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Chair of Political Economy of Development

**Remittances and Microfinance in the Process of Development:
The Case of Bangladesh**

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LIST OF ACRONYMS

UN – United Nations

IOM – International Organization for Migration

DDI – Diaspora direct investment

FDI – Foreign direct investment

ODA – Official development assistance

OECD – Organisation for Economic Co-operation and Development

GDP – Gross Domestic Product

MTOs – Money Transfer Operators

MFIs – Micro Finance Institutions

NGOs – Nongovernmental Organizations

SDGs – Sustainable Development Goals

GEM – Global Entrepreneurship Monitor

TEA – Total early-stage entrepreneurial activity

NCB – Nationalized commercial banks

PCB – Private commercial banks

BB – Bangladesh Bank

SMEs – Small and Medium Enterprises

BDT – Bangladeshi Taka

IMF Istituzioni di Microfinanza

IDE – Investimenti Diretti Esteri

APS – Aiuti Pubblici allo Sviluppo

PIL – Prodotto Interno Lordo

INTRODUCTION

International migration is not a new phenomenon, people have always used to move from their birthplaces to new countries which could offer them more opportunities and a better welfare. However, under the influence of globalization, migration patterns have become increasingly complex and have come to be object of more comprehensive and detailed studies. Not only the estimates are important but especially the impact on the demographic, economic, social and political contexts of the countries involved. The United Nations Department of Economic and Social Affairs, Population Division report that in 2017 there were an estimated 258 million *international migrants*, a term which designate people residing in a country other than their country of origin. Each of these people embody a different story, each of these people has a different reason why they chose to move, and most of the time, more than one at once.

The forces behind migration are several, complicated and strongly interrelated. Violence and oppressive political situations can lead to migrations outflows, both internal and international. However, violence and poverty do not represent the only push-factors of movement: international migration, more than internal, may be expensive and requires significant resources. The socioeconomic background of migrants, in fact, play an important role. Developed countries compete in attracting highly skilled workers and people with an entrepreneurial spirit, while low-skilled workers and refugee are often excluded and discriminated. Therefore, highly qualified migrants and entrepreneurs may greatly benefit from migration, developing new skills, new techniques, with a likely prospect of returning in their country and apply what they have acquired.

This study looks at the impact remittances, the money migrants remit at home, have on the development and growth of the origin country. An analysis of this notable flux of money gives the opportunity to understand how this resource may represent a strong and powerful tool for development, especially in less developed countries. They represent the second largest source of external finance for those countries, only after foreign direct investment.

If we consider that a high percentage of this flow is sent through informal or illegal channel, which are not checked by formal institutions, the figure may almost double. Precisely the recording of remittances is one of the main obstacles in the study of this phenomenon and has long been disregarded, being considered incomplete and inaccurate. The huge flows sent

through informal channel may also be attributed to inadequate banking services and hostile political environment.

In this scenario the development of Microfinance Institutions (MFIs) played an important role in the fighting against poverty and financial exclusion of the poor. The flow of remittances has opened competition among transfer agents, and MFIs may be good candidates. The study of the likely relationship between remittances and MFIs is fairly recent. However, similarities between the objectives of microfinance and remittances exist. They both aim at poverty reduction and at a better welfare for households. At the same time, they may foster economic growth through entrepreneurship and the creation of new jobs. The impact of remittances clearly depends on how MFIs can relax credit rationing and channel migrants' remittances into productive investments. Thus, increasing the presence of MFIs in the remittances market may increase the positive impact of remittances on the growth of developing countries.

This thesis is articulated in three main chapters. The first chapter deals with international migration data. To assess its impact on sending countries, it is necessary to acquire knowledge about the magnitude of the phenomenon. Trends in migration have changed during history, affected by economic-, social- and political- shift at the global level. One of the strongest way in which migrations may foster growth in developing countries is through remittances. First, a definition and categorization of remittances will be provided. This will be followed by an analysis of the different channels through which remittances are sent, be they formal or informal. The remittances market following the advent of newer technologies, faster transportation and increased knowledge has widened, carrying with it advantages and disadvantages. A comprehensive study of the remittances phenomenon is made even harder due to the well-established informal network, which is not regulated and not controlled by formal authorities. Finally, the analysis will focus on the controversial relationship between remittances and development. A strand of literature has been written on this topic and no consensus seems to have been reached. If on the one hand, the impact of remittances at the microlevel has been widely recognized, the macroeconomic impact is still debated. Remittances are to be considered as an additional income source for households, which can employ it in different manners, from conspicuous consumption to investment in human and physical capital. The way in which these moneys are spent affect the final developmental potential. Therefore, a literature review will provide information on this complex topic.

Subsequently, the analysis is brought forward in an attempt to connect remittances to a second potential tool for development of less developed countries, namely microfinance. In order to comprehend what microfinance is, and when it developed, the chapter will start with a definition and a brief exposition of the history. The origins of microfinance are not recent, tracing back to 1700s, when Jonathan Swift founded the first modern credit funds in Ireland. Since then, it developed rapidly and the start of microfinance in the developing world has to be attached to Yunus Muhammad, the man who founded the Grameen Bank in 1976 and initiated microcredit services. Microcredit then became one of the most adopted and known instrument to relax *credit rationing* and foster economic development, extending itself all over the world. But microfinance does not only involve the provision of credit, but also other financial, as well as nonfinancial, services such as deposits, loans, money transfers, insurances, training, financial education, etc. Microfinance institutions (MFIs), i.e. organizations that offer financial services to low income populations, are of fundamental importance in the process of financial inclusion of the poor and in providing them with services targeted with their needs. Globally, in 2016 they reached more than 132 million clients. One factor of success of microfinance is the joint liability contract which minimizes information asymmetry and create a transparent environment between members, therefore, eliminating problem of adverse selection or moral hazard. The goals of microfinance are multiple, first and foremost poverty alleviation. Women empowerment is also a primary aim for MFIs, which is evident in the fact that 97 percent of borrowers at Grameen Bank are women. In addition, entrepreneurship development is another important object for microfinance. Growth-oriented entrepreneurs can strongly foster the economic growth of a country. Therefore, together with financial services such as loans and credits, MFIs provide also training and education, in a *package* of targeted services. As done for remittances, the chapter will provide an overview of the impact microfinance has had so far on the progress of less developed countries. The influence of the latter extended itself both at the micro- and macro-level. However, also for microfinance scholars appear to be divided between sceptics and proponents, whether the impact has proved to be positive or negative. The discussion will further expand to analyse the role that microfinance institutions together with remittances have on the process of development, with special attention to the stimulation and facilitation of entrepreneurial activity in developing countries. Several microfinance institutions have already entered the remittances market, providing migrant with specific services for their necessities. Caja Popular Mexicana, AMUCSS and FAMA all began programs combining money transfers, financial education, insurances, credits, etc.

The final chapter will be an attempt to apply the aforementioned theories to a specific case study: Bangladesh. The People's Republic of Bangladesh is an independent democratic Republic in South Asia, which obtained its independence in 1971. It is one of the most populated country in the world and considered a developing country. Despite, still much work should be done in fighting problems such as poverty, the government of Bangladesh is trying to go forward in fostering its development. This country is a perfect example of how remittances and microfinance can be powerful tools for development. It is one of the top remittance-receiving country, with \$13.469 million remittances received in 2017 and is the birthplace of modern microfinance. Both remittances and microfinance have proved to have a strong impact on poverty alleviation, entrepreneurship development, as well as on the GDP of the country. The government has long acknowledged their importance and created several ministries with the task of regulating migration and protect migrants from exploitation and discrimination. The second part of the chapter will look deeply at the presence of MFIs in Bangladesh and their influence. In 2018 there were 703 licensed MFIs, regulated under the Microcredit Regulatory Authority. One of the main strenght of these institutions is their widespread presence all over the country, reaching the most remote areas and the bottom of society. It will be analysed the impact of microfinance.

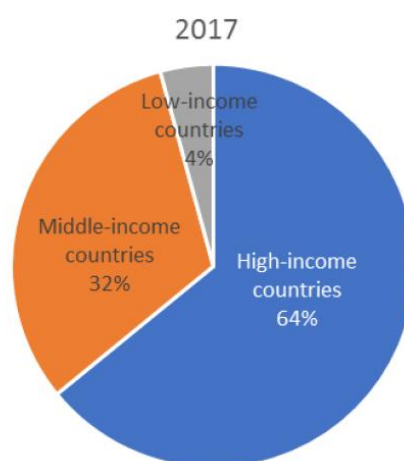
Finally, the last part will focus on the relation between remittances and microfinance in Bangladesh in the process of growth. Several MFIs are getting interested in the remittances market and are trying to create programs targeted at migrants and their households. It may be interesting to understand how this two different but profoundly similar instruments may be combined to create a even stronger aid for the development of the country.

CHAPTER I - MIGRATION, REMITTANCES AND DEVELOPMENT

1.1 Global migration patterns

International migration has become an increasingly important and crucial phenomenon, which does not leave out almost any country in the world. The process of globalization and technological innovations gave the opportunity to a growing number of people to migrate in an easier, cheaper and faster way. Due to the complexity of migratory patterns, alongside their extended impact on both sending and receiving countries, understanding and managing international migration has become a priority for the international community. Globally, in 2017, there were an estimated 258 million international migrants¹ which, compared to the 173 million in 2000, 191 million in 2005, 220 million in 2000 and 248 million in 2015, shows a growing trend (UN, 2017). A peak was reached during the period 2005-2017 when annually 5,6 million migrants were recorded. Although these numbers seem very high, in 2017 migrants only accounted for the 3.4 per cent of the world's population. High-income countries² are the ones that count the highest number of international migrants (in 2017, they host 165 million international migrants which represents the 64 per cent). They are followed by middle-income countries³, which host the 32 per cent of worldwide international migrants (81 million) and low-income countries⁴ with 11 million migrants (4 per cent).

Figure 1 - Percentage of international migrants by income group, 2017
Source: United Nations (2017a)



¹ International migrants are people residing in a country other than their country of birth.

² For the current 2018 fiscal year, high-income economies are those with a GNI per capita of \$12,236 or more. These measures are calculated using the World Bank Atlas method (see <https://datahelpdesk.worldbank.org/knowledgebase/articles/378832-what-is-the-world-bank-atlas-method>)

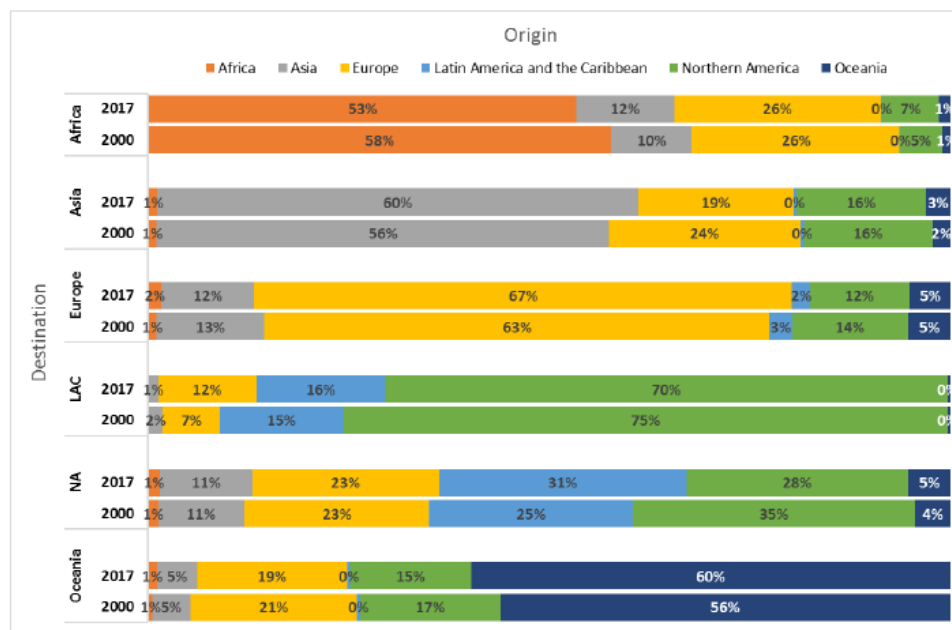
³ Lower middle-income economies are those with a GNI per capita between \$1,006 and \$3,955; upper middle-income economies are those with a GNI per capita between \$3,956 and \$12,235

⁴ Low-income economies are defined as those with a GNI per capita of \$1,005 or less in 2016

Figure I shows how international migrants have increasingly concentrated in developed countries, where opportunities and facilities are higher. However, contrary to what is usually expected, migration is not mostly driven by poverty or repression in the home country. Moving for long-distance, especially from South to North can be extremely costly and requires resources that poor people do not hold (Castles, Haas, Miller, 2014). As the UN 2017 report shows, in 2017 the majority of migrants coming from Europe (67 per cent), Asia (60 per cent), Oceania (60 per cent) and Africa (53 per cent) live in a country which is in the same birth's region, as shown in Figure 2. This is exacerbated by the fact that destination countries tend to differentiate between high skilled workers, which received a privileged entry, from low skilled workers, who are often discriminated and excluded.

Figure 2 – Percentage distribution of international migrants by region of destination, for region of origin, 2000 and 2017

Source: United Nations (2017a)



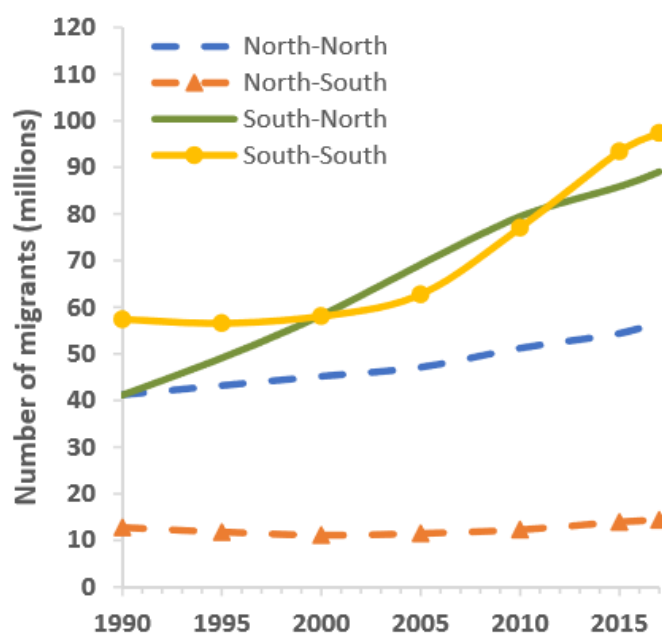
Apart from this, Asia is the first largest country whose migrants live in a different region of birth. 20 million people, out of 42 million born in Asia, live in Europe, 17 million in Northern America and 3 million in Oceania. Specifically, India is the country with the largest number of people living outside the country's borders (16.6 million migrants). This is regarded as "diaspora", defined by the IOM as "individuals and members or networks, associations and communities, who have left their country of origin, but maintain links with their homelands." Diasporas are vital sources of financing for home countries, thanks to their strong ties with the community of origin, they are driven to invest more money for the development of their region. Countries with strong diasporas have tried to facilitate their financial inclusion,

through several debt instruments such as diaspora bonds, diaspora investment, insurance and pension funds, diaspora direct investment (DDI), diaspora venture capital, etc. Few examples illustrate the magnitude of these flows: investment made by diaspora accounted in the period 1991-2001 for the 26 percent of foreign direct investment (FDI) in India and 25 percent in Armenia from 1998-2004 (UNDP, 2016). Therefore, even if migration cannot be considered as a substitute for development, it can positively foster the latter, through the implementation of appropriate policies and initiatives.

Migration patterns have changed remarkably since 1990, especially for bilateral migration corridors. Countries in the North used to represent the main destination, for seven out of ten bilateral corridors, with the United States of America being the top destination, followed by Germany. Since 2000, the figure changed, with an equal number of bilateral migration corridors whose destination was a country in the South and in the North and from 2010 to 2017, only one country of destination was in the North, namely the USA, while the majority found themselves in Asia and to a lesser extent in Africa. In 2017 Asia-to-Asia was the biggest regional migration corridor worldwide with 63 million international migrants.

Figure 3 – Origin and destination of international migrants by development group, 1990-2017 (millions)

Source: United Nations, Department of Economic and Social Affairs Population Division



This graph shows how South-to-South migration has come to exceed South-to-North migration with 38 per cent of migrants born in a less developed country and alongside migrated to a developing country. The drivers behind the choice to migrate can be multiple

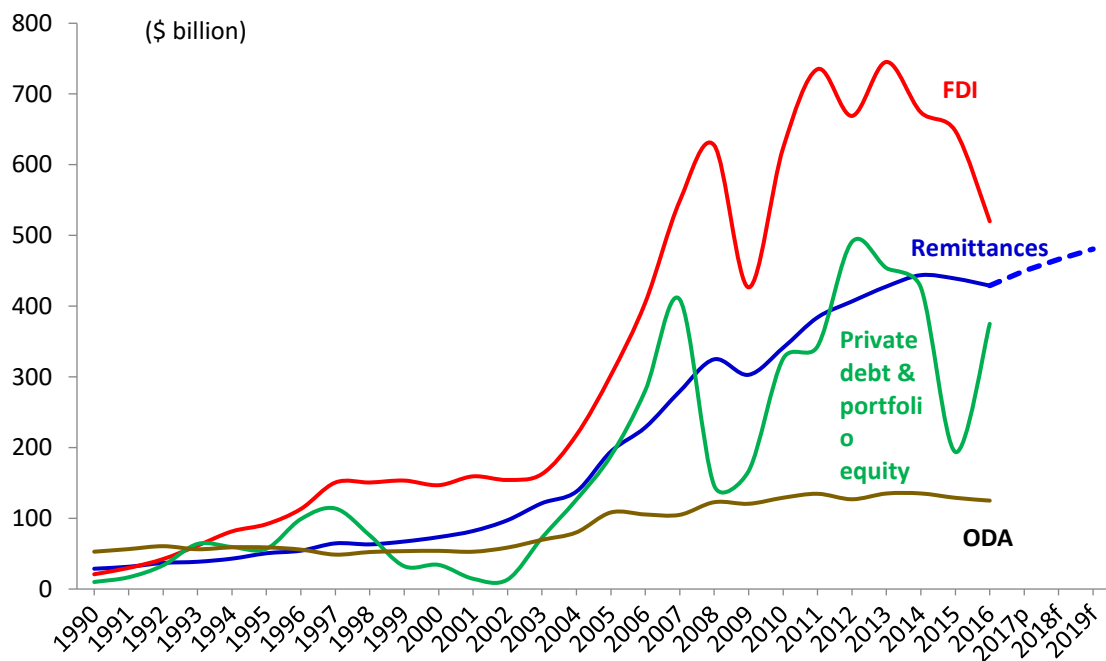
and are often interconnected. Many theories have been written to explain this choice, however, there is never one unique driving factor and migration of one person may be a collective decision of the entire household for social, political or economic motives. It is a tug-of-war between push and pull factors. The *push-pull model* consists of a number of negative or push factors in the country of origin that cause people to move away (e.g. political instability and conflict, lack of economic opportunities, high rates of population growth, and lack of access to resources) combined with a number of positive or pull factors that attract migrants to a receiving country (e.g. the availability of employment and demand for workers, ageing of populations, higher wages, political stability, or access to resources). Income gaps, social and economic inequality and demographic imbalances can be considered the main causes. Following the neoclassical theory, wage differential mostly counts in the decision to move: people consider expected gains in both origin and destination countries and then compute the difference. The highest is the difference, the higher will be the probability of migrating. This theory may hold, if we take into account that in 2015, the average income per capita in developed OECD countries was seventy times higher than in low-income countries (\$43,000 against \$600) and this gap involved both high-skilled and low-skilled sectors (WB, 2016). In addition, environmental change and disasters such as earthquake, floods or droughts can act as powerful push factors, especially for those countries which are extremely vulnerable to these shocks. Myers and Kent (1995) assess that almost 11% of the Bangladeshi population will become displaced due to floods and storms by 2050. In conclusion, several factors may affect the decision to move away from a country and resettle whether temporary or permanently in a new place. What has to be accounted for, is the magnitude of this phenomenon and its extensive impact.

1.2 Remittances: definition and typologies

International migration is to be considered an alternative strategy for sustaining the livelihood of family, as well as the entire community. This is mainly achieved through remittances, defined as private transfers that follow unidirectional paths sent from an immigrant worker to the family or community in his/her home country (UNDP, 2016). Remittances worldwide accounted in 2017 for \$596 billion and migrants from developing countries sent home an estimated \$450 billion. Indeed, the vast majority of this money is directed to less developed countries and this demonstrates that, together with smart policies, they may have a positive developmental impact on these countries. Moreover, these numbers record only formal flows, registered by legal institutions and do not include

informal, unofficial and illegal transfers, which according to the World Bank could almost double the numbers. Figure 4 shows how remittances exceed by more than three times ODA⁵. Further more, compared to only \$56 billion of remittances in 1995, it is clear how important this flux of money has become and a growing attention has been devoted to the topic. Thus, remittances appeared to be the second-best source of external finance, surpassing ODA and being surpassed only by FDI⁶, estimated to reach \$520 billion in 2016. Especially smaller and poorer countries are highly dependent on remittances, considering the size of their economies. As a share of GDP, the image is even more striking.

Figure 4 – Remittances, ODA, Private debt & portfolio equity and FDI
Source: World Development Indicators



The World Bank reported that in 2014 remittances accounted for 42 percent of GDP in Tajikistan, 30 percent in Kyrgyz Republic, and 29 percent in Nepal. The main source of remittances is the USA, with an estimated \$66.649 billion in outward remittances in 2016, followed by South Arabia with \$38.885 billion remittances outflows. South-South remittances accounted for 40% of the total sent, which confirm the growing pattern on migration between two developing countries (Julca, 2012).

⁵ Official development assistance (ODA) is defined as government aid designed to promote the economic development and welfare of developing countries. See <https://data.oecd.org/oda/net-oda.htm>

⁶ Foreign direct investment enterprise is defined as “an incorporated or unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise “. IMF

To further understand the phenomenon of remittances, it is worth making a brief categorization of the typologies. The International Monetary Fund Manual 6 identifies mainly two types of remittances: compensations of employees and personal transfers. This classification was reached after acknowledging the limitations of the previous one and the difficulty to compile data on remittances.⁷ Compensation of employees are the income “of border, seasonal and other short-term workers who are employed in an economy where they are not resident and of residents employed by non-resident entities” while personal transfers are defined as all current transfers that are sent between resident and non-resident individuals. Alongside this practical definition, Goldring (2002) distinguishes between three kinds of remittances: individual, collective and entrepreneurial. Individual remittances are generally the most common, and are associated with the sustenance of the household, bound by kinship or friendship, with the purpose of achieving a better standard of living of the family. Therefore, these remittances are mostly spent on consumption, as well as, invested on education, health or serve as insurance. The second type are the collective remittances which have started to receive more attention in the last decades because considered “high quality resource” and are mainly canalized in investment and funding for community projects, such as infrastructure, public services, urbanization projects. As mentioned in the first paragraph, diasporas remittances have been vital source for many countries. These financial outflows can be realized through associations, such as Home Town Associations (HTAs) which gather together collective remittances to improve the welfare of the origin community. An example of the effort done by these HTAs is the 3x1 program for Migrants in Mexico which is a matching-fund-scheme together with federal, state and local government, each contributing to the realization of community productive project. \$1.7 billion were reached in budget in 2010 (Douquette, 2010). Not only remarkable is the role this flow has on the sustenance of local infrastructure, but also important can be its function for the financing of entrepreneurial activity. Connected to this final function, the third typology of remittances are the entrepreneurial one, which even being similar to collective remittances, tend to be more centred on short or long-term profits, employment generation or may act as source of venture investment⁸. For example, the Hinschu Science-Based Industrial Park in Taiwan owns its success mainly to the money sent by Chinese migrants,

⁷ To further information, see “Remittances in the Balance of Payments Framework: Current Problems and Forthcoming Improvements” Jens Reinke, Statistics Department International Monetary Fund (2007)

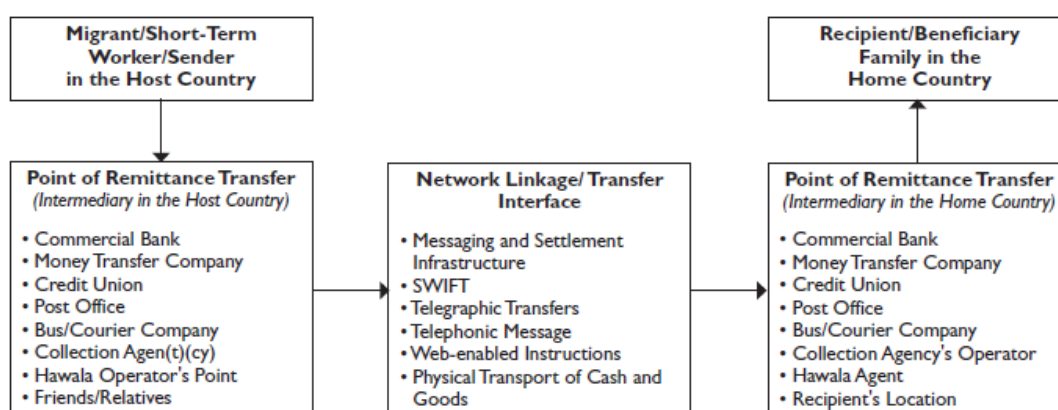
⁸ Venture capital is a type of funding for a new or growing business. It usually comes from venture capital firms that specialize in building high risk financial portfolios. With venture capital, the venture capital firm gives funding to the startup company in exchange for equity in the startup.
<http://www.businessdictionary.com/definition/venture-capital.html>

which gave the possibility to established 40% of the total companies (Ghosh, 2006). This shed light on the importance remittances have for financing venture investment in home countries, a topic that will be further analysed in the second chapter.

1.3 Channels for the transmission of remittances

Figure 5 – Remittances Channels

Source: International Monetary Fund (2009)



The study of remittances encounters significant concern when it comes to gather as much accurate data as possible. The presence of multiple channels, formal and informal, leads to erroneous calculation of the volume of these money flows but not only, since it makes harder the creation of programs and policies for the channelling of remittances towards formal institutions. As Figure 5 shows, the transaction of remittances involves several actors, i.e. a sender in the host country, intermediaries in both countries and a final beneficiary. It is possible to see the multitude of options available to individuals who decide to carry out this transaction. In fact, the choice between the formal and informal channel depends on several variables, such as transfer costs, the speed of delivery, the financial system, security, the institutional structure, etc. Aside explicit costs of sending remittances, hidden costs, such as exchange rates, may strongly influence the decision. Under exchange control regime, for example, it is possible that unofficial operators offer more attractive exchange rate, therefore pulling senders towards informal channels. These factors clearly differ among countries, and this makes even more difficult the differentiation among the channels. At the same time, migrant status and geographical distance also affects the choice. Irregular and undocumented migrants would prefer to use illegal means. Formal channels are, instead, more used when distances between countries are considerable and for the safety they provide. For simplicity,

in this thesis, it will be used the most common categorization of formal and informal channels.

Formal channels

Formal channels are those authorized to operate officially and are subject to scrutiny by official authority. Examples are banking channels, credit unions, money transfer operators (MTOs) and postal networks. Banks carry out transfers through their networks in both sending and receiving countries. However, when networks are missed, banks have to rely on intermediaries. Some banks also stipulate bilateral agreements with the involvement of central banks, especially when the flows of remittances between the two countries are considerable. The USA-Mexico *Directo Mexico* program⁹ is a good example (IMF, 2009). There are different payment configurations: electronic fund transfers, transfers by phone or fax but also online money transfer which give the possibility to carry out cross-border transfers between two accounts in the sending and receiving countries. This, nevertheless, required sophisticated technologies that not always exist in poor countries. MTOs are another widely used channel especially from Latin American immigrants since they charge lower average rate. Money Transfers Operators are financial companies, of which Western Union and Money Gram are the most globally used. The advantage of these companies is that they do not require neither credit cards, nor bank accounts, memberships or citizenship papers (IMF, 2009). Usually, MTOs rely on many intermediaries such as banks, postal office, exchange bureaus. The delivery occurs through the collection of cash from the sending agent to the delivery party (cash-to-cash). The speed and easy availability make this channel more attractive in respect to banks.

The high and sometimes unsustainable transaction costs of the formal services are one of the strongest reason why migrants tend to turn to the informal financial sector. The World Bank estimates that the average cost of transferring remittances remains about 13 percent, and sometimes exceeds 20 percent, of the amount remitted (Maimbo et al, 2005). On the contrary, the transaction costs of the well-developed informal channels such as *Hawala* and *Hundi*, are reported to be less than 2 percent of the total sum delivered (Orozco, 2003). This

⁹ In October 2003 the U.S. Federal Reserve banks and Banco de México agreed to connect both countries' payment systems. As a result, payments can be sent from any U.S. bank enrolled in this service to any bank account, or to be cashed at any TELECOMM-TELÉGRAFOS branch, in Mexico. This payment channel was registered as *Directo a México*® in July 2005. <http://www.banxico.org.mx/sistemas-de-pago/informacion-general/sistemas-de-pago-de-bajo-valor/directo-mexico001.html>

is exacerbated when talking about only small amount of remittances, in which case, the costs could be prohibitively high, due to minimum fees charged (from \$5 to \$50 for banks).

Informal channels

Informal transfer systems represent the more diffuse instruments for sending money home, and create a big gap in the study of remittances, since they are difficult to measure and control. These channels are outside the financial supervision, even if they may be legal. Born with the aim of ease trade and debt settlement between countries, they then developed as cheaper and faster way to remit money, especially to distant and remote places. They are mostly used for small transaction by short-term workers, as well as, by undocumented migrants, who cannot be registered into formal bank account which required documents and identification. Despite carrying numerous risks, such as fraud or robberies, and no assurances exist, they remain a strong attraction for migrants. Stricter monetary regulations, aimed at combatting money-laundering and terrorism financing, did reduce the usage of informal instruments, but were not able to reach a complete demolition of the phenomenon. In Middle-East and South Asia, the most common and organized system is the *hawala*. This system is composed of the remitter, the receiver and two intermediaries (*informal brokers* or *hawaladars*). Typically, it works in this way: the remitter gives the money to the first hawala operator in the sending country, who will contact the counterpart hawala operator in the receiving country to deliver the cash in the local currency to the beneficiary. At this point the transaction between the operators will be settled, bilaterally or multilaterally with the involvement of a third operator in a third country. The debt can be settled in different way, with transaction going in the opposite way, cash deliveries or by checks into relevant accounts (Maimbo et al., 2005). Hawala resembles the bank system, with the difference of operating outside formal regulatory frameworks. This has raise much concern among governments, and for example in India it has become prohibited, under the 2000 Foreign Exchange Management Act. Abuses such as smuggling, money laundering and terrorist financing, came alongside these informal systems, meaning that they are used with other scopes different from migrants remitting money to the family.

The informal sector is more likely to be used when the formal one is weak or not functioning, as well as, when costs are unsustainable and the gap with the informal system is significant. The absence of banking facilities and financial services restrict the choice of migrants. Complexities such as procedural requirement, personal identification, the uphold of minimum credit balance deter low-skilled and less educated migrants to open bank account.

Informal channels are based on long-standing trust which most of the time is missed regarding banks. However, when it comes to criminal intent of the users, the use of informal financial systems occurs regardless the development of formal and informal sectors but the latter increase the likelihood that smuggling, money laundering, terrorist financing, tax evasion and other crimes are carried out.

1.4 Remittances and development: a controversial relationship

The role of remittances in enhancing economic development of home countries has long been disputed by scholars and no consensus have been reached yet. Whether this additional income is spent productively or unproductively, the total effect of remittances can be two-way, fostering development in the recipient country or even impeding it. Moreover, their impacts mostly differ case-by-case and an overall assessment is difficult to be achieved. The literature is split in two, on the one hand those who argue for the positive impact of remittances, on the other hand those who instead argue the opposite, or affirm that no impact can be detected. The benefits coming from migration, even if controversial, are well recognized, and the 2030 Agenda for Sustainable Development explicitly refer to migration as a tool for sustaining development and provide instruments for the maximization of these positive effects. Migration can lower unemployment, as well as underemployment and is a powerful tool for poverty reduction. Remittances have a direct effect on the family's income, increasing aggregate demand which in turn may lead to higher production, employment and wages. The developmental effect of remittances can ease financial constraints of families and their stability and counter-circularity gives them an insurance during economic crisis or environmental shocks. In general, this is due to the fact that, especially during emergency, remittances tend to increase instead of decreasing for the emotional ties that links the migrant to his/her family. At the national level, they represent a relevant source for foreign exchange reserves, can contribute to financial sector development, enhance credit worthiness of the country and improve its balance of payments. In order to have a better and clearer idea on this debate, the discussion will be divided in two parts: the effects of remittances at the microlevel and at the macrolevel.

Impact at the macrolevel

At the macrolevel remittance may foster development, above all in countries that strongly rely on them as source of foreign exchange and of gross domestic product. However, opinions on the macroeconomic impact are far more mixed than that on the microeconomic

effect. Large flows of remittances to developing countries may have both beneficial outcomes, as well as, undesirable effects. They are regarded as being stable and countercyclical. In fact, they may raise in period of economic downturns or macroeconomic shocks for financial crisis, conflicts, natural disasters. Mohapatra et al. (2009) reported that after the 1998 flood in Bangladesh, household consumption per capita was higher for households receiving remittances. During the 1997 Asian financial crisis, Yang (2004) demonstrated that there was an increase in remittances to Philippine households. Being stable, they enabled countries which received high amount of remittances to fund long-term investments, which may promote economic growth. As reported by the European Parliament study on the impacts of remittances on developing countries (2014), the IMF-WB “Debt-sustainability framework for low income countries” has allowed countries to have higher debt when the ratio between remittances and domestic income is higher than 10 percent and the ratio with exported goods and services exceed 20 percent This means that the role of remittances has been increasingly recognized by the international community. However, these positive views are contested by some scholars who argue that, precisely because of these stable flows of money, governments may become less accountable and transparent. Chami et al. (2012) looked at the relationship between the receipt of remittances and institutional quality in the recipient country. In a cross-section study on 111 countries, they documented a negative impact of the former on the institutional quality. Corruption and government ineffectiveness may arise after the receipt of remittances. Therefore, what is important is that governments remain accountable to citizens for what concern remittances-related earnings. A second important effect at the national level is the improvement of a country creditworthiness. This may help the country entering the international capital market and hard currency remittances can improve its risk rating (Rahta, 2007). For example, using remittances as collateral, countries may borrow at lower interest rates from the international markets. Remittances, even when considered just transfer between two private entities, can indirectly produce a multiplier effect, enhancing effects on the broader economy. They increase expenditures on some goods that were not carry out in absence of this additional income. Remittances investments on housing may stimulate the economy through the creation of additional employment in the construction sector and may also contribute to new business opportunities. Glytsos (1993) in a study of Greece during the 1970s found out that remittances generated a multiplier effect of 1.7 on total gross output, especially on the apparel, machinery and construction industries and created about 74,000 new jobs in the non-agricultural sector. However, when the increased demand cannot be met and falls on

non-tradable goods, the result could also be negative, with an inflationary effect. The price for agricultural land in Egypt increased by 60 percent in the six years after 1980 due to remittances (Adams, 1991). Another negative outcome that remittances may cause at the country level, is the so-called *Dutch disease*, meaning the appreciation of the exchange rate after a large flow of remittances and the consequent loss of international competitiveness, making the production of cost-sensitive tradables less profitable. Amuedo-Dorantes and Pozo (2004) reported that a doubling in workers' remittances led to a 22 percent exchange rate appreciation in 13 Latin American and Caribbean countries. The *Dutch disease* may be overcome by governments through liberal policies and through channelling expenditures on infrastructure, in order to improve labour productivity and competitiveness. Finally, studies on the impact of remittances on GDP growth reach different conclusions. On the one hand, those who find a positive relationship between GDP and remittances. For example, Giuliano and Ruiz-Arranz (2005) using cross-country data series covering a large number of developing countries over the period 1975- 2002 found that remittances promoted growth in less financially developed countries through the alleviation of credit constraints on poor and the improvement of capital allocation. On the same line, Pradhan et al. (2008) in a study of 39 developing countries from 1980 to 2004 found a positive relation between remittances and GDP growth, even if not large. On the other hand, some scholars report a negative relationship between these two variables. Chami et al. (2003) found a robust negative relation between the growth rate of immigrant remittances and per capita GDP growth and concluded that remittances mostly had a compensatory nature which did not contribute to long-term growth.

Impact at the microlevel

At the household level, international remittances represent an additional source of income for the family. There is a general consensus that remittances reduce the level of poverty, even if on the other side, they may increase income inequality. It is important to keep in mind that international migration is expensive, and the lower strata of the population are unlikely to own sufficient means to afford it. As a result, many studies find out that the receiving of remittances by families can further increase the income gap with the poorest residents. Looking at the poverty alleviation effect, Adams and Page (2005) in their cross-country study on seventy-one developing countries reported a strong and significant impact of migration and remittances, where a 10 per cent increase of per capita remittances lead, on average, to a 3.5 percent poverty decline. Acosta et al. (2008) in a household survey of ten

Latin American and Caribbean countries, found that remittances reduced poverty, even if differing between countries. A 10 per cent increase in the ratio of remittances to GDP could go from 0.04 per cent poverty reduction in the poorer countries to 0.5 per cent in the richer one. Similarly, Lokshin et al. (2010) reported that 20 per cent of the poverty reduction in Nepal during the period 1995-2004 was to be attributed to the increased level of international migration and the amount of remittances received. Another study, conducted by Anyanwu and Erhijakpor (2010) on thirty-three African countries, confirmed that, between 1990 and 2005, international remittances reduced the level, as well as the severity, of poverty in Africa, where a 10 per cent increase in remittances caused a decline in the share of people living in poverty by 2.9 per cent. However, these views were questioned by other findings which instead argued for the possibility that developing countries may become extremely dependent on remittances which could become risky in period of decline in the flows of money received. Alvarez-Tinajera (2010), indeed, reported that for 16 per cent of Angolan households, remittances represent their entire monthly income, and for the 38 per cent, they ranged from 21 per cent to 80 per cent of their income.

Another relevant discussion regards remittances as means for investment. How families spend their additional income can make the difference, even if some scholars argue that either remittances are spent in consumption or are invested, they positively foster economic growth. Through easing liquidity constraints, households can increase their expenditure on physical and human capital, thus contributing to higher long-term growth. On the education side, Adams and Cuecuecha (2010b) studying Guatemala households, found out that those receiving internal or international remittances, at the mean, spent respectively 377 per cent or 194 per cent more at the margin of education than they would have spent without this additional income. One explanation is that family do not consider these earnings as permanent, but rather transitory, and because of that, tend to invest more on human and physical capital than on consumption.

An even more debated topic, is the extent to which remittances can stimulate business investment and entrepreneurship. On the pessimist side, in a study of the impact of remittances on business formation in the Dominican Republic, Amuedo-Dorantes and Pozo (2006b) found that remittances did not actually alter the likelihood of a family to own a business. This strand of literature stresses the argument that much of the money received is spent on consumption, because it mostly represent a social insurance for the family. On the contrary, Landolt (2001) showed how remittances can foster the creation of small businesses

and investments, and, in addition, that the so called social remittances ¹⁰ play an important role, enabling nonmigrants to change their status quo, demand higher wages and/or political and economic reforms. They indirectly get in touch with a different culture, understanding what is economic well-being, adopting new mind-set, and this is particularly important for women. Remittances allowed household to accumulate capital which can enhance access to financial services and investment opportunities. In the study “Remittances, Financial Development and Growth”, Giuliano and Ruiz-Arranz (2005) argued that in less financially developed countries remittances had promoted growth, since they alleviated credit constraints on the poor and acted as an alternative way of finance investment. Following this argument, the alleviation of credit constraints enables the enhancing of entrepreneurship. Woodruff and Zenteno (2007) examining the impact of migration on microenterprises, showed that migration is significantly associated with higher rate of investment: a one standard deviation increase in the rate of migration led to a 35-40 per cent increase in the capital invested in micro-enterprises in Mexico. In addition to that, Dustmann and Kirkcham (2002) showed that in the 1990s almost half of Turkish immigrants returning home from Germany opened a new business. Savings from migration are likely to be used to establish these new businesses. In addition to that an interesting study on the link between return migration to North Africa and the level of entrepreneurship, confirmed that this relation is positive, 33.9 per cent of migrants became entrepreneur after returning home, against 16.2 per cent of entrepreneurs before migration (Gubert and Nordham, 2008). Extending the research on the characteristics of new business creation, McCormick and Wahba (2003) explored entrepreneurship among return migrants in Egypt and found out that return migrants tended to invest more in enterprises in urban area, especially in the capital city, thus urban areas benefit more from migrants’ savings. This interesting relationship between remittances and entrepreneurship activity will be further analysed in the next chapters, where it will be connected to another strong tool for the development of less developed countries, the enhancement of business activity, namely the micro-finance institutions.

¹⁰ Social remittances are defined as “the idea, behaviours, identities and social capital that flow from receiving- to sending- countries communities”. Peggy Levitt (1998) “*Social remittances: migration driven local-level forms of cultural diffusion*”, *International Migration Review*, 32:4, 926-48

CHAPTER II: MICROFINANCE AND REMITTANCES IN THE PROCESS OF DEVELOPMENT

2.1 Microfinance

2.1.1 Definition of the term and history

“I believe in microfinance because it isn’t just a path out of poverty. It’s the road to self-reliance. By allowing people to team up and literally become their own bank, you can mobilize people and resources and alleviate poverty on the global scale.”

Her Majesty Queen Rania al-Abdullah of Jordan

The World Bank estimates that around 2 billion people do not use formal financial services and more than 50% of adults in the poorest households are unbanked. Financial inclusion is therefore fundamental in order to reduce these numbers. Microfinance arises exactly with the aim of supporting those at the bottom by providing them access to financial services. Before looking at the development of microfinance institutions and their impact, it is useful to define the concept. Microfinance can be defined as “the provision of a broad range of financial services such as deposits, loans, credits, payment services, money transfers and insurances to poor and low-income households and, their microenterprises” (ADB, 2000). It does not only include financial services, but also social services such as financial education and training. With a collective effort of both development banks and private investors, microfinance institutions have tried to provide people in developing countries with all the services they may need to improve their well-being.

The microfinance industry has become increasingly recognized worldwide and its impact on poverty alleviation through financial inclusion is uncontested. However, the origins of microfinance trace back centuries ago. In 1700s Jonathan Swift founded the first modern credit funds in Ireland, with the aim of supplying rural poor with uncollateralized loans. Following this model, legal framework and regulations were introduced and almost 300 independent credit funds were created, benefitting more than 20 per cent of Irish families (Fanconi and Scheurle, 2017). Since then, other formal institutions emerged: in 1801 the first savings bank was founded in Germany, which provided loans to small enterprises

and farmers. Friedrich Wilhelm Raiffeisen developed credit cooperatives which were widely celebrated for their capacity of giving a second choice to rural poor from money lenders. The spread of microfinance in less developed countries has, instead, to be attributed to Muhammad Yunus and his foundation of the Grameen Bank in Bangladesh in 1976. The idea was developed two years before, when in 1974 Yunus lent a loan of \$27 to forty-two people that lived in a small village. These small entrepreneurs needed just a little credit to purchase raw materials for trading. The small loan helped them breaking the poverty cycle in which they lived. The solution was simple: Yunus realized that these loans, even being small, were giving the opportunity to households to enhance their business activities. The difference with the previous traditional banks, was the introduction of a group-based credit delivery model (Marakkath, 2014). This model functioned in this way: a group of poor people was made up and they were all jointly liable for the credit received. In 2006 Professor Muhammad Yunus was awarded with the Nobel Peace Prize. He was able to take down some of the stereotypes on poor and demonstrate that this was a winning formula, and the joint liability model actually lead to high repayment rates. Grameen Bank reached more than one million clients in less than two decades from its foundation and in 2014 provided services to almost 8.7 million people (Fanconi and Scheurle, 2017). On the footprints of the Grameen Bank, microfinance institutions grew rapidly. Globally, in 2012 there were nearly 4000 microfinance institutions which served the need of more than 200 million people.

Microfinance Institutions (MFIs) are organization which offers financial services to low income populations. The majority of these institutions are nongovernmental organizations (NGOs), although many are starting to move from being simple deliver of credit to complex financial intermediaries (Ledgerwood, 2000). It is extremely important that MFIs maintain a strong organizational stability, which if on the one hand look at financial progress and self-sufficiency, on the other does not move away from its social relevance, turning towards more profitable target groups. Clearly, this may be hard since MFIs mainly fund themselves with donors that could be often limited. Therefore, in attempting to acquire new capital, they access the financial markets through equities, guarantee funds, loans, securitization of loan portfolio, etc. For example, guarantee funds are used as leverage for resources and a guarantee fund of \$4 million can encourage banks to lend \$8 million to microentrepreneurs (Ledgerwood, 2000).

One of the major strength of microfinance institutions is that all parties may benefit from their services. First of all, poor people may have access to financial services and this, in turn, may act as collateral for further formal financial services. Women play a crucial role being the main receivers of microfinance services. This helps them reaching a better socio-economic position and becoming more independent. Microentrepreneurs may also benefit, being able to create new employment, enlarging their business and promoting growth. In addition to that, also the government and the economy benefit from microfinance. Government may use financial means for community project and they indirectly benefit thanks to additional tax revenues from higher incomes and business profits. Moreover, the economy as a whole, gains from microfinance. Many scholars confirm that microfinance positively impact economic growth. Raihan et al. (2015) looked at the contribution of microfinance to the Gross Domestic Product of Bangladesh and report that the impact of microfinance in 2012 ranged between 8.9 percent and 11.9 percent. The contribution to rural GDP was even higher, between 12.6 percent and 16.6 percent. The authors argued that these estimations are subject to underestimation and that the contribution of microfinance to GDP may be even higher than that reported. In addition, in a test on a panel of 103 countries from 1995 to 2008, Maksudova (2010) found that there is evidence of microfinance to Granger-cause¹¹ economic growth even though differing by income groups and the development stage of the country. The impact is mainly positive in less developed countries which lack mature formal financial intermediation, in which there is a gap that can be then filled by microfinance. Finally, Adonsou & Sylwester (2015) argued that economic growth and total factor productivity are positively affected by growth of microfinance loans.

2.1.2 The goals of microfinance

Following the implementation of the Sustainable Development Goals (SDGs) at the end of 2015, microfinance has mainly focused on the fight against poverty and financial exclusion, the improvement of health and education systems, but also on strengthening women empowerment. Goldsworthy (2010) divided microfinance's goals into two main

¹¹ "The basic idea of Granger causality can be traced back to Wiener who conceived the notion that, if the prediction of one-time series is improved by incorporating the knowledge of a second-time series, then the latter is said to have a causal influence on the first. Granger later formalized Wiener's idea in the context of linear regression models. Specifically, two auto-regressive models are fitted to the first time series – with and without including the second- time series–and the improvement of the prediction is measured by the ratio of the variance of the error terms. A ratio larger than one signifies an improvement, hence a causal connection. At worst, the ratio is 1 and signifies causal independence from the second-time series to the first." "Granger Causality: Theory and Applications" by Guo, A., Ladroue, C., Feng, J.

categories: transactional and transformational. Transactional goals refer to the mere economic and financial sphere, concerning the flow of capital. In this category financial inclusion can be considered the main object. Poor people are excluded from most parts of the economic and financial system and this lead to their isolation and to bad economic situations. Their inclusion in the financial market is of fundamental importance and through the intermediation of microfinance poor are given the possibility of increasing their income, their wealth and investment. Therefore, the final aim is the creation of an inclusive financial system which enable poor to free themselves from the trap of poverty, and where business ideas are funded, in an effort to boost economic growth.

Transformational goals, instead, involve more complex socio- and political matters, such as poverty alleviation, women empowerment, improvement of health and education systems. Increasing income give people the chance to invest more on their health and on the education of their children. A better diet and a lower food deficit can strongly reduce diseases transmission and food-related issues. Through the provision of products such as health credits, micro loan and life insurance, microfinance institutions may contribute to the attainment of a higher life standard. At the same time children of microfinance clients are more likely to have better education and less likely to leave school. Services targeted at improving education exist and study report that in Bangladesh, among girls on non-microfinance clients, only 60 percent go to school, compared to nearly all girls of clients' households (Sananikone, 2002). In connection with this, also literacy and competences such as calculation, writing and reading have rose significantly. Another important goal microfinance has settled is women empowerment. Providing women with financial access, they have the chance to become more independent from their husbands and more self-confident. Women have long proved to be more responsible in handling money, and studies report higher repayment rates when dealing with women. Researches also show that women participation in microfinance programs has a positive outcome on capital mobility. Littlefield et al. (2002) showed that Women's Empowerment Program in Nepal reported that 68 percent of total members were involved in decision of buying and selling properties. Finally, the most considerable object of microfinance is poverty reduction. Poor, being allowed to obtain an additional source of income, can face shortage of capital, enhance microenterprise and smooth their consumption patterns. Similarly, through their access to saving account, they can accumulate money and buy assets for their enterprise or for investment in human capital. Lower strata of society are the most vulnerable to

unexpected shocks and environmental disasters, and microfinance may help them safeguarding their households and therefore improve their quality of life.

Microfinance works through a double bottom line, financial and social. Multiple are the objectives it has settled and many are the results it has already achieved. To further comprehend the impact of microfinance, the next paragraph will look more closely at the effect it has on development, through a review of the main literature that has been written on this topic. It will then be possible to look at the relationship it has with migrants' remittances in enhancing development in less developed countries.

2.2 Microfinance and development

The relationship between microfinance and development is widely debated among academics and scholars. Proponents argue that microfinance has an overall positive effect on the alleviation of poverty, as well as on social transformations. More sceptics scholars, instead, claim that the effects of microfinance are strictly related to specific case, some clients may benefit from it experiencing an improvement of welfare, others may, on the contrary, undergoing negative outcomes such as high indebtedness.

2.2.1 Measuring microfinance' impact

Before analysing the different opinions on the outcomes of microfinance, it is important to understand how the impact of microfinance is measured. Generally, the way in which it was assessed was through the analysis of the income and wellbeing of the clients. However, this carries some difficulties, due to incorrect information provided by people, and first of all due to the fact that the impact of microfinance programs does not entail only economic benefits, but extend to social, cultural and political outcomes. Zohir and Matin (2004) argue that the "total impact of microfinance intervention is being underestimated through conventional impact studies which do not take into account the possible positive externalities on spheres beyond households". It is necessary to enlarge the focus not only at the micro level, but also at the meso- and macro-level. Therefore, aggregating the results at the individual and household level, gives the possibility to come at community-level statistics. This is pretty straightforward taking also in consideration the previous discussion on remittances flows. An initial direct effect on the individual level will be inevitably projected to a wider spectrum, partly influenced by the way money are spent.

Zohir and Matin therefore suggest looking at how microfinance impacts both the economic level, as well as the cultural, political and social level. The economic domain is characterized by a double impact, the first one is through the engagement of households in the market following the obtainment of a credit; the second one, and often not considered, is through the engagement of the MFIs themselves in the market. Microfinance institutions work with local institutions, such as local governments and other formal institutions, therefore leading to a direct impact on market institutions.

It is, therefore, not possible to stop the analysis at the individual level, because it would provide a biased scenario. Just as an example, if microfinance services benefit the lives of some members, while driving poor non-clients deeper into poverty, it would be hard to affirm a positive developmental impact of the former.

2.2.2 Impact at the microlevel

Microfinance and poverty reduction

Similarly to the discourse made for remittances fostering economic growth and development in less developed country, also microfinance studies are divided between proponents and opponents; between those who consider microfinance as a tool for development and those who do not. Apart from this, financial development has always been seen as an instrument for economic growth, by way of reducing transaction costs, information costs and other constraints. Many studies have focus on the microeconomic effects of MFIs. One of the first and most important effect they have is reducing poverty of households. A reduction of poverty is achieved through an increase in income, which in turn enable borrowers to smooth consumption, start or expand businesses, face risks and diversify household expenditure. MFIs provide affordable financial services to the poor with minimum requirements, easing the access to microfinance services. In this way, microfinance institutions may enhance the ability of the poor to move out of their poverty status and at the same time may help those just above the poverty line not to slide down. However, microfinance has not to be seen as a miracle tool to combat poverty. It has to be combined with the right policies and initiatives, to become an effective tool in the alleviation of poverty.

Poverty is a complex problem, which goes far behind just a lack of income. Wright (1999) underlined that MFIs, in increasing the income of poor, are not surely decreasing their poverty. The way in which the money is spent may lead to different outcomes. Therefore,

there should be a focus on providing people the right instruments to sustain a decent level of wellbeing, to efficiently improve their lives. Looking at the existing literature and research on the topic, Lonborg and Rasmussen (2014) in a study on microfinance intervention in Northern Malawi, found that people who participate in microfinance program were less poor than the general population, with a 10-15 percent difference between the two groups. Likewise, in a households' study in Bangladesh covering the period from 1997-2004, Imai and Azam (2012) examined whether loans from MFIs reduced poverty. They found a positive impact on consumption and income, therefore demonstrating their significant effect on poverty reduction. An earlier study on Bangladesh was carried out by Zaman (2000), who explored the relation between microcredit and reduction of poverty, with a focus on BRAC, one of the most important and largest micro-credit institutions in the country. There exist some channels which have the potential to reduce poverty: one is through the creation of assets associated with loan-financed investment; another is through income and consumption smoothing. Moreover, microfinance institutions additionally helped during periods of natural disasters, decreasing vulnerability of the population. Overall, Zaman found that microfinance indeed reduced poverty. Extending this result, Khandker (2005) acknowledged for a spillover effect, where microfinance not only benefitted participants, but also the village as an aggregate. He studied 1,638 panel households and found that moderate poverty declined by 17 percent between 1991/92, and extreme poverty by 13 percent. Through an increase in household consumption, nonparticipants indirectly benefit from a growth in local income. Microfinance reduced the average village poverty level by one percent each year.

However, there are also studies that question the reliability of microfinance as a tool for poverty reduction. For instance, Shaw (2004) in a research conducted in Hambantota district (Sri Lanka south-eastern coast), did not find evidence that microcredit effectively alleviate poverty, although participants who lived very close to the poverty line showed some improvements in their life situations. In their book "The economics of microfinance", Armendariz and Morduch (2005) revealed the limits of microfinance actions and reported that studies of SEWA Bank in India, Zambuko Trust in Zimbabwe, and Mibanco in Peru, found that there was no increase in incomes in Zimbabwe, while there were some income gains in the other two states. One of the main criticism made is that microfinance services are not able to reach the poorest, seen as bad credit risk and in this way jeopardizing their position in society.

Therefore, even if many studies have provided positive results on the effectiveness of microfinance on poverty reduction, the debate remain lively. Measuring the impact is extremely difficult, for the reasons aforementioned and for the fact that poverty itself is a complex issue. Moreover, studies tend to focus case-by-case, not being able to reach a general assessment, universally applicable.

Impact on education and health

Looking at the social impact of microfinance services, health and education are two key sectors in which microfinance exert a well-recognized effect. Education is part of human capital, which in turn, if well-developed, may generate positive results. Microfinance supports the demand for education. In absence of these services, people being vulnerable to shocks can found themselves forced to withdraw children from school and place them in the workforce, or even do not enrol their children at all. Providing access to credit and loans, MFIs may prevent this situation from happening. Families, after receiving loans, are likely to invest in their children's education as one of the first things. Moreover, many studies prove that school dropout decrease for microfinance participants. Chemin (2008) found that microfinance had a positive impact on participants' school enrolment, especially for girls. Investing in long-term and sustainable education ensure that future generation will enjoy upward social mobility and acquire higher levels of well-being. Similarly, Martinez (2016) looked at the connection between microfinance presence and education levels at the aggregate level in a cross-country data over the period 2003-2012. Results supported the positive side of the relationship between these two variables: secondary education rates increase, especially among girls. A study of two surveys of households' clients of MFIs in Bolivia conducted by Maldonado and Gonzalez-Vega (2008) confirmed a positive impact of microfinance on schooling, where non-clients' children have almost half a year less of schooling gap, with regard of MFIs' clients. However, they also find out a possible obstacle, the risk that students drop out school if parents start or invest in a business through a microloan, due to the need of additional workforce. In fact, it seems that an increased opportunity for farming or the enhancement of a microenterprise led to a raise in child labour.

Health is another social area in which microfinance exerts an overall positive impact. As reported by the World Health Organization, thanks to microfinance services targeted specifically to health-related issues, such as medical education, clinical care, health insurance and loans, several areas were improved: malaria, sexually transmissible diseases,

HIV prevention, child nutrition, child diarrhoea, gender-based violence, etc. The impact of microfinance does not end at the individual level, but has also the potential to strengthen the whole health system. At the individual level, a strand of literature shows the positive impact of microfinance services on the health of people. Barnes et al. (2001) in a study of three microfinance programs in Uganda, found that clients of FOCCAS¹² receiving health care instructions on preventive health, breastfeeding, etc., had a better health-care practices than non-clients, with 95 percent of clients engaged in health-practices, compared to 72 percent of non-clients. Furthermore, examining the impact of the Bangladesh Rehabilitation Assistance Committee (BRAC), Chowdhury and Bhuiya (2001) reported that data suggest a significant improvement in nutrition for program's members, as well as child survival, in comparison to non-members. Finally, Dohn et al. (2004) in an attempt to assess the impact of health promotion programs and microcredit programs in three community in the Dominican Republic, found that health indicators improved in all three communities, however, the higher result was found in the community which received both microcredit and health promotion programs, with an incidence decrease of 43 percent, demonstrating that a combination of microcredit and health-education may almost double the positive result. Along the positive result at the individual level, also the health system may benefit from right microfinance institutions' initiatives, with an increase in patient attendance and improvements of the quality of care. For example, BRAC in Bangladesh had started, together with the government, large-scale initiatives for the control of tuberculosis and malaria.

What we can conclude is that, many times, a single solution is not enough to solve severe problems, but a *package* of measures can be effective. Microfinance institutions have proved to be capable of contributing extensively in the improvement of education and health of people, through the provision of loans, and training programs.

2.2.3 Impact at the macrolevel

So far, the discussion has focused on the microlevel impact of microfinance. However, more recent works have also considered a wider impact at the macroeconomic level. Extending access to financial services to everyone can create the ground of a positive redistribution effects, benefitting the economy as a whole. Through the improvement of

¹² The Foundation for Credit and Community Assistance (FOCCAS) is the largest microfinance institutions in Uganda. It was created in 1996, with the aim of offering financial services and educational support to women in eastern Uganda.

financial intermediation, microfinance institutions foster the entry into entrepreneurship, which in turn lead to an increase productivity and investment and finally, to a general equilibrium effect that increases wages. Through higher wages which benefitted the marginal entrepreneurs and workers, microfinance proved to be a pro-poor redistributive policy. Studying the long-run effects of microcredit on development, measured by income per capita, poverty and inequality, Ahlin and Jiang (2008) argued for microcredit being pro-development. They first distinguished between entrepreneurship and self-employment, the former being the most efficient. In order to move from underdevelopment to a full developed economy, it is necessary to have a sufficiently large entrepreneurial class, which provide strong labour demand. An adequate accumulation of wealth by the self-employed to become entrepreneurs is facilitated by microcredit services. Once a self-employed accumulate enough wealth, which enable him/her to graduate to entrepreneurs, then development is reached. At the aggregate level, this may promote economic growth and decrease poverty. Another study conducted by Maksudova (2010) on a sample of 102 countries aimed at revealing how microfinance is transferred to growth. She found that microfinance had a positive impact on economic growth, where a one percent increase in MFIs loan portfolio lead to a faster economic growth of 0.0013 percentage points. However, she also found that the strenght of the impact depends on the development of the economy.

The development of microfinance is a long process and need to be complemented by public reforms, subsidies by government and transformation in the governments' decision-making. This means that applying microfinance models in different countries requires changes, adjustments and not just a mere employment of the existing schemes. Following the discussion on the environment in which microfinance institutions operate, Alimukhamedova and Hanousek (2015) reported that in general MFI positively foster growth and added that the impact is greater in stable and developed economies, both in relation to the institutional and financial environment.

Despite the wide support from different scholars, there remains a strand of sceptics, who challenge the growth enhancing potential of microfinance. Bateman and Chang (2009) rejected this conception that proving microcredit to the poor will automatically enhance a sustainable socio-economic development. In fact, they argued that, if there may be a positive impact in the short-run, in the long-run microfinance may eventually prove to be a strong barrier to sustainable local development. Two main arguments are that, first, MFIs

promote the entry of a large number of microenterprises which lead to an over-supply that can undermine the development of more efficient small and medium enterprises. Microenterprises supported by microfinance proved to be less efficient than enterprises assisted by the mainstream financial market. Moreover, the microfinance sector is more and more absorbing financial resources channelled into inefficient use. The absence of economies of scale¹³ in the microenterprise sector may damage the overall economy's growth potential. They, therefore, concluded that microfinance can be better described as a "bad medicine", which initially benefits both the patients (i.e. poor people) and the doctors (i.e. microfinance institutions), but it ends to debilitate, instead of curing, the patient. Beyond such strong negative view, other scholars do not argue that microfinance impede growth but warn that there may be some channels leading to a negative impact. For example, Khandker and Samad (2014) studied villages of rural Bangladesh over twenty years (1991-2011) and even assessing for the fact that microfinance unequivocally had a positive effect on welfare and expenditure, they also showed that it had led to a market saturation with possible diseconomies of scales. In the specific case of Bangladesh, microfinance loans have been focused on the trade sector, which have become saturated and returns have, consequently, started to diminish. One way to face this problem, is through diversifying activities and investing on skill and training. Another study was conducted by Emerson and McGough (2010), and examined the impact of a microloan program design for the financing of entrepreneurial activities on growth. Commonly, it is argued that access to finance enable the poor to invest in the education of their children. However, these two authors highlighted that there may be an opposite mechanism leading to decrease economic growth. Receiving loans, families may prefer to invest on short-term productive assets, at the expense of long-term pay off (i.e. human capital). A greater access to funds also may raise the opportunity cost of education, lowering the aggregate human capital.

¹³ The reduction in long-run average and marginal costs arising from an increase in size of an operating unit (a factory or plant, for example). Economics of scale can be internal to an organization (cost reduction due to technological and management factors) or external (cost reduction due to the effect of technology in an industry). see <http://www.businessdictionary.com/definition/economies-of-scale.html>

2.2.4 Microfinance and entrepreneurship development

“All human beings are entrepreneurs. When we were in the caves we were all self-employed . . . finding our food, feeding ourselves. That’s where human history began . . . As civilization came we suppressed it. We became labour because they stamped us, ‘You are labour.’ We forgot that we are entrepreneurs. “

Muhammad Yunus

A final point which is worth to be addressed is the role of microfinance in the development of entrepreneurship, which may lead to an overall economic growth of the country. Scholars agree that enhancing entrepreneurship is crucial for the development of a country’s economy and microfinance may represent a valid support for linking entrepreneurship and development by fostering productivity, generating new economic activities and employment. Entrepreneurs generate productivity gains from dynamic entry and exist that spurs economic growth. This comes about either by selection or by competition. However, before going on with this discussion, it is important to shed some light on the distinction between “opportunity” and “necessity” entrepreneurship, and their individual impact on development. The Global Entrepreneurship Monitor (GEM) provides a first attempt in defining the two terms. According to its conceptual framework, national economic growth derives from the interconnection between entrepreneurial conditions and the capabilities of the individuals themselves. One indicator that monitors entrepreneurial activity is the Total early-stage entrepreneurial activity (TEA), meaning the percentage of individuals, aged 18-64 years, who are starting a new venture or have started one within forty-two months. Using this indicator is extremely important for the abovementioned difference between opportunity vs. necessity entrepreneurship, in order to link them up with economic growth and employment creation. As Fairlie and Fossen (2018) reported, to assess this distinction GEM relies on a specific question: *“Are you involved in this start-up to take advantage of a business opportunity or because you have no better choices for work?”*. It is possible to derive a fairly immediate definition of the two terms, where necessity entrepreneurship means that there are no other options available to the individual, who open a business for survival motivation; and opportunity entrepreneurship means that an individual open a venture because he/she sees a business opportunity. Globally, GEM reports that in 2017, as well as in 2016, the opportunity-motivated entrepreneurial activity was higher than the necessity one, with three quarters of respondents identifying

opportunity as their main motivation (GEM, 2017). However, Fairlie and Fossen (2018) underlined some problems in the GEM definition, being it a subjective question which could be interpreted differently from one person and another, and being it based only on existing datasets. They, instead, provide a different definition in order to create a strong operational explanation. According to them, necessity entrepreneurs are those unemployed individuals which face limited opportunities, while opportunity entrepreneurs are wage workers, enrolled in school, or not actively seeking a job. For the latter to display, there should be an entrepreneurial opportunity, i.e. demand for products and services which can be provided by startups. Opportunity-motivated ventures are more associated with economic growth, since they are likely to employ new people, creating new job places and they also earn more than necessity entrepreneurs, being concentrated mostly in sectors which provide higher returns (i.e. retail trade, education, agriculture, etc.). Despite everything, it is not possible to create a clear dichotomy between the two entrepreneurship. Demand and supply factors strongly influence the underlined motivations. At the same time, as the authors recognized, not all unemployed individuals may create business for necessity, since they may also have good opportunities in salary. Similarly, not all wage works lead to opportunity entrepreneurship. Still, it could be useful in the study of the impact of entrepreneurship on the economic growth a country.

It is also important to recall that growth is not a natural phenomenon, and may be a voluntary choice; not all small businesses are growth oriented. Moreover, microentrepreneurs face a number of difficulties due to the environment and the economic conditions in which they find themselves. Therefore, the growth of a business may be affected by different factors, ranging from the availability of capital and labour, skills and knowledge or opportunities. Access to finance is one of the key factor that influence the development of an enterprise. Microfinance institutions has understood that in order to foster a successful growth of microenterprises they have to adapt their services to the needs and typologies of the entrepreneurs. Therefore, they have started a process of institutionalization in order to be able to expand their services beyond just the provision of credits and create a positive development impact. The Banco FIE, the largest microfinance institution in Bolivia, represents a good example: born as a NGO in 1985 it obtained the status of a bank in 2010, that enabled it to enlarge its outreach and serve microentrepreneurs at best. In 2016 it reached 234.82 active borrowers and a gross loan portfolio of more than \$1,332.30 dollars (MIX, 2016). Its services range from loans for micro and small

enterprises to consumer loans, saving accounts, insurances, national and international money transfers, etc.

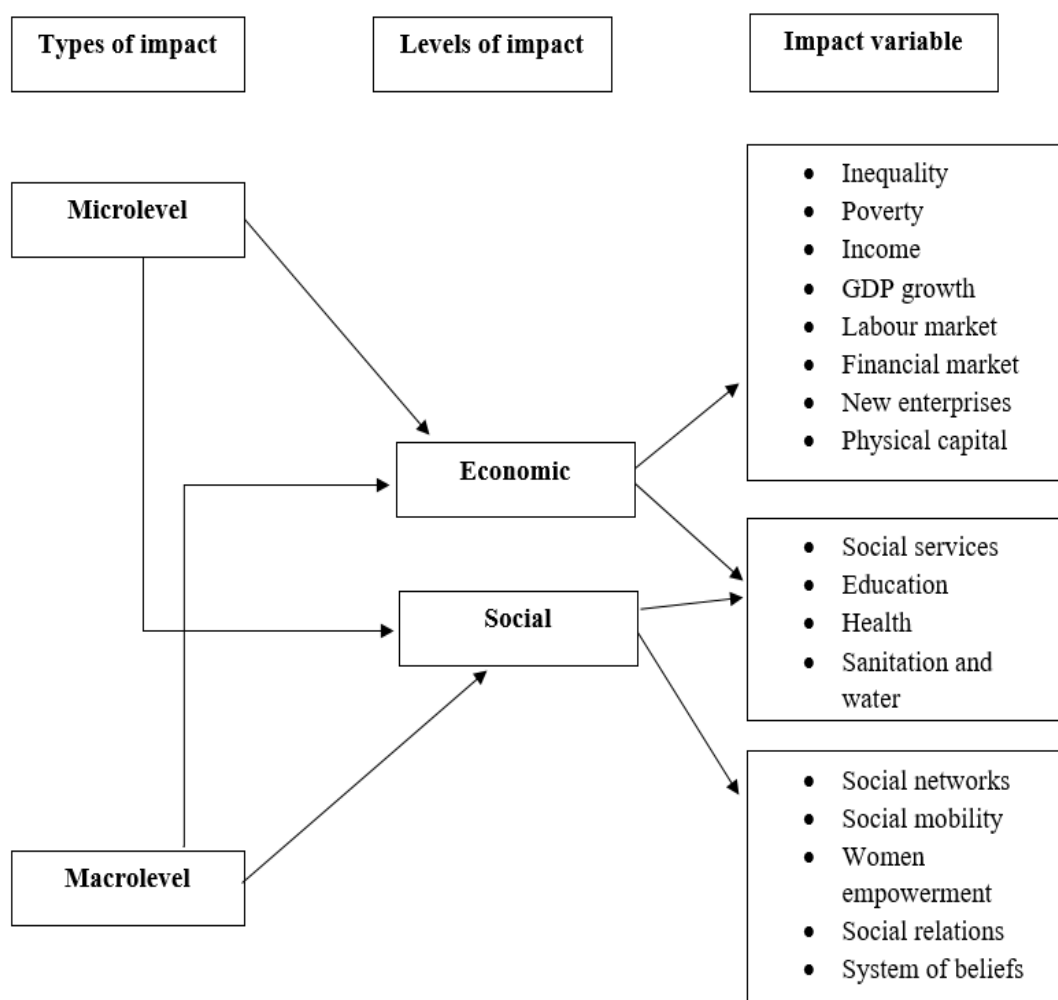
The impact of microfinance on entrepreneurial development has showed mixed results. Brown et al. (2004), for example, reported that external credit lead to a growth in employment and sales. Babajide (2012) studied the effect of microfinance on micro and small enterprise growth and concluded that the growth of enterprises did not only depend on loan access but also on the right size of the loan at the right time. Other variables also play a role, such as the entrepreneurs' education, the duration of asset loan, the location of the enterprise and the technological training received. She finally suggested that MFIs should increase the duration of asset loans in order to enable clients to a prolonged possibility to use the latter for the acquisition of capital assets and technologies. Additionally, the success of microfinance in promoting successful businesses will eventually depend on the orientation of the clients and their behaviour. With the aim of supporting microenterprise growth, a number of MFIs are adopting integrated approaches combining financial and non-financial instruments.

As suggested before, the results on the impact of microfinance on entrepreneurship development are mixed. Scholars who argue for a positive impact, report that access to credit expand the range of the self-employed, with an increase in expenditure, employment as well as profits. Moreover, it may also have a positive effect on sales and on savings (Crepon et al., 2011). Similarly, a study carried out by Vogelgesang in 2001 on Bolivia micro-lenders and their impact on clients' businesses found a positive impact on productivity, which increased in relation to the micro-enterprise size. This suggested that larger ventures benefit more than smaller ones. Moreover, they also found a positive impact on assets growth. Clients in the production sector with one prior loan from microlender *Caja Los Andes*, produced 20 percent higher sales revenues. This finding, in a way, counter the assumption according to which loans are merely used for consumption instead of being used for investment in assets. McKernan (2000) analysed the impact of participation in microfinance programs on profits and reported a significant positive impact, with profits increasing by approximately 175 percent. Moreover, the study found out that households with the lower rate of assets benefit the most, in contrast to many studies which argue that the wealthier are those who mostly benefit. However, several scholars instead report a non-significant or negative impact. Karlan and Zinman (2001) looked at the effects of microcredit on microentrepreneurs in Manila and found that expanded business credits lead

to a reduction in the number of businesses and no increase in individual well-being while instead leading to stronger risk management and fewer businesses.

The actual impact of microfinance on entrepreneurship growth is difficult to assess, large gaps remain in the literature. The complexity of the reality makes any attempt to generalize the results difficult. Every specific case differs from one another and therefore needs a specific insight. In conclusion of this paragraph, Figure 6 will provide a general outlook of what was explained above about the microfinance's impact on different levels and areas.

Figure 6 - The wider impacts of microfinance
Derived from Zohir and Matin (2004)



2.3 Microfinance and remittances in the process of development

Both microfinance institutions and remittances play a fundamental role for many developing countries. They can be considered two instruments for the same goal: development. Microfinance born with the aim of helping the poorest accessing financial services and supporting the creation of small and micro-business. Remittances, on the same vein, are flows of money send to the family in the origin countries, and as demonstrated, have the potential of boosting new enterprises. Migration is a livelihood strategy in order to gain an additional income that enable the household to diversify their spending, investing them, and release financial constraints. Migrants' remittances to the family at home may be seen as the same of microfinance services, and microfinance institutions can be capable of both serving the needs of remittance recipients as well as reinvesting additional funds to improve community welfare. Migrants and their households, as well as poor non-migrants face numerous constraints when it comes to financial institutions such as banks. The latter are most of the time not interested in serving these two groups of society. Banking institutions often do not provide the needed services to remittances' receivers due to a combination of factors such as lack of information, misperception of the behavioural spending, business models focused on high-income groups. In this way, a gap is created between people unable to access financial services and formal financial institutions. Precisely in this gap, microfinance institutions may play a decisive role. First of all, they mostly born in rural areas to serve those people marginalized and therefore are familiar with their client's needs, are trusted by them and may act as channel through which remittances can be saved and reinvested. The possible winning relation between remittances and microfinance was long neglected because it was thought that remittances were mostly used for consumption and not for valuable economic activities. Moreover, it was argued that only an inconsistent part was saved and households receiving remittances were not the right target for microfinance institutions. However, this seems to have been changed recently. The undeniable value of remittances has attracted increasing attention by scholars, and has also attracted the attention of MFIs, which have started to look at the remittance' market as a sound ground. Another common feature between microfinance institutions and remittances is that they are both addressed to poor and low-income families. The remittance business is increasingly attracting the interest of microfinance institutions as well as of funding agencies, which have started to realize the importance of remittances in the development process. Thus, some MFIs have already entered into the market of money transfers to fill this gap, where they may able to channel remittances towards saving and investment and moreover provide credit based on remittances. Some examples include:

Procredit in Bulgaria, Microfinance Bank in Serbia, Microfinance Bank in Ukraine, Financiera Calpia in El Salvador and Microenterprise Bank in Bosnia and Herzegovina. The ACLEDA¹⁴ Bank in Cambodia takes part in the money transfers and in 2001 has transferred \$7 million in remittances, \$28 million in 2002 (Nimal, 2003). Moreover, it has also a contract with Western Union, having more than 450,000 Agent locations around 200 countries in the world. Additionally, laCaixa bank¹⁵ established a partnership with ACCION¹⁶ International with the aim of creating new remittance product. Since laCaixa offered its services to a large population of Latin American immigrants in Spain, this partnership may give the possibility to channel portion of these remittances for future investments through ACCION. Alliance between microfinance institutions and money transfers operators, such as Western Union, is one model available, where the MTOs provide the necessary equipment to microfinance institutions to get access to the international remittance flows.

This linked between remittances and microfinance institutions is defined by Orozco and Hamilton (2005) as “condition in which microfinance institutions offer remittance transfers in undeserved areas through an effective market presence, selling tailored financial services based on a systematic understanding of the remittance recipient market”. In other words, their capacity to foster the developmental impact of remittances depends on their geographic presence, their market position, the range of services available and the quality of their technologies. The authors found out that microfinance institutions are effective compared to their competitors, which suggest that clients may therefore have a higher access to financial institutions. Moreover, they also found that MFIs offer transmissions at a lower transfer cost, consequently increasing the amount of available remittances.

Looking at this microfinance-remittances nexus more in practices, there are several case studies that provide a good example. Orozco (2008) analyse microfinance institutions in the form of credit unions or regulated MFIs. The MFIs analysed are: Caja Popular Mexicana in Mexico, AMUCSS in Mexico and FAMA in Nicaragua. They all entered the market of

¹⁴ ACLEDA Bank born in 1993 as a national NGO for micro and small enterprises development and credit by a group of funders. It provides micro credits to victims of war. It then evolved and became the largest commercial bank and microcredit provider in Cambodia, expanding also in Myanmar and Lao PDR. Beside of credits and deposits products, it also provides local and international funds transfers services, E-banking, cash management, money exchange and much more. By the end of 2016 the total assets account for \$4,561 million and it has a loan portfolio of \$3023.42 million. https://www.acledabank.com.kh/kh/eng/ff_history

¹⁵ La Caixa is a Spanish financial institution. He focuses on savings for families and social provisions. It has currently a total assets of € 347.927 Billion.

¹⁶ ACCION was created in 1961 with the goal of empowering the poor and improve their lives. It started in Venezuela and currently has partners in Latin America, Africa, Asia and United States. They fight for creating a financially inclusive world. <http://www.accion.org/content/our-history>

remittances from at least five years and provide an amount of transfers every month that range from 2,500 in FAMA to 40,000 in other MFIs. The discussion will go further briefly analysing each of these cases based on the work of Orozco. Caja Popular Mexicana (CPM) is a credit union based in Mexico which provide clients with financial products and services aim at achieving a strong financial education and therefore a better life. Forty percent of its branches find themselves in rural and suburban Mexico, reaching those people who are denied financial access. In 2010 it had more than 1,700,000 members across twenty-two states. Due to the strong migration from Mexico to the USA, there are hundreds of money transfer operators which compete with each other lowering costs and providing services to clients. The first time Caja Popular Mexicana entered the remittances market was in 2003 through a partnership with Vigo¹⁷ and it has then also worked side-to-side together with Western Union and MoneyGram. In 2007 it carried out 306,642 remittance transactions, totalling \$117 million. Clearly the average amount of money transacted by the credit union change on the bases of the fluctuations in remittance flows. Caia Popular Mexicana does not only offer financial services, but a series of other services target to the need of clients. In fact, clients showed to be interested in creating other relations with the institutions, such as creating saving accounts or applying for small credits. A second example is provided by AMUCCS in Mexico. AMUCCS is composed of twenty-eight rural banks. Its aim is to cover those people who live in rural Mexico which represent the main remittances' recipients. The creation of microbanks enable them to offer clients several services: savings, credits, insurances, payments products. They work in order to provide people access to the financial market and highlight the vision according to which remittances may foster development of rural areas, thus need to be routed into savings. Working together with migrant Hometown Associations they are able to enhance this development mechanism. It has been one of the first to acknowledge the importance of financial education and has tried to include it within its services. Moreover, it has developed products such as life insurances that aim at assisting the households in case the migrant or a family member die or through its "programmed savings" aim at channelling migrant savings for education. At the end of 2007 the number of remittance-recipient clients that opened a saving account increase up to 43 percent, which represent a great success in the development of a relationship between remittances receivers and microfinance institutions. The last example which worth to be analysed is FAMA in Nicaragua. Nicaragua was at first glance not considered a valuable market for money transfer

¹⁷ Vigo is a money transfer operator operating in fifty-five countries, especially in Latin America. In 2005 Wester Union bought it. It enables people to send money, especially remittances, to Latin American and Caribbean.

operators until very recently, when the flows of remittances has greatly increased. At the beginning of 2018 the country received a total of \$113 million remittances from abroad, compared to \$80 million in 2010, showing a continuous increase during years. Therefore, the competition between MTOs has started to increase in the last years. FAMA started to enter the remittance market in 2003 through a partnership with Vigo and other money transfer operators. Financiera FAMA began as a microfinance institution after the civil war in Nicaragua with the aim of supporting microenterprises. It provides several services such as microloans, small enterprise loans as well as foreign transactions, life insurances and public services payments. In 2015 it had a loan portfolio of \$49,070,000 and served 52,960 clients who are microentrepreneurs, workers and households receiving remittance¹⁸. They study the market and developed products that are best suited for their clients. Two products were the most important and used: short-term home improvement and long-term mortgage loans.

Therefore, not only MFIs may access the remittances flows through the provision of money transfer service, but the provision of saving accounts, in which case microfinance institution play a role in encouraging remittances' receivers to deposit part of the money received. They also furnish specific deposit facilities. Based on the study carried out by Orozco and Hamilton (2006) on the 29 studied microfinance institutions in Latin America, 14 percent offered tailored package to clients. Mata (2012) studying 114 microfinance institutions operating in Latin America and Caribbean, South Asia, East Asia and the Pacific and Africa, tried to reveal whether these institutions were able to channel migrants' savings through their MTA (money transfer activity). The findings showed that microfinance institutions, providing deposit facilities more accessible than those given by traditional bank, are able to drive clients to save on a deposit account a higher amount of money, which may then be used to fund investment. Therefore, MFIs can be valuable financial intermediaries.

In conclusion, the remittance market can be an important source for microfinance institutions, which may play an increasing important role due to their proximity to clients and their main objective which perfectly match the reason why people migrate and remit money home. Microfinance institutions may offer families a range of services targeted to their needs and enhance a valuable use of this money towards profitable investment and economic growth. The economic impact of both microfinance and remittances can be improved in a two-way process, one the one hand pooling the money received into investing in financial assets which provide them returns, and on the other hands, pooling remittances in deposits enabling

¹⁸ <https://www.accion.org/our-impact/financiera-fama>

microfinance institutions to finance an increasing number of activities. Together there is a potential for a strong and positive impact at the economic and social level. The improvements in both supply and demand may contribute to an increase in welfare of households, and through a spillover effect to an increase of the overall welfare of the community.

This chapter has analysed the impact of microfinance, both at the macro- and microlevel, showing a general positive result. Microfinance institutions can be strong instruments for the development of low and middle-income countries, fostering social and economic growth. Finally, we looked at the recent nexus between microfinance and remittances, which can be considered two means for the same goal. Studies reveal that this relation is new and not yet well understood. However, they mostly report a positive potential.

In the last chapter, the focus will be on a specific case study, namely Bangladesh. It will be analysed the impact of migration and remittances on the country' welfare, as well as the presence and impact of microfinance institutions. Bangladesh can be considered the birthplace of modern microfinance. It was there that Yunus gave birth to microcredit. Therefore, it will be interesting to see how the start of these business has changes the lives of people living there. Finally, the chapter will investigate if there is an existing relationship between microfinance institutions and the remittance market, and eventually how a nexus between the two may enlarge the development impact.

CHAPTER III: CASE STUDY: BANGLADESH

3.1 Overview of Bangladesh

Figure 7 - Map of Bangladesh



The People's Republic of Bangladesh is an independent democratic Republic in South Asia. As the map shows, it shares almost all its borders with India, except for a small part with Myanmar. It is in the Commonwealth and until 1971 was part of the East Pakistan. It acquired total independence in 1971 following a bloody Liberation War, which costed almost three million victims. The period just after the war, was characterised by a deep political instability, with the alternation of thirteen heads of government, and four military coups.

Bangladesh is today one of the most densely populated country in the world, with 168 million inhabitants in an area of 147,000 km². Being surrounded by India for the most, the relationships between the two countries have not always been peaceful. The demarcation of borders has long been a sensitive issue, along with the management of the common water resources. Moreover, there is a strong illegal migration and illegal trafficking on the hand of fundamentalist groups. In order to deal with it, New Delhi has built a wire fencing on the

4000 km of borders with Bangladesh. Despite this, in the last years the situation between the two countries has improved and a series of bilateral agreements have been signed by the parties.¹⁹

Government and politics

Bangladesh is a parliamentary democracy whose constitution was written in 1972 and underwent thirteen amendments. The President is the head of state while the Prime Minister is the head of government. There is a unicameral parliament of three hundred members, named House of the Nation, elected by popular vote from single-member constituencies and with a term of five years, same as the President. Laws are based on English common law, even though family laws are based on religious scripts. There are two major parties: the Bangladesh Nationalist Party (BNP) and Bangladesh Awami Leage. The former is allied with Islamist parties while the latter with leftist and secularist parties. The BNP was also responsible for boycotting the elections in 2014, due to its distaste of the present electoral system. The country suffered also several bomb attacks during the years, mainly addressed by two radical Islamist parties, Jagrata Muslim Janata Bangladesh (JMJB) and Jama'atul Mujahideen Bangladesh (JMB), both banned in 2005. From 2013 the country is led by the President Abdul Hamid, which is part of the Bangladesh Awami Leage.

Economy

The economy of Bangladesh is highly dependent on the agricultural sector. Almost two third of the national lands are given over crops such as rice, tea and jute. More than half of the population is employed in this sector, which however, supplies less than one fifth of the GDP. There are several obstacles to the success of agriculture, mainly due to the climate condition under which the country must live. During the warm seasons there are severe droughts, followed by even most severe monsoon rains which produce floods. Indeed, Bangladesh is recognized as one of the most vulnerable country to climate change and natural calamities. The manufacturing sector is dominated by the production of clothing which is constantly growing and represents the main export of the country, especially towards Europe and USA. At the beginning jute was the main driver and during the 70s it accounted for 70 percent of its export earnings. This growing industry has seen an increase in small and medium industries. Then, the advent of polypropylene products caused the slowdown of many industries, even though the garment industry began to attract foreign investors due to cheap

¹⁹ http://www.treccani.it/enciclopedia/bangladesh_%28Atlante-Geopolitico%29/

labour and a favourable exchange rate. Its exports are mainly absorbed by the European Union, the United States, China, Japan and Singapore. In terms of imports its main partner are India and China. Despite this, lack of employees' protections, corruption and mismanagement of resources render the achievement of positive outcomes extremely difficult.

Bangladesh is a developing country, which enters the list of the "Next Eleven" together with Egypt, Pakistan, Philippines, Vietnam, Indonesia, Nigeria, Mexico, Iran, South Korea and Turkey. These countries are recognized as countries with high potential of becoming the largest economies of the century, along with the BRIC countries. This has increased foreign direct investment by multinational corporations, such as Unocal Corporation. According to the World Bank, the country has made great achievements in the fight against poverty. Considering the poverty line which stands on \$1.90 per person a day, poverty decreased from 44.2 percent in 1991 to 13.8 percent in 2016/17. All this is combined with a strong improvement in life expectancy, literacy and per capita food production. GDP growth reached 7.3 percent in 2016, compared to 6.5 percent in 2005. This constant and rapid growth lead Bangladesh to reach the lower middle-income country status in 2015.

Along with its national economic development, Bangladesh owed its stability to remittances. The number of Bangladeshi working abroad in the last decades increased from 70.000 in 1980s to more than 6 million in 2017. It is one of the top remittance-receiving country and in 2017 it received \$13.469 million remittances, reaching a peak of \$15.296 million in 2015.

Also interesting is the strong presence of microfinance and especially microcredit following the creation of the Grameen Bank by Muhammad Yunus. More than fifty million Bangladeshi have made use of these microfinance's products. This also opens the way to many entrepreneurs, among which women prevail.

The chapter will further analyse the phenomena of migration and remittances and the one of microfinance, in order to firstly understand their impact on the national economy and the lives of Bangladeshi and finally figure out if the combination of the two can exert a positive impact.

3.2 Migration and remittances in Bangladesh

Bangladesh has a long history of migration, both internal and international. Since the 19th century people from Bengal moved to Myanmar looking for better employment opportunities. Being a British colony, after the independence some Bangladeshi left for London and

generally, during the 18th and 19th century the British merchant navy used to employ sailors of the south-eastern area of Bangladesh. Most emigrants were, however, peasants of the northern Sylhet districts, who mainly settle in the UK or in the USA, even acquiring citizenship. A second wave of migration to the United Kingdom occurred in the late 1950s and 60s, when Bangladeshi were employed by the British government through “Employment Vouchers”. In that period many European countries were experiencing shortage of low-skilled labourers and therefore found the solution in the Bangladesh’s manpower surplus. The mid-1970s accounted for almost seven million migrant workers moving to more than 140 countries. (Mamun and Nath, 2010). Similarly, the 1980s and 1990s displayed a similar pattern. The economic boom of the Southeast Asian countries created a high demand for semi-skilled and unskilled workers.

Therefore, it is possible to identify two major migration patterns, one towards the most industrialized countries, such as the UK and the USA and the other towards the Middle East and Southeast Asia. They mainly differ for the period the migrants reside in the country. In the Western countries they tend to stay more permanently, and large diasporas are likely to be found. On the contrary, migration to Middle East and Southeast Asia tends to be more temporary, based on job contracts of shorter term. Migrants, once completed their work period, use to return home. While, as introduced before, migrations to western countries started as a consequence of the British colonial period, migrations to the second group of countries began after the Bangladesh declaration of independence in 1971. The increase in oil prices and later on the newly industrialized Southeast Asian countries fuelled the demand for labour migrants. From 2000, there was an always constant number of Bangladeshi migrants with some peaks in the period 2006-2008, where it reached almost 9 million (Mamun and Nath, 2010). A drop in migrants in 2009, with less than 5 million emigrants, was mainly due to the recent global financial crisis. Despite this, the trend recovered rapidly. In 2013, the World Bank Migration Factbook (2016) reports that Bangladesh was the fifth top emigration country, with a stock of emigrant reaching 7.6 million. As a percentage of population, it represents the 4.8 percent and the main destinations countries are: India, Saudi Arabia, the United Arab Emirates, the United Kingdom, the United States, Pakistan, Oman, Qatar and Malaysia (KNOMAD).

The motivations for migration are several and most of the time they influence each other. Numbers of push factors such as lack of opportunities, violence, insecurity and corruption combined with pull factors such as educational opportunities for children, better job

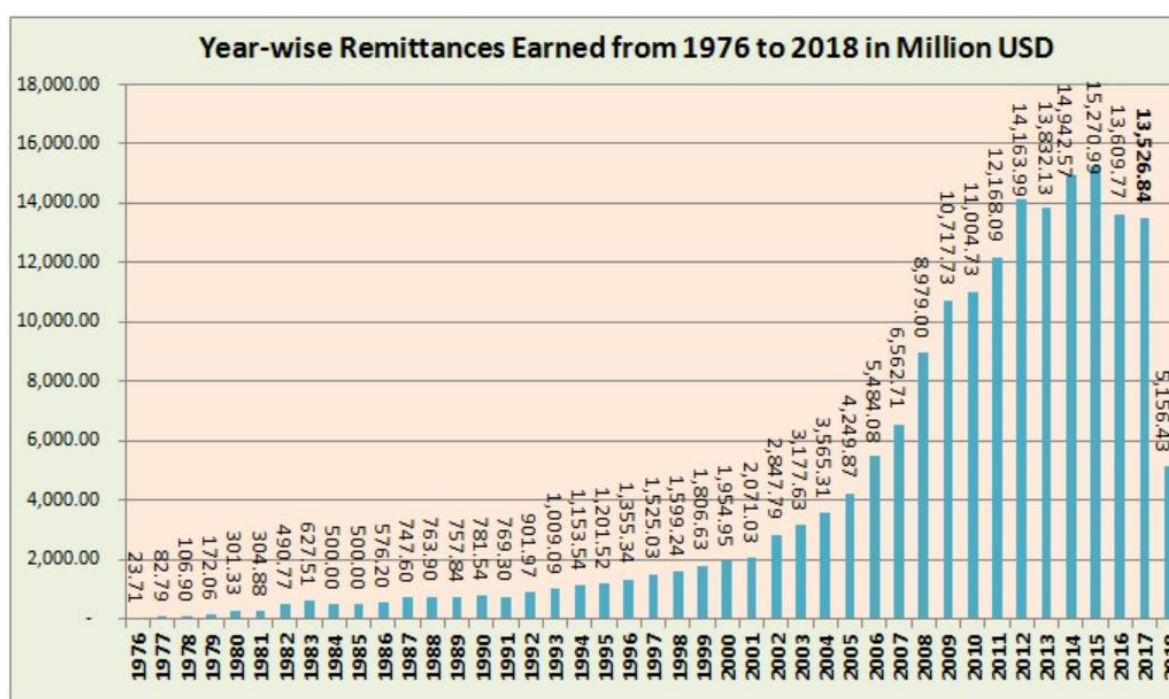
opportunities, better health care system, all together affect the final decision of people to migrate. Colonial ties also play a role in the choice, making easier to move towards those countries. Long-term and short-term migration differ on the motivational set, the former being influence also by family reunion, the latter mainly by the search for better employment, with the willingness to return home in the future. Being migration based on the availability of more or less strong networks, information, social ties and the operation of recruiting agencies, strongly affect the likelihood of migrate. Gender-specific motivation for women include the need to escape domestic violence, lack of opportunity and independence (Siddiqui, 2003).

Not only a wide spectrum of motivations has its part in the decision, but the government also played an important role in the management of emigration of Bangladeshi workers. Acknowledging the importance of the phenomenon, the government has long had an active role in stimulating labour migration, in order to alleviate unemployment and receive foreign income. The most important regulation is the 1982 Immigration Ordinance which is the key instrument in the regulation of migration. Under this Ordinance, the government allows those with valid travel documents to emigrate, grant licences to companies to engage in recruitment for overseas employment and punish those who illegally emigrate. In 1983 the Government set up four Special Courts by notification of the Labour and Manpower Ministry. Ruling on the migration of women, in 1981 the government issued a ban on the migration of women, other than professionals. It was then replaced in 1987 by a ban on migration of unskilled and semi-skilled women, including professionals. In 2003 it was loosened and the restriction deal with unskilled and semi-skilled women under 35 (Siddiqui, 2005). This is, in fact, reflected in the gender distribution of migration. Bangladeshi workers are principally men. For example, in the period 1991-2003, 2 million people migrate overseas, of which only 17512 were women They constitute less than 1 percent of the total (Siddiqui, 2004). However, all this does not take into account unregulated migration, which may double the numbers. In 2006 Bangladesh adopted the Overseas Employment Policy with the aim of organizing overseas employment sector and protect the welfare of workers. Along with these legal measures, two main agencies dealing with migration exist: the Bureau of Manpower, Employment and Training (BMET) and the Bangladesh Overseas Employment Services Limited (BOESL). The former is the executive agency of the Ministry of Expatriates' Welfare and Overseas Employment and is responsible for controlling recruiting agents, for the collection and analysis of information on the labour market, the registration of job seekers, the development of training programmes, the development of apprentice within existing

industries, the organization of pre-departure sessions and of resolving legal disputes (Siddiqui, 2005). The latter was instead created with a direct recruitment role, in order to earn more foreign exchange through exporting skilled and unskilled workers.

Migration is, therefore, recognized as a fundamental livelihood strategy which can benefit both the households and the economy, in two major ways. First, it reduces unemployment and second, remittances sent by migrant overseas support the economy and families. Bangladesh is one of the major remittance-receiving countries in the world and this flow of money has proved to increase steadily during years, from \$23.71 million in 1976 to \$13,526 million in 2017. There was an especially rapid increase starting from the new millennium, ranging from \$2.07 billion in 2001 to a peak in 2015 of \$15.27 billion, displaying an average growth of 43 percent per annum. Interesting is the fact that even during the global financial crisis, although having decreased, remittances still reached high level, demonstrating the counter-cyclical nature of this flow. One reason may be the altruistic nature of sending money to households; therefore, in time of needs, family members abroad tend to keep on transferring money home.

Figure 8 - Overseas Employment and Remittances from 1976 to 2018
Source: BMT calculation



The main sources of remittances are the Kingdom of Saudi Arabia with a share of 29.8 percent of the aggregate remittances received by the country, followed by the United Arab Emirates (20 percent). The contribution to GDP has also risen sharply, from a mere 1 percent in 1979

to 6.1 percent in 2016, and with the highest contribution in 2009 and 2012 where it reached 10 percent (WB). Moreover, it is important to take into account that all the data are based on officially recorded remittance. Therefore, in reality, the contribution to GDP is much higher.

As a matter of fact, migrants not only make use of formal channels to send money, but as well use informal transfers methods. Among the official channel there are banks and exchange houses issuing drafts, postal office, automatic teller machine, and electronic transfers. The Bangladeshi financial system consists of the Bangladesh Bank (BB), four nationalized commercial banks (NCB), five government owned specialized banks, thirty private commercial banks (PCB), ten foreign banks and twenty-eight non-bank financial institutions (Bruyn and Kuddus, 2005). What is needed is that banks have a correspondence with the bank in the other country and, consequently, that bilateral agreements between the parts exist. The Bangladesh Bank is the central bank of the country and has the task of supervising over the work of the other banks. It is in charge of giving the permission to the banks to deal with foreign exchange. Following the authorization banks link up with other banks, as well as with Money Transfer Operators, such as Western Union.

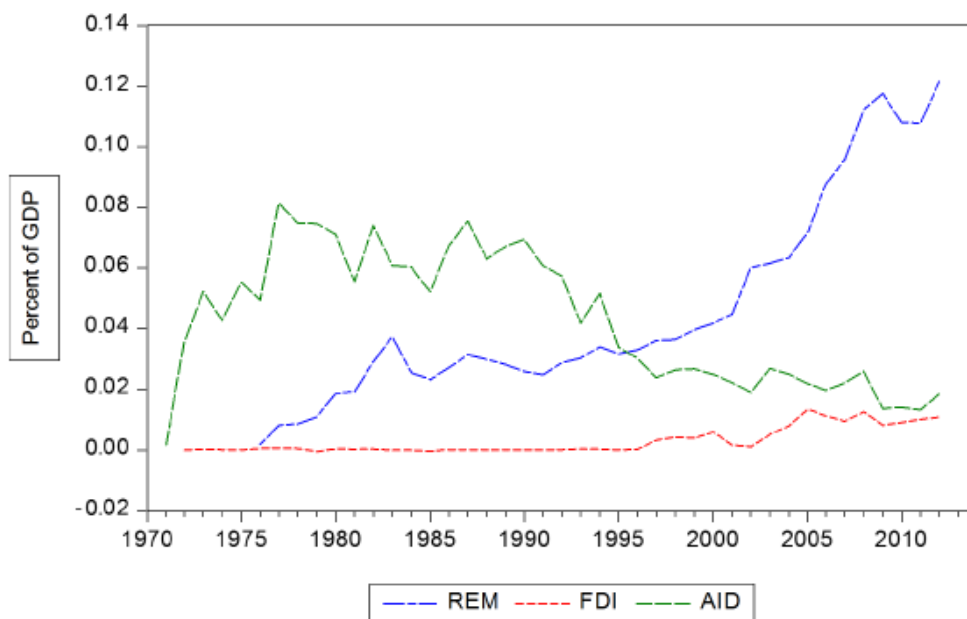
However, unofficial methods are still most common. Among them *hundi* maintain its primacy. The process goes like this: the migrant gives an amount of money he/she wants to remit home to an intermediary, who has contact with an agent in the country of destination, i.e. Bangladesh. The agent in Bangladesh has to give the exact amount of money to the recipient, after having agreed on an informal exchange rate. This transfer method is totally based on trust and can clearly carry on several problems: moneys can get lost and may be less reliable since there is no documentation that give proof of the transaction. Despite this, people still seems to prefer this method because of its speed and lower costs. Moreover, it is easier to use, considering that usually people doesn't have enough knowledge and experience with the formal bureaucracy. *Hundi* covers even the more remote areas, contrary to official branches which can hardly be found in those zones.

The impact of remittances

As already stated, remittances represent a major source of external fund, even surpassing ODA and FDI. In the two-years period 2014-2015 remittances accounted for nine times Foreign Direct Investment and four times Official Development Assistance, as Figure 3 shows (Akter, 2016). Therefore, this flow of money clearly represents a highly important element for the economy of Bangladesh. The way in which household use this additional amount of money has consequences on the magnitude of the positive or negative impact.

There are several options available for families, ranging from increasing consumption, investing or saving. This in turn may depend on the amount the migrant remits. Studies reveal that migrants send from 50 percent to 80 percent of their income. At the macroeconomic level, remittances are important source of stability for Bangladesh, which is an extremely sensitive issue. The government is able to maintain sufficient foreign exchange reserves and therefore reduce the country's dependency on foreign aids. Not only, remittances can also be used to repay foreign debts. According to BMET (2013), through easing foreign exchange constraints and stabilizing the exchange rate thanks to remittances, the country is able to import the needed raw materials, intermediate goods and capital equipment. Considering remittances as a percentage of GDP, it is possible to observe an upward trend from 1980s to 2011, testifying the importance of this additional flow of money on the economy of Bangladesh.

Figure 9 - Remittances, Foreign Direct Investment and Foreign Aid flows in Bangladesh
Source: Hassan and Shakur (2017) "Nonlinear Effects of Remittances on per Capita GDP growth in Bangladesh"



Siddique et al. (2012) investigated the link between remittances and economic growth in Bangladesh, over a period of twenty-five years and found that remittances does indeed impact positively the economic growth in the country. Bangladesh shows a high reliance on remittances as form of export income, which reach 50 percent in 2003, compared to 6 percent in 1976. Moreover, they conclude that in the country there is only one-way causal relationship between the two variables, which is from remittances to economic growth, thus confirming

the importance of remittances. In addition to these findings, another study by Hassan and Shakur (2017) examined the impact of remittances on per capita GDP growth. What they found was a nonlinear relationship between flows of remittances and economic growth in Bangladesh. At the beginning inflows of remittances reduced per capita GDP, which may be explained by the fact that family use this additional money on unproductive use. However, on a later stage, remittances enhanced economic growth, due to more productive investments.

Moving on, for many decades Bangladeshi have used migration as a poverty-alleviation tool and has clearly proved to be successful. A study showed that after the migration of a household's member, the proportion of poor households dropped from 21 percent to 7 percent thanks to the receiving of remittances (BMET, 2013). Moreover, Khan (2008) reported that remittances have a positive impact on per capita income, which contributed to a decline in poverty by the 18 percent. A further analysis was provided by Raihan et al. (2009) who, through the application of the computable general equilibrium modelling, examined the impact of remittances on households' poverty level. The results they got are strong and positive. Households receiving remittances had the 5.9 percent less probability of becoming poor and instead, in the case they would have received remittances the headcount poverty would have risen by 1.7 percentage points. In parallel, they found that in the five years from 2000 and 2005 there was a poverty decline of 49 percent. A more recent study conducted by Hatemi and Uddin (2014) recognized the causal nexus poverty reduction – remittances as being bidirectional, therefore suggesting that they both influence each other. As a consequence, governmental policies promoting remittances will as well promote poverty reduction, and vice versa.

Moreover, even though remittances may not directly influence growth, the increase in consumption itself can work as a booster, through an effect on aggregate demand. Not only families use remittances for consumption such as food and clothing, but also for the purchasing of land, construction of houses and repayment of loans are major allocation of this additional amount of money. Land for example, represent the safest place for investing remittances in Bangladesh and arable land may lead to direct economic return through crop production and the land itself may even become more valuable with time (Bruyn and Kuddus, 2005).

Considering a wider impact of remittances, behind the economic benefits, it should be acknowledged that the influence regards also the social status of the families. Better economic conditions of households result in better housing conditions, food consumption, dresses,

interaction with other people, and a likely higher involvement in political organizations. Women also benefit, through their empowerment and their self-actualization. They are able to better feed their children and provide them higher education (Chowdhury, 2014). On this line, Sabur and Mahud (2008) analysed the political impacts of remittances and reported that wives gain authority in the family and in turn enjoy higher position in the hierarchy, having power on the usage of money. They found a positive correlation between the money received by wives and the capacity of making decision in the family: 87.5 percent of wives receiving remittances contribute in the family's decision making while among the ones that do not receive remittances, only 35 percent do.

Government policies for increasing the benefits of remittances

Once the Bangladesh Government understood the importance of remittances for increasing its foreign exchange reserve, has worked in order to formulate policies aiming at harnessing this flow of money for the economic development of the country. One of its first concern has been to curb the informal money transfer, and induce individuals to make use of the formal channel available. In this context, the government established new exchange houses and branches of the Bangladeshi banks overseas and encouraged commercial banks to set up linkages with foreign banks and exchange houses. Private Commercial Banks have also been able to open new branches in more areas. In order to make the formal channels competitive in front of the *hundi* system, in 2001 the Ministry of Foreign Affairs required Nationalised Commercial Banks (NCBs) of Bangladesh to provide the clients the money within three days from the receipt of the draft and penalties were applied in case this circular was not respected. Moreover, the Central Bank prompted private and nationalised commercial banks to implement Electronic Transfer system in order to reduce time and intricate bureaucratic procedures. Several schemes and accounts have been created in order to attract investors. Among them there is the Non-resident Investor's Taka Account (NITA) which enables investors to use the money remitted for investment in the capital market of Bangladesh; the Non-resident Foreign Currency Deposit Account (NFCD) and the Resident Foreign Currency Deposit Account (RFCD) which offer financial benefits, i.e. the account can be opened for different period, in different currencies and the interest is tax free (Bruyn and Kuddus, 2005). Since this is not enough in a country where people lack the necessary knowledge for understanding all the available options and to make the proper choices, programs for the pre-departure of migrants and orientation programs were established by the Bangladesh Association of International Recruiting Agencies (BAIRA) and the Bureau of Manpower,

Employment and Training (BMET). A special attention was also given to women, who are increasingly encouraged to create account on their own name, in order to stop their dependency on their husbands.

3.3 Microfinance in Bangladesh

The second most important presence in the country is that of microfinance. Bangladesh can be considered the birthplace of modern microfinance in the world. Globally, microfinance institutions have reached 132 million clients until 2016 and they have recorded an annual growth of + 9.4 percent in loan portfolio, which stands at \$20 billion. South Asia represents the region with the highest number of borrowers (59 percent of the total). In Bangladesh microfinance institutions have spread all over the country, covering more than half the rural population. In 2018 the Microcredit Regulatory Authority of Bangladesh recorded 703 licensed MFIs. They have a fundamental role in the financial inclusion of poor, providing them access to both financial and non-financial services. The coupled of both kind of services has enhanced the potentiality of the poor for entrepreneurship, income generation, self-reliance, employment creation, reduction of poverty. Microfinance Institutions in Bangladesh have undergone major changes in their status. They mainly began as non-governmental social organization providing credits to people. The first was the Grameen Bank (meaning ‘village bank’), whose origin are to be traced back to 1976. Professor Muhammad Yunus launched a project with the aim of delivering credit to rural poor. It became formal in 1983 under the Grameen Bank Ordinance. The success of the project lead to the implementation of the latter in other parts of the country, supported by the Bangladesh Bank. With the creation of the Microcredit Regulatory Authority (MRA) in 2006, all these non-governmental organizations were then licenced and regulated under its authority. The Grameen bank focuses on reaching the poorest of the poor, with a special interest on women. Almost the totality of loans is now given to women, as explained by Yunus in an interview made by Marika Griehsel in the occasion of the Nobel Peace Prize given to the Professor in 2006:

“In Bangladesh, the women percentage in the banks among the borrowers, is not even 1% of the borrowers they are providing, so we thought we should address that issue and in our programme, 50% of the borrowers should be women, so that's what we did. And then we saw, after we achieved that, money going to the family through women brought so much more benefit to the family compared to the money going to the family through men. Women took good care of their children as their income increased, so we focused on women. As a result, out of the 7 million borrowers that we have, 97% of them are women and it works beautifully.

All objective is still help the family to get out of poverty, so if you bring in women into the picture, if you empower women, it happens faster than it happens the other way.”²⁰

Grameen Bank has reached 8,901,610 clients in 2016, with a percentage of women members of 96.54 and it covered 83,458 villages (Grameen Bank, 2016).

Another well-known development organization in Bangladesh is BRAC (Bangladesh Rural Advancement Committee) founded by Sir Fazle Hasan Abed in 1972 with the aim of providing health, education and economic support to the rural community. One of the most important goal is to alleviate poverty, and in 2002 “the ultra-poor graduation” initiative has help 1.77 million households moving out of poverty (BRAC, 2016). Totally, the organization serve 5.4 million people. In 2001 the BRAC Bank Limited was consolidated, in order to give financial services to small and medium enterprises. In 2017 the bank disbursed 37,213 loans to SMEs, amounting to BDT 30,869 million, 23 percent more of the previous year. The organization has also started a Five-Year Strategic Plan (2016-2020) with the goal of empowering 20 million people to have access and more control over resources. The program is based on four main points: eliminate extreme poverty; strengthen client protection and expand financial education; skill training and linkage to decent jobs and entrepreneurship and finally; decrease vulnerability towards climate change and increase emergency response capacity (BRAC, 2016).

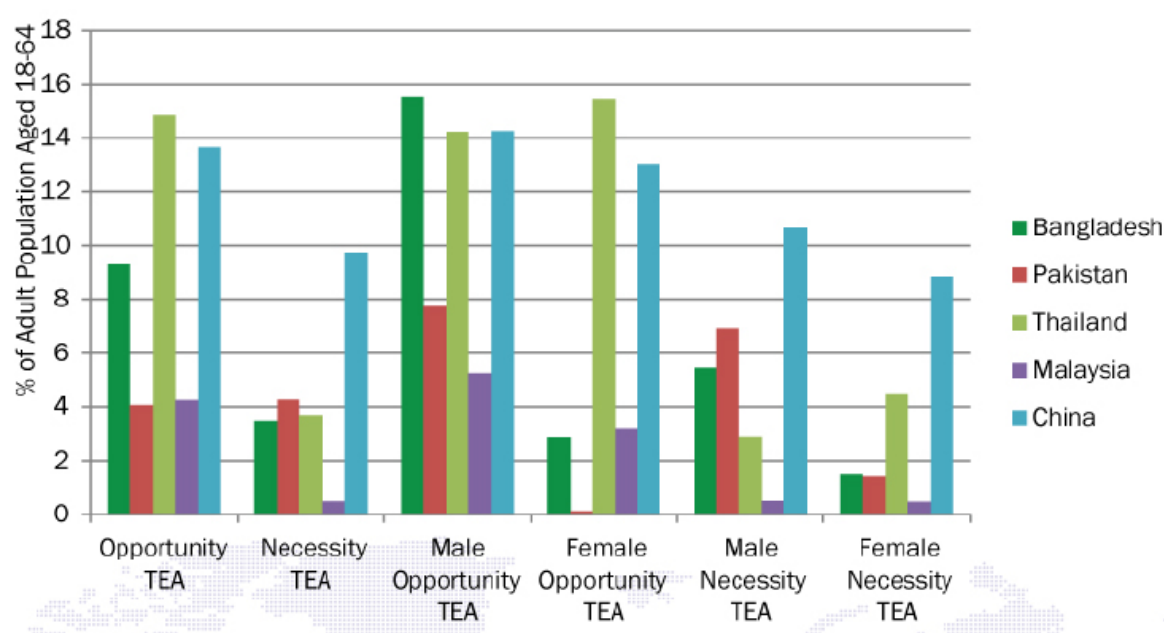
Microfinance institutions in Bangladesh actively work for the development of micro-enterprises. It is widely recognized that the latter can positively contribute to the economy by creating job opportunities and increasing income. Generally, MFIs provide loans to micro-entrepreneurs in order to start up a business or to scaling up. The total loan outstanding grew during years, in 2015 it reached BDT 115.52 billion, 41 percent more than 2014, and even more compared to BDT 40.80 billion in 2011 (Banna and Sarker, 2018). Before going on with this discussion, it is important first to look at the entrepreneurial characteristics and activities in Bangladesh. In doing this, the GEM (Global Entrepreneurship Monitor) can be used, providing high-quality information. First of all, Bangladesh can be classified as a Factor-Driven Economy, meaning that economic development is based on the improvement of basic requirements (for example, institutions, infrastructure, economic stability, education, health). A very strong weakness is that 79.1 percent of the employment in the country are in the informal economy, which in turn create great difficulties and gap in the collection of

²⁰ https://www.nobelprize.org/nobel_prizes/peace/laureates/2006/yunus-interview-transcript.html

accurate data. Looking at the motivations to start a business, GEM identifies two main driving forces: necessity and opportunity. Bangladesh appears to have the highest opportunity-motivated male early stage entrepreneurial activities among Asian Countries (Pakistan, Thailand, Malaysia and China are taken under analysis), as showed in Figure 4. However, the country has a much lower percentage of female opportunity- motivated entrepreneurial and this may be one of the reasons why MFIs are increasingly focusing on fostering their empowerment to increase this rate.

Figure 10 - Necessity and opportunity entrepreneurship in Bangladesh and Benchmark Asian countries in 2011.

Source: GEM 2011



In order to assess the growth potential of the new ventures, GEM asked new entrepreneurs a question on employment growth expectation. What they reported was that Bangladesh had the lowest expectations (only 3 percent expected moderate or high growth, meaning having from 6 to more than 10 employees within the next five years).

The next stage in the discussion will address the main programs implemented by Microfinance Institutions in the field of entrepreneurship, in order to then look at the impact microfinance has in the development of entrepreneurship and in turn, the impact on the economic growth of Bangladesh. A study by Alamgir for the Institute of Microfinance provides an overview of the programs adopted by MFIs in the country: the Grameen Bank provides *microenterprise loans* which are larger loans with no restriction on the size. Until 2016, 8,716,982 microenterprise loans were disbursed with a total of BDT 304.04 billion

(USD 4.05 billion). They were mainly given to fish businesses, followed by grocery shops, pharmacy and farms. BRAC implemented the *Progoti program* in 1996 and provides loans without collateral from poverty graduates. These loans are used to finance working capital, as well as to buy fixed assets. 70 percent of loans goes to the trading sector, 10 percent to manufacturing and 20 percent to other sectors. In 2008 it had 242,512 borrowers and loans amounting to BDT 2462 million. ASA (Association for Social Advancement), a leading microfinance institution established in 1978, launched the *Small Business Loan program* addressed at providing loan to shop owners in rural market to finance inventory. In general, MFIs' loan range is pretty similar.

There are several studies focusing on the impact microfinance programs have on both the micro and macro level. It was demonstrated that there is a positive strong benefit to the GDP of the country. In 2012 the contribution was between 12.6 percent and 16.6 percent. The influence of microfinance occurs in two ways: one direct effect is through the increase in production of goods and services for productive purposes; the other works indirectly by lowering prices of capital and labour which in turn reduce the costs of production in all sectors of the economy (Raihan et al., 2015). A research conducted by Sultan and Masih (2016) confirmed the positive contribution of microfinance on domestic growth. They study a sample on the period 1983-2013 and found that even in the long run, microfinance represent a valuable and leading variable for GDP growth. Looking at the impact on entrepreneurship activities, a study carried out by Banna and Sarker (2018) on the influence of microfinance institutions on the starting and scaling up of microenterprise, found out that access to credit was critical for the success of almost all the enterprise in the sample. It had a positive impact on the starting up of a business. In fact, without credit support they would not have start their venture. They also found a positive impact on the scaling up of the enterprise, thanks to a reliable and constant credit support. This helped entrepreneurs to expand their business and for some of them return on sale grew from 40 percent to 80 percent and average profits rose from BDT 4000 to BDT 130000 within five years. The development of the entrepreneurship sector may likely positively impact the overall economy of Bangladesh. However, a point should be stressed on this topic. Not all kinds of entrepreneurship activities are directed towards economic growth. Necessity-driven enterprises may hardly contribute to growth since their motivations are different and based on survival needs. Along this, the problem of the informal sector contributes to the difficulty in addressing whether enterprises impact positively or negatively the economic development of the country. At the end, they may even

hinder the latter, through a cyclical patterns of anti-development behaviours (i.e. not paying taxes).

Switching to the impact on the microlevel, clearly one of the first and most important goal of microfinance is poverty- alleviation, if not, poverty abolition. The Bangladesh Institute of Development Studies (BIDS) found strong evidence that MFIs' programs help the poor through smoothing consumption and providing access to several financial services targeted to their needs. One of the very first impact study on Grameen Bank programs was carried out by Mahbub Hossain (1988), who is considered a pioneer in this field. From this study based on field surveys in 1985 in five selected projects and two control villages in areas covered by the Grameen Bank branches, he found out that within two years borrowers have increased their business capital by three times, and asset in the form of livestock grown by a 26 percent per year. Members of the Bank had a 43 percent higher income than others. Average household income was about one-sixth higher for clients. Thus, he concluded that microcredit had positively reduce poverty. Another study conducted by Khandker (2005) found that not only microfinance program helps household increasing their consumption, but there is also a spillover effect, naming that the borrowing (especially by women) have positive impacts on per capita expenditure of an average household of a village. A 10 percent increase in the borrowing from microfinance institutions increases per capita total expenditure by 0.68 percent, food expenditure by 0.50 percent and non-food expenditure by 0.97 percent. This suggests that the benefits do not only cover MFIs' clients, though also nonparticipants. Moreover, they reported that moderate poverty lowered by 17 percentage points between 1991 and 1999, and extreme poverty by 13 percentage points. Finally, Habib and Jubb (2015) in their study on MFI membership and its impact on poverty alleviation, reported that overall group members achieved significant improvement after joining the program, having their income almost doubled. Expenditure also increased for MFIs' clients, 16 percent of which resulted in the highest expenditure category, against the 4 percent of non-members. Moreover, members achieved higher savings than non-clients. Housing arrangements are also important determinant for economic status of households and what the study revealed was that 97 percent of the clients owned the property, compared to 36 percent of non-members. In general, the authors confirmed the powerful role of microfinance in poverty alleviation.

In conclusion, microfinance benefits, through its multitude of financial and non-financial services, both the households and the economy as a whole. Women receive a particular attention, considered better borrowers than men and better able to allocate resources towards

productive use. The contribution of microfinance to GDP is undeniable, as well as its impact on poverty alleviation. In addition, microfinance services aim at the development of entrepreneurship among people. GEM reports that Bangladesh has mainly opportunity-motivated businesses, however it is not deeply studied whether microfinance funds opportunity- or necessity-enterprises. This should be further analysed, drawing from the fact that growth-oriented entrepreneurship has proved to be a strong source of economic growth of countries. Government policies should address this issue and together with Microfinance Institutions create specific program and package for members, which include not only financial services, but also training and education programs. A final topic which should be address in this thesis is the possible link between remittances and microfinance in the process of development of the country.

3.4 The link between remittances and microfinance institutions

Bangladesh is pioneer in the development of microfinance, in particular of microcredit. As we have already seen, it contributes strongly to reduce the poverty level of the country. At the same time, foreign currency reserve amount to \$32400.00 million and this has been achieved especially thanks to remittances. Remittances, on the same way as microfinance, have proved to be a strong instrument in reducing poverty and fostering economic growth. Migrants sending remittances required several services and MFIs may play a leading role in serving migrants' households, especially due to their widespread presence all over the country. From the 1990s the proliferation of NGOs, MFIs and other private banks in Bangladesh, gave the possibility for remittance recipients to better channel their additional income into productive use. MFIs may provide different services to migrants during two main stages of migration, i.e. pre- and post-migration. During the pre-migration stage these institutions can select potential migrants and train them, along with providing them money for migration. The process of targeting likely migrants is facilitated by the strong proximity to people, even to those living in the most remote area of the country. MFIs are able to select young men and women who are unemployed and looking for a job, being willing to move abroad. Once selected, these people can be trained according to the needs of the foreign employer and according to the country in which they will migrate. Training programs in this stage are of fundamental importance, not only for the reasons just mentioned, but also in order to aware migrants of the difficulties they will find and to teach them how to avoid being exploited and cheated by recruiting agency. BRAC already work on this issue, through its SMFC (Safe Migration Facilitation Centre). This centre aims at providing information to

future and returning migrants on safe migration process, laws and rights, legal support, skill training. Six SMFC based in seventeen district of Bangladesh works to protect almost 2 million people. The problem of exploitation of workers is real and serious, exacerbated by the fact that most of these people lack knowledge and training. For this reason, BRAC has also started in 2010 a project “Advocacy for Safe Migration and Abating Labour Trafficking” to combat labour trafficking and exploitation, covering the nine main trafficked districts of Bangladesh (Alam, 2012). MFIs may then contribute to the concrete action of migrating, giving people money. Poor households that opt for the migration of one member may do whatever they can in order to come up with the amount of money needed, even selling their own houses, or their assets such as land. Giving credit to those people prevent this to happen, and therefore, at the act of returning bank from the working period, household will not have to use the entire money received in buying new assets, or even a new home but could use them for more productive uses. MFIs acknowledging the necessities migrants and their households have, can create better services targeted to them, even more since Bangladeshi irrespectively take loan from MFIs for their migration. For example, the microfinance institution Palli Karma Shohayok Foundation (PKSF) has started in 2007 the Financial Services For the Overseas Employment of the Ultra Poor (FSOEUP) Project, with the aim of secure overseas employment for the ultra-poor (PKSF, 2015). They provide credit facilities and organize orientation program, health check-up and assist the preparation of passport (Alam, 2012).

If the pre-departure stage is fundamental for preventing migrants from being exploited and for giving them all the necessary services, both financial and non-financial; the post-migration stage is of equal or even greater relevance, since it can play a decisive role in productively allocate resources. Not only, MFIs may also be involved in the transaction process of remittances. First of all, because of their strong presence in the country. The Bangladesh Microfinance Statistics 2015-2016 reported that MFIs have a total of 18,605 branches throughout the country, of which 84 percent are found in rural areas, therefore covering most of the country, compared to banks which are mainly found in urban areas. People may find it difficult and extremely dangerous to withdraw money from banks since they may risk robberies and the great distance from the banks worsen all this. Therefore, MFIs are confident of being able to be an attractive option for the mobilization of migrants’ remittances. Agreements between Commercial Banks and MFIs may create a network in which bank use MFIs’ branches to collect and provide money. Some microfinance institutions have already started entering the remittances market. BURO, a leading Bangladeshi MFIs

with 774 branches across the country, has developed agreements with NCBs in order to use BURO's branches for the delivery of remittances. Moreover, in 2007 BURO also set up a remittances service department. Their aim is to ensure a totally safe transaction of the flow of foreign and domestic remittances without hindrances (BURO, 2017). BRAC too has linked up with other banks to fostering official transfers of remittances. However, a major impediment for MFIs accessing the remittance market exists since only formal banking sector has the authority to deal with foreign currency and no regulation has been yet made for MFIs and NGOs. They act under the Voluntary Society's Act, NGO Act and Trust Act which prohibit them to make financial transactions. Therefore, MFIs are actually unable to provide these services to families. For example, the Grameen Bank under the 1983 Social Act Ordinance which governs it, is not allowed to access foreign exchange (Siddiqui and Abrar, 2003).

Still, MFIs can be relevant in helping households to properly use their money. Providing families with specific services such as savings programs or microenterprise programs, they may ensure growth-oriented investments, which in turn can foster the development of the entire country. BRAC, in order to support microenterprises, has developed in 1997 the Micro Enterprise Lending and Assistance (MELA) program, which provide loans and non-financial services to business owner and microentrepreneurs. One thing that make MELA different from other credit programmes is that it provides loans to individuals and not to groups and both for working capital and capital investment. Moreover, since they consider also applications from non-groups members, migrant and their families may also have access to this program. Migrants often show their interest in channelling remittances into productive investments, therefore being assisted by an institution such as BRAC can foster this pattern (Siddiqui and Abrar, 2003). Grameen too recognized its high potential for their enormous outreach among the country and, around the same time, started to offer the Grameen Mutual Fund. Through this plan a person depositing BDT 1000 per month, will be able to receive the double amount in ten years (Hassan and Shakur, 2017). As Alam (2012) reports its paper, Professor Yunus argues that *“starting from the micro enterprise loan to venture capital everything is possible once we make the link with the migrant workers and their families. While providing reaching remittances door to door, we can offer them different kinds of packages”*.

Despite all the positive contributions MFIs may provide, several constraints complicate the scenario. Apart from the legal limitation beforementioned, MFIs are allowed only to work

with members of the institutions, therefore, unless migrants and their families become clients, they are not able to provide them financial services. This, however, may be overcome, since MFIs are increasingly recognizing the importance of migration and remittances, showing their interest in working in this field. Another obstacle arises from the fact that MFIs and their donors may have different views on the operation of the institutions. If donors provide funds mainly for the ultra-poor to be helped, they will unlikely be willing that MFIs help migrants and their families since these are often not considered as the poorest of society. However, this position may even worsen the situation since migrants' families may overcome this by asking credit for an income-generating project and instead using it to finance migration. Therefore, addressing migration as a lively field is important also for assuring the well-functioning of the institutions themselves.

All these considerations made, it is possible to conclude that the Bangladeshi government together with the MFIs operating in the country should work on finding valuable solution to provide the latter access to the remittances market. A functioning and collaborative system may lead to extraordinary positive outcomes and be decisive for the development and economic growth of the country, drawing from the fact that already good results have been achieved and the country seems to move on the right direction.

CONCLUSION

The aim of this thesis has been to shed light on two phenomena, remittances and microfinance, which are increasingly attracting the attention of scholars for their developmental potential, especially in developing countries. Remittances are one of the most immediate results of migration, something that is not new, being a natural component of human nature. People have always used to move, whether in the search of better opportunities or for escaping war and instability in their birth countries. With the purpose of showing how microfinance institutions can be valuable actors in the remittances' business, therefore creating a nexus between these two tools, the first two chapters gave particular attention to their individual impact on several variables of countries, such as poverty, health, education, GDP, entrepreneurship, women empowerment, economic stability. Through the analysis of a broad strand of literature on the subjects, it was possible to conclude that remittances and microfinance exert an overall positive impact in the development of less developed countries.

In order to explain their impacts, a brief explanation of trends and patterns in migration were illustrated. There are globally an estimated 258 million international migrants in 2017, of which 64 percent, live in high-income countries. However, patterns of migration have changed during years and due to costs and to stricter policies adopted by countries, migrations South-to-South have become increasingly predominant. 38 percent of migrants born in a less developed country migrated to other developing countries. Chapter I subsequently analysed one of the first direct consequence of migration, i.e. remittances. Remittances are private transfers sent from an immigrant worker to the family in his/her home country and in 2017 accounted for \$596 billion, of which \$450 billion were directed to developing countries. For most of the countries, remittances are one of the most important source of foreign currency, surpassing ODA and being surpassed only by FDI. To understand their impact on the sending countries, the discussion was divided between macro- and micro-level. Although opinions on the macroeconomic impact remain mixed, those on the microlevel confirm a general positive effect, with a reduction of poverty, improvement of education and health, creation of new enterprises and in turn, an increase in the economic wellbeing of the country.

The same pattern was followed in the second Chapter, regarding microfinance. A central problem for developing countries is financial exclusion of a broad part of society. The World

Bank estimates that 2 billion people do not make use of formal financial services and 50 percent of the adult population in the poorest households is unbanked. This issue has risen much concern, and MFIs emerged precisely to fill this gap and provide poor people with financial services which bank denied them. The discourse on the impact of microfinance demonstrated that much work has already been done, and several goals have been reached. Similarly to remittances, MFIs were able to reduce poverty through small credits given to poor households. Extending their aids up to the provision of non-financial services, the sanitation of people was improved, as well as their education. They adopted a strategy which linked both kind of services in a *package* of measures that allows for a more comprehensive contribution, aiming at bringing about a more durable and stable change. It was also taken into account the impact of microfinance on entrepreneurship development, one of the first goal of MFIs. Several variables have a role in the final outcome, however, scholars suggest that loans given by the institutions for the creation of new enterprises led to positive effect on sales and on savings, as well on productivity. One study reported that after receiving a loan, profits increased by a 175 percent.

The case study of Bangladesh, deeply analysed in the final chapter, had the purpose of applying the discussion in a concrete dimension. Remittances represent a first source of external fund for the country, surpassing in 2014-2015 nine times FDI and four times ODA. The country gives its economic stability to this constant flow of money which enter the country and the impact is, therefore, straightforward. The contribution to GDP accounted for 6.1 percent in 2016. It was proved that poverty level declined steadily thanks to remittances, from 44.2 percent in 1991 to 13.8 percent in 2016. This allowed the country to enter the “Next Eleven”, i.e. countries with high potential of becoming the largest economies of the century. Behind the economic benefits, studies show that people also gained in term of social status, especially with regard to women. 87.5 percent of wives who received remittances gave a contribution in the family’ decision-making, compared to only 35 percent of those who did not received this additional income. The second most important presence in the country is that of microfinance, being Bangladesh the birthplace of modern microcredit, due to the establishment of the Grameen Bank in 1976 by Muhammad Yunus. The role of microfinance institutions is uncontested. During years the proliferation of these institutions gave the possibility to reach the most remote areas of the country and get in touch with as much people as possible. This enable MFIs to develop specific programs targeted at the need of poor households as well as of new entrepreneurs. Micro entrepreneurship is a field in

which MFIs actively work on and as demonstrated a multitude of programs exist throughout the different institutions available in the country.

The fundamental point of the discussion was to analyse the nexus between microfinance and remittances. Despite, MFIs currently are not allowed to mobilize and make use of migrants' remittances, they are increasingly interested in entering this market, recognising the great impact remittances exert on developing countries. Many MFIs have already started some programs targeted at migrants and their households, and they established agreements with commercial banks of money transfer operators in order to install a relationship in which MFIs may play a fundamental role for their proximity to people. In Bangladesh, MFIs such as BRAC, BURO, PKSf created programs addressed at both pre- and post- departure of migrants. The building block of the junction between microfinance and remittances have already been laid, now what is needed is to work in order to create a perfect and functioning building. Therefore, a growing attention should be given to this topic, especially from governments and authorities with the aim of easing the establishment of this nexus.

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Rimesse e microfinanza nel processo di sviluppo: il caso del Bangladesh

Le migrazioni internazionali non sono un fenomeno recente, l'uomo ha da sempre lasciato i propri paesi di nascita verso paesi in grado di offrirgli nuove e migliori opportunità lavorative e di benessere. Tuttavia, sotto l'influenza della globalizzazione, i modelli di migrazione sono diventati sempre più complessi e oggetto di studi più completi e dettagliati. Non solo le stime sono importanti, ma soprattutto l'impatto che questi flussi hanno sui contesti demografici, economici, sociali e politici dei paesi coinvolti. Il Dipartimento per gli Affari Economici e Sociali delle Nazioni Unite stima nel 2017 la presenza di circa 258 milioni di *migranti internazionali*, un termine che designa persone risiedenti in un paese diverso da quello di origine. Ognuna di queste persone incarna una storia diversa, ognuna di queste persone ha una diversa ragione per cui ha scelto di spostarsi, e la maggior parte delle volte, più di una. Le motivazioni appaiono essere diverse tra loro, complesse e fortemente correlate. Violenza e oppressione politica possono portare a flussi migratori in uscita, sia interni che internazionali. Tuttavia, essi non rappresentano gli unici fattori di spinta: le migrazioni internazionali, più che quelle interne, possono essere costose e necessitano di significative risorse. Il background socio-economico dei migranti, infatti, gioca un ruolo decisivo. I paesi sviluppati competono per attirare lavoratori altamente qualificati e persone con spirito imprenditoriale, mentre i lavoratori poco qualificati e i rifugiati sono spesso esclusi e discriminati. Pertanto, il primo gruppo può presumibilmente trarre grandi vantaggi dalla migrazione, con l'opportunità di ottenere nuove competenze, tecniche, e con una possibile prospettiva di ritornare nel loro paese e applicare ciò che hanno acquisito.

Questa tesi esamina l'impatto delle rimesse, i soldi che i migranti inviano a casa, sullo sviluppo e la crescita del paese di origine. Un'analisi di questo notevole flusso di denaro offre l'opportunità di comprendere come questa risorsa possa rappresentare uno strumento forte e potente di crescita, specialmente nei paesi meno sviluppati. Esse rappresentano spesso la seconda più grande fonte di finanziamento esterno per questi paesi, seconde solo agli investimenti esteri diretti. A livello globale, le rimesse ammontavano nel 2017 a \$596 miliardi, dei quali \$450 miliardi riservati ai paesi in via di sviluppo. Se consideriamo che un'alta percentuale di questo flusso viene inviata attraverso canali informali o illegali, ovvero non soggetti a controllo di istituzioni formali, la cifra potrebbe quasi raddoppiare. La raccolta dei dati sulle rimesse è, di fatto, uno dei principali ostacoli nello studio di questo fenomeno che è

stato di conseguenza a lungo ignorato, considerato incompleto e impreciso. Gli enormi flussi di moneta inviati attraverso il canale informale possono anche essere attribuiti a servizi bancari inadeguati e ad un ambiente politico ostile.

In questo scenario lo sviluppo delle istituzioni di microfinanza (IMF) ha svolto un ruolo importante nella lotta contro la povertà e l'esclusione finanziaria dei poveri. Il flusso di rimesse ha avviato la concorrenza tra gli agenti di trasferimento e le IMF possono indubbiamente essere dei buoni candidati. Lo studio della possibile relazione tra rimesse e microfinanza è abbastanza recente. Tuttavia, esistono numerose similitudini tra gli obiettivi della microfinanza e quelli delle rimesse. Entrambi mirano alla riduzione della povertà e ad un migliore benessere per le famiglie. Allo stesso tempo, possono favorire una crescita economica, grazie all'imprenditorialità e alla creazione di nuovi posti di lavoro. L'impatto delle rimesse dipende in modo considerevole dal modo in cui le IMF riescono a ridurre il grado di razionamento del credito e incanalare le rimesse dei migranti in investimenti produttivi. Pertanto, la crescente presenza delle istituzioni di microfinanza nel mercato delle rimesse potrebbe portare ad un maggiore impatto positivo delle rimesse sulla crescita dei paesi in via di sviluppo.

Il primo capitolo di questa tesi analizza i dati sulle migrazioni internazionali. Per valutare il suo impatto sui paesi di provenienza, è necessario acquisire una conoscenza dell'entità del fenomeno. Gli andamenti migratori sono cambiati nel corso della storia, influenzati da cambiamenti economici, sociali, politici e climatici a livello globale. Uno dei canali più robusti in cui le migrazioni possono favorire la crescita nei paesi in via di sviluppo è attraverso le rimesse. Il mercato delle rimesse a seguito dell'avvento di nuove tecnologie e di transazioni più rapide si è ampliato, portando con sé vantaggi e svantaggi. Le rimesse devono essere considerate come una fonte di reddito aggiuntiva per le famiglie, che possono impiegarlo in diversi modi, dal consumo cospicuo all'investimento in capitale umano e fisico. Il modo in cui questi soldi vengono spesi influisce sul finale potenziale di sviluppo. A livello nazionale, le rimesse rappresentano la seconda più importante risorsa di finanza estera, sorpassando gli aiuti pubblici allo sviluppo (APS) ed essendo sorpassati solo dagli investimenti diretti esteri (IDE). In termini di PIL di un paese, la Banca Centrale riporta che nel 2014 le rimesse hanno rappresentato il 42 per cento del PIL in Tajikistan e 29 per cento in Nepal, dimostrando la loro importanza per l'economia di questi ed altri paesi. Per comprendere maggiormente il fenomeno delle rimesse è importante capirne le differenti tipologie. Goldring (2002) distingue tre tipi di rimesse: individuali, collettive ed imprenditoriali. Le prime sono le più comuni,

volte al sostentamento della famiglia nel paese di origine, spinte dai legami affettivi e di sangue che intercorrono tra mandante e ricevente. Le rimesse individuali vengono maggiormente spese in consumo o investite nell'educazione dei figli, nella sanità o servono come assicurazione. Le rimesse collettive, invece, sono considerate di alta qualità in quanto perlopiù incanalate in investimenti e fondi per progetti di comunità. Le diaspore, in questo campo, hanno un ruolo di innegabile importanza. Per esempio, gli investimenti fatti nel periodo compreso tra il 1991 e il 2001 in India da parte di proprie diaspore in altri paesi, hanno rappresentato il 26 per cento degli investimenti esteri. Infine, le rimesse imprenditoriali, pur essendo simili a quelle collettive, si mostrano essere più finalizzate ad un profitto a lungo termine e creazione di posti di lavoro. L'Hinschu Science-Based Industrial Park a Taiwan deve il suo successo alle rimesse ricevute dai migranti cinesi, le quali hanno permesso la creazione del 40 per cento delle compagnie totali.

La complessità di questo fenomeno fa luce su un altro tema di fondamentale importanza, che a sua volta è intriso di problematicità: la relazione tra rimesse e sviluppo. Una considerevole mole di letteratura è stata prodotta su questo argomento e un consenso sembra non essere stato tutt'ora raggiunto. Se da un lato, l'impatto a livello microeconomico è stato ampiamente riconosciuto, quello macroeconomico è ancora fortemente dibattuto. Nonostante le visioni sull'argomento siano contrastanti, l'Agenda 2030 per lo Sviluppo Sostenibile segnala esplicitamente la migrazione come uno strumento per il sostentamento dello sviluppo economico di un paese. Le migrazioni portano ad una diminuzione della disoccupazione e soprattutto ad una riduzione della povertà nel paese in questione. Tramite un effetto diretto sull'entrate della famiglia, le rimesse portano indirettamente ad un aumento della domanda aggregata che di conseguenza potrebbe portare ad una maggior produzione, occupazione e salari più alti. L'effetto di sviluppo delle rimesse può alleggerire i vincoli finanziari delle famiglie e la loro stabilità e contro-circolarità dà loro un'assicurazione durante crisi economiche o shock ambientali. In generale, questo è dovuto al fatto che, specialmente durante situazioni di emergenza, le rimesse tendono ad aumentare invece che diminuire grazie ai legami emotivi che collegano il migrante alla sua famiglia. A livello nazionale, esse rappresentano una fonte rilevante per le riserve valutarie, possono contribuire allo sviluppo del settore finanziario, migliorare la solvibilità del paese e migliorare la bilancia dei pagamenti.

A livello macroeconomico, le rimesse sono considerate stabili e anticicliche. Infatti, come già menzionato, tendono ad aumentare in momenti di crisi economiche o shock macroeconomici

come crisi finanziarie, conflitti, disastri naturali. Mohapatra et al. (2009) hanno dimostrato come, dopo l'alluvione del 1998 in Bangladesh, il consumo pro capite delle famiglie fosse più alto per le famiglie riceventi rimesse. In aggiunta a questo studio, Yang (2004) ha riportato che durante la crisi finanziaria asiatica del 1997 vi è stato un aumento dei flussi di rimesse alle famiglie filippine. Essendo stabili, hanno consentito ai paesi riceventi grandi quantità di rimesse, di finanziare investimenti a lungo termine, promuovendo una crescita economica. Un secondo importante effetto a livello nazionale è il miglioramento della solvibilità di un paese. Ciò potrebbe aiutare il paese ad entrare nel mercato internazionale dei capitali e le rimesse in denaro contante possono migliorare il loro *rating* del rischio. Ad esempio, utilizzando le rimesse come garanzia, i paesi possono contrarre prestiti a tassi di interesse più bassi dai mercati internazionali. Gli investimenti in abitazioni tramite le rimesse possono stimolare l'economia attraverso la creazione di ulteriore occupazione nel settore delle costruzioni e possono anche contribuire a nuove opportunità di business, dimostrando di avere un effetto moltiplicatore.

A livello microeconomico, le rimesse hanno un ruolo importante nella riduzione dei livelli di povertà. Lokshin et al. (2010) hanno riportato che il 20 per cento della riduzione della povertà in Nepal nel periodo 1995-2004 è da attribuire all'aumento del livello di migrazioni e alla quantità di rimesse ricevute. Inoltre, di fondamentale rilevanza è la misura in cui le rimesse stimolano l'attività imprenditoriale e gli investimenti aziendali. Dustmann e Kirkchamp (2002) hanno dimostrato che negli anni '90 quasi la metà degli immigrati turchi che tornavano nel loro paese dalla Germania aprirono una nuova impresa. Un altro interessante studio sul legame tra migrazione di ritorno in Nord Africa e livello di imprenditorialità, ha confermato che questa relazione è positiva: il 33,9 per cento dei migranti è diventato imprenditore dopo il ritorno a casa, contro il 16,2 per cento degli imprenditori prima della migrazione.

L'analisi procede nel tentativo di collegare le rimesse a un secondo strumento di forte impatto per lo sviluppo dei paesi meno sviluppati, ovvero la microfinanza. Le origini della microfinanza non sono recenti, ma risalgono al 1700, quando Jonathan Swift fondò i primi fondi di credito moderni in Irlanda. Da allora, la microfinanza si è sviluppata rapidamente e l'avvento di quest'ultima nei paesi in via di sviluppo si deve a Yunus Muhammad, l'uomo che ha fondato la Grameen Bank nel 1976, dando avvio ai servizi di microcredito. Il microcredito da allora è divenuto uno degli strumenti più adottati al fine di ridurre il grado di razionamento del credito e favorire lo sviluppo economico. Tuttavia, la microfinanza non riguarda solo la provvisione di credito, ma anche di altri servizi, come depositi, prestiti, trasferimenti di

denaro, assicurazioni, formazione, educazione finanziaria, ecc. Le istituzioni di microfinanza sono di fondamentale importanza nel processo di inclusione finanziaria dei poveri e nel fornire loro servizi mirati alle loro esigenze.

A livello globale, nel 2016 esse hanno raggiunto oltre 132 milioni di clienti. Un fattore di successo della microfinanza è il contratto di responsabilità congiunta che riduce al minimo l'asimmetria informativa e crea un ambiente trasparente tra i membri, eliminando quindi il problema della selezione avversa o dell'azzardo morale. Gli obiettivi della microfinanza sono molteplici, in primo luogo la riduzione della povertà. L'empowerment delle donne rientra nei loro *goals*, il che è evidente dal momento che il 97 per cento dei clienti della Grameen Bank sono donne. Inoltre, lo sviluppo dell'imprenditorialità è un altro importante obiettivo per queste istituzioni. Gli imprenditori orientati alla crescita possono promuovere fortemente lo sviluppo economico di un paese. Pertanto, congiuntamente a servizi finanziari come prestiti e crediti, le istituzioni di microfinanza forniscono anche formazione e istruzione, in un pacchetto di servizi.

Seguendo la linea di analisi utilizzata per le rimesse, il secondo capitolo fornisce una panoramica sull'impatto che la microfinanza ha avuto finora sui progressi dei paesi meno sviluppati. L'influenza di quest'ultima si estende sia a livello micro- che macroeconomico. Diversi studi hanno dimostrato come i clienti di istituzioni di microfinanza hanno raggiunto un benessere maggiore rispetto a prima. Lonborg e Rasmussen (2014) in uno studio sull'intervento della microfinanza in Malawi, hanno scoperto che coloro che avevano partecipato a programmi di microfinanza erano meno poveri della popolazione generale, con una differenza del 10-15 per cento tra i due gruppi. Estendendo questo risultato, Khandker (2005) ha riscontrato un effetto di *spillover*, per il quale la microfinanza non solo ha beneficiato i partecipanti, ma anche il villaggio come aggregato. Studiando 1.638 famiglie Khandker ha rilevato che la povertà moderata è diminuita del 17 per cento tra il 1991/92 e la povertà estrema del 13 per cento. Attraverso un aumento dei consumi delle famiglie, i non-partecipanti hanno indirettamente beneficiato di una crescita del reddito locale. In generale, egli riporta come il livello medio di povertà del villaggio è diminuito di un punto percentuale ogni anno. Guardando all'impatto sociale dei servizi di microfinanza, salute e istruzione sono due settori chiave in cui la microfinanza esercita un effetto ben riconosciuto. L'educazione fa parte del capitale umano, che a sua volta, se ben sviluppato, può generare risultati positivi. La microfinanza sostiene la domanda di istruzione. In assenza di questi servizi, le persone si ritrovano vulnerabili a shock, siano essi economici o climatici, che possono costringerli a

ritirare i propri figli da scuola per inserirli nella forza lavoro, o nel peggiore dei casi a non iscriverli dal principio. Fornendo accesso al credito e ai prestiti, le istituzioni di microfinanza possono impedire che questa situazione si verifichi. Tutto ciò è stato largamente dimostrato tramite studi empirici i quali hanno riscontrato un impatto positivo su entrambe le variabili. Un ulteriore punto importante da analizzare è il ruolo che la microfinanza gioca nello sviluppo imprenditoriale. La letteratura su questo tema concorda sul fatto che il rafforzamento dell'imprenditorialità è fondamentale per lo sviluppo dell'economia di un paese e la microfinanza può rappresentare un valido supporto per collegare l'imprenditorialità e lo sviluppo promuovendo la produttività, generando nuove attività economiche e occupazione. Gli imprenditori generano guadagni di produttività dall'ingresso e l'uscita dinamica dal mercato, il che stimola la crescita economica. Il progetto GEM (*Global Entrepreneurship Monitor*) rappresenta lo studio più completo sull'imprenditorialità e fornisce una distinzione tra imprenditorialità di necessità e di opportunità, le quali hanno un'incidenza fondamentalmente diversa sulla crescita economica di un paese. Alcuni studi hanno riportato un effetto positivo della microfinanza sullo sviluppo di nuove aziende e business, mostrando come la prima abbia portato un aumento nei profitti, nelle vendite e nella produttività.

Infine, l'ultima parte del capitolo si focalizza sull'analisi del ruolo che le istituzioni di microfinanza e le rimesse hanno sul processo di sviluppo e come esse possano legarsi l'un l'altra allo scopo di aumentare l'impatto positivo che producono già singolarmente. I migranti e le loro famiglie, così come i poveri, affrontano numerosi ostacoli quando si tratta di accesso alle istituzioni finanziarie come le banche. Quest'ultime sono per la maggior parte non interessate a servire questi due gruppi a causa di una combinazione di fattori quali la mancanza di informazioni, l'errata percezione del loro comportamento e modelli di business focalizzati su gruppi ad alto reddito. In questo modo, si viene a creare un divario tra coloro che non possono accedere ai servizi finanziari e le istituzioni finanziarie. Esattamente in questa lacuna, le istituzioni di microfinanza possono quindi svolgere un ruolo decisivo. Innanzitutto, grazie alla loro vicinanza con la gente che vive nelle aree più remote e alla loro familiarità con i bisogni dei clienti, sono ritenute affidabili e possono fungere da canale attraverso il quale le rimesse sono depositate e reinvestite. L'eventuale relazione vincente tra rimesse e microfinanza è stata a lungo trascurata poiché si pensava che le rimesse fossero utilizzate principalmente per consumo e non per attività economiche di valore. Tuttavia, questo sembra essere cambiato recentemente. L'innegabile valore delle rimesse ha attirato una crescente attenzione da parte delle istituzioni di microfinanza, le quali hanno iniziato a considerare il mercato delle rimesse come un terreno florido. Caja Popular Mexicana, AMUCSS e FAMA

e numerose altre istituzioni hanno già istituito programmi che combinano trasferimenti di denaro, educazione finanziaria, assicurazioni, crediti, ecc.

Il capitolo finale rappresenta un tentativo di applicare le suddette teorie a un caso studio specifico: il Bangladesh. La Repubblica popolare del Bangladesh è una Repubblica democratica indipendente dell'Asia meridionale, che ha ottenuto la sua indipendenza nel 1971. È uno dei paesi più popolati al mondo e considerato un paese in via di sviluppo. Nonostante ci sia ancora molto lavoro da fare per combattere problemi come la povertà, il governo del Bangladesh sta cercando di andare avanti nel promuovere il suo sviluppo. Questo paese è un perfetto esempio di come le rimesse e la microfinanza possano essere potenti strumenti per lo sviluppo. È uno dei primi paesi in termini di ricezione di rimesse, con \$13,469 milioni di rimesse ricevute nel 2017 ed è, parallelamente, il luogo di nascita della microfinanza moderna. Le rimesse rappresentano la prima fonte di fondo estero per il paese, superando nel 2014-2015 di nove volte l'IDE e di quattro volte l'APS. Il paese deve la sua stabilità economica a questo flusso costante di denaro che entra nel paese e l'impatto è di conseguenza diretto ed innegabile. In termini di PIL le rimesse hanno rappresentato il 6,1 percento nel 2016. È stato dimostrato che il livello di povertà è diminuito costantemente grazie a quest'ultime, dal 44,2 percento nel 1991 al 13,8 percento nel 2016. Ciò ha permesso al paese di entrare nei "*Next Eleven*", cioè nel gruppo di paesi con il potenziale di diventare le più grandi economie del secolo. Al di là dei benefici economici, gli studi dimostrano come le persone abbiano guadagnato anche in termini di status sociale, soprattutto nel caso delle donne. L'87,5 percento delle mogli che hanno ricevuto rimesse hanno avuto un ruolo nel processo decisionale della famiglia, rispetto a solo il 35 percento di coloro che non hanno ricevuto questo reddito aggiuntivo. La seconda forza più importante nel paese è quella della microfinanza, essendo il Bangladesh pioniere del microcredito moderno, grazie alla fondazione della Grameen Bank nel 1976 di Muhammad Yunus. Il ruolo delle istituzioni di microfinanza è incontestato. Durante gli anni, la proliferazione di queste istituzioni ha dato la possibilità di raggiungere le zone più remote del paese e entrare in contatto con quante più persone possibile. Nel 2018 si contano 703 istituzioni di microfinanza autorizzate. Ciò ha consentito a quest'ultime di sviluppare programmi specifici destinati alle famiglie povere e ai nuovi imprenditori. La microimprenditorialità è un campo in cui le IMF operano attivamente e, come dimostrato, esiste una moltitudine di programmi nelle varie istituzioni disponibili nel paese. Sia le rimesse che la microfinanza hanno dimostrato di avere un forte impatto sulla riduzione della povertà, sullo sviluppo dell'imprenditorialità e sul PIL del paese. Il governo ha riconosciuto a lungo la loro importanza e ha creato diversi ministeri con il compito di regolare la migrazione e

proteggere i migranti dallo sfruttamento e dalla discriminazione. Diverse IMF si stanno sempre più interessando al mercato delle rimesse e stanno cercando di creare programmi rivolti ai migranti e alle loro famiglie, specialmente alla loro sicurezza nel processo di migrazione. BRAC, una delle più importanti istituzioni di microfinanza in Bangladesh, ha avviato nel 2010 un progetto chiamato "*Advocacy for Safe Migration and Abating Traffic Trafficking*" con lo scopo di combattere il traffico e lo sfruttamento di manodopera, coprendo i nove principali distretti di traffico del Bangladesh. L'istituzione di microfinanza Palli Karma Shohayok Foundation (PKSF) ha avviato nel 2007 il progetto *Financial Services For the Overseas Employment of the Ultra Poor* (FSOEUP), con l'obiettivo di garantire un impiego all'estero per i poveri (PKSF, 2015). Esso fornisce servizi di credito e organizza programmi di orientamento, check-up sanitario e assistenza alla preparazione del passaporto.

Il punto fondamentale di questa tesi è stato quello analizzare il nesso tra microfinanza e rimesse, partendo dal loro ruolo individuale sullo sviluppo dei paesi meno sviluppati. Nonostante al momento le IMF non siano autorizzate a mobilitare e utilizzare le rimesse, esse sono sempre più interessate ad entrare in questo mercato, riconoscendo il forte impatto che esse hanno sui paesi in analisi. Molte IMF hanno già avviato alcuni programmi rivolti ai migranti e alle loro famiglie e hanno stabilito accordi con banche commerciali e operatori di trasferimento di denaro al fine di instaurare una relazione affinché le IMF possano svolgere un ruolo fondamentale grazie alla loro vicinanza alle persone. In Bangladesh, le IMF come BRAC, BURO, PKSF hanno creato programmi rivolti sia alla fase di pre- che di post-partenza dei migranti.

In conclusione, le fondamenta per creare una relazione tra microfinanza e rimesse sono già state gettate, ciò che ora è necessario è costruire una struttura solida al fine di creare un edificio perfetto e funzionante. Pertanto, una crescente attenzione dovrebbe essere rivolta a questo argomento, in particolare da parte di governi e autorità allo scopo di facilitare l'istituzione di questo nesso.