

Thematic brief

# Debt, exploitation and trafficking of labour migrants

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Labour migration and trafficking in persons: a political economy analysis

## Key messages

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Access to credit can facilitate migration and contribute to improved life situations through greater livelihoods and opportunities.

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Over-indebtedness can lead to unsafe migration and exploitation.

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The high costs associated with irregular and, in particular, regular migration contribute to over-indebtedness, and associated risks of labour bondage and other forms of exploitation.

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To reduce the risk of debt-related exploitation and human trafficking, governments should ensure low-cost regular migration processes, prohibit recruitment agencies from charging workers for their services, and ensure that migrants do not have to rely on predatory loan schemes.

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## About this publication

This publication has been developed through a research partnership between ASEAN-ACT and ODI. The research involved conducting an applied political economy analysis to understand the dynamics of labour exploitation and trafficking in persons in Southeast Asia in order to: 1) improve the evidence base for ASEAN-ACT and partners' programming and policy engagement; and 2) develop and implement a process for feeding that evidence into ASEAN-ACT and partners' programming and consultations on a regular basis.

The research seeks to advance understanding of the vulnerabilities of labour migrants to exploitation and trafficking. This can contribute to improved response capabilities of state agencies and international programmes to address these issues and strengthen protection and support for labour migrants and victims of trafficking in persons.

Phase 1 of the research project includes four country studies: Cambodia, Laos, Thailand and Vietnam. Phase 2 of the research project includes four country studies: Indonesia, Myanmar, Malaysia and the Philippines.

This thematic brief is the third of four in Phase 2. Thematic briefs distil findings from the four country studies on key cross-cutting issues. This brief focuses on the relationship between debt and exploitation and human trafficking.

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# Acronyms

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ASEAN	Association of Southeast Asian Nations
CSO	Civil society organisation
GDP	Gross Domestic Product
HRW	Human Rights Watch
IDP	Internally Displaced Person
IDR	Indonesian Rupiah
ILO	International Labour Organization
IOM	International Organization for Migration
LICADHO	Cambodian League for the Promotion and Defence of Human Rights
MoU	Memorandum of Understanding
NGO	Non-government organisation
SHG	Self-help group
SUHAKAM	The Human Rights Commission of Malaysia
UNODC	United Nations Office on Drugs and Crime

# 1 Introduction

Indebtedness is a key driver of labour migration – many households opt for a family member to work overseas and send remittances in order to pay off accrued debts at home. Compounding this, however, the costs of migration prevent many aspiring workers from being able to migrate unless they can borrow money to cover the costs associated with acquiring documentation, arranging travel, securing employment and other expenses. For numerous migrant workers, debt is thus a driver of migration but also a precondition for making an income in order to create a better life for themselves and their families. Often labour migrants also accrue debt – both at home and at their destination – while working overseas. This can lock them into cycles of continued work to get out of debt but also compounding debts that demand more work, and so on.

Such indebtedness limits their own and their families' freedom, making them dependent on loan providers and their terms and conditions. This can both increase the risks of human trafficking and limit the potential for positive outcomes from labour migration. Migration debt, as Lindquist (2010) points out, makes migrants significantly more vulnerable, frequently resulting in control, abuse, financial difficulty, and restricted freedom of movement. Debt can be used to compound other means of coercion that keep workers in conditions of forced labour, for example, enduring poor working or living conditions as they have no other choice than to stay and repay the debts. They may have migrated in the expectation of decent working conditions that are not met at the destination, and their documents withheld by an employer or broker as guarantee of the debt, restricting their ability to leave. They may also have unclear repayment terms or not realise how much deductions are affecting their salary, and therefore on how long it will take to repay their debts. This study focuses on these types of risks throughout the migration cycle, from debt as a driver of unsafe migration to the consequences of debt during migration and on workers' return to their country of origin.

## 1.1 Types of debt

There have been various approaches to categorising migrant debt. Johnson and Woodhouse (2018) describe debt as an enabler, a driver and an outcome. The International Organization for Migration (IOM) has described the link between debt and migration by looking at (i) debt as a motivator of migration; (ii) debt as a means of

financing migration; (iii) debt in the migration experience; and (iv) the impact of debt on sustainable return (IOM, 2019).

Following our earlier studies on the political economy of human trafficking in Southeast Asia (Denney et al., 2023 and Jespersen et al., 2022), we use the concept of the migration cycle – pre-departure, transit, destination and return – as an organising principle. In exploring the links between debt and exploitation, including human trafficking, in the process of labour migration, these categories are similar to those used by the IOM (2019) and Johnson and Woodhouse (2018). Starting from a human trafficking perspective, this thematic brief discusses (i) debt as a driver of unsafe migration; (ii) debt as a facilitator of unsafe migration; (iii) debt at the place of destination; and (iv) debt on return to the country of origin.

As the IOM pointed out, over-indebtedness is not simply the result of poor financial decisions. For many households, debt is a strategy for covering routine expenses as well as managing a wide range of risks, including failed harvests, health problems, price shocks and effects of corruption (IOM, 2019). In Southeast Asia, many rural families have very little cushion between their income and expenditure, which creates conditions for a debt trap (Hoang, 2020). This thematic brief addresses the case of debt being fuelled by a bad migration experience.

At the same time, it is important to recognise that there may be a fine line between ‘good debt’ – namely, debt that has the potential to improve a person’s financial conditions and life situation – and debt that is likely to have the opposite effect. Whether a debt can be considered ‘bad’ or ‘good’ varies from case to case but is dependent on the conditions under which a loan is provided and for what purpose it is used.

The thematic brief is structured as follows. Section 2 discusses the role of debt as a driver of unsafe migration, followed by section 3 looking at how debt facilitates such migration. Section 4 examines the role debt plays and how it can be accumulated at a migrant’s place of destination, and section 5 focuses on the debt situation and related challenges when migrants return to their country of origin. Section 6 concludes and makes recommendations that could contribute to addressing the challenges identified in the brief.

## 2 Debt as driver of unsafe migration

Many migrants choose to seek work abroad to obtain the funds they need to manage problematic debts or over-indebtedness – namely, a situation in which their income is insufficient to repay a debt on time. Unsafe migration, which is associated with a high risk of being subjected to human trafficking and labour exploitation, is often linked to acute financial problems.

The degree to which the population across ASEAN member states is indebted varies considerably (see Table 1).

**Table 1 Household debt as a percentage of GDP<sup>1</sup>**

Country	Year 2022/2023
Brunei	12.2
Cambodia	36
Indonesia	16.2
Malaysia	81
Philippines	10.1
Singapore	55.7
Thailand	86.9

In several countries, household indebtedness has increased in recent years because of the wider political economy, including increased costs in supply chains (especially for fuel), inflation and global economic slow-down in the wake of COVID-19. This has reached a critical point in countries like Laos, where soaring national debt (principally to China) and rising inflation came to a head in 2022. Although the long-term impacts remain unknown, the deeper precarity that Laotians have been experiencing is likely to drive greater out-migration and lead labour migrants to take more risks (Denney and Xayamoungkhoun, 2023: 14-15).

<sup>1</sup> CEIC, <https://www.ceicdata.com/datapage/en/indicator/household-debt--of-nominal-gdp>, and Trading Economics, <https://tradingeconomics.com/country-list/households-debt-to-gdp?continent=asia> The data sources used do not include information on Laos, Myanmar and Vietnam.



In Cambodia, average household debt increased from 2.5% of GDP in 2010 to 36% in 2022. In comparison with other countries at a similar stage of development, this is considered extremely high (World Bank Group, 2022). Widespread over-indebtedness is not only fuelling migration, but also forces Cambodian families to sell their land, reduce food consumption or take out new loans (Green and Byland, 2021).

In other countries in the region, such as Indonesia, the degree of indebtedness is lower, although significant regional variation means that debt can be a driver of migration in some areas and not others (World Bank, 2017: 22). The highest household debt is found in Thailand and Malaysia, but the relationship between debt and migration is less pronounced, since their economies are comparatively developed. As a result, there is more internal migration for livelihood opportunities. Both countries are primarily destination rather than source countries of migration.

Although the degree of indebtedness varies among and within countries in the region, and in how much of this is associated with migration choices, there has been an overall increase in access to credit in recent decades (CIIP, 2023). The sources of loans available for migrant workers can be divided into formal (e.g. banks), semi-formal (e.g. self-help groups (SHGs)), informal (e.g. money lenders) and friends and family.

The literature suggests that the source of a person's loan is linked to their socio-economic status. Wealthier people are likely to borrow money from commercial banks, while family and friends are often the only available source of funding for people who live in poverty (Oxford Policy Management, 2017). While there are not always sharp distinctions between different types of loans, Table 2 presents a broad overview of the different categories of credit and their broad characteristics.

**Table 2**      **Types of loans**

Loan category	Source (examples)	Characteristics
Formal	Banks	<p><u>Definition/link to legal system:</u> Managed by officially authorised and regulated legal entities.</p> <p><u>Interest rates:</u> Interest rates often lower than for semi-formal or informal loans.</p> <p><u>Terms:</u> Limited possibilities to change</p>

		<p>agreed interest rate, repayment schedule etc.</p> <p><u>Collateral:</u> Collateral often in the form of real estate.</p> <p><u>Users:</u> Rarely accessed by people living in poverty.</p>
Semi-formal	<p>SHGs such as credit unions, and savings and loan cooperatives</p> <p>Microfinance institutions (in some countries these may be better described as sources of formal loans)</p>	<p><u>Definition/link to legal system:</u> Managed by largely unregulated but legal financial entities.</p> <p><u>Interest rates:</u> Varying interest rates, but often higher than for formal loans.</p> <p><u>Terms:</u> Often more flexible terms than formal lenders.</p> <p><u>Collateral/risk mitigation:</u> Collateral may include real estate or movable property. Social pressure.</p> <p><u>Users:</u> The poorest sectors of the population rarely use several of these loan types.</p>
Informal	<p>Recruitment agencies</p> <p>Migration brokers</p> <p>Employers</p> <p>Money lenders</p>	<p><u>Definition/link to legal system:</u> Based on agreements without reference or recourse to the legal system.</p> <p><u>Interest rates:</u> Often high or extremely high interest rates.</p> <p><u>Terms:</u> Flexible.</p> <p><u>Collateral/risk mitigation:</u> Often movable property. Social control.</p> <p><u>Users:</u> High penetration among</p>

	people living in poverty.
Family and friends	<p><u>Definition/link to legal system:</u> Agreements, often not in writing, without reference or recourse to the legal system.</p> <p><u>Interest rates:</u> Sometimes low or no interest.</p> <p><u>Terms:</u> Flexible.</p> <p><u>Collateral/risk mitigation:</u> Often no collateral. Social control.</p> <p><u>Users:</u> High penetration among people living in poverty.</p>

In some countries the increase in household debt is largely a consequence of a growing microfinance sector providing loans, but also other financial services, to low-income populations. These loans have the potential to contribute to economic development, poverty reduction and reduced income inequality (Miled et al., 2022), and in some countries in the region the sector has grown particularly rapidly. In 2019, Cambodia reportedly had the world’s highest average per person microfinance loan amount (Natarajan, Brickell and Parsons, 2021). Thus, microfinance loans come in different shapes and forms, and some may have contributed to over-indebtedness and unsafe migration.

A common misunderstanding is that non-profit organisations with a mission to contribute to development provide low-interest microcredit with no collateral for income-generating projects. While this is how microcredit originated, many microfinance providers are now commercial actors, sometimes foreign banks, providing loans at high interest rates against land titles or other forms of collateral (Natarajan, Brickell and Parsons, 2021).

The size of the loans has increased dramatically, suggesting that the term ‘microfinance’ may not always be appropriate (Finch and Kocieniewski, 2022). In Cambodia the average microfinance loan is nearly three times the average annual household income. Many microfinance providers have been accused of using aggressive and unethical strategies for pushing loans, including using the fact that many borrowers are not literate and may not be fully aware of the effects of high interest rates (UNODC, 2017). Referring to the

situation in Cambodia, Green and Byland (2021) describe the microfinance industry as one that now ‘values profits over people’. The Organisation for Economic Co-operation and Development (OECD), among others, has called for microfinance-related consumer-protection frameworks in ASEAN countries to be strengthened (OECD, 2018).

While the line between commercial loans and microfinance loans has become increasingly blurred, informal money lenders remain a separate and clearly distinguishable category, primarily because their businesses are not registered legal entities. The loans they provide are usually small and offered at high interest rates. According to a recent study, informal money lenders in Cambodia typically charge a monthly interest rate of between 3% and 5% (36% to 60% per year). Over the past couple of years, there has also been an increase in daily lenders who charge as much as 20–30% a month (240% to 360% per year) (Green et al., 2023). Frequently, the lenders offer loans to those who lack the necessary documentation to access commercial lenders. The informal lenders are generally quite risk-averse as they usually have no formal means of ensuring repayment, which may also make the repayment schedule more flexible than microfinance loans (Green et al., 2023; IOM, 2021,). In addition to the high interest rates, careful selection of borrowers and taking movable property as collateral are other risk-mitigating measures.

All forms of debt may contribute to distress migration,<sup>2</sup> which in turn may mean that migrants end up in exploitative situations. Microcredit loans possess particular risks as they are often provided on inflexible terms, associated with discourses of public shame and moral responsibilities, and often linked to land-based collateralised legal contracts (Green and Byland, 2021; IOM, 2019). The incentives to repay them may therefore be stronger than for other types of loans, which increase the risks of unsafe migration.

Because of an urgent need to make a living or obtain a higher income, there is little time for the aspiring migrant to make necessary preparations to enhance the prospects of a positive migration experience. A level of desperation also means that some may be more willing to accept a high degree of risk. Thus, debt may not only fuel migration, but when loans are provided on unfavourable terms, may also increase the risks of trafficking and labour exploitation for labour migrants.

For most people, not only those planning to migrate, an important characteristic of a good loan is that the process is simple and the money can be accessed quickly (Oxford Policy Management, 2017). The often comparatively long process of obtaining loans from formal financial institutions, or even opening a bank account, may result in

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<sup>2</sup> <https://thedocs.worldbank.org/en/doc/c8472f209edd0f47a573fdfeb41687f-0050062023/original/Chapter-8-Key-Messages.pdf>

aspiring migrants relying for finance on private recruitment agents or individual intermediaries to facilitate migration. High reliance on private recruitment agencies, whether debt-related or not, can deepen power imbalances between migrants and recruitment agencies – which may fuel unethical recruitment conduct (e.g. excessive charging of recruitment fees, linked to debt bondage, manipulation of contracts of employment, or false employment promises).

## 3 Debt as facilitator of unsafe migration

Many aspiring migrants have no option but to borrow money at interest to cover the fees and other costs associated with their migration. This can be true for both regular and irregular migration. Indeed, it is often the long timeframes associated with regular migration processes (3–12 months, depending on the context) and the far more immediate need for capital due to indebtedness that drives many labour migrants to opt for irregular migration. Whether and to what extent the migration expenses lead to indebtedness, and an increased risk of exploitation, including trafficking, depends on the associated costs and the terms on which a migrant can borrow money.

### 3.1 Costs of migrating

The costs of migrating vary depending on the country of origin and destination, the regular or irregular nature of the migration, the services provided by government, recruitment agencies or brokers, the labour sector in which a migrant will work, among other factors. While Burmese, Cambodian and Laotian citizens living near the Thai border may pay a few dollars to take up work in the Thai border provinces (although in practice the costs may be much higher), those who migrate to countries such as South Korea, Japan or even to European countries may have to pay several thousands of dollars in recruitment fees.<sup>3</sup> While the salaries are also higher in these countries, it also takes time to cover the considerable migration costs. For some of those who migrate within or beyond the ASEAN region, such costs have for various reasons gone up in recent years.

### 3.2 Regular migration

The costs of using the formal migration processes, regulated in bilateral agreements between countries in the region, are not only slow but also costly. One reason for this is the substantial administrative expenses associated with obtaining the requisite official documents, including the so-called breeder documents, including birth certificates and identity cards, necessary to obtain a passport (Alffram et al., 2023).

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<sup>3</sup> Vietnamese workers in nail salons in the United Kingdom have been found to pay as much as USD 27,000 in recruitment fees (<https://statt.net/insights/forced-labour-and-vietnamese-debt-bondage/>).

In some countries in the region, the costs of obtaining a passport are high even by international comparison, taking into account average income. Using data from 2021, Table 2 shows the official price for obtaining a passport in the ASEAN member states. It also shows the number of hours a person earning the national average wage must work to cover the cost. In Cambodia, where the price of a passport is USD 100 someone with an average income had to work for at least 94 hours, while in Vietnam a passport costs USD 9 and required five hours of work.

**Table 3 Official passport costs**

Country	Price USD	No of hours of work required	Comment
Brunei Darussalam	55	6	
Cambodia	100	94	The Cambodian government is considering reducing the cost. <sup>4</sup>
Indonesia	25	32	
Laos	43	26	
Malaysia	50	11	
Myanmar	18	29	The current de facto cost is between
Philippines	20	12	
Singapore	53	3	
Thailand	34	12	
Vietnam	9	5	

Source: Davidson (2021)

The true cost of obtaining a passport may, however, be many times more than the official cost. In Myanmar, since the military coup in February 2021, the de facto cost of obtaining a passport has increased to the extent that it makes up a significant share of the entire cost of migrating. Interviewees report that over the previous year they have paid between USD 100 and USD 400 to obtain a passport. While the official cost is no more than USD 18, in practice it is impossible to obtain a passport without enlisting the assistance of a broker.

<sup>4</sup> Hang (2023).

In addition to costs, socio-cultural barriers and geographical remoteness also affect whether aspiring migrants can obtain a passport. Relevant socio-cultural barriers include being unaware of the administrative processes involved in applying for a passport, illiteracy, and a culture of relying on community leaders to help manoeuvre the bureaucratic processes.

Besides the high costs of regular migration, the risk of exploitation and trafficking has been affected by a shift in the region from employer-paid to employee-paid recruitment. Although employers may still pay recruitment agencies for their services, the agencies also charge the workers. According to a 2018 survey, in Laos, a worker migrating to Thailand through regular channels paid on average USD 543. In Cambodia and Myanmar, the equivalents were USD 592 and USD 441 respectively (ILO, 2020a). Since then, the costs have risen (Alffram et al., 2023). The ILO Private Employment Agencies Convention (No. 181) of 1997 states that ‘Private employment agencies shall not charge directly or indirectly, in whole or in part, any fees or costs to workers’. None of the ASEAN member states has ratified the convention.

Vietnam has some of the highest recruitment fees in the region. Even when using licensed recruitment agencies, migrants may pay over the legal limits, as there is a lack of transparency. Migrants must cover the arrangement of travel documents, airfares, insurance, medical checks, training, recruitment and placement fees, profit margins for the recruitment agents and a security deposit (for Japan) (Hoang, 2020). Table 3 sets out the average recruitment costs for the primary destinations for regular migration from Vietnam.

**Table 4 Recruitment costs in Vietnam**

Destination	Average recruitment costs in USD	Range of recruitment costs in USD	Hourly minimum wage in USD
Japan	8,000–10,500	2,000–14,500	6.3
Korea	5,250–6,250	1,250–10,000	7.2
Taiwan	Steadily increasing	500–6,500	4.7

Source: CREST (2021)

The Law on Contract-Based Vietnamese Overseas Workers 69/2020/QH14 (Law 69) adopted in 2020 should reduce the fees passed on to Vietnamese migrant workers. It removes the obligation for them to pay service fees in addition to brokerage commission and prohibits recruitment agencies from passing on brokerage commissions to workers (ILO, 2021). As of 2022, however, migrant workers travelling to Taiwan were still being charged high fees (Bengsten, 2022).



In Indonesia, the government has established a one-stop service to facilitate and streamline regular migration. This service can arrange documentation, connect prospective migrants with job placements and arrange pre-departure medical checks and training. While there are fees associated with some documentation, the process is meant to minimise the costs associated with regular migration. In practice, however, some migrants report that one-stop service staff charge informal user fees, making them less affordable, and the centres do not always have a presence at the community level (Hasbiyalloh et al., 2023). The Indonesian government has also introduced the People's Business Credit programme, which provides financial support for regular labour migrants using the government's approved migration procedures and who need funds while they are awaiting departure. In 2022, the government increased the individual loan ceiling from the previous IDR 25 million (USD 1,660) to IDR 100 million (USD 6,641).<sup>5</sup> This initiative aims to alleviate the need for migrant workers to sell their belongings or borrow from loan schemes on unfavourable terms (Limanseto, 2022). In practice, however the scheme is not fully functional, known, publicised or used. Arguably, it is also incompatible with Indonesian legislation requiring the government to provide a zero-cost placement mechanism.<sup>6</sup>

In the past, a similar programme was implemented in Vietnam. Programme 71, 'Assisting poor districts in the promotion of labour export to contribute to sustainable poverty alleviation during the 2009–2020 period' provided incentives to encourage people to migrate for work and financial assistance to make it possible. This included low-interest loans from the Vietnam Bank for Social Policies (VBSP) at half the standard rate. In this instance, the volume of loans did not reach the target as many were deterred by the application process, but if such a process were made more efficient it would reduce the risks of informal debt (Hoang, 2020).

### 3.3 Irregular migration

The vast majority of migrant workers across the region migrate irregularly, i.e. not in accordance with the procedures set out in laws, regulations and bilateral agreements. Migrant workers often find that the irregular migration process is both cheaper and quicker, and not necessarily less safe. In countries such as Thailand and Malaysia, irregular migrants have traditionally also had frequent possibilities to regularise their status through special registration programmes and campaigns.

The lower costs associated with irregular migration may reduce the risks of migrants ending up in over-indebtedness. The likelihood that a migrant uses loans or wage deduction to finance migration is much

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<sup>5</sup> Research team interviews, April 2023.

<sup>6</sup> Law No. 18/2017 on Indonesian Migrant Workers Protection.

higher for a regular migrant than for an irregular migrant, as shown in a survey focusing on Cambodia, Laos, Myanmar and Vietnam (IOM, 2019). Other data indicates that irregular migrants are less likely to report debt payment as the primary use of remittances and that they struggle less with debt than those returnees who have migrated regularly (Bylander, 2019), probably in part because irregular migrants are less likely to become over-indebted when paying for their migration.

While often lower than the costs for regular migration, the costs associated with irregular migration can nevertheless be high. They can also change rapidly. In Myanmar it is not only the cost of obtaining a passport and engaging in regular labour migration that has increased since the military coup in February 2021. Following violent repression, armed conflict and price hikes, Myanmar is facing an unprecedented humanitarian crisis. In June 2023, there were an estimated 1.8 million internally displaced persons (IDPs). Many IDPs have few options but to explore the possibility of leaving the country to make a living. Interviewees claimed that with growing despair and increasing demand, brokers now charge more for facilitating irregular migration.

At the same time, the line between regular and irregular migration is not always clear. The fact that irregular migrants can often regularise their migration status, as described above, is not the only reason. Often migrant workers may enter their country of destination legally under a free visa provision or on a tourist visa. Once the period during which they can stay legally expires they become irregular or illegal migrants. This may result in rising costs and possibly indebtedness associated with the regularisation process. The complexities of this process in Thailand often require employers and migrant workers to use brokers to facilitate the process, involving considerable costs that are inevitably borne by the workers (Verité, forthcoming). Other studies have shown that migrant workers may lose their legal status as they abscond from their workplaces to escape migration-related debt (Bylander, 2019).

### **3.4 Sources of loans**

As the costs of migrating are increasing, so are the migration-related debts. The degree to which migrants borrow money to finance migration differs significantly between countries and, in some contexts, between those who use a regular and those who use an irregular migration channel. A 2019 IOM study found that over half of all irregular Cambodian migrants and more than 40% of all regular migrants used loans to finance their migration. In Myanmar and Vietnam, regular migrants took out loans to a higher extent than in Cambodia, with 46% of the regular migrants in Myanmar doing so and more than 90% in Vietnam. This was less common in Laos, where many regular migrants financed their migration through wage deductions (IOM, 2019), which ties the workers to their employers

and makes it more difficult for them to change jobs (UNODC, 2018). Wage deduction has also been used in Malaysia at times of labour shortage in the oil palm plantations, as employers have offered partial loans. In Indonesia there is a gendered divide in how migration is financed. While women often pay off debt through salary deductions men typically borrow upfront at high interest rates (Lindquist, 2010).

Loans from family and friends is a common source of funding to pay for migration. While they can of course charge substantial interest, these loans are often given on favourable terms, and indeed usually without charging any interest. The terms of loans from other sources are typically much less favourable.

In Indonesia, regular and irregular labour migrants are vulnerable to pre-departure debt. For regular migrants, despite the one-stop service to enable people to directly arrange their own labour migration, in practice, these offices can be far from where people live and trust in local facilitators (who have played a role in labour migration for generations) remains strong. As a result, even regular migrants often seek help from brokers to facilitate their registration, or from sponsors to provide the necessary capital for documentation and facilitation through loans ranging from IDR 3 to 5 million (USD 200–335). For irregular migrants, brokers may be engaged for various services including document processing, arranging transport, coordinating pick-ups at transit cities, and connecting with other brokers in destination countries (Hasbiyalloh et al., 2023).

As noted above, microfinance loans have become a major driver of migration in some contexts and may also help pay for migration costs, whether regular or irregular. There are reports of recruitment agencies actively encouraging potential migrants to turn to microfinance providers to obtain a loan to pay for migration (Licadho, 2020). The interest rates charged by microfinance institutions are sometimes extremely high. In Cambodia an interest rate cap, which sets the maximum annual interest rate at 18%, was introduced in 2017.

Many migrants find when they arrive at their workplace in the destination country that brokers, recruitment agencies or employers claim that they have not paid all immigration-related costs in full and that they owe money they have to pay back through deductions from their salaries. In other contexts, recruitment agencies and employees have in a more transparent way explained that such deductions are used as a way of covering migration-related expenses. Although debt-bondage may be illegal or restricted, many migrants need to work for months or even years before everything they allegedly owe is paid back. This has been found to be the case in Thailand, for instance (ILO, 2022). As the regular migration process tends to be costlier than irregular migration, paradoxically this may make the risk of ending up in a situation of debt bondage particularly high.

## 4 Debt at the place of destination

Situations of debt bondage are caused not only by a need to pay brokers and recruitment agencies for specific recruitment-related costs or for facilitating the recruitment process generally, but may also arise in the country of destination and their link to actual costs are often opaque. An ILO study on working conditions in the Thai fishing industry found that the workers, who had very rarely been given employment contracts, were often subjected to various salary deductions. Usually, the workers did not know the details of the deductions (ILO, 2013).

There are numerous reports of migrant workers being detained by their employers or brokers because of an alleged debt that has not been paid. Workers recruited to work in the online scam centres on the Myanmar–Thailand border have been told that they will not be released until they pay their employers several thousands of dollars to cover costs associated with their recruitment and employment. According to United Nations Office on Drugs and Crime (UNODC) the typical ransoms have gone up from USD 5,000 in 2022 to USD 30,000 in 2023. While some victims are released after the payment of ransom, other have been kept in captivity and continuously exploited. Attempts to escape may reportedly lead to severe violence or even murder (UNODC, 2023).

According to Malaysia’s Human Rights Commission (SUHAKAM) and Fortify Rights, innumerable Rohingya and Bangladeshi victims of trafficking have been detained by criminal groups in camps on the Thailand–Malaysia border and at sea. Between 2012 and 2015, traffickers demanded around USD 2,000 for their release. Those who did not pay were sold into exploitation. Many were also tortured, raped and killed. Others committed suicide to escape the suffering inflicted on them, fell ill or died as they were denied adequate food and water. Human rights groups have called for further investigation to determine the degree to which public authorities have been involved in the trafficking and killing of Rohingya and Bangladeshi migrants (SUHAKAM and Fortify Rights, n.d.).

On oil palm plantations in Malaysia, Indonesian and other migrant workers are often forced to buy daily supplies from plantation-owned stores and cooperatives, and even to obtain any healthcare needs from plantation-owned medical centres. These services become a

form of rent-seeking, with workers paying above market prices for goods that they are unable to obtain elsewhere due to their remote location. Debts thus accrue to the plantation-owned services and are then deducted from workers' wages, limiting the amount they earn and can remit, and often locking them into extended work in the plantations to cover expenses (Hasbiyalloh et al., 2023).

Likewise in Thailand, migrants incur debts with employers to cover living expenses, or the costs of renewing their work permits every two years (ILO, 2022). There are also costs for the migrants associated with looking for jobs once in the destination country – accommodation, health checks, and basic living costs. A UNODC study found that women engaged in sex work in Thailand seem especially exposed to debts which they struggle to pay off because of the extortionate costs of accommodation, clothing and goods (UNODC, 2017). Similar practices are reported from the fishing sector in Thailand, where boatswains may prohibit indebted fishers from buying their own supplies and instead purchasing supplies themselves and then selling them to the workers at marked-up prices. They may also sell amphetamines, to which many fishers become addicted, adding the costs to their existing debt (HRW, 2018).

Interviewees offered several examples of law enforcement officials and other government authorities, in entirely different contexts, requesting that migrant workers make irregular payments – effectively bribes – to escape harassment and abuse, and thus contributing to the workers' accumulating debt. In Malaysia, as in other countries of destination, many migrants are working without the required work permit. This makes them vulnerable to harassment from the police, who may arrest and detain them until they make an irregular payment for their release.

While government-run programmes in Malaysia offer opportunities for irregular migrants to regularise their status, most migrants rely on third-party agents and intermediaries to help them go through the bureaucratic process of doing so. This means that workers not only need to cover the regularisation application costs but also the fees charged by third-party agents or intermediaries – who may often offer the migrants loans with relatively high interest rates.

Similarly, Thai law enforcement officers have reportedly been engaged in arresting migrant workers for not having the required documentation for staying and working in Thailand, and subsequently forcing them to borrow money to pay for bribes or bail (HRW, 2018). Thai police officers have threatened to deport Burmese migrant workers unless bribes are paid. As the fear of deportation has increased since the military coup, the police demand more money.<sup>7</sup>

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<sup>7</sup> Research Team interviews, Thailand, April 2023.

The situation of indebtedness in destination countries exacerbates migrant workers' vulnerability to labour exploitation. The economic precarity associated with indebtedness is a feature of the power imbalances in the relationship of workers with employers. It also contributes to discouraging workers from acting on situations of labour exploitation, undermining the prospects for exercising voice and agency.

## 5 Debt on return to the country of origin

On returning to their home country, many migrants face a situation similar to the one that originally prompted them to seek work abroad. Even returning migrants who have not been trafficked or caught in a similar situation, have often been unable to significantly reduce their debt. A survey of returning migrants from Cambodia, Laos, Myanmar and Thailand carried out by ILO and IOM in coordination with Rapid Asia found that most respondents had less or the same level of savings as before their migration. Of the Cambodian migrants, 35% returned indebted. Among migrants from Myanmar 14% were indebted, while the figure for both Laos and Vietnam was 9%. While these differences between countries are striking, the overall data suggested there were no significant gender-related differences (IOM, 2019).

While they are working abroad, migrants often remit a substantial share of their incomes to their family back home. The Research Team's interviews found that it is not unusual for migrants to remit half of their income or more. Paradoxically, however, the remittances may lead to more rather than less indebtedness. Lor Samnang found that Cambodian households receiving remittances from migrant workers increased their debt. This was explained in part by remittances making households more confident of being able to pay back loans, and in part because lenders are more willing to make further loans as they are more confident that the household can repay them (Samnang, 2019). One study suggests that having a migrant worker in the family may be a precondition for obtaining loans (Licadho, 2020).

In Indonesia, the role of brokers (*calo*) can extend to 'looking after' the migrant's family while a migrant worker is away, including by providing loans, often at high interest rates. Consequently, migrant workers may return home to renewed indebtedness to the very people who were paid to facilitate their migration in the first place (Hasbiyalloh et al., forthcoming).

The ILO, IOM and Rapid Asia survey found that most returnees find it difficult to secure work, or employment that pays enough to pay off accumulated debts. Debt payments may thus leave returning migrants, irrespective of whether they have been victims of trafficking, few options but to migrate again. While repeat migrants

may be at less risk than first-time migrants of being trafficked, an acute financial situation created by indebtedness can create a greater willingness to take risks. As debt in the Southeast Asian context often affects an entire household or extended family (IOM, 2019), it may also create a situation in which other family members have to migrate to find work and to do so on unsafe terms.



## 6 Recommendations

- **Trafficking prevention should focus more strongly on alleviating indebtedness as a driver of unsafe migration:** Given that indebtedness is a clear driver of labour migration across ASEAN and can lead to migrants taking more risks in desperation, the prevention of trafficking should engage with debt more directly. This may include further research to examine the links between debt and labour exploitation and trafficking, as well as supporting sustainable livelihoods and access to fair credit in known migrant-sending areas.
- **Regulate the microfinance sector:** Governments should ensure effective oversight and inspection of microfinance institutions, including consumer protection, to ensure responsible lending practices and control over-indebtedness and related vulnerability to human trafficking.
- **Ensure that official documents required for regular migration can be obtained at low or no cost:** Governments should guarantee an efficient low-cost migration process, ensuring that passports and other legal documents required for safe and regular migration can be obtained swiftly and at no or low cost.
- **Ensure employers bear the costs of recruitment:** As the fees that recruitment agencies charge workers often lead to a situation of debt bondage, ensuring that recruitment costs are borne exclusively by the employer would help in significantly reducing the vulnerability of regular labour migrants. A first step towards changing current practice for recruitment fees would be for the countries concerned to ratify the ILO Convention on Private Recruitment Agencies, 1997 (No. 181). Where the resistance to changes in legislation is difficult to overcome, the possibility of establishing broad coalitions including national and international CSOs, trade unions and businesses to increase pressure for reform should be explored.
- **Strengthen financial literacy among labour migrants and their households:** Some NGOs have started assisting aspiring migrants to understand how long it will take to repay debt and achieve their financial goals. For example, in the Philippines, the Fair Training Centre supports prospective migrants to outline their 'dream', what it is they hope to achieve through labour migration, and then understand how long it will take to achieve their goals (Jespersion and Jabar, 2023). Similarly, the Indonesian Migrant Workers Advocacy provides training on responsible management

of remittances and encouraging recipients to use these in productive ways rather than on consumption (Hasbiyalloh et al., 2023).

- **Expand, promote and improve access to government-supported loan schemes:** Building on the government schemes in Indonesia and Vietnam, providing government credit to labour migrants could assist in both encouraging more migrants to pursue regular migration, as well as reducing migrants' reliance on predatory loan schemes. It is important to promote awareness of and access to such schemes, given limited uptake to date in Indonesia and Vietnam. These schemes might be expanded to labour migrants who face indebtedness on return to give them affordable repayment options. A precondition for any loan such schemes is that they are accompanied by effective measures to prevent misuse, mismanagement and corruption.
- **Ensure migrant workers have access to fairly priced goods and services in destination countries:** Work with employers and governments in destination countries to improve rights protections for labour migrants, including fair and equitable access to fairly priced goods and services. Work with civil society and labour migrant networks to improve awareness of and access to alternative markets for goods and services to reduce dependence on employers.

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