



International Network of Alternative Financial Institutions

**INAFI Bangladesh Working Paper Series
No. 1**

**Harnessing Remittances for Economic
Development of Bangladesh**

**This Paper will be presented with the request of INAFI
Asia and INAFI Philippines at**

**INAFI Asia International Conference on Migration
and Development**

*Theme: Converging Initiatives and Best Practices in Harnessing Migrant
Philanthropy, Investments and Remittances for Local Economic Development*

**Date: 23-27 May, 2006
Development Academy of the Philippines
Tagaytay City, Philippines**

**Rashed Al Hasan
Programme Officer
INAFI Bangladesh
April 30, 2006**

Table of Contents

	Page
Acknowledgements	3
Foreword	4
Executive Summary	6
1.0 Introduction	9
2.0 Global Remittance Flows	9
3.0 Background on the Bangladesh	10
4.0 The Financial System of Bangladesh	11
5.0 Flow of Migration from Bangladesh	12
6.0 Global Bangladeshi Diaspora	13
7.0 Trends of Remittance in Bangladesh	14
8.0 Government and Private Sectors Initiatives for Transferring Remittance	16
9.0 Remittance and Economic Development in Bangladesh	18
9.1 Macroeconomic Benefits of Remittance	18
9.2 Macroeconomic Benefit at Household Level	19
10.0 Government initiatives to Encourage Remittance Flow and Utilise for Economic Development	21
10.1 Savings Facilities for Non-Resident Bangladeshis	22
10.1.1 Non-Resident Foreign Currency Deposit(NFCD)	22
10.1.2. US Dollar Premium Bond	22
10.1.3. Wage Earners Development Bond	23
10.2 Income Tax Facilities for Non-Resident Bangladeshis	23
10.3 Investment Facilities for Non-Resident Bangladeshis	23
10.3.1. Tax holiday and exemption	24
10.3.2. Investment Facilities /incentives	24
11.0 Migrant Workers Remittance and Microfinance	25
12.0 Future Challenges	26
13.0 Conclusion and Recommendations	27
References	29

Acknowledgements

I would like to sincerely thank Mr. Atiqun Nabi, Executive Director of INAFI Asia and Bangladesh for giving me the opportunity to prepare this working paper. I am also grateful to him for his valuable comments and support during preparation of this working paper. My special gratitude goes to Mr. Sirajul Islam, Consultant, INAFI Asia for providing inputs and consultation during preparation of this paper. Thanks also go to Ms. Mahbuba Haque, Programme Officer, INAFI Asia for her support. My appreciation goes to Mr. Ruhul Quddus Shanti, Executive Assistant, INAFI Asia for formatting and designing of this document.

My thanks also go to all of our colleagues at INAFI Dhaka office who provided me all the logistic support.

Foreword

Migration is a very old phenomenon. From the very beginning of human civilisation people migrated for food and security. Now people migrate for economic opportunity and income security. This history of present trends of migration is not very old. From the thirteenth century European people had migrated one place to another for trade. During that time some people migrated for short-term and some migrated for long-term. The most lucrative place during that time was Indian subcontinent and North America. But in the nineteenth and early twentieth centuries due to technological advancement and huge natural resources the trends of migration shifted towards America from Europe and Asia. At the end of twentieth and early twenty first century the trends of migration increased towards North America, Europe and also Australia from Asia. The history of migration from Bangladesh is not more than one and half century. During British ruling some people migrated for short-term to Britain and also America for trade and higher study. But the flow of migration from Bangladesh increased after the mid-twentieth century. At that time the people usually migrated to Britain and America. But after independence of Bangladesh in 1971, the flow of migration to other countries also increased. During mid 1970s due to oil exploration of Middle East countries, there was tremendous demand for unskilled workers. At the beginning of 1980s the flow of both short-term and long-term migration increased.

International migration gives a person an opportunity for higher income and better lives. The higher income of the migrated person not only changes his destiny, but also has positive impact of the lives of his family in the home country. Remittance has become an important aspect for the developing countries like Bangladesh for socioeconomic development of the country. The migration reduces the pressure of unemployment in the developing country. The flow of short-term and permanent migration from Bangladesh is increasing day by day. In Bangladesh, remittance plays a significant role to maintain balance of payment and foreign currency reserve. Remittance also has a significant contribution in Gross Development Product (GDP) of the country. To boost the remittance flow government has undertaken various initiatives. Various savings products are offered for non-resident Bangladeshis. Moreover, to encourage investment of Diaspora community, the government has provided tax holiday and tax exemption facilities, quota during initial public offerings of floating shares etc.

International Network of Alternative Financial Institutions (INAFI) is an international network of practioners dedicated to human, social and economic development through the provision of financial services for low income people by creating effective and efficient alternative financial institutions through capacity building, knowledge based research, thematic seminar and conference, exposure visit and training. INAFI Bangladesh Foundation is the national arm of the INAFI Asia network, shares the same philosophy. As part of knowledge based research INAFI Bangladesh has prepared the working paper on '*Harnessing Remittances for Economic Development of Bangladesh*' by extracting secondary materials. This working paper tried to explore the trends of remittance flow, government and private sector initiatives for transferring remittances, utilisation pattern of remittances, macro and micro level impact of remittances, government initiatives to increase remittance flow and use it in productive investment, the linkage of Microfinance and remittances, and future challenges. The paper also provided some

recommendations. I think this working paper will provide some informative guidelines to different stakeholders including government, donors, private sectors, MFIs/NGOs etc.

I would like to convey my deepest appreciation to the researcher Rashed Al Hasan, Programme Officer, INAFI Bangladesh for his sincere efforts in carrying out this working paper. My gratitude also goes to other colleagues of INAFI Dhaka office for providing valuable comments and logistic support during preparation of the paper.

Atiqun Nabi
Executive Director
INAFI Asia and Bangladesh

Executive Summary

From the beginning of human civilisation people migrated from one place to another place for better living condition and change their destiny. At present the international migration not only changes the destiny of individual migrants but also improves the living condition of the families in their home country. Remittances have become the most powerful means to improve the socioeconomic condition of the families living in the country of migrated people. In 2005, the worldwide officially recorded remittances were US\$232 billion. The developing countries received US\$167 billion, which was more than twice the level of development aid from all sources. In 2004, India was the highest remittance recipient country with the amount of US\$21.7 billion and the position of Bangladesh was fourteenth with US\$3.4 billion remittances.

The economy of Bangladesh mainly agrarian based, but the economy has undergone rapid structural transformation towards manufacturing and services. The financial system of Bangladesh consists of Bangladesh Bank, the central bank; 4 nationalised commercial banks, 5 government owned specialised banks, 30 domestic private banks, 10 foreign banks and 28 non-bank financial institutions. The financial system also includes insurance companies, stock exchanges and cooperative banks.

As a huge labour surplus country from 1976 to 2004 total about 3.92 million people migrated temporarily from Bangladesh. On an average the country exports 140,000 people annually and most of the short-term migrated people were in semi-skilled and unskilled category. In early 1990s the growth of short-term migration increased dramatically. The number of global Bangladeshi Diaspora living in developed countries is almost 1.178 million. The most of the Bangladeshi immigrants live in North America and European countries. In 2005, the remittances of Bangladesh crossed more than US\$4 billion, which was 27 percent higher than the previous year. Moreover, during the first three quarter from July to March remittance hits a record growth of 23 percent during the same period of previous fiscal year. The main source of remittance of Bangladesh is migrant workers living in Kingdom of Saudi Arabia, which contributed 39.3% remittance during 2005 Fiscal Year.

Government as well as private sector has undertaken various strategies to transfer remittances. The Nationalised Commercial Banks (NCBs) have some overseas branches for transferring remittances. The private commercial banks also become aggressive in transferring remittances by providing quick and reliable services. Although the nationalised and private commercial banks have taken various strategies to transfer remittances, but even the choice of remittance channel is 46% formal and 54% informal.

Remittance has economic benefit both at macro and micro level. In 2004, the formal remittances contributed 6% of GDP. If informal channels were included this contribution reaches 9-10% of GDP. In 2004-2005 fiscal year remittance was 44.47% of export receipt. The proportion of foreign

aid was only 38.74% of remittances in 2004-2005 fiscal year and foreign direct investment was only 13.58% of remittances in 2003-2004.

The remittance has significant macroeconomic impact at household level. The majority of Bangladeshi migrants abroad is unskilled, and originates from rural areas and poor community. The poorer the household, the more impact or benefits remittance income can have alleviating poverty. Remittances allow the poor people to increase expenditures on both durables and non-durables products, and provides them with protection against negative income shocks. Remittances are cited as making up around 60% to 70% of recipient poor households' total income. It is found from a study that almost 80% remittances are used in non-productive investment. The critical analysis of utilisation pattern of remittances in Bangladesh explores that 20.45% of remittances are used for food and cloths, 11.24% for agricultural land purchase, 15.02% for home construction/repair, 10.55% for repayment of loan (for migration), 9.07% for social ceremonies, 7.19% for sending family members abroad, and finally only 4.76% are used for investment in business and 3.07% for savings.

The government has taken various initiatives to encourage remittance flow and utilise it for economic development. A separate ministry has established to ensure welfare of the expatriate workers and increase of the overseas employment. Moreover, the government has established different sister organisation like Bureau of Manpower Employment and Training (BMET), Bangladesh Association of International Recruiting Agencies (BAIRA) etc. The government is offering different savings instruments i.e. non-resident foreign currency deposit, US Dollar premium bond, wage earners development bond etc. to encourage remittance flow. Moreover, government has taken various steps to provide income tax facilities and exemption for non-resident Bangladeshis. Besides, to boost investment, the government is providing tax holiday and exemption for investment of any venture by non-resident Bangladeshis.

Bangladesh is considered as pioneer in Microfinance. Many Microfinance Institutions (MFIs) and Non-Government Organisations (NGOs) are operating microfinance programme in the country. But still the poor remittance recipient families are untapped by the MFIs/NGOs. The main reason behind this is the regulation constrain of the government. Only BRAC with the legal framework of its sister concern BRAC Bank has undertaken remittance transfer programme through Western Money Union.

Remittance is playing a significant role for the economic development of developing and Least Developed Countries (LDCs). So the global competition of exporting manpower is increasing. The demand for skilled and professional personnel is increasing. But Bangladesh is still far behind to export skilled and professional personnel than some other top remittance recipient countries. The major future challenges that are identified for Bangladesh for harnessing remittances for economic development are lack of skilled and professional personnel, government foreign policy, utilisation of remittances in non-productive investment, and regulatory constraint for MFIs/NGOs to transfer remittances and offer diversified savings and credit products to families of migrant. The future

growth of Bangladesh will depend on promoting export, sustaining remittances and triggering foreign direct investment. According to a study, it is estimated that the required level of remittances in Fiscal Year(FY) 2020 for consistent 4%, 6% and 8% GDP growth will be US\$8.9 billion, US\$16.4 billion, and US\$29.9 billion respectively.

Remittances are one of the major sources of the foreign currency earning that maintains balance of payment of Bangladesh. So the government should give more emphasis to increase the flow of remittances. To boost the flow of remittances the government should establish more technical institutes, develop new foreign policy, encourage the utilisation of remittances in productive investment and create enabling environment to invest remittances in capital market.

1.0 Introduction

People usually migrate internationally to change their destiny. This international migration transforms not only the destiny of individual migrants but also the conditions of their families living in their own country. Remittances have become the most powerful means to maintain relationship with migrants with their societies of origin. International migrant remittance or simply remittance is the surplus portion of earnings sent back by nationals or the expatriate community from the country of employment. Over the years remittance has emerged as an important source of external development finance.

In 2003, the Global Development Finance Annual Report took formal notice of remittances as a source of external development finance for the first time. In the year 2000, remittance flow was over US \$72 billion and among this amount the developing countries represent a large proportion of world financial flows and the amount was substantially more than global official development assistance, more than capital market flows and more than half of foreign direct investment flows to these countries.

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 a 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 alleviation 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.

2.0 Global Remittance Flows

In 2005, officially recorded remittances worldwide exceed US \$ 232 billion. Of this, developing countries received US\$167 billion, more than twice the level of development aid from all sources.¹ In 2002, a study was commissioned by the Multilateral Investment Fund of the Inter-American Development Bank, which estimated the worldwide flows of remittances by region. The study concludes that Latin America and the Caribbean are the main recipient areas of remittances in the world, receiving about 31 per cent of total flows. South Asia is the second-largest remittance recipient area (20%), followed by the Middle East and North Africa (18%), East Asia and the

¹ Global Economic Prospects 2006, *Economic Implications of Remittances and Migration*, The World Bank, Washington DC.

Pacific (14%), Europe and Central Asia (13%) and Southern Africa (5%)². An interesting finding is that one or two countries in each region receive over 50 per cent of the total flow to the region. For example India, the world's largest remittance recipient country, accounts for 73 per cent of the total flow to South Asia; Mexico accounts for 34 per cent of the flow to Latin America and the Philippines for 43 per cent of the flow to East Asia and the Pacific. According to IMF BOP Yearbook, 2004 and World Bank staff estimates that India was the highest remittance-recipient country amounting 21.7 billion US Dollar remittances in 2004. The position of Bangladesh was fourteenth with the amount of remittance US \$3.4 billion in 2004. The position of Pakistan was twelfth with the flow of remittance US \$3.9 billion. Among the other Asian countries the position of China is second with the remittance US\$21.3 billion, Philippines fifth with the remittance 11.6 billion, Vietnam is seventeenth with the remittance US\$3.2 billion.

3.0 Background on the Bangladesh

The economy of Bangladesh mainly agrarian base. The economy of Bangladesh has undergone rapid structural transformation towards manufacturing and services. The contribution of the agriculture sector to GDP has declined from 50 percent in 1972-73 to around 20 percent in 1999-2000 and 15 percent in 2004-2005³. Although the contribution of agriculture sector to GDP is moving downward, but still this sector is the main employment provider. The growth of industrial production has achieved more than 6% over the last 5 years. Moreover, the export sector has also accelerated with the averaged growth of 30% over the last 5 years (Bangladesh Bank, 2006).

Table-1: Macroeconomic Data of Bangladesh

Indicators	Data	Year / Period	Source of Data
Population (millions)	137.0	2004-05 (P)	MOF-GOB/FBCCI ¹
GDP at Current Market Price (US \$ Billions)	58.03	2004-05 (P)	MOF-GOB/FBCCI
GNI per capita at Current Market Price (US\$)	470	2004-05 (P)	MOF-GOB/FBCCI
GDP Growth (%) (at constant price)	5.4	2004-05 (P)	MOF-GOB/FBCCI
Export (Million US\$)	8655	2004-05 (P)	MOF-GOB/FBCCI
Import (Million US\$)	13177	2004-05 (P)	MOF-GOB/FBCCI
Trade Balance (Million US\$)	(4522)	2004-05 (P)	MOF-GOB/FBCCI
Numbers of Workers in Abroad	214000	2004-05 (P)	MOF-GOB/FBCCI
Workers' Remittances (Million US\$)	3848	2004-05 (P)	MOF-GOB/FBCCI
Foreign Exchange Reserves (Million US\$)	3023.60	2004-05 (P)	MOF-GOB/FBCCI
Exchange Rate(1 US\$= Tk)	63.5	2004-05 (P)	MOF-GOB/FBCCI
Gross Investment (Million US\$)	14178	2004-05 (P)	MOF-GOB/FBCCI

² Sorensen, Ninna Nyberg, *The Development Dimension of Migrant Remittances*, Migration Policy Research, Working paper series No-1, June 2004, IOM.

³ Source: Bangladesh Bureau of Statistics and Bangladesh Bank web-site: www.bangladesh-bank.org. The figure of 2004-2005 is provisional.

Gross Investment (As % of GDP)	24.4	2004-05 (P)	MOF-GOB/FBCCI
Public Investment (As % of GDP)	5.9	2004-05 (P)	MOF-GOB/FBCCI
Private Investment(As % of GDP)	18.5	2004-05 (P)	MOF-GOB/FBCCI
National Savings (As % of GDP)	26.5	2004-05 (P)	MOF-GOB/FBCCI
Gross Domestic Saving(As % of GDP)	20.2	2004-05 (P)	MOF-GOB/FBCCI
Adult literacy rate((% ages 15 and above)	58.9	2003	UNESCO / UNDP ²
Population below income poverty line \$1 a day (%)	36	2003	World Bank / UNDP ³
Population below income poverty line \$2 a day (%)	82.8	2003	World Bank / UNDP
Annual population growth rate (%)	1.7	2003	UNDP

Sources:

¹Economic Trends and Bangladesh Economic Survey – 2005, Ministry of Finance, Government of Bangladesh and reported in Federation of Chamber of Commerce & Industries (FBCCI), Bangladesh website: www.fbcci-bd.org, p = provisional, 2004-2005 Means July 2004 to June 2005.

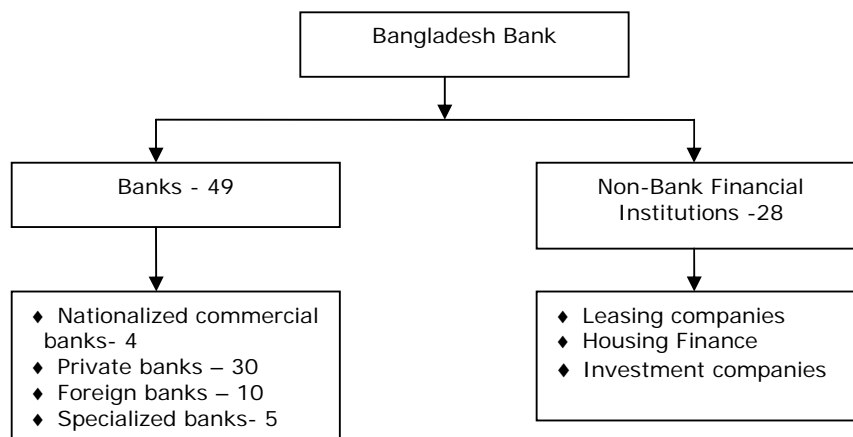
²Main sources of this data is UNESCO and reported in UNDP Human Development Report 2005

³Main sources of this data is World Bank and reported in UNDP Human Development Report 2005

4.0 The Financial System of Bangladesh

The financial system of Bangladesh consists of Bangladesh Bank (BB), the central bank, 4 nationalized commercial banks (NCB), 5 government owned specialized banks, 30 domestic private banks, 10 foreign banks and 28 non-bank financial institutions. The financial system also includes insurance companies, stock exchanges and co-operative banks. As the central bank, Bangladesh

Financial System of Bangladesh (According to Bangladesh Bank)



Bank has legal authority to supervise and regulate all the banks. Although the financial system includes other players like insurance companies, stock exchanges and co-operative banks, but Bangladesh Bank doesn't regulate these institutions. Each of the institution is regulated by different authorities. The insurance companies are regulated by Ministry of Commerce; Stock exchanges are regulated by Securities and Exchange Commission (SEC) and Cooperative banks are regulated by Ministry of Local Government, Rural Development and Co-operatives.

5.0 Flow of Migration from Bangladesh

Bangladesh is considered as a huge labour surplus country. From 1976 to 2004 total about 3.92 million people migrated temporarily from Bangladesh. On an average, the country exports about 140,000 people annually from 1976 to 2004. Systematic recording of information on migration of Bangladeshi workers began in the mid-70s. Bureau of Manpower, Employment and Training (BMET) of Labour Ministry maintains the record. Now BMET is under the Ministry of Expatriates' Welfare and Overseas Employment. BMET has classified temporary migrant population into four categories. These are professional, skilled, semi-skilled, and unskilled. Doctors, engineers, nurses and teachers are considered 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. The following table captures the flow of migration over different period:

Table-2: Flow of Migration from Bangladesh over different period

Year	Worker's Category				Total	Remittance Earned
	Professional	Skilled	Semi-skilled	Un-skilled		Million US\$
1976	568	1775	543	3201	6087	23.71
1977	1766	6447	490	7022	15725	82.79
1978	3455	8190	1050	10114	22809	106.9
1979	3494	7005	1685	12311	24495	172.06
1980	1983	12209	2343	13538	30073	301.33
1981	3892	22432	2449	27014	55787	304.88
1982	3898	20611	3272	34981	62762	490.77
1983	1822	18939	5098	33361	59220	627.51
1984	2642	17183	5484	31405	56714	500
1985	2568	28225	7823	39078	77694	500
1986	2210	26294	9265	30889	68658	576.2
1987	2223	23839	9619	38336	74017	747.6
1988	2670	25286	10809	29356	68121	763.9
1989	5325	38820	17659	39920	101724	757.84
1990	6004	35613	20792	41405	103814	781.54
1991	9024	46887	32605	58615	147131	769.3
1992	11375	50689	30977	95083	188124	901.97
1993	11112	71662	66168	95566	244508	1009.09
1994	8390	61040	46519	70377	186326	1153.54
1995	6352	59907	32055	89229	187543	1201.52
1996	3188	64301	34689	109536	211714	1355.34
1997	3797	65211	43558	118511	231077	1525.03
1998	9574	74718	51590	131785	267667	1599.24
1999	8045	98449	44947	116741	268182	1806.63
2000	10669	99606	26461	85950	222686	1954.95
2001	5940	42742	30702	109581	188965	2071.03
2002	14450	56265	36025	118516	225256	2847.79
2003	15862	74530	29236	134562	254190	3177.63
2004	12202	110177	28327	122252	272958	3573.76
Total	174500	1269052	632240	1848235	3924027	31683.85

Source: Bureau of Manpower, Employment and Training (BMET)

The above table depicts that the skill composition of those who migrated over this period, in general, indicates a consistent level of comparatively high proportion of semi and unskilled migrant workers. In 1990, 40 percent of the migrant workers were in professional and skilled category, and the rest of the 60 percent were in semiskilled and unskilled category. In the year 2004, although the number of migrant workers increased significantly but the proportion of professional and skilled category; and semiskilled and unskilled category remained almost unchanged. In 2004, 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 the number of skilled workers also increased but it was not that significant proportionately to that of semiskilled and unskilled workers. Increase in the flow of semi- skilled and unskilled workers in proportion to professionals indicates two things. Firstly, Bangladesh hardly took into account that in order to advance and protect its international market of professional and skilled workers it needed to invest in development of its human resources in accordance with the market need. Failing to do so has resulted in losing its traditional market to other competing countries and also to newly emerging ones. Secondly, according to migration experts, during the early years of the oil price hike, the Middle Eastern countries mostly needed professional and skilled persons for their rapid infrastructure development. The 1990s saw the gradual slowing down of the pace of infrastructure development. This does not mean that there has been an overall reduction in the need for labour. Rather, these economies now need more semi-skilled and unskilled labour for maintenance purpose and domestic work. Both the arguments hold some ground.

6.0 Global Bangladeshi Diaspora

Diaspora is an old term originating from a Greek word. Diaspora is defined as transnational groups of immigrants living abroad in host countries but maintaining economic, political, social and emotional ties with their homeland and with other diasporic communities of same origin (Sek pye LIM :2001). Such view sometimes brought suspicion in some quarters about the ultimate loyalty of the emigrants. Tran's nationalism in this context helped explain the loyalty of the immigrants. Many Bangladeshi went to the developed countries for better life. Their most preferred destinations are Western Europe, North America, Australia and New Zealand. However, they are also located in almost all the federating states of former Soviet Union and the eastern European states of Bulgaria, Hungary, Czech and Slovak Republics, Romania and Poland. However, there is a relatively small presence of Bangladeshis in Africa and Latin America, South Africa being the only exception. There is no information readily available on the number of Bangladeshi long-term emigrants. The population census data of Bangladesh does not include information on migration, internal or international. BMET, the repository of information on short-term migration, does not have any mechanism to keep record on the long-term migrants. A study was conducted to collate information from informed sources having first hand knowledge on the long-term immigrants of Bangladesh. The countries on which such estimation available were: UK, USA, Italy, Japan, Australia, Greece, Canada, Spain, Germany, South Africa, France, Netherlands, Belgium and Switzerland.

Table 3: Number of Bangladeshi immigrants in industrialised countries

Country	Number of Bangladeshi Immigrant
UK	5,00,000
USA	5,00,000
Italy	70,000
Canada	35,000
Japan	22,000
Australia	15,000
Greece	11,000
Spain	7,000
Germany	5,000
South Africa	4,000
France	3,500
Netherlands	2,500
Belgium	2,000
Switzerland	1,400
Total	1,178,400

Source: The main source of this information was educated guess made by Government officials of Bangladesh who have first hand experience with the immigrant community, reported at Siddiqui, Tasneem(2004), Institutionalising Diaspora Linkage the Emigrant Bangladeshis in UK and USA

The above table presents the estimated number of Bangladeshi migrants in those countries. It provides estimates of fourteen countries. In these countries there are about 1.178 million Bangladeshis now living abroad permanently either as citizen or with other valid documents. South Africa is the only country of the African continent that has some information on expatriate Bangladeshis. On the other hand, though Japan does not admit long-term residents officially, there is a good segment of Bangladeshi Diaspora population living in Japan. At present a huge Bangladeshi community, with a population of 639,390 people lives in Britain⁴. The third generation of the pioneers is on their way to establishing themselves in the mainstream British business, commerce and politics.

7.0 Trends of Remittance in Bangladesh

Bangladesh is considered as one of the major labour exporting country of the world. Since independence over 4 million Bangladeshis went abroad. The cumulative receipts of remittances from Bangladeshi migrants during 1976-2003 stood at around US\$22.0 billion⁵. In 2003, through the official channels Bangladesh received 3 billion US dollars and it is estimated that another 3 billion US dollars came in through the informal channels. Bangladesh accounted for 12% of all remittances coming into South Asia and 2% of the overall global remittances⁶. According to Ministry of Expatriates Welfare and Overseas Employment, despite a sharp decline in manpower export, the country's remittance earning increased by 27 percent in the year 2005 than the previous year with the total remittance crossing US \$ 4 billion mark for the first time. In 2004, the earning was US \$ 3.5 billion while 0.25 million Bangladeshis went abroad for job purposes this year against 0.27million last year. Careful analyses of the available household survey data indicate that remittances have been associated with declines in the poverty headcount ratio in several low-income countries and in Bangladesh remittances play a significant role to decline poverty by 6

⁴ Kabir, Jakie. The Confused 'Product of Diaspora, Bangladesh community in UK website: www.banglacomunity.com

⁵ Azad, Abul Kalam, Migrant Workers' Remittance: Can it be a Source of Finance for Micro-Enterprises Development in Bangladesh?, Paper presented in the Asia Pacific Region Microcredit Summit 2004, 16-19 February, 2004, Dhaka, Bangladesh.

⁶ Gupta, Rina Sen, Exploring Possible Linkage between Remittance with Micro Enterprise Development, Paper presented in the Asia Pacific Region Microcredit Summit 2004, 16-19 February 2004, Dhaka, Bangladesh.

percent. In the year 2000, remittances contribute 4% in total GDP in Bangladesh. Among the top 20 remittance-recipient countries, the position of Bangladesh was fourteenth and amount was US\$3.4 billion in 2004(Global Economic Prospect 2006). In Bangladesh, remittance hits a record US \$653 million growth in March 2006, which is 23 percent higher in the first three-quarters of current financial year than the previous year ⁷(The Daily Star, April 06, 2006).

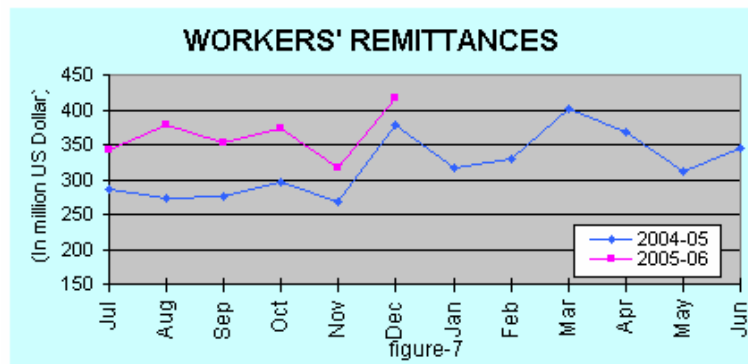
Table-4: Remittance inflow in July – March

(Amount in million US\$)

Quarters	Remittance in 2004-2005	Remittance in 2005-2006
Quarter 1 (Jul – Sept)	833.72	1,071.36
Quarter 2 (Oct – Dec)	943.52	1,107.51
Quarter 3 (Jan – March)	1,045.62	1,297.16
Total	2,822.86	3,476.03

Source: Bangladesh Bank

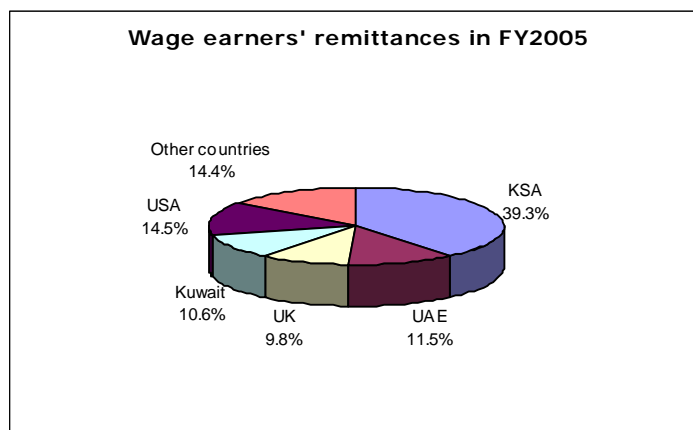
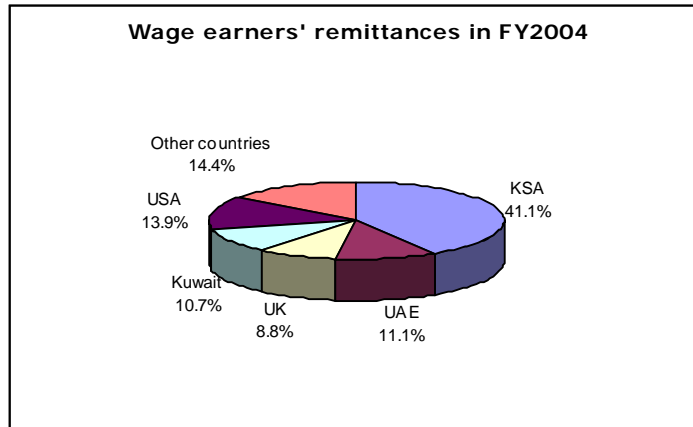
The above table exposes that remittance grows 23 percent in nine months. According to Bangladesh Bank Governor, it is expected that remittance inflow this financial year will be around US\$ 4.5 billion if the present trend continues. The foreign exchange remittances from Bangladeshi nationals working abroad increased by US\$ 100.66 million or 31.82 percent to US\$ 416.99 million during December 2005 as against US\$ 316.33 million during November 2005. During July2005- December 2005 remittances increased by US\$ 401.6 million or 22.6 percent to US\$ 2178.87 million as compared to US\$ 1777.24 million during July2004- December 2004. The following figure can clearly depicts the comparative growth of remittance of fiscal year 2004-2005(July 2004 to June 2005) and July 2005 to December2005 of fiscal year 2005-2006.



Source: Bangladesh Bank

⁷ Financial year means July of previous year to June of next year.

The main sources of remittance of Bangladesh is migrant workers living in Kingdom of Saudi Arabia (KSA), which contributed 41.1% in Fiscal Year (FY) 2004 and 39.3% in Fiscal Year 2005. Besides, Bangladeshi migrant in USA contributed 14.5%, UK 9.8% and migrant workers in Kuwait contributed 10.6% in FY 2005. The following figures can expose clearly the shares of major source countries in the remittance receipts of FY2004 and FY2005.



Sources: Bangladesh Bank Annual Report 2005

From the above two figures it is clearly exposed that the remittance flow KSA is declining, whereas remittance flow from USA and UK is increasing.

8.0 Government and Private Sectors Initiatives for Transferring Remittance

Bangladesh Bank continues its efforts to encourage Non-Resident Bangladeshis (NRBs) to send their money through official channels. Remittance has become a good source of income for some of the banks with strong network abroad. Earlier the Nationalised Commercial Banks (NCBs) were the main official channels to transfer remittance. The NCBs have some overseas branches in United States, Europe and Middle East. Moreover, NCBs have agreement with the foreign banks in many countries for smooth transferring of remittance. But the process of transferring remittance through NCBs is lengthy and takes some days. So, now a day the private commercial banks (PCBs)

have become more aggressive in remittance business providing quick and reliable services and attracting the Bangladeshi wage earners to send money home through banking channel. Although the flow of transferring remittance in Bangladesh through official channels is increasing, but according to World Bank staff estimates based on household survey, the informal sources of remittance channel is still higher. The choice of Remittance channel in Bangladesh: formal 46% and informal 54 % (Global Economic Prospect 2006). The 'formal' system means the transferring through banking system and the 'informal' system can be through *hundi* system, friends and relatives, hand carried etc. *Hundi* is an ancient and informal method of funds transfer and part of Bangladeshi culture. Other countries have different names for the same system - Hawala in parts of India and the Middle East, Fei'chen in China, Padala in the Philippines. This informal system is based on trust and is underpinned by a loose network of traders (shop owners, money changers etc.) who settle transfers amongst themselves, using their existing trading relationships. For the remitter, the hundi system has the advantage of being inexpensive, fast and accessible. Its two significant drawbacks are that it is illegal, and is based purely on trust and is therefore theoretically a high-risk proposition. The following table shows that roughly half of remittances to Bangladesh are estimated to be generated through the formal banking system based on 2002 data.

Table-5: Estimates of Remittance Channels (in 2002)

Channels	Proportion
Formal Channels	46%
Hundi	40%
Friends and Relatives	5%
Hand carried	8%
Other	1%

Source: Shah et al 2004: based on Siddique, Abrar, September 2003

To attract Bangladeshi wage earners by providing quick and reliable services three PCBs i.e. National Bank Ltd., Arab Bangladesh Bank Ltd. and BRAC Bank Ltd. have made an agreement with Western Union, an US-based organisation for financial services which has been covering more than 200 countries with its network (Daily Independent, March 23,2006). The number of branches of each bank which is transferring remittance through Western Union as following table:

Table- 6: Name of Banks and number of centres transferring remittance through Western Union

Name of Banks	Number of Centres
National Bank Ltd.	76
Arab Bangladesh Bank Ltd.	34
BRAC Bank Ltd. ⁸	450
Total	560

Source: Daily Ittefaq, Dated 16 April, 2006

⁸ BRAC Bank Ltd. is using its own branches as well as the branch offices of BRAC to transfer remittance.

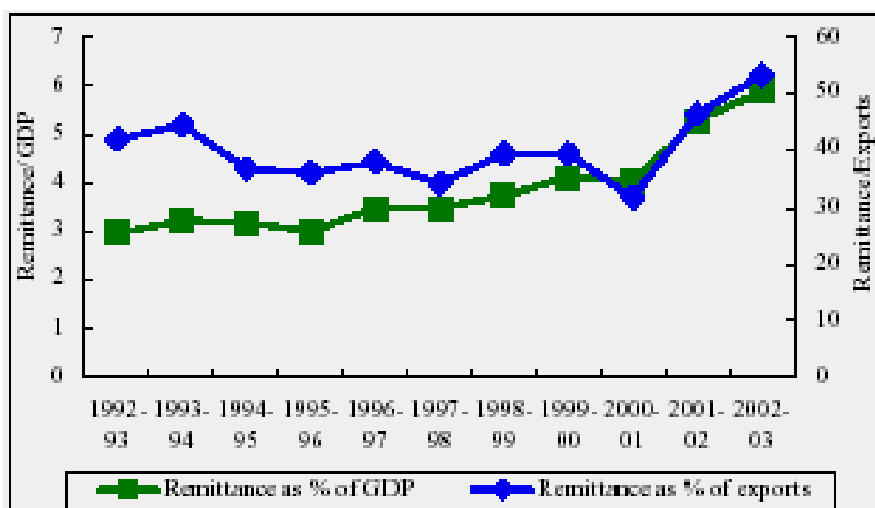
9.0 Remittance and Economic Development in Bangladesh

The remittance and economic development in Bangladesh can be broadly explained in two ways: overall Macroeconomic benefits of remittance and Macroeconomic Benefits at Household Level.

9.1 Macroeconomic Benefits of Remittance

Remittance plays a significant role for the economic development of Bangladesh. According to latest economic and social survey of UN Economic and Social Commission for Asia and the Pacific (UN-ESCAP), annual remittances exceed official development aid and foreign direct investments in Bangladesh (Daily Star, April 01, 2006). Formal remittances stood at US\$3.8 billion in 2004, equivalent to around 6% of GDP. It is extremely hard to measure the informal remittance flow, but these channels are considered to be almost as much as formal remittances. Therefore, if informal channels are included this figure reaches US\$5.9 billion, or around 9-10% of GDP. Formal remittances have been growing at over 10% annually since 2000, due to effective government policies encouraging greater efficiency and confidence in formal remittance payment channels. Formal remittances alone are equivalent to more than 50% of total government revenue, and are equivalent to around 4 times total annual aid flows in 2004. Remittances also represent around 40% of export values, and play a critical role in providing foreign currency and financing the country's trade deficit (DFID Bangladesh, 2005).

Remittance as a % of GDP and Export Earnings 1992-2003⁹



Source: Bangladesh Economic Survey-2004, Economic Trends (March 2004), Statistics Department, Bangladesh Bank

Remittances play a critical role in generating foreign exchange reserves for Bangladesh – equivalent to around 40% of export revenues, and around 6% of GDP. The foreign currency aspect of remittances is especially important as Bangladesh runs a trade deficit and is currently suffering from a serious foreign exchange crisis. Growth in remittances is likely to be one of the key factors in the medium run in maintaining foreign exchange reserves and thereby maintaining economic

⁹ This figure has been borrowed from UK-Bangladesh Remittance & Payments Partnership (RPP) Project, Project Memorandum & Annexes, DFID Bangladesh

stability. The following table shows the comparative position of Remittance, Foreign Aid and Export receipt.

Table-7: Amount of Remittance, Foreign Aid and Export receipt from FY 2000-2001 to FY 2004-2005

(In Million US Dollar)

Particulars	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005 ^P
Remittance	1882.10	2501.13	3061.97	3371.97	3848.29
Foreign Aid	1369	1442	1585	1034	1491
Percentage of Foreign Aid in comparison with Remittance	72.74%	57.65%	51.76%	30.66%	38.74%
Export Receipt	6467.30	5986.09	6548.44	7602.99	8654.5
Comparing Remittance as a percentage of Export Receipt	29.10%	41.78%	46.76%	44.35%	44.47%
Foreign Direct Investment(FDI)	--	302	368	458 ^P	--
Percentage Foreign Direct Investment (FDI) in comparison with Remittance	--	12.07%	12.02%	13.58%	--

Source: Economic Relations Division, Ministry of Finance; Statistics Department, Bangladesh Bank; Export Promotion Bureau; Board of Investment, July 2004; P- means Provisional and some figures of 2004-2005 is provisional.

The table clearly depicts that remittance is increasing and the proportion of foreign aid is declining. In 2000-2001 Foreign Aid was equivalent to 72.74% of Remittance, whereas in 2004-2005 foreign aid declined to 38.74% of remittance. In comparison with export receipt, during 2000-2001 remittance was only equivalent to 29.10%, but in 2004-2005 this proportion increased to 44.47%. Although the country's Foreign Direct Investment (FDI) is increasing, but it is still insignificant comparing with remittance earnings. In 2001-2002, FDI was only equivalent to 12.07% of remittance earnings and in 2003-2004 this proportion increased to 13.58%.

9.2 Macroeconomic Benefit at Household Level

The remittance has significant macroeconomic impact at household level. The macroeconomic impact of remittances at 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. The majority of Bangladeshi migrants abroad is unskilled, and originates from rural areas (de Bruyn 2005). Unskilled workers take jobs in Saudi Arabia, the United Arab Emirates, Malaysia, and to a lesser extent US and UK as domestic staff and labourers. Saudi Arabia alone accounts for around 43% of migrants out of Bangladesh. According to official statistics, from 1976 to 2004, 46% of migrants were unskilled, lacked access to land and resources. The poverty profile of migrants is looked at more closely in the social appraisal. However the evidence clearly shows that most short-term migrants abroad are poor and from rural areas. The poorer the household, the more impact or benefits remittance income can have on alleviating poverty. In the short-term remittances help loosen the budget constraints of their recipients, allowing them to increase expenditures on both durables and non-durables products, and provides them with protection against negative income shocks. Remittances are

cited as making up around 60% to 70% of recipient poor households' total income (Bruyn 2005). Investment in health and education is valuable for long-term economic growth and poverty reduction. Studies conclusively found that migrant families invested more in these areas (Murshid et al 2002). The most comprehensive review of the literature on remittances in Bangladesh (Bruyn 2005) lays out a number of benefits that are listed in the table below.

Table-8: Socioeconomic Impact of Remittance at Community & Household Levels in Bangladesh

Major Indicators	Positive Impact of Remittances
Nutrition	Allow families of migrants to meet basic nutritional needs
Living condition and Housing	Living condition and housing improved
Education	Invest for education of children
Healthcare	Increased investment for healthcare
Social security	Social security for elderly people increased
Investment	Increased investment in business or income generating activities

Source: Modified from Tom de Bruyn 2005

It is found from a study that during migration the total income of migrant households increased by 119 percent. It is also found that on an average each migrant remitted 55.65 percent of his income. Again remittance constituted 51.12 percent of the total income of these households¹⁰. It is found from different survey that a higher portion of remittance is used for consumption. Another significant portion of remittance is used for purchase of land and home construction. It may be mentioned here that while going abroad a migrant worker usually manages the fund for his migration either by selling land or mortgaging land. So to retrieve the sold or mortgaged land and also purchase additional land remittance plays an important role. Moreover, some portion of remittance is used for food, clothing, health care and children's education. A very small portion of remittance is used by the recipients for investment in business or other ventures and savings. Besides, during returning home the migrant workers bring some luxurious products i.e. colour television, CD and VCD player, cosmetics and other electronics item for home use, which reduce the usual amount of remittance that could be sent by the migrant workers. If the utilization of remittance is categorized as productive and non-productive purposes, then it will be found that most of the remittance goes to non-productive purposes and a very insignificant portion is utilized for productive purposes. The table below can clearly explore the utilisation patterns of remittances in Bangladesh.

¹⁰ Siddiqui, Tasneem, Migrant worker remittances and Microfinance in Bangladesh, Paper presented in the Asia Pacific Region Microcredit Summit 2004, 16-19 February 2004, Dhaka, Bangladesh.

Table-9: Utilisation patterns of Remittances in Bangladesh

Purposes	Remittances used (%)
Food and Clothes	20.45
Medical Treatment	3.22
Child Education	2.75
Agricultural land purchase	11.24
Homestead land purchase	0.96
Home construction / repair	15.02
Release of mortgage land	2.24
Taking mortgage of land	1.99
Repayment of loan(for migration)	10.55
Repayment of loan (other purpose)	3.47
Investment in Business	4.76
Savings/Fixed deposit	3.07
Insurance	0.33
Social ceremonies	9.07
Gift/donation to relatives	0.94
Send relatives for pilgrimage	0.92
Community development activities	0.09
Sending family members abroad	7.19
Furniture	0.69
Others	1.05
Total	100

Source: Siddiqui, Tanseem (2003), Migrant worker remittances and Microfinance in Bangladesh

The above table explores the picture that a significant portion of remittances are used for household consumption and non-productive investment. Only 4.76% of remittances are utilised for productive investment.

10.0 Government initiatives to Encourage Remittance Flow and Utilise for Economic Development

The Bangladesh Government has established the Ministry of Expatriates' Welfare and Overseas Employment on December 20, 2001 to ensure welfare of the expatriate workers and increase of the overseas employment. The Ministry has been rendering ceaseless efforts in enhancing the flow of remittance and to provide equal opportunity for the people of all areas of the country for overseas employment and ensuring overall welfare of the migrant workers¹¹. Bureau of Manpower, Employment and Training (BMET) was established in the year 1976 by the Government of the People's Republic of Bangladesh as an attached department of the then Ministry of Manpower Development and Social Welfare with specific purpose of meeting the manpower requirement of

¹¹ Ministry of Expatriates' Welfare and Overseas Employment website: www.probashi.gov.bd

the country and for export of manpower as well. BMET is engaged for over all planning and implementation of the strategies for proper utilization of manpower of the country. Presently BMET is under administrative control of Ministry of Expatriates' Welfare and Overseas Employment¹². With the support of government Bangladesh Association of International Recruiting Agencies(BAIRA) is an association of national level with its international reputation of co-operation and welfare of the migrant workforce as well as its approximately 700 member agencies in collaboration was established in 1984 with a view to explore job opportunities for skilled, semi-skilled, and unskilled personnel, to facilitate the migration process of workers and provide necessary information to them, to advise the government for revising foreign policy according to the current discourse of manpower export¹³.

Government has also undertaken different savings and investment facilities for non-resident Bangladeshis. Moreover, tax holiday and tax exemptions are also provided to encourage remittance flow and utilise it for economic development.

10.1 Savings Facilities for Non-Resident Bangladeshis

The Government is offering different savings instruments for the non-resident Bangladeshi to attract remittance that will boost the local economy. The Government is offering following savings instruments:

10.1.1 Non-Resident Foreign Currency Deposit (NFCD)

This deposit account can be opened any bank operating in Bangladesh. The account can be opened for one month, three months, six months or one year term in foreign currency i.e. US Dollar, Pound Starling, Euro etc. The minimum deposit requirement is US \$1000 or 500 pound starling or equivalent to other currency.

10.1.2 US Dollar Premium Bond¹⁴

The Bond is issued for three years in the name of a holder of a non-resident account against remittances from abroad to the account. The Bondholder will be entitled to draw interest on half-yearly basis at 7.5% fixed rate per annum in Bangladesh currency at the USD/BDT rate. However, the Bondholder may surrender the Bond before maturity and encash the same at the paying office in which case lower interest will be paid. The Bond will be issued in the denominations of US\$500, \$1000, \$5000, \$10,000 and \$50,000 and in such other denominations as the Government may decide. The purchaser can purchase Bond of any amount in multiples of US \$500 without a maximum limit. For investment of US \$10,000 and above, subject to an initial investment of US\$10,000 in one instance, the concerned purchaser will be provided with death-risk benefit. The death-risk-benefit will be determined according to the different slabs of investment and the age of the purchaser shall not be over 55 years at the time of his death.

¹² Bureau of Manpower, Employment and Training (BMET) website: <http://www.bmet.org.bd>

¹³ Bangladesh Association of International Recruiting Agencies(BAIRA) website: <http://www.hrexport-baira.org>

¹⁴ This information is excerpted from Ministry of Finance, GOB, The U.S. Dollar Premium Bond Rules, 2002 (Amended up to 31/08/2005)

10.1.3 Wage Earners Development Bond¹⁵

Bangladeshi wage earners serving abroad and sending remittance in the country are entitled to purchase this bond. The Bond will mature for payment on or after five years from the date of its purchase and the annual interest rate is 12%. But the Bond-holder may surrender the Bond and encash the same at the paying office after six months of purchase when he will be paid the principal amount together with interest on premature encashment rate. The premature encashment interest rate varies from 9-12% depending on the holding period of bond. There is no interest before six months from the date of issue. The bond shall be issued in the denominations of Tk.25,000; 50,000 and 1,00,000 and in such other denominations as the Government may decide. The purchaser can purchase Bond any amount in multiples of Tk.25,000 without limit, subject to the minimum investment of Tk. 25,000.

10.2 Income Tax Facilities for Non-Resident Bangladeshis¹⁶

The National Board of Revenue (NBR) of Bangladesh Government has undertaken various initiatives in the income tax rules for Non-Resident Bangladeshis to increase the flow of remittances. The Government has taken following steps to provide income tax rebate to non-resident Bangladeshis:

- The amount of remittance transferred by non-resident Bangladeshis through banking channel enjoys full exemption from income tax (Finance Law, 2002).
- No Tax Identification Number (TIN) Certificate is required upon purchase of fixed assets by non-resident Bangladeshis (Finance Law, 2002).
- From July 01, 2002 to June 30, 2005; within this time the sources capital for investment in business, industries and commerce will be accepted without any query for sources of investment capital and this rules also applicable for non-resident Bangladeshis (Finance Law, 2002).
- From July 01, 2002 to June 30, 2005; within this period agricultural processing industry is fully tax exempted. This advantage also applicable for same industries established by non-resident Bangladeshis (Finance Law, 2002).
- The interest income of non-resident Bangladeshis from 'non-resident foreign currency deposit account' is fully exempted from tax.
- The 'Wage Earners Development Bond' purchased by non-resident Bangladeshis is exempted from income tax.
- The non-resident Bangladeshis and foreign passport holders Bangladeshis and their family members don't require income tax clearance before leaving country after visiting Bangladesh.

10.3 Investment Facilities for Non-Resident Bangladeshis (NRBs)

The government is providing tax holiday and tax exemption as well as various investment incentives for non-resident Bangladeshis.

¹⁵ Source of this information is Ministry of Finance, GOB, The Wage-earner Development BOND Rules, 1981 (Amended up to 31/08/2005)

¹⁶ This is the translated version excerpted from Bengali of National Board of Revenue(NBR), website: www.nbr-bd.org

10.3.1 Tax holiday and exemption

Tax holiday facilities will be available for 5 or 7 years depending on the location of the industrial enterprise.

Tax exemptions are allowed in the following cases:

- ◆ Tax exemption on royalties, technical know-how fees received by any foreign collaborator, firm, company and expert.
- ◆ Exemption of income tax up to 3 years for foreign technicians employed in industries specified in the relevant schedule of the income tax ordinance.
- ◆ Tax exemption on income of the private sector power generation company for 15 years from the date of commercial production.
- ◆ Tax exemption on capital gains from the transfer of shares of public limited companies listed with a stock exchange.

Moreover, concessionary duty offers on imported capital machinery.

10.3.2 Investment Facilities / incentives¹⁷

(a) For foreign direct investment, there is no limitation pertaining to foreign equity participation, i.e. 100 percent foreign equity is allowed. Non-resident institutional or individual investors can make portfolio investments in stock exchanges in Bangladesh. Foreign investors or companies may obtain full working loans from local banks. The terms of such loans will be determined on the basis of bank-client relationship.

(b) Full repatriation of capital invested from foreign sources will be allowed. Similarly, profits and dividend accruing to foreign investment may be transferred in full. If foreign investors reinvest their repatriable dividends and retained earnings, those will be treated as new investment. Foreigners employed in Bangladesh are entitled to remit up to 50 percent of their salary and will enjoy facilities for full repatriation of their savings and retirement benefits.

(c) Foreign entrepreneurs are, therefore, entitled to the same facilities as domestic entrepreneurs with respect to tax holiday, payment of royalty, technical know-how fees etc.

Special incentives are provided to encourage NRBs to invest in the country. NRBs will enjoy facilities similar to those of foreign investors. Moreover, they can buy newly issued shares/debentures of Bangladeshi companies. A quota of 10% has been fixed for NRBs in primary public shares. Furthermore, they can maintain foreign currency deposits in the Non-resident Foreign Currency Deposit (NFCD) account.

Non-resident direct investment in industrial enterprise in Bangladesh and non-resident portfolio investment through stock exchanges in Bangladesh also do not require prior approval of the Bangladesh Bank. Remittances of post-tax dividend/profit on non-resident direct or portfolio investment do not require prior approval. Sale proceeds, including capital gains on non-resident portfolio investment may also be remitted abroad without prior approval. Repatriation of sale proceeds of non-resident investment in unlisted companies is allowed by Bangladesh Bank on the basis of the net asset value of the shares of the company.

To facilitate investment, prior approval of the Bangladesh Bank is no longer required for:

- ◆ Remittance of profits to their head offices by foreign firms and companies operating in Bangladesh

¹⁷ Bangladesh Bank, website: www.bangladesh-bank.org/investpr

- ◆ Issuance of shares to non-residents against investment for setting up industries in Bangladesh.
- ◆ Remittance of dividends on such shares to the non-resident investors.
- ◆ Portfolio investment by non-residents including foreign individuals/enterprises in shares and securities through stock exchanges in Bangladesh.
- ◆ Remittance of dividends on portfolio investment by non-residents through stock exchanges in Bangladesh.
- ◆ Remittance of sale proceeds, including capital gains of portfolio investments of non-residents through stock exchanges in Bangladesh
- ◆ Remittance of savings of expatriate personnel at the time of their leaving Bangladesh, out of the salaries and benefits stated in their employment contracts as approved by Board of Investment (BOI).
- ◆ Extension of term loans by banks on normal banking considerations to foreign firms operating in Bangladesh
- ◆ Extension of working capital loans to all foreign owned/controlled industrial and trading firms/companies by banks on the basis of bank customer relationship and normal banking practice.
- ◆ Obtaining of interest-free repatriable short-term foreign currency loans by foreign firms investing in Bangladesh from their head offices or any other sources through any authorised dealer.

11.0 Migrant Workers Remittance and Microfinance

Bangladesh is the birthplace of microfinance and is considered as pioneer in microfinance. Many NGOs/MFIs are striving for poverty alleviation through Microfinance. Microfinance is considered as proven strategy for poverty alleviation. As Micro-finance Institutions (MFIs) are operating Microfinance programme in the whole country, they can play a critical role towards mobilisation and transformation of remittances. If we look to the operations of commercial banks, we will find that they may be better able to tap into financial and money transfer systems and provide more sophisticated services to remittance recipients, but they may not serve the needs of poorer recipients, particularly in rural areas, without linking to smaller, down market financial institutions. Many experts feel that increasing the involvement of micro finance institutions (MFIs) in the remittance transfer process is a promising means to expand financial access to the poor, particularly in rural areas with no access to the larger commercial banks. MFIs may devote their attention to tap the remittances received through informal channels. They can also undertake survey activities to estimate the informal remittances including the kind or non-monetary remittances sent by the migrants. Once it is possible, the MFIs may move forward to replace those unauthorised informal channels. In Bangladesh BRAC has undertaken remittance transfer programme through Western Money Union. But a significant portion of remittance transfer market of poor people is still untapped. Moreover, transferring of remittance can't be the only responsibility of the MFIs. MFIs need to offer diversified programmes for the remittance recipient people beyond transferring remittance.

12.0 Future Challenges

Remittance is playing a significant role for the economic development of developing and Least Develop Countries (LDCs). So global competition for exporting manpower is increasing. Moreover, the demand for skilled and professional personnel is increasing day by day. Bangladesh is still far behind to export skilled and professional personnel than some other top remittance earning countries. The major future challenges that are identified for Bangladesh for harnessing remittance for economic development of the country as below:

- ◆ **Lack of Skilled and Professional Personnel:** Although the number of skilled and professional personnel is increasing, but it is still 46 percent of total manpower exported. The government has established some new science and technological universities, polytechnic and vocational institutes for increasing the number of skilled and professional personnel. But still the number is very small than the actual demand. Moreover, the qualities of education of these institutes are not up to the mark in comparison with the institutes of other top manpower exporting countries.
- ◆ **Government Foreign Policy:** The Government foreign policy and diplomatic relationship and promotional activities are important to increase manpower export. Although the government has undertaken different strategies to boost manpower export, but still Bangladesh is far behind in establishing diplomatic relationship and promotional activities than the other countries.
- ◆ **Utilisation of Remittance in Non-productive investment:** This is another crucial challenge for Bangladesh. In Bangladesh, only 4.76% of remittances are utilised for productive investment and a significant portion of remittances are utilised for non-productive investment. So the remittances can not be utilised for economic development and industrialisation that are necessary for the socioeconomic development of the country.
- ◆ **Regulatory constraint for MFIs/NGOs to transfer remittances and offer diversified savings and credit products to families of migrant:** As a role model of microfinance, no MFIs/NGOs can involve in the transferring process remittances to the families of migrant due to regulatory constrain. In Bangladesh only formal banking sector has the authority to transfer remittances. As there is no regulation for Microfinance in Bangladesh, so the MFIs/NGOs are still unable to tap migrant families with diversified savings and credit products. Only the formal financial institutions have the authority to offer different savings and credit products. Moreover, according to nature of Microfinance operations in Bangladesh most of the MFIs/NGOs follow target group approach and their target group are poor people. But most of the families of migrant are little bit well off and they are not fall in the target group category of MFIs/NGOs.

The future growth of Bangladesh will depend on promoting export; sustaining remittances; and triggering FDI. Remittance has been considered as important factor for future economic development of the country. According to a study conducted by Centre for Policy Dialogue (CPD) in Bangladesh, it is estimated that the required level of remittances in FY2020 for consistent 4%, 6% and 8% GDP growth will be US\$8.9 billion, US\$16.4 billion, and US\$29.9 billion respectively. In other words, remittances in FY2020 would be 8.86%, 11.69% and 15.21% of GDP to achieve a

consistent GDP growth of 4%, 6% and 8% respectively. Increased level of remittances may be obtained through supply of skilled manpower (ICT specialists, managerial and other professional) which would require planned investment and human resource development strategy¹⁸.

Table-10: Required Level of Remittances

Year	Remittances Required (million US\$) to Achieve			Remittances Required (as % of GDP) to Achieve		
	4% GDP Growth	6% GDP Growth	8% GDP Growth	4% GDP Growth	6% GDP Growth	8% GDP Growth
FY 2006	3195.34	3667.57	4190.31	5.55	5.91	6.26
FY 2007	3435.94	4082.01	4821.79	5.74	6.20	6.67
FY 2008	3694.67	4543.27	5548.44	5.94	6.51	7.11
FY 2009	3972.88	5056.66	6384.59	6.14	6.84	7.57
FY 2010	4272.04	5628.07	7346.74	6.35	7.18	8.07
FY 2011	4593.72	6264.04	8453.90	6.56	7.54	8.60
FY 2012	4939.63	6971.87	9727.90	6.78	7.91	9.16
FY 2013	5311.58	7759.70	11193.89	7.01	8.31	9.76
FY 2014	5711.55	8636.54	12880.81	7.25	8.73	10.40
FY 2015	6141.63	9612.47	14821.95	7.50	9.16	11.08
FY 2016	6604.09	10698.68	17055.62	7.75	9.62	11.81
FY 2017	7101.38	11907.63	19625.90	8.02	10.10	12.58
FY 2018	7636.11	13253.19	22583.52	8.29	10.61	13.40
FY 2019	8211.11	14750.80	25986.86	8.57	11.14	14.28
FY 2020	8829.41	16417.64	29903.08	8.86	11.69	15.21

Source: Estimation of Bhattacharya. Debapriya, 2006

13.0 Conclusion and Recommendations

Remittances are one of the major sources of the foreign currency earning of Bangladesh. Remittances play a significant role for the balance of payment as well as economic development of the country. The government and also donor communities have given proper emphasis for boosting remittances flow. Recently Department For International Development (DFID) of UK government has proposed for funding a project to increase the official channels of remittances flow in Bangladesh. Although the government has undertaken several initiatives to increase remittances flow, but still something more to do. Moreover, Bangladesh is role model and considered as pioneer in Microfinance. Many Microfinance Institutes (MFIs) and Non-Government Organisations (NGOs) are operating in Bangladesh. But still this remittance sector is untapped by them. The following recommendations can be helpful for harnessing remittances for the economic development of Bangladesh:

- ◆ **Establish more technical institutes:** The government as well as private sector can establish more high quality technical, polytechnics and vocational institutes that can supply skilled and professional personnel.
- ◆ **Develop new foreign policy:** The government should develop new foreign policy and assigned a professional person at each diplomatic mission office abroad to explore the potentials of manpower export in that country and properly lobby with different concerned persons of that country. At present although the government has a post of labour attaché in diplomatic mission of some countries, but still it is insignificant.

¹⁸ Bhattacharya. Debapriya and Deb. K. Uttam, Bangladesh 2020: An Analysis of Growth Prospect and External Sector Behaviour, Centre for Policy Dialogue(CPD), 2006

- ◆ **Utilisation of Remittances in productive investment:** The government as well as private sectors specially the MFIs/NGOs can come forward in this regard. At present one NGO is playing role of transferring remittances. But the MFIs/NGOs need to do more beyond transfer. The government should eliminate regulatory constraint of transferring remittance for MFIs/NGOs. The government as well as MFIs/NGOs can provide Business Development Services to the remittances recipient families to start and operate an enterprise. If the government makes the regulation flexible regarding savings and credit products of MFIs/NGOs, then the MFIs/NGOs can develop appropriate savings, credit and insurance products for remittance recipient families. The Government can also establish Investment Company to channel more capital through MFIs/NGOs to the remittance recipient families which are operating enterprise.
- ◆ **Creating Enabling environment to invest Remittances in Capital Market:** Moreover, the government can make easy access to the capital market for the remittance recipient families. Although at present there is a provision for quota of foreign investors or non-resident Bangladeshis during Initial Public Offering(IPO) of issuing shares, but this process is so critical that most of the time this quota doesn't fulfilled. The government should make this quota system of issuing IPO also applicable for the families of the non-resident Bangladeshis, so that they can invest in the capital market.

References

Azad, Abul. Kalam(2004), Migrant Workers' Remittance: Can it be a Source of Finance for Micro-Enterprises Development in Bangladesh?, Paper presented in the Asia Pacific Region Microcredit Summit 2004, 16-19 February, 2004, Dhaka, Bangladesh.

Bangladesh Association of International Recruiting Agencies (BAIRA), website: <http://www.hrexport-baira.org>

Bangladesh Bank Annual Report 2005

Bangladesh Bank, website: www.bangladesh-bank.org

Bangladesh Bureau of Statistics, website: www.bbsgov.org

Bhattacharya. Debapriya and Deb, K. Uttam (2006), Bangladesh 2020: An Analysis of Growth Prospect and External Sector Behaviour, Centre for Policy Dialogue (CPD), Paper.56, Dhaka, January 2006.

Board of Investment, July 2004, website: www.boibd.org

Bureau of Manpower, Employment and Training (BMET), website: <http://www.bmet.org.bd>

Bureau of Manpower, Employment and Training (BMET), website: www.bmet.org.bd

Daily Independent, March 23, 2006, Dhaka, Bangladesh, Website: www.independent-bangladesh.com

Daily Ittefaq, April 16, 2006, Dhaka, Bangladesh

De Bruyn & Kuddus (2005), Dynamics of Remittance Utilization in Bangladesh, International Organisation for Migration, IOM Migration Series, Number 18, Geneva, Switzerland

DFID Bangladesh (2005), UK-Bangladesh Remittance & Payments Partnership (RPP) Project, Project Memorandum & Annexes, December 2005.

Economic Relations Division, Ministry of Finance, Government of Bangladesh, website: <http://www.mof.gov.bd>

Export Promotion Bureau, Government of Bangladesh, website: www.epb.gov.bd

Federation of Chamber of Commerce & Industries (FBCCI), Bangladesh website: www.fbcci-bd.org

Global Development Finance 2003, *Workers' Remittances: An Important and Stable Source of External Development Finance*, The World Bank, Washington DC.

Global Economic Prospects 2006, *Economic Implications of Remittances and Migration*, The World Bank, Washington DC.

Gupta, Rina Sen(2004), Exploring Possible Linkage between Remittance with Micro Enterprise Development, Paper presented in the Asia Pacific Region Microcredit Summit 2004, 16-19 February 2004, Dhaka, Bangladesh.

Kabir, Jakie. The Confused 'Product of Diaspora, Bangladesh community in UK Website: www.banglacommunity.com

Lim, Sek Pei (2001) 'The Question of Diaspora in International Relations, A Case of Chinese Diaspora in Malaysia and South-East Asia', Dissertation, MA In International Relations, University of Sussex).

Ministry of Expatriates' Welfare and Overseas Employment, website: www.probashi.gov.bd

Ministry of Finance, Government of Bangladesh, ¹Economic Trends and Bangladesh Economic Survey – 2005, website: www.mof.gov.bd

Ministry of Finance, The U.S. Dollar Premium Bond Rules, 2002 (Amended up to 31/08/2005), Government of Bangladesh

Ministry of Finance, The Wage-earner Development BOND Rules, 1981__(Amended up to 31/08/2005), Government of Bangladesh

Murshid et al (2002), A Study of remittance Inflows & Utilization, UNDP & IOM, Dhaka, November 2002

National Board of Revenue (NBR), website: www.nbr-bd.org

Shah et al (2004), Shah, V., Hatton, M. & Reidburg, J., For DFID Bangladesh with Financial Sector Team, London UK-Bangladesh remittance Country Partnership – Bangladesh Scoping Mission, November 2004.

Siddiqui, Tanseem and Abrar, R. Chowdhury (2003), Migrant worker remittances and Microfinance in Bangladesh, ILO, Working paper no.38, Dhaka, September 2003

Siddiqui, Tasneem (2003), Institutionalising Diaspora Linkage – The Emigrant Bangladeshis in the UK & USA, RMMRU & IOM, Dhaka, September 2003

Siddiqui, Tasneem(2004), Institutionalising Diaspora Linkage the Emigrant Bangladeshis in UK and USA, Ministry of Expatriates' Welfare and Overseas Employment of GOB and International Organization for Migration (IOM), Dhaka February, 2004.

Siddiqui, Tasneem (2004), *Migrant worker remittances and Microfinance in Bangladesh*, Paper presented in the Asia Pacific Region Microcredit Summit 2004, 16-19 February 2004, Dhaka, Bangladesh.

Sorensen, Ninna Nyberg, *The Development Dimension of Migrant Remittances*, Migration Policy Research, Working paper series No-1, June 2004, IOM.

The Daily Star, April 01, 2006, website: www.thedailystar.net

The Daily Star, April 06, 2006, website: www.thedailystar.net

UNDP (2005), Human Development Report 2005

