _i	-0.0617*** (0.0237)
marriage _i	-0.0335 (0.0341)
megacity _i	-0.283*** (0.0337)
employed prior to migrating _i	0.128*** (0.0212)
log(hh income) _i	-0.0825*** (0.0156)
HH member _i	-0.0123** (0.00651)
male _i	-0.137* (0.00651)
Observations	2,255
Pseudo R-squared	0.0763

Determinants of decision to take loan

Probit regression

- Similar coefficients with linear probability

Factors increasing probability of taking out a loan for financing migration

- Cost
- Age (decreasing over time)
- Lack of land
- Not coming from Dhaka/Chattagram
- Being employed in 5 years prior to migrating
- Lower household income

Average Marginal Effects

VARIABLES	(1) loan_hh_memb	(2) loan_friends	(3) loan_banks	(4) loan_moneylender
log(cost) _i	-0.0622*** (0.0232)	-0.0055 (0.0140)	0.0201 (0.01260)	0.04758** (0.01859)
age at departure _i	0.0554*** (0.0120)	0.0011 (0.0074)	-0.0079 (0.00609)	-0.04856*** (0.00877)
age at departure ² _i	-0.0009*** (0.0002)	0.0000 (0.0001)	0.0001 (0.00009)	0.00073*** (0.00014)
education at departure _i	0.0149*** (0.0041)	-0.0104*** (0.0025)	-0.0018 (0.00221)	-0.00275 (0.00336)
land _i	-0.0823*** (0.0266)	0.0728*** (0.0154)	-0.0019 (0.01446)	0.01136 (0.02131)
marriage _i	0.0494 (0.0355)	-0.0066 (0.0238)	-0.0212 (0.01754)	-0.02160 (0.02702)
male _i	0.1033 (0.0788)	-0.0609 (0.0401)	-0.0077 (0.04513)	-0.03470 (0.06417)
megacity _i	0.0020 (0.0518)	0.1527*** (0.0179)	-0.0151 (0.02687)	-0.13954*** 0.05087
log(hh_income) _i	0.0728*** (0.0199)	0.0346*** (0.0117)	-0.0240** (0.01082)	-0.08341*** (0.01621)
employed prior to migrating _i	-0.0349 (0.0235)	-0.0443*** (0.0149)	0.0256** (0.01250)	0.05356*** (0.01837)
HH member _i	-0.0237*** (0.0072)	0.0064 (0.0046)	0.0042 (0.00373)	0.01312** (0.00556)

Observations: 1,688

Pseudo R2: 0.0813

Determinants of loan type

Multinomial logistic regression of loan choice on migrants' characteristics

Key differences emerge between choice of going with a loan from formal versus informal sources, e.g. household/family versus moneylender

- Years of experience matter
- Migrants from richer households less likely to go outside household/friends
- Higher migration costs reduce probability of households/friends, and increase probability of moneylender

Key takeaways

Costs of migration significant determinant of decision to take on loans

- Loan repayment after return tends to be slow presenting drag on financial well-being/viability of remigration

Choice of loan product driven by several key individual characteristics

- Key difference in options is between formal (banks, moneylenders) and informal (friends, family)
- Migrants from lower-income households, but who have worked for 5 years before departure tend to go to moneylenders or banks because informal sources may not have funds to give
- At the same time, workers without as much work experience may not qualify for formal loans

Policy suggestion

- Interventions to reduce costs of migration, e.g. investments in migration systems, government-to-government programs
- More and new loan microfinance products, which tend to be non-collateralized, better targeted to lower-income households
- Streamlining access and range of products from formal channels

Thank you

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