RMMRU

POLICY BRIEF 4

Migration, Remittances and Development

Summary of Key Issues

Bangladesh is a hugely labour surplus country and consequently participates in the supply side of the global labour market. Since 2000, 300,000 people have migrated from Bangladesh annually as short term contract workers. In 2007 alone 800,000 people migrated. It is generally accepted that migration leads to transfer of skills, ideas, knowledge, creates links and interpersonal networks, contributing to economic development of both home and host countries. Remittances are another important yardstick of contribution, particularly to the development of home countries. In 2006, US$268 billion were transferred as remittance and of this, US$199 went to developing countries. This amount is double than official development assistance to these countries. Since the late 1990s, successive governments of Bangladesh, have begun to realise the importance of remittances and have initiated various reforms.

This policy brief presents both the findings of recent research initiatives on remittance conducted by RMMRU as well as deliberations of a policy dialogue jointly organised by RMMRU and the Daily Star on Safe Migration and Remittance Management, supported by the Manusher Jonno Foundation in June 2007.

Characteristics of Bangladeshi Migrants

In 2007, the stock of short term contract migrants of Bangladesh stood at 4.6 million; another 1.5 million constitutes its diaspora. The Middle East and Southeast Asian countries are the major destinations of short term contract workers; the diaspora population is mostly settled in Europe and North America.

Although Bangladesh's diaspora population is constituted by both men and women, recent bans and/or restrictions on mobility of unskilled and semi-skilled women from Bangladesh have meant that short term migrants are predominantly men. Since the policy change in 2003, the number of female migrants has increased. From 1991 to 2003 female migrants constituted less than 1% of the total flow. After the lifting of the restriction in 2006 female migration rose to 6%. The majority of short term workers participate in the unskilled and semi-skilled labour market. The diaspora population is constituted by professionals and skilled migrants, along with highly skilled professionals. A significant number of them are either self employed or work in the formal and informal service sector.

Remittance Dynamics

Official remittance flows have increased from US$23.71 million in 1972-3 to US$6.4 billion in 2007. Traditionally, Saudi Arabia was the source of 50% of the remittance flows. However, this flow has fallen to 30% over the last couple of years. Since 2000, USA has become the second largest remittance sending country, followed by UAE and the UK. Given the current trend of labour migration of the country, in 2008 Malaysia may become the second largest migrant receiving and remittance sending country.

Contribution to National Economy

Contrary to popular belief, remittances and not the ready made garment industry constitute the highest net foreign exchange earning sector. Over the last decade remittances hovered around 35%. Among the 70 developing countries that received a sizeable portion of remittances in 2003, Bangladesh was the seventh largest. In 2007 Bangladesh became the second largest remittance receiving country in South Asia. India is the highest remittance receiving country in the world. However, Bangladesh's per capita remittance flow is 33% higher than India. Remittance received is four times higher than official development assistance. Remittance inflow has helped Bangladesh to reduce poverty by 6%. (World Bank, 2006). Development partners who provide aid to Bangladesh have a major influence over its policy making. The steady flow of remittance has helped reduce the country's dependency on foreign aid and maintain balance of payment.

Regulatory Instruments

There are two regulatory instruments that apply to remittances:

- The Foreign Exchange Regulation Act, 1947 and the guideline prepared under it.
- The Money Laundering Prevention Act, 2002. The suspicious Transaction Detection clause 2003 under Money Laundering Act.

Official and Unofficial Methods of Transfer

Siddiqui and Abrar (2003) found that 46% of the total volume of remittance has been channelled through banks, exchange houses and other formal transfer methods. Around 40% came through hundi, 8% was hand carried by the migrants, 4.6% moved through friends and relatives and the rest 1.4% constituted other methods.

It is understood that remittance transfer through official channels has increased significantly over the last 3 to 4 years. This is due to macro and micro reforms undertaken by the government of Bangladesh as well as increased global surveillance over money transfer after 9/11.

Harnessing Remittance: Actions and Reforms

"The government has accorded high priority to the improvement of remittance services. It took initiatives towards expanding access, bringing services closer to host countries and closer to recipients in Bangladesh, lowering remittance services costs, ensuring competitive exchange rates and providing convenient savings and investment options, both in foreign and local currencies." Dr. Salehuddin Ahmed, Governor of Bangladesh Bank

Macroeconomic Reforms

In 2000, the Bangladesh Bank (BB) relaxed foreign currency dealings. Earlier, the banks were obliged to transact at fixed rates. In 2002, Ministry of Finance (MoF) reformed the exchange rate policy further, rendering foreign exchange in current accounts free floating, so the market could determine the exchange rate.

Streamlining the Transfer Process

- Speeding up transfers: In 2001, MoF set up 24 hours and 72 hours delivery time standard for urban and rural areas respectively.
- Electronic transfer: All banks are encouraged to switch to the Electronic Fund Transfer (ETF) system.
- Reducing delays in 'nostro accounts': To avoid delays in transaction through nostro account the BB instructed all National Commercial Banks (NCB) to reconcile remittances received on a daily basis to avoid delays in delivery.
- Under the Remittance and Payments Partnership project Bangladesh Bank is currently engaged in establishing an automated clearing house, providing challenge fund to bring non-traditional actors in remittance transfer and utilization, i.e., NGO-bank partnership, bank-mobile phone company partnership. Under the same initiative RMMRU and IOM are implementing a national media and grassroots level campaign on new methods of remittance transfer and utilisation.
- Expansion of exchange houses and correspondent banks: BB recently permitted the opening of new exchange houses / money transfer agencies in areas where there is a large concentration of Bangladeshi migrants. BB has minimised the timeframe for scrutinising applications for developing correspondent relationships for foreign banks and exchange houses with NCBs and Private Commercial Banks (PCBs).
- Banks have been allowed to use the extensive branch networks of tested micro finance institutions in the last leg remittance delivery to remote locations.
- BB has established a website providing information for potential remitters. A complaints system is also in place for remitters who face problems.

Development of Investment Instruments

Investment instruments are another effective mechanism for encouraging remittances to flow through official channels. Different packages have been developed by all three types of banks and in 2002 the Government also launched two new investment initiatives.

Bangladesh Bank

Migrants can have a Non-resident Foreign Currency Deposit (NFCD) account in any branch of Bangladesh Bank or foreign bank that holds an authorised dealership license. Remittances can be invested in a five-year Wage Earners' Development Bond on which the interest is tax free, or in a Non-resident Investor's Taka Account (NITA) for investment in shares and securities. The capital and profit money is tax exempted. US Dollar Investment Bonds and US Dollar Premium Bonds are other schemes that have been introduced more recently. These allow Bangladeshi emigrants to invest in foreign currency.

Private Commercial Banks

National Bank, Islami Bank Bangladesh Ltd (IBBL), and BRAC Bank have some special savings and investment schemes that are accessible to migrants abroad. To encourage remittance flow, the Uttara Bank has recently introduced a scheme which will provide loans to migrant workers to bear migration costs.

Government Agencies

The National Board of Revenue in July 2002 approved revised incentives for exemption of tax on remittances. The Ministry of Expatriates Welfare and Overseas Employment (EWOE) has fixed a quota for emigrant Bangladeshis in government housing projects, with plots being reserved for them. And the Privatisation Commission offers cheaper rates for emigrant Bangladeshis purchasing denationalised industries.

Micro-finance Institutions

BRAC has initiated a micro enterprise lending and assistance programme that provides credit and non-financial business development services. Grameen Bank also has several saving schemes for remittance receivers and senders.

Remittance Utilisation

The impact of remittances on the economy of labour-sending countries depends to a large extent on the way they are used.

Remittances are invested by familes in food, clothing and health. Siddiqui and Abrar (2003) show that such consumptions are not generally conspicuous but supports human resource development. There is also investment in land, home construction and repair, loan repayments and to a lesser extent, business investment, financing further migration, and social ceremonies. Savings are relatively low. Migrants also spend a section of their remittance in community development activities such as construction of link roads, mosques, extension of schools and orphanages.

Bangladesh is witnessing large scale investment of second generation emigrants who have taken up citizenship of other countries. Nandan theme park, departmental store, chain stores of Cats-Eye, Heritage restaurant, Little Italy, Sikder Medical College and a 100 bed hospital in Sylhet are some examples of large scale business investment and philanthropy.

Policy Agenda for Further Reform

All positive initiatives of the successive governments and Bangladesh Bank in remittance governance are duly appreciated. In order to help the reform process further some measures are suggested under four heads. These are: legal reforms, use of new technologies, diversification of tools for investment and reforms targeted to improvement of services.

Legal Reforms

- To protect the rights of remittance receivers and senders RMMRU suggests that a customer protection law be framed. Once the remitter and provider agree to undertake a transaction the provider should give the remitter a reference number to track the transaction, as well as information on all charges, including the exchange rate.
- Bangladesh Bank has been providing leadership in increasing the use of EFT systems. Rules need to be framed to govern the EFT. Common software is required for EFT using banks.
- Infrastructure needs to be developed for smooth functioning of automated clearing house.
- The government is concerned of the high risk involved in allowing Micro Finance Institutions (MFI) to mobilise non-members' savings. However, considering the need for special savings schemes for the migrant families and the absence of such services at a door-to-door level, the government may give special permission to a few tested MFIs which provide banking services to engage themselves in managing non-members' savings.
- Bangladesh Bank may reconsider its policy of not allowing banks to open branches in foreign cities where there is already one other existing Bangladeshi bank branch. This will be in conformity of liberalising the sector and promoting competition.

Incorporation of New Technologies

Globally along with the traditional money transfer system; two other new remittance transfer technologies have come into force to reduce time and cost of transfer. These are computer networks and telecommunications. The Central Banks of India, the Philippines and Malaysia, all are implementing projects which have merged services of banks and telecommunication companies. Such joint ventures have reduced the time and cost of transfers. A general survey of the Bangladeshi scenario shows that all necessary conditions for the introduction of these new technologies of remittance transfer exist. Bangladesh has a large number of remitters. It also has 2.5 crore mobile subscribers and these telephone networks have spread up to remote villages. Less literate people use this technology. Bangladesh Bank and Bangladesh Telecommunication Regulatory Commission (BTRC) may jointly explore and introduce such new methods. They should also develop guidelines for ensuring a level playing field as well as introducing a mechanism for customer protection.

Diversification of tools for investment

Recent workshops with bank officials organised by RMMRU, highlighted the fact that in Bangladesh, the speed at which remittances are increasing, is not being matched by levels of offers of investment products for the remitters. Offers of investment products floated by Bangladesh Bank mostly satisfies the needs of long-term migrants or a section of relatively better-off short-term migrants. Small income earning migrants and their families have little choice. Again, migrant's left-behind families choice is limited. The wage earner welfare bond is the only available product in a Taka account where they can invest. Diversified products are needed to match the demand of different age groups of remittance receivers as well as small remitters. Private Banks like Islami Bank Bangladesh Ltd. and BRAC Bank have introduced interesting products targeting short term migrant workers and their families. Public commercial banks are constrained by Bangladesh Bank regulations in creating targeted packages.

- Only Authorised Dealer (AD) branches of public commercial banks are allowed to offer Bangladesh Bank introduced savings products. The role of AD branch is to open Foreign Currency (FC) account and Letter of Credit (LC) for import and export. For example, only 40 of the 866 branches of Agrani bank are AD branches. Most of the local level branches where remittances come are not AD branches.

- Therefore, they do not have much role in selling investment products to the migrants or their families. Reforms are needed to make investment products available at the local level branches.
- Currently the Government of Bangladesh bestows a Commercially Important Person (CIP) award to those who remit more than Tk.1 Million. Unskilled migrant workers are usually small remitters. They remit almost all of their hard earned income at frequent intervals. They are not honoured. Contribution of unskilled migrants should be recognised and small but frequent remitters should also be honoured.
- RMMRU research (2004) showed that remittances come to Bangladesh for four broad purposes; for supplementing nuclear or extended family incomes, for community development work and charity, for business investment and for supporting performance of social rituals. There is an opportunity to enhance remittance by developing high profile projects. Bangladesh Bank may cooperate with Ministry of EWOE and the Ministry of Finance and Planning to encourage them to design region-centric high profile projects such as bridges, flyovers, and airports to cater migrants needs targeting the charity remittance of migrants. This will enable the government to harness higher remittances and will at the same time honour the contribution of migrants in the economic development of Bangladesh.

A need for Improvement of Services

- Most of the banks in the receiving countries are situated in the capital or in a few major cities, however, workers are located in distant parts of the receiving countries. The banks require representatives or brokers to motivate migrants to use official transfer channels. The Central Bank of the Philippines has 16 representatives all over Saudi Arabia to motivate migrants to use banks and to facilitate the processing of banking services. The Bank of Ceylon has 8 representatives. Sonali bank has 1 representative inside the Jeddah Consulate, to which migrant workers do not have ready access. Islami Bank Bangladesh Ltd. has 2 representatives in the whole of Saudi Arabia. Private banks are ready to send more representatives and meet the necessary costs incurred. Furthermore, exchange houses have agreed to pay for space and salary of representatives of public commercial banks. Bangladesh Bank needs to acknowledge the importance of the services of the representative and to allow private banks and public commercial banks to engage them. Therefore, control over sending bank representatives in destination countries needs to be relaxed and foreign exchange transfers for the salary of these bank representatives should be eased.
- Most of the public commercial banks do not have any specialised training for the bankers who process remittances. Motivational trainings are particularly required for the grassroots level bankers to make them aware of the importance of remittances to the national economy, as well as the market demand for customer friendly services.

Coordination

Migration is a complex process with many stakeholders. Effective coordination among the actors is essential for enhancing the efficiency of migrant workers' remittances. There is an inter-ministerial coordination committee headed by the Ministry for EWOE. Bangladesh Bank should take part in such inter-ministerial coordination body.

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Further Reading

Bangladesh Bank www.bangladeshbank.org

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Comments on this Policy Brief are welcome. They may be sent to:

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