

Upholding Economic Development Through Remittance: A Case Study in Bangladesh

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Abstract

Bangladesh has become one of the top 10th remittance earning countries in the world. It is also the single largest source of foreign earnings in Bangladesh. However, until recently most of the literature on economic development via remittance has mainly been focused on the end-user (micro-economic) of remittance by the recipient households. Little has been observed in the macroeconomic aspects. Data had been collected from secondary sources and mostly reports published by the government agencies and international organizations. This paper had took a closer look for economic development of Bangladesh with the support of remittance. Excel spreadsheet had been used to analyze the data and presentation. Few recommendations had been given as a way to increase remittance to uphold the overall socioeconomic development of Bangladesh.

Keywords: Bangladesh economy , remittance, manpower, export, economic development

1. Introduction

Bangladesh is a huge labor surplus country. Hence it belongs to the supply side of the global labor market. On average, 250000 people annually (1995-2003) migrate to take up overseas employment. The flow of migrant workers is associated with the growing flow of remittance to Bangladesh. Since the late 1990s, successive governments of Bangladesh, realize the importance of remittance to the economy; have undertaken different macroeconomic reforms to encourage the official flow of remittance. This paper aims to understand the outcomes of recent government policies and actions with remittance management. To emphasize the importance of remittance for the developing world, it was estimated that 60 percent of global remittances were sent to developing countries in the year 2000. Lower middle-income countries apparently receive the largest amounts, but remittances may constitute a much higher share of the total international capital flow to low-income countries. To further emphasize the development dimension of migrant transfers, remittances seem to be more stable than private capital flows and to be less volatile to

changing economic cycles. It may, therefore, be concluded that monetary remittances play the most important role in the accounts of many developing countries and are crucial to the survival of poor individuals and communities around the world. The emphasis of development policy is now firmly on poverty reduction and the achievement of the Millennium Development Goals, which in addition to the eradication of extreme poverty, also envisage improvement of health and education, gender equality and empowerment of women, the reduction of infant and child mortality, access to safe drinking water and sanitation, and the improvement of the lives of both rural and urban poor people.

2. Literature Review

There are some papers on the issue of manpower export and remittance. Murshid et al. (2002), Salim (1992), and Mahmood (1985) found as, in the case of Bangladesh, a significant part of the overseas earnings is spent in unproductive sectors as consumption purposes, purchasing assets particularly land, and investment in small business and reinvested to go to other countries. Siddiqui et al. (2003) explained that the yearly income of migrant families increased by 119 percent. Only 46 percent of the remittances were remitted to Bangladesh through proper channels and 54 percent through different unofficial channels. Around 30 percent of the migrant remittance is spent only on consumption purposes is showed by Khuda (1982). Hussain (2007) wrote the different patterns of migration from Bangladesh and the impacts of remittance in the economic development process. Raihan et al. (2010) showed in-line the problems and prospects of manpower export from Bangladesh. In this paper, they showed that for the robust growth of our economy, it is essential to ensure the increasing trend of inflow of remittances is calculated for 56.09 percent of the present export earnings and 10.02 percent of our GDP. Most of the above studies are abruptly focused on the inflow, uses, management, and development impact of remittances in our national economy. A prospect in regards to manpower export from Bangladesh has now been flourished through numerous barriers. Very recently this sector has become unstable due to the corona pandemic and economic recession and its aftermath. However, recently most of the literature on economic development via remittance has mainly been focused on the end-use of remittance by the recipient households. Little has been observed in the macroeconomic aspects. This study is to understand the current use of remittance and its potential for further productive investment to promote economic development. It will try to look at how remittance may play an important and effective role in securing the economic development of Bangladesh as the topmost manpower exporter country in the world.

3. Methodology

This study is based on analytical narratives as a case study method for a single country. Data has been collected from secondary sources on migrants' remittance published from INAFI and Bangladesh working paper series. Along with the studies, books, policy papers, thesis papers. Nonetheless, publications and reports of central, public and private banks and bank websites constituted secondary data. Excel spreadsheet program had been used to organized those data for presentation and easy understanding.

4. Discussion

Bangladesh is a huge labor surplus country. From 1976 to 2004 total of about a 3.92million people migrated temporarily from Bangladesh. On average, the country exports about 140,000 people annually from 1976 to 2004. Systematic recording of information on the migration of Bangladeshi workers began in the mid-70s. Bureau of Manpower, Employment and Training (BMET) of Labor Ministry maintains the record. Now BMET is under the Ministry of Expatriates' Welfare and Overseas Employment. BMET has classified the temporary migrant population into four categories. These are professional, skilled, semi-skilled, and unskilled. Doctors, engineers, nurses and teachers are as professionals, manufacturing or garments workers are considered as skilled; while tailor, mason etc. as semi-skilled workers; housemaid, cleaner, laborers are classified as unskilled. BMET (2014) recorded that 44 percent workers were in professional and skilled category, and the rest of the 56 percent were in semiskilled and unskilled category. The manpower export increased gradually after 1990 and continued till today and the number of skilled workers also increased but it was not that significant proportionately to that of semiskilled and unskilled workers.

4.1. The flow of migration leads to flow of remittance in Bangladesh

In spite of the low quality of Bangladeshi migrant workers and the remarkable decline of manpower export in 2009, the country witnessed a phenomenal growth in the flow of remittance (see Table 1). During the period 1976 to 2009 Bangladesh received over US\$ 67676.58 million as a remittance. However, the amount of remittance would have been much higher if the country could send more professional and skilled workers.

Table 1: Flow of Remittance in Bangladesh (in million US\$)

Year	Remittance Earned	Year	Remittance Earned
1976	23.71	1995	1201.52
1980	301.33	2000	1954.95
1985	500.00	2005	4249.87
1990	781.54	2009	10720.20

Source: BAIRA , 2014

Table. 1 summarizes the flow of remittance in Bangladesh during 1976- 2009. As evident, the country has experienced a rising trend of remittance flow with exceptions. The remittance received by Bangladesh in 1976 was only US\$ 23.71million. The remittance had remarkable fluctuations. However, the remittance gained momentum in 1992 and showed a persistently increasing trend until 2009 when the country received US\$10720.20 million as remittance.

Table 2: Country Wise Remittance (in million US\$)

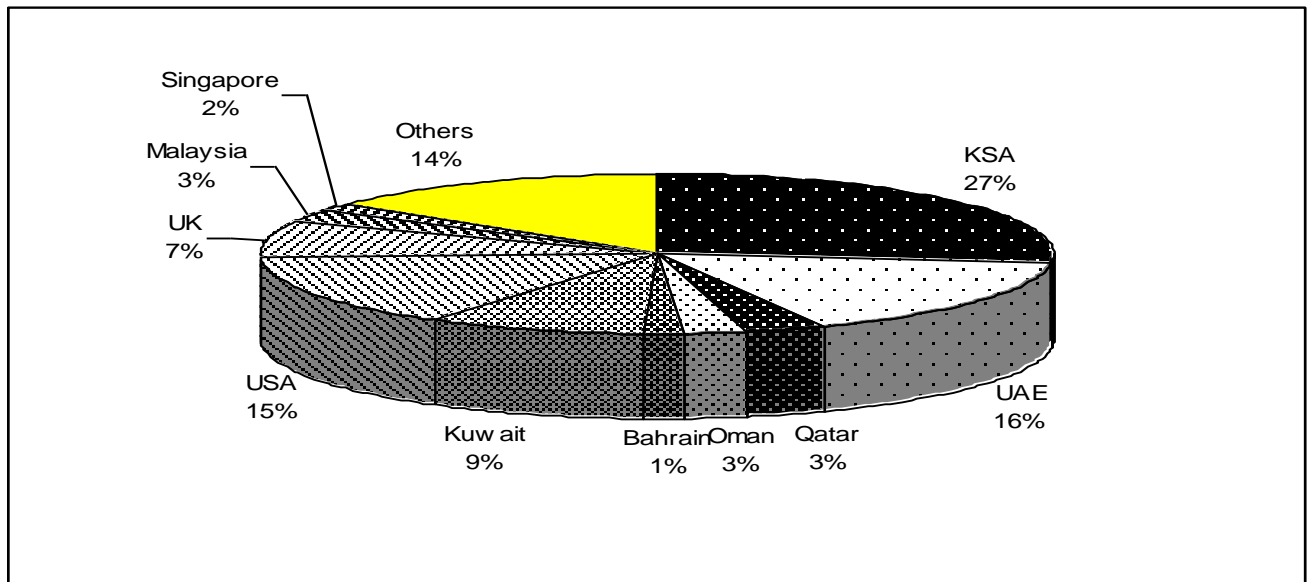
Year	KSA	UAE	Qatar	Oman	Bahrain	Kuwait	USA	UK	Malaysia	Singapore	Others	Total
1999	685.49	125.34	63.94	91.93	38.94	230.22	239.4	54.04	67.52	13.07	196.71	1806.63
2000	916.01	129.86	63.73	93.01	41.8	245.01	241.3	71.79	54.04	11.63	86.77	1954.95
2001	919.61	144.28	63.44	83.66	44.05	247.39	225.6	55.7	30.6	7.84	248.84	2071.03
2002	1147.95	233.49	90.6	103.27	54.12	285.75	356.2	103.3	46.85	14.26	411.95	2847.79
2003	1254.31	327.4	113.55	114.06	63.72	338.59	458.1	220.2	41.4	31.06	215.28	3177.63
2004	1386.03	373.46	113.94	118.53	61.11	361.24	467.8	297.5	37.06	32.37	316.52	3565.31
2005	1510.45	442.24	136.41	131.32	67.18	406.8	557.3	375.8	25.51	47.69	549.18	4249.87
2006	1696.96	561.44	175.64	165.25	67.33	494.39	760.7	555.7	20.82	684.8	921.01	5484.01
2007	1734.7	804.84	233.17	196.47	79.96	680.7	930.3	886.9	11.84	80.24	928.88	6568.03
2008	2324.23	1135.1	289.79	220.64	138.2	863.73	1380	896.1	92.44	130.1	1508.6	8979.00
2009	2859.1	1754.9	343.4	290.1	157.4	970.8	1575.2	789.7	282.2	165.1	1532.3	10720.20

Source: BAIRA and Bangladesh Bank, 2014

Bangladesh, until the late 1970s, received a major proportion of remittance from its migrants working in Western Europe. In 1977, more than 75 percent of the country’s remittance was originating from the western parts of Europe. Table 2 shows the subsequent years, however, witnessed a significant change in the regional share of total foreign remittance. The relative share of Bangladesh’s remittance from the Middle East and the Gulf nations increased by leaps and bounds. If one looks into the sources of

remittance at least for the last ten years, obviously the countries of the Middle-East, Malaysia and Singapore constitute major sources of total remittance for Bangladesh.

Chart 1: Country Wise Remittance (in percentage) in Bangladesh



Source: Bangladesh Bank, 2014

Chart 1 shows that the countries in the Middle-East constituted a big amount (59.45 per cent) of total remittance for Bangladesh. Of the amount, the highest (26.67 per cent) came from Saudi Arab, 16.37 per cent and 9.05 per cent came from United Arab Emirates and Kuwait respectively. Besides, Bangladeshi migrants in the USA contributed 14.67 percent, UK 7.36 percent, Malaysia was 2.63 percent, and Singapore was 1.54 percent. Remaining 14 percent Bangladesh earned as remittance from other countries in the world.

It could be noted here that a lower share of remittance in Bangladesh comes through official channels. This is largely due to the migrant workers' lack of knowledge about the formal sector as well as the time and cost involved in channeling money through the formal sector. Bangladesh Bank estimates say that only 50 per cent of annual remittance flowing into Bangladesh comes through official channel, the rest finding its way into the unofficial media. However, this section summarizes that the flow of remittance in Bangladesh has been increasing. With the rising trend, remittance has contributing to the security and economic development of Bangladesh.

4.2 Role of remittance in the economic development of Bangladesh

Since 1976, Remittance has been playing a significant role for the economic development of Bangladesh. The role of remittance has in fact been quite obvious in the last decade. In 1999 remittance was 1.17 and 9.12 times higher than the foreign aid received and foreign direct investment (FDI) respectively in Bangladesh. In 2009, the ‘times’ went up to around 5.90 and 11.39 for overseas assistance and FDI respectively. This means that yearly remittance has always been exceeding foreign aid and FDI in Bangladesh (see Table 3)

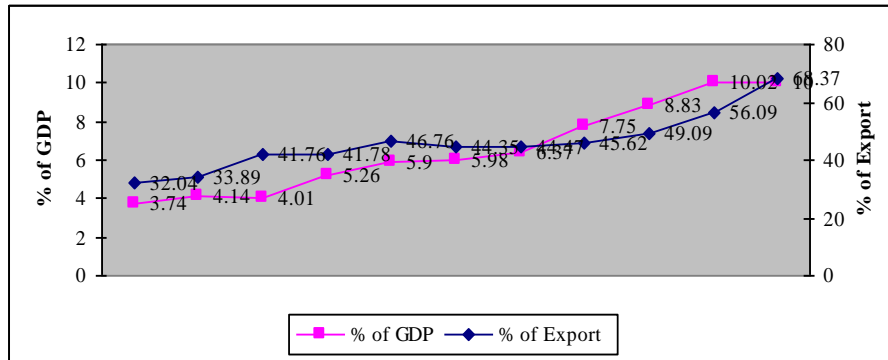
Table 3: Remittance, Foreign Aid and FDI (In million US\$)

Year	Remittance	Foreign Aid	FDI
1999	1806.63	1536	198
2000	1954.95	1588	383
2001	2071.03	1369	550
2002	2847.79	1442	391
2003	3177.63	1585	376
2004	3565.31	1034	385
2005	4249.87	1507	776
2006	5484.08	1568	743
2007	6568.03	1631	760
2008	8979.00	2061	650
2009	10720.20	1815 (P)	941

Source: Bangladesh Economic Review (BER), 2009. Note: P means provisional

In table 3 implies that such an increasing flow of remittance has been reducing Bangladesh’s external aid dependency, in particular attraction to the development partners who provide aid to the country and have a major influence over the policy-making process of the country. The growing formal inflow of remittance, equivalent alone to more than 50 percent of total government revenue, has also been reducing dependency on FDI in Bangladesh. On the other hand, the role of remittance can also be understandable if one compares the yearly (1999 to 2009) inflow of remittance with a percentage of gross domestic product (GDP) and export earnings of Bangladesh (see Chart 2).

Chart 2: Remittance as a % of GDP and Export (During 1999 to 2009)



Source: Bangladesh Economic Review (BER), 2009

From the Chart 2, it is observed that in 1999 remittance was a percent of GDP and export was 3.74 per cent and 32.04 percent respectively. In 2009, formal remittance as a percent of GDP and export stood at 10 per cent and 68.37 per cent respectively. This means that the amount of remittance in terms of GDP and export earnings has increased over the period 1999 to 2009. Such growing contribution of remittance inflow to GDP and export has not only assisted to meet the increasing trade deficit (see Table 4) but also maintain a stable foreign currency reserve.

Table 4: Export, Import and Trade Deficit (In million US\$)

Year	Export	Import	Trade Deficit
1999	5313	8006	2693
2000	5752	8374	2622
2001	6467	9335	2868
2002	5986	8540	2554
2003	6548	9658	3110
2004	7603	10903	3300
2005	8655	13147	4492
2006	10526	14746	4220
2007	12178	17157	4979
2008	14111	21629	7518
2009	14171	22507	8336

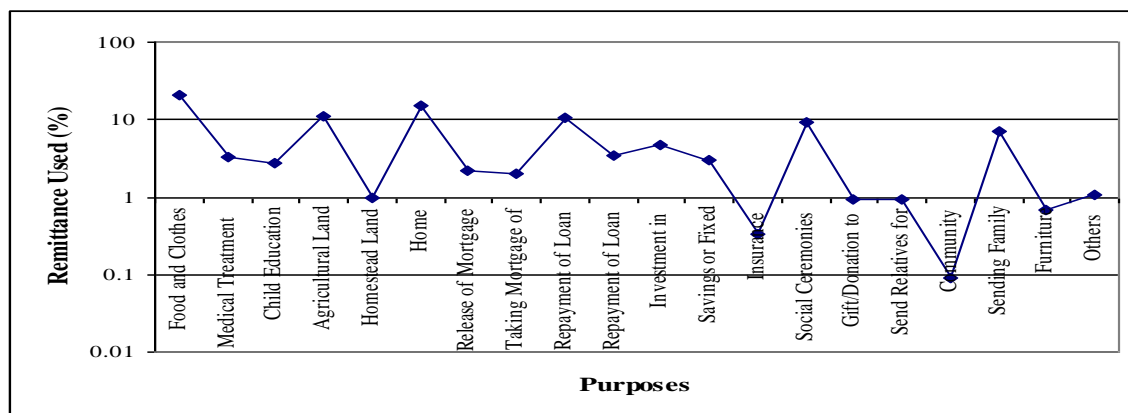
Source: Bangladesh Economic Review (BER), 2009

The above table 4 depicts that foreign currency aspect of remittance is especially important as Bangladesh runs a trade deficit and is currently suffering from a foreign exchange crisis. Growth in remittance is likely to be one of the key factors in maintaining foreign exchange reserves. The steady growth of inward remittance and falling import payments have contributed to the higher growth of reserve. The growing contribution of inward remittance to foreign exchange reserve (FER) has been helping Bangladesh to make up the deficit between total export and import and to maintain the balance of payments (BOP), and thereby also economic stability. This can easily be observed from the statistics.

4.3 Utilization patterns of remittance in Bangladesh

Impact of remittance at the household level partially depends on the characteristics of the migrants and hence the recipients i.e. whether they constitute the rural poor, or the more educated sectors of the population generally residing in urban areas. However, an issue of high importance but also much ambiguity is the way in which remittance is used. An answer for this inquiry may be viewed observing the real effects of remittance at the household level. In fact, a large number of studies find that the majority of Bangladeshi migrants abroad is unskilled lacked access to land and resources, and originates from rural areas. Therefore, the utilization pattern of remittance at the household level in Bangladesh has mainly been directed towards the needs of families (see Chart 3).

Chart 3: Utilization Patterns of Remittance in Bangladesh



Source: Hasan, 2006

Chart 3 implies that families are the main beneficiaries of remittance, and a large amount of the remittance, e.g. about 66 percent is used for conspicuous consumption. Such consumption includes spending on meeting basic human needs, basic nutritional needs, improving living conditions and lifestyles, and ensuring social security for elderly people. However, expenses on basic needs, e.g.

spending on food, clothing, health, medical treatment, and children's education, can be seen as an investment in future human resource development, and is valuable for long-term economic growth and poverty reduction. Although much of the total remittance is consumed by the households, a significant portion e.g. about 12 per cent and 14 percent are invested in buying land and houses, and repaying loans/costs for migration respectively.

Remittance plays an important role to retrieve the sold or mortgaged land and also purchase additional land. Although the investment of remittance in housing or land purchase can be considered as unproductive since it does not add to the country's productive capacity and also may result in inflation, remittance has increased the loan repaying capability of the migrants or their families since remittance is cited as making up around 51.12 percent of recipient poor households' total income. Therefore, remittance has helped to loosen the budget constraints of the recipients, allowing them to increase expenditures on both durable and non-durable products, and providing them with protection against negative income shocks.

Consequently, the impact or benefits of remittance have been more on alleviating local level income poverty for the poorer households. However, chart 3 explores that a significant portion of remittance is used for non-productive purposes. While a meager amount of remittance (only 3 percent) is saved in banks as fixed deposits and/or insurance policies for the future, only less than 5 percent is utilized for productive investment, particularly in small businesses (running shops, opening phone, and fax shop, stationery store,) or income generating activities or other ventures (constructing a market place) or different types of services related to farming or sending family members abroad.

5. Recommendations

For having further Remittance Flow, Bangladesh needs to develop strategic plans and actions. Since the most direct impact of manpower export is on remittance, all policies or initiatives undertaken for furthering manpower export need to be equally forced for increasing remittance flow. In addition, the following policies need to be taken care of by the GOB. In Bangladesh, a significant share of remittance still enters through unofficial channels, largely due to the migrant workers' lack of knowledge on the formal sector and the time and cost involved in channeling the money through the formal sector. Therefore, the government of Bangladesh must enhance the functions of the formal sectors such as banking services must be provided at any level, particularly in the remote rural areas. In this respect, assistance from the smaller financial institutions, such as credit unions and MFIs with regulatory support could be undertaken e.g. they could be employed in the transferring process of remittance and in

delivering convenient and possibly low-cost remittance services in the rural areas. The government may reduce the transaction cost of remittance through official channels, provide quicker and secure transfer support, and offer attractive exchange rates through efficient banking services to increase the flow of remittance.

Measures to reduce remittance costs should aim to improve the efficiency of remittance transactions by (a) enhancing market competition to reduce high-profit margins; (b) helping remittance service providers' access to new payments technology, and (c) devising ways to encourage remitters to send larger amounts. As a way to enhance competition, the government can encourage postal systems and other state-owned distribution alternatives to open their networks to multiple MTO (money transfer operator) partnerships on a nonexclusive basis. In addition, the government should avoid over-regulation, excessive monitoring, or reporting requirements that could drive out smaller competitors that lack the economies of scale to absorb the cost of compliance.

6. Conclusion

Remittance has become a driving force of the foreign currency earning of Bangladesh. It plays a significant role in the balance of payment as well as the economic development of the country. The government and also donor communities have given proper emphasis to boosting remittance flow. Very recently Department For International Development (DFID) of the UK government has highly proposed funding a project to increase the official channels of remittance flow in Bangladesh. In order to take place robust growth of the economy of Bangladesh, it is essential to ensure the increasing trend of inflow of remittance which accounts for 56.09 percent of our export earnings and 10.02 percent of our GDP. So government should attach top priority in this respect. Moreover, Bangladesh is considered a pioneer in Microfinance but still, this remittance sector is untapped by many MFIs and NGOs till today.

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