

# A STUDY ON REMITTANCE INFLOWS AND UTILIZATION

INTERNATIONAL ORGANIZATION FOR MIGRATION (IOM), DHAKA  
NOVEMBER 2002



IOM International Organization for Migration  
আইওএম আন্তর্জাতিক অভিবাসন সংস্থা



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# **A STUDY ON REMITTANCE INFLOWS AND UTILIZATION**

**Prepared for  
INTERNATIONAL ORGANIZATION FOR MIGRATION (IOM)  
REGIONAL OFFICE FOR SOUTH ASIA, DHAKA**

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**NOVEMBER 2002**



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## **PREFACE**

We would like to thank the International Organization for Migration (IOM) for sponsoring this study. An attempt has been made to assess the impact of remittances sent by migrants on macroeconomic performance. The study has then gone on to investigate at some detail, the channels of remittance flows and use in an attempt to identify factors that may improve flows through official channels and result in more productive use of these resources.

We would like to thank our field researchers Messrs Masudul Hassan, Tauhidul Alam, A.K.M. Fazlul Haque and Md. Hafizuddin and the project manager, Sheikh Shaheenul Alam for their valuable contributions. The services of Mr. Moqbul, our typist is also gratefully acknowledged.

It is hoped that this report will serve the purpose for which it was commissioned. We have enjoyed conducting this study and believe that it has been able to shed additional insights into a complex and interesting process and has served to highlight a number relevant policy issues.

Dr. K. A. S. Murshid  
Research Director

## ABBREVIATIONS AND ACRONYMS

AC	: Account
BAIRA	: Bangladesh Association of International Recruiting Agencies
BB	: Bangladesh Bank
BBS	: Bangladesh Bureau of Statistics
BMET	: Bureau of Manpower Employment and Training
BOESL	: Bangladesh Overseas Employment Services Limited
CM	: Current Migrant
DD	: Demand Draft
DG	: Director General
FDD	: Foreign Demand Draft
GDP	: Gross Domestic Product
GNP	: Gross National Product
HIV	: Human Immunodeficiency Virus
IOM	: International Organization for Migration
JB	: Janata Bank
MIS	: Management and Information System
MWF	: Migrant Workers' Fund
NCB	: Nationalised Commercial Bank
NGO	: Non-Government Organisation
NRB	: Non-resident Bangladeshi
PO	: Postal Order
RM	: Returned Migrant
SB	: Sonali Bank
TOR	: Terms of Reference
TT	: Telegraphic Transfer, Telephonic Transfer
UAE	: United Arab Emirates
UK	: United Kingdom
USA	: United States of America
WB	: Would-be Migrant
WES	: Wage Earners Scheme
ZIA	: Zia International Airport

## I. INTRODUCTION

There has been a massive outflow of Bangladeshi migrant workers to other countries, particularly to the Middle East and East Asia, over the last two decades. Workers' remittances to Bangladesh now constitute the single largest source of foreign exchange earnings and play a critical role in alleviating the foreign-exchange constraint and supporting the balance of payments, enabling imports of capital goods and raw materials for industrial development. Moreover, it also increased the supply of savings and investment for capital formation and development. At the micro level, remittances have resulted in improved living standards of workers' families and helped in improving the income distribution in favour of poorer and less skilled workers.

Despite the expanding literature on the subject, there remains an inadequate understanding of a number of issues related to the flow and use of remittances. Thus, there has been little work on the impact of remittances on the overall economy. In the context of a foreign exchange constraint that characterize countries like Bangladesh, the role of remittances is likely to be very important. In practice much of this concern was reflected in the remittance literature through micro-level inquiries seeking to establish a direct link between remittance earnings and "productive" use. Leaving aside the problem of defining "productive use" this literature generally found this link to be weak indicating that the bulk of the earnings are used for consumption or for other non-productive uses.

Our micro level understanding of the impact of remittances also remains inadequate, especially relating to factors preventing or constraining productive use. Nor are we adequately informed about the processes and quantitative significance of different remittance channels - both formal and informal, and the determinants of these flows.

The thrust of this study is to examine remittance behaviour and impact, as well as to review and recommend measures to improve productive use and enhance flows through recorded channels.

The rest of the study is organized as follows: Section 2 provides a brief review of the literature while Section 3 discusses overall macro-economic performance, trends and impact on growth, savings and investment. The remaining sections deal with micro survey findings (a) undertaken in eight villages of four districts where migrants are found in large numbers, and (b) based on in-depth interviews with bank officials and officials of financial institutions and specialized migrant-welfare related bodies. Thus, Section 4 discusses the methodological details, while Section 5 presents a socio-economic profile of the three categories of respondent-households: current migrant families, returnee households and would-be households. Section 6 examines remittance inflow patterns, incomes, expenditures and use while Section 7 reviews the existing processes and mechanisms used by migrant workers to remit money and the perceptions about the efficiency and reliability of alternative channels. Section 8 discusses the Migrants' Welfare Fund while Section 9 concludes with policy recommendations.

## II. REVIEW OF LITERATURE

The inflow of remittances and its related issues have long been of interest to economists and policy makers, in particular after the introduction of the Wage Earners' Scheme (WES) in mid-1974. Since then several macro and micro level studies have been published that have served to enrich the literature on remittances. A wide range of issues have been addressed through a number of studies, over the last two and half decades. Three issues that have received particular attention include socio-economic conditions of returnee migrants, the process of migration and the use of remittances at the household level (e.g. see Habibullah (1980), Mahmood (1986,1990,1991).

The first two issues mostly focus on demographic characteristics of the migrants, as well as education and training received, employment and occupational status, reasons for migration, channels of migration, nature of job contract and so forth. The third issue on the uses of remittances is the one that is most directly relevant to our study. The extent to which remittances will add to the investment resources of the economy largely hinges upon the savings and expenditure patterns of migrant families. Therefore, a close look at the income, savings and expenditures of migrant families is of great significance from the policy point of view.

Expenditure and saving behaviour abroad is pivotal in analyzing the recipient household's pattern of use of remittances. A study by Mahmood, (1991) found that more than 75 percent of respondents had a monthly expenditure below Tk. 2000 per month, and more than one third spent less than Tk. 1000 per month while monthly average income was Tk.11000. This clearly shows that the migrants remit more than 80 percent of their earnings abroad and this is reflected in higher incomes of recipient households (also see Mahmud and Osmani, 1980; Habibullah, 1980).

The savings rate of remittance receiving households were found to be significantly higher than that of non-receiving households belonging to a similar income group; remittance-receiving households save from 50 percent to 75 percent of their income as against about 5 percent by non remittance-receiving households (Mahmood, 1991, Habibullah, 1980). This is to some extent consistent with the result of Mahmud and Osmani (1980) who show that savings ratio increases monotonically with income, and for the highest income group the saving ratio was found to be 0.76.

The major factors that have an impact on the pattern and use of remittance incomes include initial socio-economic conditions and demographic characteristics of remittance receiving households, duration of stay abroad, skill level of the migrant, number of migrants from one household etc. A study of Bangladeshi returned migrants from Japan (Mahmood, 1991), shows that ownership of land prior to migration is an important determinant in land repurchase. The quality of living

accommodation of a household prior to migration was found to have a negative impact on bank savings. Similarly, marital status of a migrant was negatively related to investment in trade and business.

Purchase of land was found to be the single most important use to which overseas remittances were put (Mahmood, 1986; 1991). Construction and repair of houses and purchase of durable goods also dominated the expenditure pattern of migrant families. On an average, the literature reveals that purchase of land and construction and repair of house account for 15-40 and 10-30 percent of total remittances received. Some regional variations have also been noted. For instance, average level of expenditure on house building is the highest in Dhaka City, followed by Comilla, Sylhet and Noakhali. This pattern is also influenced by occupational differentials. For almost all items, the higher the level of skills the higher the level of expenditure. Exceptions were found in the case of 'gifts, donations and assistance to relatives', and 'payment of loans and liquidation of debts' (Mahmud, 1991). For the former an unskilled migrant spent more than a professional and semi professional and for the latter, a semi skilled worker spent more than the professional. Rural households receiving remittances spent much more on consumption, interest payment and festivals than non-receivers. Remittance receivers in urban areas spent more on clothing, food and drink, fuel and lighting than their counterparts in rural areas. The degree of conspicuous consumption out of remittances is also higher for urban households (Habibullah, 1980).

Even though the existing literature is full of rhetoric about the different use of remittances at the micro level, very little has been suggested in terms of more effective use. Again the concept of effective or productive use has not always been clearly articulated. The term 'effective use' or 'productive use' of remittances needs to be clarified. Thus, Mahmood and Osmani, (1980) consider use of remittances to construct or repair houses, purchase of consumer durables and acquisition of land unproductive while Mahmood, (1990) thought the use remittances in these sectors to be productive.

Accumulation of surplus out of overseas remittances over and above immediate home consumption, adequate opportunities for using remittances productively and appropriate government policies are of crucial importance in the productive use of remittances. Recommendations suggested include imposition of taxes on unproductive use, setting up of specialized organizations to look after the investment opportunities of remittances, and introduction of new investment instruments.

An alarming finding of a study (Habibullah, 1980) was that non-receivers of remittance invested more in business than the remittance receivers in both rural and urban areas. On issues of encouraging spending on socially desirable goods and services, and improving savings and investment, a wide range of policies have been suggested in the literature;

- a. Taxes can be imposed on conditional terms depending upon the mode of use of the remittance money;
- b. Setting up of a specialized organization to advise on alternative investment opportunities;
- c. Foreign exchange deposits with specially higher rate of interest on time deposits;
- d. The sale process of foreign exchange by auction should be more broad based through widening of the auction markets;
- e. Special bonds may be introduced to encourage savings.

Many constraints have been identified that prevent or discourage productive use of remittances:

- (a) Failure of the migrants or concerned families to appreciate the need for productive use of remittances;
- (b) Lack of adequate investment opportunities;
- (c) Even with respect to the simple forms of investments, e.g. in assets such as Savings' Certificates, Postal Savings Schemes, Prize Bonds, Wage Earner's Development Bond, Very few of the migrant families seem to be aware of these opportunities;
- (d) In the case of capital investments, official requirements are so stringent that it takes years before any investment plan can actually be realized.

### **III. MACRO-ECONOMIC PERFORMANCE AND TRENDS**

#### **Macro-Economic Performance**

The recent macroeconomic performance, characterized by varying and often contrasting trends in major indicators, reveal Bangladesh's continued susceptibility to economic vulnerability. Slow growth in the manufacturing sector, deceleration in the rate of investment and sluggish growth of exports could not restrain the pace of growth. While the average GDP growth rate was 4.4 percent per year during the first half of the 1990s, the growth rate has accelerated to over 5 percent in recent years, mostly due to the bumper production of food grains.

According to the new national income accounts, gross domestic savings increased from 13 percent of GDP in 1989/90 to about 18 percent in 1999/00. During the same period, gross national savings increased from 18 percent to 23 percent of GDP. The investment GDP ratio, on the other hand, increased from 17 percent in 1989/90 to 22 percent in 1999/00. Despite liberal and attractive policies, foreign investment is yet to make a significant contribution to the country. The net direct and portfolio investment was US \$ 252 million in 1997/78 which declined by 24 percent to US \$ 192 million in 1998/99. The share of foreign trade (export and import) in GDP increased from 17 percent in 1989/90 to over 29 percent in 1998/99. The most significant recent

development in the external sector is the deceleration of export growth in 1998/99. While export growth is expected to increase to about 9 percent in 1999/00, it is yet to reach its trend growth path. The trends in export during the first nine months of the fiscal year 2000-2001 suggest that total exports during the period grew by 8.4 percent over the same period of the previous fiscal year. Readymade garments which accounted for 56 percent of total exports in 1998/99, registered a growth of 6 percent. In the recent years, knitwear exports have increased rapidly with an average growth of more than 20 percent over the last three years. In 1998/99 the growth of imports was 6.6 percent in US dollars compared to 5.1 percent in 1997/98 and 4.1 percent in 1996/97. A major aspect of structural change of imports is the decline in the share of capital goods in total imports from 27.5 percent in 1997/98 to 24.6 percent in 1998/99.

In US dollar terms, the growth of workers remittances was 8.3 percent in 1998/99 compared to 6.8 percent in 1997/98 and 21.2 percent in 1996/97. During July- January, total remittances was US \$ 1125 million compared to US \$ 964 million during the same period of the previous fiscal year - a growth of nearly 17 percent. In 1977/78 remittances amounted to 1.1 percent of GDP. The share of remittances to GDP gradually increased to 5.2 percent in 1982/83. Subsequently, the ratio of remittances to GDP fluctuated below 4.0 percent, increasing to 7 percent by 1998/99. A look at the annual development budget shows that remittances accounted for 12.8 percent in 1977/78, increasing to 49.3 percent in 1982/83, after which this ratio ranged from 30-50 percent. In more recent years remittances financed around 43 percent of the development budget.

The major sources of foreign exchange earnings in Bangladesh are merchandise export receipts, worker's remittances and invisible receipts. In 1977/78, remittances constituted 14.5 percent of total foreign exchange earnings. The contribution of remittances gradually increased to 40.4 percent in 1982/83. The share of foreign exchange from remittances to total foreign exchange earnings started to decline since then and in the year 1992/93 it reached a level of 22.2 percent. In the fiscal year 2000-2001 this share went up to around 30 percent. The valuable foreign exchange sent by the overseas workers is used largely in payment of import bill. In 1977/78 remittances could meet only 8.4 percent of the import, which gradually increased to 26.7 percent in 1982/83. In early 90s it was fluctuating around 25 percent. In 1998/99 remittances financed only 22 percent of total import mainly due to an increase in import volumes.

Bangladesh has a chronic history of deficits in her balance of trade. In 1979/80 exports could meet 31.8 percent of the import bill and in 1991/92 this ratio increased to 57.4, and since has essentially hovered around this level. Thus workers' remittances play a critical role in maintaining, what can be termed a precarious balance.

#### **Nature and Volume of Remittances**

According to official statistics, the inflow of remittances to Bangladesh during the period 1977-99 totalled Tk. 59,7481 million. The growth of remittance has not always

been steady. Remittances climbed to Tk. 15,684 million in 1983 from Tk.866 million in 1977. After a temporary slump, it picked up again from 1985. In 1988 overseas remittances reached Tk. 24 billion (US \$ 737 million). The rate of increase in remittance inflows as compared to earlier years declined somewhat in more recent years. This is because the demand for Bangladeshi manpower declined as a result of worldwide recession. In addition, many illegal workers were sent back to Bangladesh during this time, e.g. following the East Asian crisis.

### **Major Remittance Sending Countries**

Overseas migration from Bangladesh may be divided into two categories. An outflow of Bangladeshis to the Western World, mainly to UK, and more recently to the USA and Canada have been going on for a long time. The migrants tend to stay permanently and tend to be skilled and semi skilled workers and professionals. On the other hand the migration boom in the early eighties relates mostly to temporary migration of mostly semi skilled and unskilled labourers to the Middle East. In recent years Malaysia, Korea and Singapore have emerged as important destinations for Bangladeshi migrant workers. Table 2 shows the major countries of destination and the number of workers migrating from Bangladesh. As evident from the table, most of the migrant workers are sent out under contract and have gone mostly to the Middle East. Around 41 percent of the migrants have gone to the Kingdom of Saudi Arabia alone, while the other Gulf states namely, UAE, Oman, Qatar, Bahrain, Kuwait, Iraq and Iran have cumulatively absorbed nearly 53 percent of the migrant workers from Bangladesh. The employment of workers abroad is quite sensitive to the prevailing socio-political environment of the recipient countries. The Gulf crisis in the 1990s forced the return of some 56,000 workers back home and led to a sudden decline in remittance inflows from Kuwait and Iraq.

### **Macro-Economic Impact - An Econometric Analysis**

An attempt is made in this section to determine the impact of workers' remittances on the economy of Bangladesh and highlight the possible repercussions of the change in inflow of remittances using the standard Keynesian macroeconomic model. The structural equations estimated (using 3SLS techniques) is summarized below.

1.  $C = C_0 + cY_d + e_1$ .
2.  $I = I_0 + bY + e_2$ .
3.  $M = M_0 + mY + e_3$ .
4.  $T = T_0 + tY + e_4$ .
5.  $Y_d = Y - T$
6.  $Y = C + I + G + R_m + Ex. - M$ .

Where,

Y = National income.

C = Private consumption.

- I = Total Investment.  
 G = Govt. expenditure.  
 Rm. = Remittance.  
 Ex = Export.  
 M = Import.

The first equation states that consumption expenditure depends on disposable income ( $Y_d$ ), where  $C_0$  is the autonomous consumption expenditure and  $c$  is the marginal propensity to consume out of disposable income ( $Y_d$ ).

Equation 2 describes a private investment function in terms of national income (GNP) where  $I_0$  is autonomously determined and 'b' is the marginal propensity to invest.

Equation 3 describes an import function in terms of GNP where  $M_0$  is autonomous and  $m$  measures marginal propensity to import.

Equation 4 is the tax function where  $T_0$  is autonomous tax and  $t$  is the marginal propensity to tax out of national income.

The last two equations are identities.

The model includes six endogenous variables:

1. Private consumption (C).
2. Private investment (I).
3. Import (M).
4. Tax revenue (T).
5. Disposable income ( $Y_d$ ).
6. GNP (Y).

And three exogenous variables:

- Govt. expenditure (G).  
 Remittance(REM).  
 Export (Ex).

### Findings<sup>1</sup>

The estimated consumption function is

$$C = 226.1 + .944 YD.$$

The estimated equation shows that the marginal propensity to consume in response to disposable income is positive and is 0.94. This implies if disposable income increases by 1 unit, say, 1 Taka, 94 Paisa is spent on consumption. The intercept is 226.1, which indicates the level of consumption when disposable income is zero.

The estimated Investment Function is

$$I = -239.68 + 0.123Y.$$

---

<sup>1</sup>. Details of the reduced form equations and estimation procedures are shown in appendix A.

The regression coefficient measures the marginal propensity to invest out of income. According to the estimated regression equation the marginal propensity to invest is positive with a magnitude of 0.123, which implies as national income increases by one Taka, investment increases by 0.12 Taka.

The estimated Import Function is

$$M = -379.24 + .260 Y.$$

The marginal propensity to import out of national income is positive and is 0.26. This implies if national income increases by one Taka, the import bill rises by 0.26 Taka.

The estimated tax function is

$$T = -91.74 + .101 Y$$

The response of tax to the change in national income is positive as expected and is .10. This implies that if national income increases by 1 Taka, the tax revenue also increases by .10 Taka

#### **Impact of Remittances on GNP**

Using the relevant estimated parameters from structural equations into the formula in equation (2), the multiplier is estimated at 3.33. This indicates that an increase in remittance by one million Taka would result in an increase in national income by 3.33 million Taka. We know that the remittance multiplier depends positively on the marginal propensity to consume and invest and negatively on marginal propensity to import. Thus, government policy should aim at increasing the marginal propensity to spend on domestic products and discourage expenditures on imported products in order to maximize the positive impact of remittances on national income.

#### **Impact of Remittances on Consumption**

The multiplier effect of remittances on consumption is calculated as 2.826. This multiplier is used to calculate the proportion of private consumption expenditure induced by the flow of remittances over time. The induced component is measured by the value of remittances multiplied by 2.826. We estimate that remittance-induced consumption gradually increased over the years from 1972 onwards, declining temporarily in 1984 and 1990.

#### **Impact of Remittances on Investment**

The multiplier effect of remittances on investment spending is estimated at 0.409. Remittance induced private investment is measured through a similar process adopted earlier to calculate remittance induced private consumption expenditures and the trend exhibited is also quite similar.

### **Impact of Remittances on Import**

The multiplier effect of a Taka increase in remittances on imports estimated at .865. As is observed remittance-induced imports are showing a declining trend in recent years, reaching its lowest level in 1995-96, since 1980.

In all equations the coefficients had the correct signs. There was no auto-correlation in the reduced form equations. The coefficients were statistically significant and the model has an over all high value of adjusted R<sup>2</sup>.

Our results thus indicate that remittances have a strong positive impact on GNP, a positive impact on consumption, investment and imports, but the largest impact is on private consumption while the smallest on investment and imports.

## **IV. METHODOLOGICAL OBSERVATIONS AND SAMPLE-SURVEY DESIGN**

Given the different types of objectives set, it was necessary to combine alternative methodological approaches for this study. Thus, the inquiry into processes and mechanisms for channelling remittances was based on in-depth interviews with (a) banks and financial institutions (including the Central Bank) and (b) migrants' families, returned migrants and would-be migrants. The micro-impact aspects of the study were centred on purposively generated household level data from four major sending districts of the country (Chittagong, Noakhali, Comilla and Sylhet). Details of the household survey design are provided below.

### **Stage One: Identifying the Target Group**

Households currently receiving remittances from any member/members working abroad were our principal target group. Although a separate study on returned migrants has been envisaged by IOM, this category of respondent was also included in this survey in order to gain an insight into the different channels used to direct remittances.<sup>2</sup> In addition, a sample of "would be migrants" was also interviewed to have an idea of the quality and adequacy of the pre-departure information package available in the community. This category includes only those who are likely to leave for employment abroad (a category to be encouraged to migrate in their as also in national interest) within three months of the date of interview as manifested in an advanced stage of preparation. In addition to the three categories of migrants noted above, the IOM TOR discussed the possibility of including women migrants in the sample. This however, was left to chance in the sense that women would be sampled if they could be identified from the village-level census conducted. The possible omission of women was not viewed to be a serious problem because the central focus of the study has more to do with remittance processes, channels and use rather than gender-related issues as such.

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<sup>2</sup>. In this study a returned migrant is defined strictly as one who has returned within a year of the interview, after spending at least two years abroad.

**Stage Two: Reaching the Target Group**

Reaching families with at least one member currently working aboard or a returned/ would-be migrant is quite difficult, in the absence of official records. This difficulty is further compounded if we focus on women migrants as well (in addition). Most of the migrant workers are illiterate or inadequately literate and this causes difficulties in official paper processing and record keeping. The poor state of MIS is such that even the permanent addresses of migrants are not maintained by the relevant agencies. These limitations led us to search for an alternative approach to reach our target groups.

Official estimates and the prevailing literature suggest that external migration is mainly concentrated in the districts of Sylhet, Chittagong, Noakhali, Comilla and Dhaka. Our study purposively selected the first four districts as our basic study area. The next step is to identify sample Thanas. This was done on the basis of sex ratios of the age group 15-35 years. It is assumed that the incidence of a high female to male ratio for the stated age group in a particular area signals a high incidence of (external/internal) migration.<sup>3</sup> Among the top three Thanas with a high female sex ratio, one each was chosen at random from each district. We thus selected four Thanas from the four districts (table 3).

From each Thana, two villages were selected on the basis of a 'high' incidence of migration (in consultation with Thana officials and local elites). Distance of the villages from Thana sadar was also taken into account in selecting villages in order to introduce additional variation, e.g. in terms of infrastructure differences (in communication, banking facilities etc.). Thus, a total of eight villages in all were selected.

A census survey was administered in each village to identify the different categories of respondents: migrants' families, returned migrants and would-be migrants, by sex. Very few women migrants could be identified - the few that were identified were mostly dependants of male migrants in the Sylhet area, principally in the UK.

The would-be migrant category was difficult to isolate through the census survey as this information is sensitive. A total of 191 households were selected from the four districts, as detailed below.

---

<sup>3</sup>. This is an empirical fact for Bangladesh rather than a theoretical assertion.

**Table - 1**  
**Distribution of Sample Households by Villages**

Name of district	Name of thana	Name of Village	Type of Village	Number of households			
				Current Migrant	Returned Migrant	Would be Migrant	Total
Chittagong	Fatikchari	Uttar Rangmatia	A	10	10	0	41
		Abdullah	B	10	11	0	
Sylhet	Beanibazar	Pathan	A	10	10	6	51
		Konagram	B	10	10	5	
Comilla	Muradnagar	Maddha Nagar	A	11	10	5	51
		Bramman Chapitala	B	10	10	5	
Noakhali	Chatkhil	Dasghoria	A	10	10	4	48
		Hashore	B	10	10	4	
<b>Total</b>				<b>81</b>	<b>81</b>	<b>29</b>	<b>191</b>

\*Note : A = village closer to Thana sadar  
B = village distant from Thana sadar

## V. SOCIO-ECONOMIC PROFILE OF MIGRANTS' FAMILIES

### Incidence of Migration

A total of 2522 households were visited during the field survey covering eight villages in four districts (Table 2). Of these 26 percent reported having at least one member as a current migrant (CM) while 6.4 percent households reported having a returned migrant (RM) member. Almost 40 percent of households reported having a migrant or would be (WB) migrant member. The districts of Noakhali and Chittagong were found to have more current migrants (27-30 percent), while Sylhet has a higher proportion of returned migrants.

**Table - 2**  
**Incidence of Migration from the Study Villages**

	Noakhali	Chittagong	Comilla	Sylhet	Total
Total census HHs	484	553	615	870	2522
CM	132 (27.3)	163 (29.5)	146 (23.7)	216 (24.8)	657 (26.1)
RM	26 (5.4)	30 (5.4)	28 (4.5)	77 (8.8)	161 (6.4)
WB	10 (2.1)	-	5 (0.8)	5 (0.6)	20 (0.8)
Combination <sup>1</sup>	12 (2.5)	10 (1.8)	28 (4.5)	93 (10.7)	143 (5.7)

Note: Figures in brackets are percentages. <sup>1</sup> Refers to different combinations of CM, RM and WB.

### **Age, Education and Years Spent Abroad**

Annex Tables 4-10 provide a wealth of information on the socio-economic status of the different household categories, by districts. These tables relate to age, education and years spent abroad along with information on occupational distribution, land and asset ownership, incomes and expenditures. These are briefly discussed below.

Would be (WB) migrants tend to be a bit younger (28) while current migrants (CM) are in their early 30s. Returned migrants (RM) were found to be around 40. On an average, a migrant seems to spend 6.5 years abroad (lowest in Noakhali and highest in Sylhet). There is little variation in educational standards with most migrants reporting completion of 7-8 years of schooling (Annex Table 4).

### **Occupational Profile**

Current migrant families reported as many as 40 different occupational categories (Annex Table 5). Closer inspection however reveals that most can be considered to fall in the unskilled labour category. However, a sprinkling of semi-skilled and skilled migrants are also found, including masons, tailors, paint workers, electricians, welders, technicians and cooks. The picture for returned migrants is essentially very similar. The occupational profile of migrant household-heads shows that as expected, "agriculture" remains the most important group. However, quite frequently, non-agricultural occupations were also reported, including "business", (self-employed) "salaried work" and "teacher" (wage-employed) (Annex Table 6-7).

### **Land and Non-Land Assets**

It is interesting to note that returned migrant families have the highest land ownership status (at around 1.6 acres), while current-migrant households have the least (at 1.2 acres). When it comes to non-land assets, however, would-be migrant households are relatively better off with an average value of non-land assets at more than Tk. 1.5 Las (compared to around fifty five to sixty five thousand) for the other two groups. The variation across districts is also significant, with Comilla respondents having much more land. Judging by the *value* of land and non-land assets however, Sylhet easily emerges at the top, followed by Comilla, Chittagong and Noakhali (Annex Table 8). The data suggests that (a) these households do not belong to the poorer groups in rural society, and (b) that in the process of migration and return to the home country, considerable sale and re-purchase of land and non-land assets take place. While it would seem that most households try hard to regain assets lost in this way success is by no means ensured.

### **Income and Expenditures**

Food expenditures are rather similar for all three category of households. Non-food expenditures are higher for CM followed by RM and WB. There also appears to be large regional variation with Comilla and Sylhet households revealing much larger monthly expenditures (annex Table 9).

In terms of income, CM households have an annual income of over Tk. 80 thousand as compared to fifty to sixty thousand for RM and WB respectively. The structure of income shows that remittances account for more than 70 percent of the income flow of CM households compared to 14 and 34 percent for RM and WB households. The significant remittance flows into RMs and WBs points to the fact that some of these households fall in the "combined" category (see footnote to Table 2 above). The regional variation in income flows is less pronounced than what was found to be the case for consumption expenditures, although Comilla, and particularly Sylhet, households do reveal much higher incomes (annex Tables 10).

The above has clear implications for household savings. CMs were found to have the highest savings rate at around 24 percent.<sup>4</sup> WM households revealed a savings rate of around 18 percent while RMs had negative savings. Considerable regional differences were observed with Chittagong and Noakhali showing the best savings rates (25-30 percent) while Sylhet performing poorly and Comilla showing negative savings! Annex Table 12 also shows the savings pattern by land-ownership groups for migrant households (by districts). The variation in savings behaviour by land-ownership groups is striking. Invariably, the poorest groups have the highest savings rate, with a marked inverse relationship between land owned and savings.

## **VI. REMITTANCE FLOWS AND USE**

Wage earners send remittances either through official or unofficial channels. Official channels include principally demand drafts, telegraphic transfers and postal orders, channelled through banks or post offices. The principal informal mode is the *hundi* system - a method that by passes the banking system to transfer money or goods through friends, relatives or trusted agents.

### **Remittance Inflows**

Current migrants send money home between 3 to 6 times in a year. In three of the four districts studied the amount per remittance received was found to be around Tk.16-18 thousand. This declined significantly in Comilla, at around Tk. 9,000 (annex Table 12).

### **Official Channels**

#### **Demand Draft**

The sender in the destination country takes out a demand draft from a bank or from an exchange house and sends it to the receiving party in Bangladesh through regular postal services or other means (hand delivery by relatives/ courier services). The bank or the exchange house in the destination country charges a commission, which varies from bank to bank, for their service. So the transaction cost of the sender is the service charge plus the postal expenses.

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<sup>4</sup> This is much lower than was found in e.g. Mahmood (1991), as discussed earlier.

The receiving party upon receipt of the draft deposits it in the local bank where he/she has an account. The local bank with clearance from the foreign exchange branch in the head office makes payment to the holder of the draft. The time required to liquidate the money depends on this clearing process. If the draft is made from a bank, on an average it takes about 15 days to liquidate the money. But if the draft is made from an exchange house, and the Bangladeshi bank has arrangements with the exchange house, payment is made instantly.

### **Unofficial Channels**

#### **Hundi System**

The hundi operator/agent is in fact an illegal foreign exchange dealer. The sender gives the hundi operator in a foreign country the currency of that country or dollars or pounds or any acceptable currency by the operator while his relatives or agents in Bangladesh receives an equivalent amount of money in Taka. The agent in Bangladesh is contacted by telephone, fax or e-mail by the hundi in the host country and the sub-agent pays the money to the relative of the sender. The hundi rate is usually 1-2 percent higher than the official exchange rate.

The hundi agent in the host country or in Bangladesh does not charge a commission. But they make a profit by selling dollars in the kerb market at a higher rate than the rate paid. Smuggling seems to be closely linked to hundi business. A Bangladeshi businessman cum smuggler may need dollars and is willing to pay more than the official rate. He pays the Taka here and receives the equivalent dollars in UAE or Singapore, buys goods/machinery, brings these back, sells them in the local market and makes a profit.

#### **Relatives and Friends**

Migrants or their relatives/friends often bring consumer durables, gold, electronics etc. and also foreign currency without declaring it to the appropriate authority. These are often sold in the local market and the dollars in the black market.

The advantages of the informal system have obviously encouraged its use. These advantages appear to include the following:

1. Usually the hundi rate is higher than the official rate;
2. The migrant does not have to go to banks (transportation fee is saved) and pay any commission for drafts;
3. The migrants are mostly illiterate and want to avoid paper process in remitting money;
4. Quick delivery of money. The recipients in Bangladesh are also illiterate and they also want to avoid the hassle of going to a bank to encash the money;
5. The demand drafts may get lost, banking services may be poor, and the post office and the bank officials may seek bribes from the relative of the migrants;

6. Some migrants stay illegally and they avoid banks for fear of getting caught.

The advantage of the hundi system over e.g. the bank draft is shown in annex Table 13 which shows that in terms of time taken and costs involved (per remittance) the hundi is better. There is however, considerable district-level variation in the preference of migrants in terms of channels used to send money (Table 3).

**Table - 3**  
**Channels by Districts (%)**

Channels	Noakhali		Chittagong		Comilla		Sylhet	
	CM	RM	CM	RM	CM	RM	CM	RM
Demand Draft	90	85	30	63.6	90.4	90.0	65	75.0
Hundi	0	10	55	36.4	4.7	5.0	25	20
Relatives	5	5	10	0	4.7	0	10	5
Others	5	0	5	0	0	5.0	0	0

### **Remittance Channels - The Field Experience**

#### **Noakhali**

In Noakhali the major channel used by current migrants for remitting money is the Demand Draft. Nearly 88 percent (of current and returned migrants) said that remittances were sent through DD. The remaining 12 percent sent money through hundi and relatives and friends. In fact is very few people resorted to hundi in this area.

Most of the returned migrants worked in Saudi Arabia, UAE, Oman and Bahrain. On an average, these migrants worked abroad for 4 years and received a mean salary of Tk. 7668, with a minimum of Tk. 3000 and a maximum of Tk. 11200. Over 73 percent of these workers sent back all of their savings. The rest who did not send the whole bulk of their savings to Bangladesh usually deposited these in banks abroad (see annex Tables 16-18). Most returnees (85 percent) said they used DDs to send the money. Hundi was found in 2 out of the 20 cases, indicating a small presence.

Current migrants were found to rely more on DDs compared to the returned migrants. No cases of hundi were found. Most of these migrants are working in Saudi Arabia, followed by UAE, Kuwait, Oman, Malaysia and Brunei.

#### **Chittagong**

In Chittagong, the hundi system is not only prevalent but seems to be the predominant channel of remitting money with 46.7 percent of respondents (current and returned migrants) admitting to using this channel. The fact that current migrants are more dependent on hundi than returned migrants suggests that this is increasing over time, at least in this locality.

Majority (59.1 percent) of the returnees worked in Oman, followed by UAE (31.8 percent) and Saudi Arabia (4.5 percent) and Kuwait (4.5 percent). All the respondents received their salary in cash. The average salary of the respondents was Tk. 8750, varying between Tk.5500-15000. Fifty percent of the respondents remitted all of their savings. Others used to save at banks abroad. It is observed that bank draft was the pre-dominant method used by the returned migrants although there was significant use of the hundi system as well.

Most current migrants in the locality were found to be in the UAE, followed by Oman and Saudi Arabia. It was found that hundi is the main channel through which money is being sent home (55 percent), followed by bank drafts (30 percent). On an average, each current migrant from Chittagong sends about Tk. 18,000 each time with a minimum of Tk. 8000 and a maximum of Tk. 50000. All of these families have bank accounts in Sonali Bank and Janata Bank (see annex Tables 14-15).

### **Comilla**

In Comilla demand drafts are the main channel for remitting money. The incidence of hundi is negligible. Over 32 percent of the returned migrants surveyed worked in Saudi Arabia, followed by Oman (28 percent), UAE (12 percent), Malaysia (8 percent), Singapore (8 percent) and also some other Middle East countries (Kuwait, Qatar, Iraq). The average salary of these workers was Tk. 9600, ranging from Tk. 4000 to Tk. 50000. 91.3 percent of the workers receive their salary in cash while the rest had theirs deposited in a bank account. Around 96 percent of the respondents remitted all of their savings to Bangladesh. It was found that 90 percent of the returned migrants in Comilla used to remit using bank draft - use of hundi was meagre (5 percent).

The current migrants from Comilla are spread out in many countries: Saudi Arabia, UAE, Kuwait, Oman, Malaysia and Singapore. Current migrants are using mostly demand draft (90 percent) while the incidence of hundi was found to be rare. Each migrant, on an average, sends home about Tk. 8000 each time. All the families have bank accounts in local Sonali or Janata Bank.

### **Sylhet**

Demand draft is found to be the predominant mode of sending money to Sylhet (70 percent reported using this channel). Hundi however is significant and seems to be on the rise. Most returned migrants surveyed worked in Saudi Arabia, UAE, Kuwait, Bahrain and Oman. Only one ex-migrant worked in Germany. The average period worked abroad by the sample returned migrants was 6.63 years and they earned Tk. 8307 per month. Over 95 percent of the returnees used to receive their monthly salary in cash and the rest had their salary through banks. Around 88 percent of the respondents sent their entire savings home; 75 percent remitted their savings

through demand drafts while 20 percent used hundis - the remainder sent money via friends and relatives.

Current migrants from Sylhet are working in Saudi Arabia, UAE, Kuwait, Qatar, Oman and UK. Each migrant on an average remits about Tk.16000 each time. Although the major channels through which money is sent home is by demand drafts (65 percent), hundi operations however remain significant (25 percent of the families reported receipts through hundis). All current migrants' families have bank accounts. In Sylhet (atypically) we found the existence of private commercial banks at the thana level. Besides, Sonali, Janata and Agrani Bank, the families have accounts in private banks such as United Commercial Bank, National Bank, Islami Bank, Al-Baraka Bank, Pubali Bank and Uttara Bank.

#### Cash and Kind Remittances

The bulk of the remittances are sent in cash, as to be expected. However, some kind inflows are also apparent, especially in the form of clothes and consumer durables, e.g. in Comilla (annex Table 19).

#### Returned Migrants' Attitude towards Remittance Channels

The returned migrants were asked to rank channels according to their preference starting from 1 to 4 for different given aspects. Over 54 percent of the returned migrants considered the demand draft excellent, in terms of time taken. Around 23 percent ranked it as good and another 21 percent considered it as moderate. Very few had complaints about the speed of the demand draft. More than 98 percent RMs found DDs to be very safe. In terms of the expenditure incurred to remit money through demand drafts, 47.5 percent thought this was "moderate". On the other hand, 92.3 percent RMs found the speed of hundi satisfactory (61.5 percent said this was excellent, 15.4 percent said "good", and the rest said "moderate". More than 85 percent ranked hundi as very safe and around 70 percent found it "cheap" (see Table 4 below and annex Table 14).

**Table - 4**  
**Preference of Returned Migrants (Percent)**

	Time				Security				Expenditure			
	Excellent	Good	Mod	Bad	Excellent	Good	Mod	Bad	Excellent	Good	Mod	Bad
Demand Draft	54.1	23.0	21.3	1.6	00	98.4	00	1.6	11.5	41.0	47.5	00
Hundi	61.5	15.4	15.4	7.7	84.6	15.4	00	0	7.7	61.5	30.8	00

#### Recipient Households' Experience with Different Channels

To get the feeling of the recipient family's perception about each channel we used subjective criteria to assess whether they consider each channel as excellent, good or bad in terms of time, security and cost.

In Noakhali, 95.5 percent of the current migrants' families considered the time required to liquidate the bank draft as "good" - it takes about 16 days, on an average, to cash. All the respondents thought the bank draft is extremely safe and termed it as an "excellent" method. An individual has to spend, on an average, Tk.307 to cash a draft (Tk. 50-400). All the recipient families sampled were found to have bank accounts; the distance and time to reach a bank does not act as an obstacle in opening a bank account, and therefore in using official channels.

Though small in size, all the recipients in Chittagong termed the bank draft as an "excellent" medium of remitting money regarding security, and speed. Over 92.2 percent recipients receiving money through hundi termed it as a 'good' channel for remitting money. Distance from the bank does not influence having a bank account, and having a bank account in Bangladesh does not ensure the use of official channels by the migrants, as found in both the villages in Chittagong.

In Comilla, it takes 1 to 20 days to liquidate a draft and the expenses in doing so varies from a minimum of Tk.10 to a maximum of Tk. 500. The recipient families termed the bank draft as an "excellent" medium and hundi as a "bad" channel as far as security is concerned. In Sylhet 91.3 percent of the recipient families were found to have bank account irrespective of the distance from the bank. Money spent to liquidate a draft varies from Tk.20-80. Time required to liquidate the draft after depositing it with the bank requires a minimum of 1 -30 days.

**Table - 5**  
**Distance from Bank and Having Bank Account:**

	Noakhali		Chittagong		Comilla		Sylhet	
	Vill A	Vill B	Vill A	Vill B	Vill A	Vill B	Vill A	Vill B
Family having bank account (percentage)	100	100	94	94	90	92	90	93
Mean Time to reach the Bank (Minutes)	10.10	135	10.56	12.33	14.55	24.30	20.36	36.50
Mean Distance of bank from Residence (mile)	0.62	9.91	1	1.83	1	1.85	2.27	3.5

Qualitative opinions were sought from our respondents on their choice of channels and the reasons for their choice. Respondents in Sylhet generally considered DDs to be much safer as compared to hundi but thought that the former took more time. Often, the hundi is transferred directly to the bank account of the beneficiary with the transaction being confirmed over telephone. Its main attraction is speed and this becomes important under certain circumstances (e.g. like emergencies). Thus, the same person may take recourse to both DDs and hundi to transfer money, depending on the nature of his need. One respondent said that the bank was far from his place of work so that using a DD meant that he would have to waste a workday. This had prompted him to use a hundi which in his case proved to be a bad experience. He was eventually able to get his money back after six months.

Comilla and Noakhali respondents said they never use hundis. DDs are popular but the only problem is that a whole day is wasted in the process of encashing a cheque, involving travel to the Thana headquarter and a long waiting period in the bank. On the other hand, hundi is very popular in Chittagong. It is considered safe, fast and reliable - no one could narrate any bad experience with hundis here. DD use is much more limited.

#### **Pre-Departure Information Set**

In our study, 29 (6.5 percent of the total sample size) would-be-migrants were interviewed to find out the level of pre-departure information available with them, especially about channels of sending money home and existing savings instruments. These would be migrants have already spent as much as Tk. 129,000 per person (with those in Chittagong spending around 12 percent more than this average). It is found that typically, a would be migrant expected to stay abroad for about 7.5 years and earn Tk. 9593 per month, (maximum of Tk. 25000). These average figures do not differ very much across districts even though the cost of going abroad differs significantly. After returning home, 79 percent are interested in running their own business (and unwilling to return to their current, agricultural work). The rest reported that they would go back to their original occupations, primarily in agriculture. Most respondents were quite aware of the existing means of remitting money and the mechanisms of fund transfer through demand drafts. This was true even in Chittagong where people relied mostly on hundi to remit money. Therefore, it is not ignorance that prevents people from sending money through official channels. As far as savings instruments are concerned, none of the would be migrants had any idea about these. Given the high savings rate of remittance receiving households there would seem to be some potential for mobilizing these savings through appropriate instruments. Such savings instruments that now exist (wage-earners' bond or defence certificates) are more suitable for larger borrowers leaving the small saver to his own devices. The postal savings account is often portrayed as a suitable scheme for the small saver. This however does not seem to be popular in any of the study areas.

#### **Use of Remittances**

Annex Tables 19-20 provide data on remittance use of RM and CM families. In both cases food consumption accounts for the largest single expenditure group (at around 35 percent) with repayment of loans taking the second position. Other important items of expenditures are house repairs, land purchase, marriage expenses, assistance to another member to migrate, education and treatment. These findings should be contrasted with those in Section II (under "literature review") where it was noted that land purchase and house-related expenditures accounted for the bulk of expenditures - suggesting that there has been a change in expenditure patterns.

## **VII. ATTITUDE OF FINANCIAL INSTITUTIONS TO THE REMITTANCE MARKET**

### **The Bangladesh Bank**

Bangladesh Bank objective is to have all remittances sent through official channels and in this connection it encourages different government and private banks to set up arrangements with different exchange houses in destination countries. According to a senior officer of Bangladesh Bank this arrangement is the most secure, efficient, low cost and timesaving compared to other methods (DD, TT). DD is sent through regular postal services and may sometimes get lost. The time taken to cash DDs often is time-consuming. Similarly TT is also time consuming. According to BB records there is an increasing trend in remittance inflows.

Bangladesh Bank has specific rules regarding opening of exchange houses. Some of these are:

- license from a local monitoring authority
- provide latest balance sheet
- provide credit rating report
- documents of financial health
- Bangladesh embassy report
- Open an account and hold a certain amount of foreign exchange
- There has to be a third party guarantee

The number of exchange houses is increasing and BB also encourages these organizations, often located close to migrant concentrations. The affiliated banks have to regularly provide bank statements. There is random and frequent visit by high officials. There are inspection bodies in case of any complaints.

Policies of BB regarding remittances:

- Open up 20 new exchange houses in different places under Bangladeshi ownership.
- Permission to Sonali Bank (SB) to set up Sonali exchange in various countries
- Anti-hundi drive - suspicious transactions can lead to cancellation of license.
- Remitted money is tax free
- Creating awareness among outgoing migrants who can be reached e.g. in recruiting offices by approved NGOs.

In handling foreign remittance, Agrani Bank among the nationalized banks and Islami Bank, National Bank and Uttara Bank among private banks appear to enjoy a good reputation. Among the foreign banks, Grindlays Bank is believed to be doing well. There are differences in service quality as well as in commissions charged by different banks.

### **Janata Bank (JB)**

As to remittances, Government of Bangladesh has two broad objectives:

1. to increase the volume of remittances inflow through official channels

2. to channel these remittances into productive uses

In order to achieve the first objective, there are a number of things that could be done: increase manpower export

- i) bargain with the foreign firms to increase the wages of the overseas workers
- ii) provide incentives to channel remittances through official means

It is the last aspect that banks are principally concerned with. According to the Janata Bank official we spoke to, steps that can be taken include:

- (i) Promoting awareness of the existing official channels and highlighting the risk of using unofficial ones. This can be done through distribution of awareness materials (leaflets and brochures, advertisements through newspapers at home and abroad). The labour ministry and recruiting agencies can play a major role in educating people.
- (ii) Opening of exchange houses abroad where wage earners are concentrated. Exchange houses are a special type of financial institution involved in only remitting and receiving remittances. Secondly, it is important to open more branches of NCBs abroad.

#### **A Multi-national Bank**

This particular bank has a worldwide network and arrangements with other nationalized and private banks. They are in the process of targeting the remittance market and have begun from the premise that what is needed is a new and better product that will be safe, fast and cheap. In the opinion of this bank, existing mechanisms, including DDs leave much to be desired.

The bank is therefore trying to introduce an electronic transfer mechanism and is in the process of tying up with some NCBs like Sonali Bank. If put in place, this method of money transfer could wipe out the demand draft system as it will be in theory made accessible even in remote places. A similar system is very popular in the Philippines. It was successful there however because of good birth and death registration records that allows easy identification of clients. In addition, the volume of transactions and its size is large enough for the system to be viable there. However, the bank in question (which was reluctant to divulge full details of the proposed system) felt confident that the method will work well in Bangladesh too - although this may need some suitable innovations (e.g. bulking of small transactions together before sending them off to their destinations).

#### **Local Branch of a NCB: SB Muradnagar Thana, Comilla**

In an interview with the bank manager, it was revealed that foreign demand draft (FDD) is the dominant channel of sending remittances among the existing means available (e.g. TT, AC to AC transfer, P.O. etc.). FDD are of two types - one can be instantly liquidated and the other takes 7-14 days (or even more) after depositing the

demand draft with the bank. According to the bank officials, 19 foreign banks/organizations (Bank of Oman, Alraji, City International) in the destination countries are affiliated with Sonali Bank. DD issued by these organizations are instantly liquidated. In Muradnagar, the use of "Hundi System" as means of remitting money is rare. Even though, the number of accounts has been increasing over time, it does not indicate that the volume of remittances is also increasing. But roughly estimated the volume of remittances withdrawn from the bank in a randomly chosen normal month (Dec 1999) is about TK. 100000 per day. No information on the trends of remittance inflows was manifested. There is no special incentive package for attracting remittances as it is the only bank in the vicinity and it faces no competition from private or other banks. The other two banks of the area are Janata Bank and the Krishi Bank. Janata Bank is located at Companiganj, quite far from our study location. Similar sort of picture came out in the interview with bank officials in Janata Bank. There is no scope to open foreign exchange account at the local level because of lack of demand.

Number of savings account/ fixed deposit is quite small compared to the volume of transaction in the bank which indicated that remittances is consumed/invested in different forms instantaneously.

The main official concern of the Government (and the BB) is to stop hundi and the main response is to open more exchange houses and NCB branches in the destination countries so that more workers have direct access to a formal facility to send money. A section of the multinational banks appears keen to introduce a new product that is expected to be safer, cheaper and faster. If this happens, this would certainly have a big impact and even may serve to displace the hundi system.

Given the fact that low-income migrants are already sending virtually all of their savings home, there is little scope to increase the volume of total remittances. Savings instruments are not needed to encourage this process further as it is irrelevant for this market segment. However, receiving families are significant savers who may be encouraged to save more through appropriately designed instruments. None of the financial institutions interviewed nor the relevant Government department (e.g. Savings Directorate) have any plans to target this market.

Another market that remains largely untapped relates to the white-collar labour market. The government and financial institutions need to carefully assess the potential of this market and devise appropriate incentives to attract their savings. It is in this context that high-interest bearing paper/bonds would be relevant. The proposed floatation of dollar-denominated Sonali bonds have been much talked about but does not appear to have been executed.

## **VIII. THE MIGRANT WELFARE FUND**

### **Source of Fund**

The MWF has been created from the subscription charges levied on migrants before they leave the country. Thus a person migrating through a recruiting agency has to pay a total of Tk.900 if he is unskilled and 1300 if he is skilled. All other persons (migrating through personal channels and not through any recruiting agency) has to pay TK.1000. There is provision for accepting grants but none has been received to date.

Passport renewal fees and attestation fees also accumulate in the fund in the MWF. The money is fixed in a deposit account and total capital currently stands at Tk.50 crores.

### **Management**

The fund is housed in the BMET, which came into being in 1993. The Labour Secretary acts as the Chairman of BMET. Other members in the board include the Director General of Foreign Affairs, Joint Secretary of Home Ministry, Joint Secretary of Finance Ministry, Bangladesh Bank Executive Director, DG of BOESL and representative of BAIRA. The BMET is headed by a DG who represents the body in the Board.

The MWF however has a separate Board with the DG of BMET as its Chair. Manpower Agents have their representatives on the Board, although the workers themselves go unrepresented.

### **Objective of the Fund<sup>5</sup>**

1. Provision of hostel cum briefing centre for the prospective migrants. (This venture is yet to materialize)
2. Provision of orientation briefing
3. Welfare desk at Dhaka Airport
4. Burial of dead bodies and providing help to the family of the deceased.
5. Providing help and treatment to handicapped labourers
6. Donation to schools
7. Formation of clubs in destination countries.

### **Achievements**

1. Tk. 40 crore has so far been disbursed to different schools since inception of the MWF
2. In a year on an average, 500-800 workers die. The MWF is used to repatriate the dead bodies home and arrange for burial rites
3. Provide transport and computers or fax machines to the labour section of embassies in destination countries

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<sup>5</sup>. Based on interviews with MWF senior management who quoted from the MWF constitution.

4. Issue passports to illegal workers in Malaysia. Nearly Tk. 35 Lacs was spent for this purpose from this fund since 1993.

### **Reservations**

The objectives under serial numbers 1, 2, 5 and 7 have not even been attempted. The facilitation desk set up at ZIA is hardly operational. At any given time it is found unmanned and provides little or no service to the migrant workers. These workers suffer from a host of problems, especially when returning home, including harassment by officials at the airport and exploitation by taxi drivers and *mastans* outside the airport.

The bulk of the money is spent on schools both in destination countries and in Bangladesh - but primarily in the former. However, there is an absence of a clear funding guideline or criteria for school selection or costs to be borne.

The state of accounting and record keeping is considered to be weak. We were unable to obtain annual reports, balance sheets or income-expenditure statements. Even if these exist it is likely that these are not regularly updated.

The MWF lacks a clear focus and does not seem well tuned to the problems of the workers. One reason for this may be the lack of workers' representation in the Board along with a structure that is not conducive to dynamic interventions. For example, pre-departure orientation is an important felt need in the face of growing HIV exposure as well as ignorance related to legal, cultural and remittance related realities of expatriate life. Perhaps the most serious problem with the MWF is lack of transparency and availability of regular information on its operational details.

## **IX. FINDINGS AND RECOMMENDATIONS**

The study has reported a number of interesting findings. A quantitative estimate of the impact of remittances on the macro economy was attempted for the first time with Bangladesh data, confirming the existence of a strong and positive impact. A number of interesting micro findings were also reported:

- Forty percent of households in the eight villages had at least one member abroad or planning to go abroad in the near future;
- Migrant households do not belong to the poorest socio-economic groups as judged from their land and asset ownership patterns;
- In the process of migration and return, migrant families engage in considerable land-market activity (buy and sell);
- Remittances account for 70 percent of household income on average while the savings rate was estimated at 24 percent, with a significantly higher rate for poorer households. Moreover, the savings rate is much lower than was reported in earlier studies;

- The active hundi market in some areas seems to be dependent on complex motivations, including the sudden or emergency need for money. Illegal immigration is also an important factor as lack of proper papers prevents, e.g. opening of bank accounts;
- Food represents the highest outlay of remittance money followed by house repairs and land purchase. These trends appear to be different from those reported in earlier studies (e.g. Mahmood, 1991).

Recommendations to improve official remittance flows and their productive use relate differentially to the role of the Government, financial institutions, BMET and perhaps the manpower agencies. There are principally three types of issues that need to be addressed: creating better incentives, superior mechanisms to encourage official flows (rather than hundis), and improving the information set facing both migrants and their families.

#### **Information and Awareness**

This has two aspects: (a) provision of information with respect to existing facilities and opportunities (for sending money, investing in savings instruments or in other productive areas), and (b) undertaking motivational work. These have to be conducted by relevant institutions, such as BMET, recruiting agencies, MWF and NGOs. At present there is little systematic efforts made to provide pre-departure orientation or briefings. This is deemed to be essential, and can be most readily addressed by BMET and MWF, in particular, and probably in partnership with NGOs experienced in this type of work.

#### **Creation of New Opportunities**

In addition to the existing facilities and investment opportunities, new ones will need to be created. These should take into account the attitude and expectation of the migrants, geographical areas within Bangladesh where they come from, and their financial and entrepreneurial capabilities.

Introduction of new financial products and mechanisms for channelling remittances being currently mooted by NCBs and multi-national banks, are entirely appropriate - these should be expedited. It would seem that special attention needs to be given to Chittagong and Sylhet CMs/families, where hundis tend to be more popular. In a similar vein, financial institutions need to think about how better to serve this market and to address areas that are not being adequately served. In particular, instruments are required to mobilize families with relatively small savings, including provision of better rates and rapid access. It is also important to devise incentives to attract the savings of the better-off segments of migrants. This will probably include appropriate savings certificates and access to e.g. the share market, mutual funds and so on.

#### **Government Initiatives**

The existing fiscal rules of the government are remittance-friendly: remittances are not taxed and baggage rules are generous. However, there remains considerable governance problems - harassment by customs, police and *mastans* at every opportunity. This must be stopped. The MWF run desk at ZIA that is supposed to assist returnees is not reportedly doing a very good job. This desk must be adequately staffed and efficiently run.

The government also encourages investment by wage-earners abroad. Some of the ways in which the smaller savers can be brought into the fold may be through directed sale of shares of de-nationalized industries, formation of a Wage-earners' Bank and sale of dollar-bonds in designated markets. For the bulk of the recipients the main problem is the relatively small size of savings which may best be mobilized by NGOs. A programme of savings mobilization of remittance earners, training and skill-development may be a good way to encourage productive investment, especially in small and medium enterprises. There is a strong potential demand for such investments that could benefit immensely from appropriate training of RMs, in such areas as management, accounting, technology and marketing.

The success of Bangladesh in maintaining the rising trend in remittances even in the face of reduced wages in the labour importing countries is really remarkable. This is a welcome support to the balance of payment position particularly in a period when securing foreign assistance has become much more competitive with the entry of East European economies, including the CIS, in this market. Bangladesh has to strive hard to maintain its commendable liaison record with the labour- importing countries, especially in the Middle East and Malaysia. At the same time, Bangladesh should prepare itself for a higher rate of industrialization where the NRBs can make a significant contribution through skills and capital. The financial system should look carefully at the prospect of attracting remittances from the white collar workers e.g. in the USA. Blue-collar workers are already sending in virtually all their savings. The same is not true for white-collar workers. Although this market is small in terms of the number of workers, it is not insignificant in terms of potential volumes. An appropriate incentive package would go a long way in attracting their savings home. The much-publicized Sonali Bond is a step in the right direction (although it does not appear to have been made operational yet). Similar products need to be carefully reviewed. At the end of the day it must be emphasized that the overwhelming bulk of the remittance market is composed of the low wage, blue-collar worker whose first motivation in sending back money home is to repay his debts incurred in getting abroad and improving the consumption standard of his family in Bangladesh. After having met these obligations there are still remains significant savings that could be put to good use in "productive" sectors. As it has been observed from earlier macro-economic exercise, remittances are having a very positive impact on the overall economy already. This can be further improved upon by attracting more money through official channels and exploiting non-traditional markets, e.g. the white-collar

market, and by constructing better incentives for savings and investment of migrant families.

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## ANNEX TABLES

**Table - 1**  
**Trend of remittance flows to Bangladesh**

Years/Periods	In million Taka	In million US \$
1977-78	866	56
1978-79	1620	108
1979-80	2820	180
1980-81	4808	311
1981-82	5942	329
1982-83	11536	522
1983-84	15684	637
1984-85	12726	502
1985-86	13756	479
1986-87	17121	565
1987-88	23054	698
1988-89	23549	716
1989-90	23229	611
1990-91	27256.10	681
1991-92	32415	810
1992-93	36984.30	924
1993-94	43549	1088
1994-95	48144	1203
1995-96	56280.7	1340
1996-97	67869.32	1615
1997-98	68644.35	1430
1998-99 (April)	59645.28	1242

Source : BBS (86, 90, 92, 96, 97), GoB (1998)

**Table - 2**  
**Characteristics of Migrant Workers According to Countries of Destination; 1976-98**

Major countries of destination	Percentage in categories	Average annual number of workers	Number of years
Saudi Arabia	41.3	32230	23
Kuwait	13.2	11351	23

UAE	11.7	10193	23
Qatar	6.2	6252	23
Iraq	5.7	5940	21
Libya	3.0	4035	23
Bahrain	3.6	3055	23
Oman	12.6	10563	23
Other countries	2.7	3465	23
<b>Total</b>	<b>100.0</b>	<b>8864</b>	<b>23</b>

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

**Table - 3**

**Selection of Thanas Using Sex Ratios**

No. of Dist.	Name of District	Ranking of Thana by sex ratio (age 18-34)	Name of Thana	Sex ratio (M/F)	
				Total population	Age group 18-34
1	Chittagong	1	Sabdwp	99	79
		2	Satkania	100	81
		<b>3</b>	<b>Fatikchari</b>	<b>100</b>	<b>85</b>
		4	Mirsharai	100	88
		5	Anwara	104	91
		6	Bashkhali	109	91
		7	Lohagara	104	91
		8	Chandanaish	105	92
		9	Raojan	102	92
		10	Boalkhali	107	97
		11	Rangunia	108	97
		12	Patia	109	98
		13	Hathazari	107	103
		14	Sitakunda	124	129
		15	Pahartali	135	132
		16	Chandgaon	129	133
		17	Chittagong Port	134	151
		18	Double Moorings	193	154
		19	Panchlaish	146	165
		20	Kotwali	167	200
2	Sylhet	1	Kanaighat	102	84
		2	Zakigonj	102	86
		3	Jaintiapur	104	87
		<b>4</b>	<b>Beanibazar</b>	<b>98</b>	<b>89</b>
		5	Fenchugonj	104	91
		6	Gopalgonj	101	91
		7	Gowaingonj	107	91
		8	Companygonj	108	92
		9	Belagonj	103	96
		10	Bishwanath	104	98
		11	Sylhet sadar	111	108
3	Comilla	1	Nangalkot	96	67
		2	Laksham	98	75
		3	Chandina	101	76
		4	Barura	100	77
		5	Homna	101	77
		<b>6</b>	<b>Muradnagar</b>	<b>101</b>	<b>77</b>

		7	Chauddagram	99	79
		8	Debidwar	101	80
		9	Daudkandi	102	81
		10	Brahmanpara	104	82
		11	Burichang	107	90
		12	Comilla sadar	113	105
4	Noakhali	1	Shenbag	93	69
		<b>2</b>	<b>Chatkhil</b>	<b>94</b>	<b>75</b>
		3	Begumgonj	97	76
		4	Hatia	103	80
		5	Noakhali sadar	101	80
		6	Companygonj	99	81

Table - 4

## Selected Characteristics - Census Data

		Age of household head	Age of migrant	Education of migrant	Years abroad (CM)	Years abroad (RM)
		Mean	Mean	Mean	Mean	Mean
CAT	cur mig	51.81	33.73	7	6.62	-
	ret mig	50.26	40.49	7	6.43	6.67
	wb mig	45.94	28.58	8	-	-
District	Noakhali	49.41	32.96	7	4.49	4.92
	Chittagong	49.84	35.07	7	5.85	5.80
	Comilla	50.82	33.47	8	4.76	5.59
	Sylhet	52.39	36.38	7	8.45	7.47
<b>Total</b>		<b>51.17</b>	<b>35.08</b>	<b>7</b>	<b>6.61</b>	<b>6.62</b>

**Table - 5**  
**Occupational Distribution-Current Migrant**

Occupation	District			
	Noakhali	Chittagong	Comilla	Sylhet
	Type of job of current migrant	Type of job of current migrant	Type of job of current migrant	Type of job of current migrant
	%	%	%	%
Municipality labour				5.0%
Tile picture				1.0%
Mason	3.5%	.4%	2.5%	7.2%
Carpenter		.4%		2.2%
Factory labour	2.4%	.4%	13.8%	7.0%
Embroidery			4.4%	.4%
Paint labour		9.0%	.5%	3.6%
Tailoring			19.7%	5.8%
Agri-labour	2.4%	.4%	7.4%	4.8%
Servant			.5%	.4%
Guard/security			1.0%	.2%
Pipe fitting				.2%
Labour	61.8%	63.7%	17.2%	14.3%
Salesman	12.9%	4.7%	2.0%	5.4%
Hotel boy	1.8%		2.0%	16.7%
Business	.6%	4.3%	1.5%	2.4%
Salaried job		3.4%		2.0%
Pension				2.6%
House work				.6%
Electrician	1.2%	1.7%	1.0%	.6%
Cleaner	4.1%	1.7%	11.8%	.2%
Unemployed				1.6%
Garments worker			.5%	.2%
Supervisor/Foreman	.6%		.5%	.2%
Driving	2.4%	.4%	1.0%	2.6%
Technician/Mechanic		1.7%		.6%
Engineer	.6%	.9%	.5%	
Shop/Hotel business	1.2%	.9%	3.0%	3.6%
Welding		.9%	2.5%	
Do not know/uncertain			3.0%	
Teacher				.2%
Self employed				.2%

Cook	1.2%	.4%		2.6%
Poultry/livestock/fishery labour	1.2%		1.5%	
Barbar/washerman	.6%	2.6%		
Official job			2.0%	.4%
Contractor	.6%	2.1%		.2%
Student				3.2%
Steamer/dockyard worker	.6%		.5%	
Imam/Khadem		.6%		1.0%
Children				.4%

Table - 6

## Occupational Distribution - Returned Migrant

Occupation	District			
	Noakhali	Chittagong	Comilla	Sylhet
	Type of job of return migrant	Type of job of return migrant	Type of job of return migrant	Type of job of return migrant
	%	%	%	%
Municipality labour				2.9%
Mason	7.9%		5.8%	13.1%
Carpenter		2.5%		5.1%
Factory labour	2.6%		15.4%	7.4%
Paint labour	2.6%	7.5%		5.7%
Tailoring		5.0%	28.8%	3.4%
Agri labour	2.6%		5.8%	5.1%
Guard/security		2.5%		
Pipe fitting				.6%
Labour	44.7%	65.0%	13.5%	30.3%
Salesman	7.9%	2.5%	1.9%	5.7%
Hotel boy	2.6%		1.9%	5.7%
Business	2.6%			5.1%
Salaried job	2.6%	2.5%		2.3%
Agriculture	2.6%			
House work				.6%
Electrician		2.5%	1.9%	1.1%
Cleaner	2.6%		5.8%	
Unemployed			3.8%	
Garments worker			1.9%	
Supervisor/Foremen	2.6%			.6%
Driving	5.3%			2.3%
Technician/Mechanic	2.6%	2.5%		.6%

Welding			3.8%	
Cook	5.3%		1.9%	
Poultry/livestock/fishery labour			3.8%	
Barber/washerman		7.5%		
Official job	2.6%		3.8%	
Contractor				1.1%
Imam/Khadem				1.1%

**Table - 7**  
**Occupation of Head of Household**

Occupation	District			
	Noakhali	Chittagong	Comilla	Sylhet
	Occupation of household head	Occupation of household head	Occupation of household head	Occupation of household head
	%	%	%	%
Municipality labour			.4%	
Mason	.5%			1.2%
Carpenter	.5%			1.4%
Paint labour				.3%
Tailoring		.7%	3.8%	.1%
Agri labour	.18%	.7%	.8%	.6%
Guard/security			.8%	
Labour				.9%
Salesman		.4%		.3%
Business	9.5%	8.4%	8.3%	12.7%
Salaried job	33.6%	43.4%	2.3%	1.7%
Pension	2.3%		.4%	2.4%
Agriculture	44.1%	24.1%	45.9%	29.1%
House work	1.4%	16.4%	19.2%	14.3%
Electrician				.3%
Workshop labour		.7%		
Unemployed	.5%		5.3%	14.0%
Old age/disabled			9.0%	14.1%
Driving	.5%	.7%		.4%
Technician/Mechanic	.5%			
Shop/Hotel business	.5%	.4%		
Welding			.4%	

Teacher	3.2%	.7%		3.0%
Self employed	.9%			.6%
Deed writer		.4%	.8%	.1%
Doctor	.5%		1.5%	.3%
Barber/washerman		2.6%		
Official job		.4%		
Student			1.5%	1.9%
Imam/Khadem				.3%

Table - 8

## Land and Asset Ownership

		Area of Cultivable land (decimal)	Total Land	NL- ASS	ALL- ASS
		Mean	Mean	Mean	Mean
Category of the household	Current migrant household	99.42	120.77	53336.30	397052.3
	Return migrant household	128.71	160.95	67512.31	526537.3
	Would be migrant household	110.93	145.45	151177.1	659737.4
District	Noakhali	95.35	105.90	31248.13	268706.5
	Chittagong	65.88	80.93	39673.90	320527.6
	Comilla	173.68	197.78	58228.40	561743.4
	Sylhet	109.90	168.36	158184.3	770390.2
<b>Total</b>	<b>113.51</b>	<b>141.45</b>	<b>74238.74</b>	<b>491666.4</b>	

Table - 9

## Monthly Expenditure Distribution

		Monthly food expenses (Tk.)	Monthly clothing expenses (Tk.)	Monthly education expenses (Tk.)	Monthly expenses for treatment (Tk.)	Total exp.
		Mean	Mean	Mean	Mean	Mean
Category of the household	Current migrant household	3321.05	437.65	424.07	354.88	5272.22
	Return migrant household	3002.75	384.00	199.13	388.38	4886.75
	Would be migrant household	3117.24	350.00	190.52	275.00	4177.59
District	Noakhali	2370.31	350.00	153.13	254.06	3508.75
	Chittagong	1889.02	331.71	103.17	179.27	3244.63
	Comilla	3592.00	420.40	547.50	306.90	6282.80

	Sylhet	4486.27	488.24	330.39	645.10	6344.12
<b>Total</b>		<b>3155.92</b>	<b>401.68</b>	<b>293.71</b>	<b>356.79</b>	<b>4942.84</b>

**Table - 10**  
**Income Sources**

		Yearly agr. income (Tk.)	Yearly income from fish culture/catch (Tk.)	Yearly wage income (Tk.)	Yearly income from business (Tk.)	Remittance (last 1 year) (Tk.)	Yearly income from rent (any type) (Tk.)	Income from livestock (e.g. milk) (last 1 year) (Tk.)	TOT-INC
		Mean	Mean	Mean	Mean	Mean	Mean	Mean	Mean
Category of the household	Current migrant household	7891.60	581.48	4876.54	7824.69	59802.47	227.16	137.04	82736.05
	Return migrant household	14407.41	913.58	10745.68	13395.06	7654.32	2024.69	703.70	52560.49
	Would be migrant household	14589.66	344.83	14344.83	8793.10	20931.03	489.66	227.59	60755.17
District	Noakhali	14648.33	208.33	8500.00	9229.17	23604.17	.00	.00	56190.00
	Chittagong	8756.10	146.34	5146.34	12268.29	27439.02	1209.76	.00	54965.85
	Comilla	13807.84	1923.53	10458.82	7858.82	28176.47	1200.00	570.59	66603.92
	Sylhet	9078.43	333.33	10372.55	12294.12	46588.24	1682.35	894.12	85752.94
<b>Total</b>		<b>11671.83</b>	<b>686.39</b>	<b>8803.14</b>	<b>10334.03</b>	<b>31785.34</b>	<b>1029.32</b>	<b>391.10</b>	<b>66601.68</b>

**Table - 11a**  
**Savings and Income-Expenditure**

		TOT-ICN	TOTAL-EX	SAVINGS
		Mean	Mean	Mean
Category of the household	Current migrant household	82736.05	63518.52	19217.53
	Return migrant household	52560.49	58331.85	-5771.36
	Would be migrant household	60755.17	49992.86	9646.43
District	Noakhali	56190.00	42105.00	14085.00
	Chittagong	54965.85	38935.61	16030.24
	Comilla	66603.92	74856.47	-8252.55

	Sylhet	85752.94	76692.00	8936.00
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**Table - 11b**  
**Savings and Land-Size Group**

				TOT-INC	TOTAL-Ex	SAVINGS
				Mean	Mean	Mean
<b>District</b>	<b>Noakhali</b>	LAND-AC	less than 0.5	51340.00	36296.00	15044.00
			.5-1.5	54020.83	41175.00	12845.83
			1.5-2.5	99760.00	74100.00	25660.00
			2.5-5.0	61571.43	48600.00	12971.43
			<b>Total</b>	<b>56190.00</b>	<b>42105.00</b>	<b>14085.00</b>
<b>Chittagong</b>	LAND-AC	less than 0.5	51113.04	42547.83	8565.22	
		.5-1.5	63187.50	35685.00	27502.50	
		1.5-2.5	46000.00	31200.00	14800.00	
		more than 5	21000.00	15600.00	5400.00	
		<b>Total</b>	<b>54965.85</b>	<b>38935.61</b>	<b>16030.24</b>	
<b>Comilla</b>	LAND-AC	less than 0.5	69510.53	64768.42	4742.11	
		.5-1.5	85875.00	114900.00	-29025.00	
		1.5-2.5	49612.50	82350.00	-32737.50	
		2.5-5.0	57650.00	44988.00	12662.00	
		more than 5	36100.00	49800.00	-13700.00	
<b>Total</b>	<b>66603.92</b>	<b>74856.47</b>	<b>-8252.55</b>			
<b>Sylhet</b>	LAND-AC	less than 0.5	88331.82	74809.09	13522.73	
		.5-1.5	95187.50	85725.00	9462.50	
		1.5-2.5	88150.00	84428.57	3171.43	
		2.5-5.0	86950.00	83850.00	3100.00	
		more than 5	53560.00	48240.00	5320.00	
<b>Total</b>	<b>85752.94</b>	<b>76692.00</b>	<b>8936.00</b>			

**Table - 12**  
**Remittance Inflows**

		Number of times received remittance during last 1 year	Amount (Tk.) per remm.
		Mean	Mean
District	Noakhali	3	17650
	Chittagong	3	18700
	Comilla	5	8362
	Sylhet	6	15000
<b>Total</b>		<b>4</b>	<b>14847</b>

**Table - 13**  
**Time and Expenses in Receiving Remittances**

						Expenses in cashing remittance (Tk.)	Time spent in cashing DD/TT (days)
						Mean	Mean
Media of getting remittance	Bank draft	Category of the household	Current migrant household	District	Noakhali	308	16
					Chittagong	178	13
					Comilla	171	7
					Sylhet	33	12
				District	Noakhali	300	16
		Chittagong	200	15			
		Comilla	200	3			
	Postal order	Category of the household	Current migrant household	District	Comilla	-	15
	Hundi	Category of the household	Current migrant household	District	Chittagong	-	3
					Sylhet	30	-
District				Comilla	-	5	
				Sylhet	60	-	

**Table - 14**  
**Opinion of CM Families About Channels of Remittance**

						Excellent	Good	Bad			
District	Noakhali	Media of getting remittance	Bank draft	Time required	%	4.5%	95.5%				
				Security of transaction	%	100.0%					
				relatives/friends	Time required	%	75.0%	25.0%			
					Security of transaction	%	50.0%	50.0%			
	Chittagong	Media of getting remittance	Bank draft	Time required	%		90.9%	9.1%			
				Security of transaction	%	100.0%					
				relatives/friends	Time required	%	100.0%				
					Security of transaction	%		100.0%			
			Hundi	Time required	%	100.0%					
				Security of transaction	%	7.1%	92.9%				
				Comilla	Media of getting remittance	Bank draft	Time required	%	33.3%	57.1%	9.5%
							Security of transaction	%	100.0%		

Sylhet	Media of getting remittance	relatives/friends	Time required	%	50.0%	50.0%	50.0%		
			Security of transaction	%	50.0%				
		Hundi	Time required	%	100.0%	100.0%			
			Security of transaction	%	100.0%				
		Postal order	Time required	%	50.0%	50.0%			
			Security of transaction	%					
		Bank draft	Time required	%	21.4%	78.6%			
			Security of transaction	%	100.0%				
			relatives/friends	Time required	%		100.0%		
				Security of transaction	%		100.0%		
			Hundi	Time required	%		75.0%	12.5%	12.5%
				Security of transaction	%		12.5%	37.5%	50.0%

Table - 15

## Returned Migrants - Earnings and Savings

		Period lived abroad (Year)	Monthly income when lived abroad (Tk.)	Monthly saving when lived abroad (Tk.)
		Mean	Mean	Mean
District	Noakhali	4.05	7668	4690
	Chittagong	4.33	8786	6071
	Comilla	5.25	9950	7350
	Sylhet	6.36	7275	5368

Table - 16

## Returned Migrants - Remittance Pattern

	District							
	Noakhali		Chittagong		Comilla		Sylhet	
	Whether sent whole amount of savings when lived abroad		Whether sent whole amount of savings when lived abroad		Whether sent whole amount of savings when lived abroad		Whether sent whole amount of savings when lived abroad	
	Count	%	Count	%	Count	%	Count	%
Yes	9	45.0%	11	52.4%	19	95.0%	17	89.5%
No	11	55.0%	10	47.6%	1	5.0%	2	10.5%

Table - 17

## Returned Migrants - Use of Retained Savings

	District							
	Noakhali		Chittagong		Comilla		Sylhet	
	Use of rest money (after sending country)		Use of rest money (after sending country)		Use of rest money (after sending country)		Use of rest money (after sending country)	
	Count	%	Count	%	Count	%	Count	%
Saving at foreign bank in abroad	9	75.0%	10	100.0%				
To disburse credit in abroad	1	8.3%						
Invest in abroad					1	100.0%	1	50.0%
Saving would not be possible	2	16.7%					1	50.0%

Table - 18

**Cash and Kind Inflows - RMs (Taka)**

		Total remittance cash	Value of clothes sent/brought	Value of gold	Consumer Durables
		Mean	Mean	Mean	Mean
Category of the household	Return migrant household	314123.46	12296.30	1535.80	9243.21
District	Noakhali	204100.00	10800.00	8600.00	2010.00
	Chittagong	286666.67	12095.24	7952.38	3761.90
	Comilla	304200.00	13350.00	3250.00	26775.00
	Sylhet	462900.00	12950.00	600.00	4700.00

**Table - 19**

**Remittance Use Reported by Returnees**

Use of remittance	Category of the household	District			
	Return Migrant Household	Noakhali	Chittagong	Comilla	Sylhet
	Mean	Mean	Mean	Mean	Mean
House purchase/repair	38962.96 (11.2)	11000.00	37190.48	9150.00	98600.00
Land purchase	39728.40 (11.5)	3000.00	59047.62	35900.00	60000.00
Machine purchase	864.20	.00	3333.33	.00	.00
Transport purchase	1296.30	1400.00	571.43	.00	3250.00
Savings at Bank	11641.98	13700.00	25476.19	5150.00	1550.00
Business	18802.47 (5.4)	7400.00	9523.81	50000	8750.00
Credit repayment	57925.93 (16.7)	71000.00	100714.29	35750.00	22100.00
Gift/aid	2925.93	5750.00	5809.52	.00	.00
Marriage	12876.54 (3.7)	.00	18952.38	12750.00	19500.00
Education	9629.63	12200.00	5476.19	10650.00	10400.00
Fooding	120932.1 (34.9)	75325.00	91142.86	119800.0	198950.0
Treatment	12135.80 (3.5)	7600.00	9619.05	19200.00	12250.00
Hajj/Majar	2469.14	5000.00	4761.90	.00	.00
Case	1135.80	.00	.00	.00	4600.00
Migrate to other	12222.22 (3.5)	19500.00	15238.10	12500.00	1500.00
Accident	2469.14	.00	.00	.00	10000.00
Transport cost for abroad	4259.26	.00	.00	.00	17250.00
Cultivation	.00	.00	.00	.00	.00

Personal expenses	617.28	500.00	.00	2000.00	.00
Furniture	.00	.00	.00	.00	.00

Note : Figures in brackets are column percentages.

**Table - 20**  
**Remittance Use Reported by Current Migrants' Families (Tk.)**

Use of Remittance	Category of the household	District			
	Current Migrant Household	Noakhali	Chittagong	Comilla	Sylhet
	Mean	Mean	Mean	Mean	Mean
House purchase/repair	46753.09 (10.5)	22300.00	25600.00	28047.62	112000.0
Land purchase	19493.83 (4.4)	12250.00	15300.00	24190.48	26000.00
Machine purchase	271.60	.00	.00	.00	1100.00
Savings at Bank	22866.05 (5.1)	26400.00	41450.00	1840.48	22825.00
Business	15790.12 (3.5)	1000.00	9000.00	4238.10	49500.00
Credit repayment	54395.06 (12.2)	45500.00	58950.00	37809.52	76150.00
Gift/aid	5037.04	9575.00	7675.00	.00	3150.00
Marriage	44283.95 (9.9)	12250.00	7500.00	18904.76	139750.0
Education	19580.25 (4.4)	1500.00	8000.00	42095.24	25600.00
Fooding	159416.0 (35.8)	66830.00	104050.00	113623.8	355450.0
Transport purchase	1250.62	1675.00	1875.00	14.29	1500.00
Hajj/Majar	9913.58	1250.00	15250.00	8333.33	14900.00
Case	617.28	.00	.00	.00	2500.00
Migrate to other	26975.31 (6.1)	10000.00	19500.00	3809.52	75750.00
Accident	.00	.00	.00	.00	.00
Transport cost for abroad	.00	.00	.00	.00	.00
Cultivation	1481.48	5400.00	600.00	.00	.00

Personal expenses	370.37	1500.00	.00	.00	.00
Furniture	320.99	.00	.00	1238.10	.00
Treatment	16893.83 (3.8)	11350.00	12625.00	10471.43	33450.00

## APPENDIX - A

### THE REDUCED FORM EQUATIONS

The reduced form equations of  $C_t$ ,  $I_t$ ,  $M_t$ , and  $Y_t$  as a function of exogenous variables and stochastic disturbances are obtained by solving the model as :

$$7. C_t = \alpha_0 + \alpha_1 G_t + \alpha_2 EX_t + \alpha_3 RM_t + e_1^*$$

$$8. I_t = \beta_0 + \beta_1 G_t + \beta_2 EX_t + \beta_3 RM_t + e_2^*$$

$$9. M_t = \gamma_0 + \gamma_1 G_t + \gamma_2 EX_t + \gamma_3 RM_t + e_3^*$$

$$10. Y_t = \delta_0 + \delta_1 G_t + \delta_2 EX_t + \delta_3 RM_t$$

The co-efficient in the reduced form equations 7 to 10 give the partial derivatives of the endogenous variables with respect to a given exogenous variable assuming that all other variables are held constant. Accordingly we use the co-efficient on the remittances in the output equation to determine the remittance multiplier. This multiplier measures the impact of Taka change in remittances on output. Theoretically the multiplier takes the following form

$$\partial Y_t / \partial REM_t = 1/1-c(1-t) - b + m$$

This indicates that the multiplier is determined by the magnitude of marginal propensity to consume or invest increase the multiplier and an increase in marginal propensity to import decreases it.

### The Estimation Procedure

The simultaneous equation model was estimated on the basis of the above time series data over the period 1972-99. All the variables are measured in million Takas. We estimated the model using 3 SLS. This method takes care of the correlation of the error terms across equations which arises due to inclusion of only the most important variables, and leaving the influence of other, less important variables to be absorbed by the random variables of the relation. In such a situation 3SLS is

appropriate as it guarantees efficiency and consistency of parameter estimates. As the exact specification of the entire system is correctly known and the equations are exactly identified use of 3SLS is justified.

### Sources of Data

Various issues of Statistical Year Book.

Various issues of Statistical Pocket Book.

The Fifth Five-year Plan.

Economic Trends, April 1999, Vol. XXIV; Vo. 4.

## APPENDIX - B

### Literature review at a glance

Author and date	Major Issues	Methodology	Research locality	Findings and recommendations regarding effective use of remittances
Wahiduddin Mahmood and S.R. Osmani (1980)	Workers' remittances and foreign exchange market, actual and potential level of remittances	Theoretical and macro study generating various estimates	Not applicable	Even though purchasing of land and construction of houses are treated as unproductive, remittances have found to be income augmenting.
Dr. A.K. Md. Habibullah (1980)	Manpower export promotion, maximization and productive use of remittances	Micro (sample size 554) and macro study	Dhaka, Chittagong and Sylhet	<ol style="list-style-type: none"> <li>1. Taxes can be imposed on conditional terms depending upon the mode of use of the remittance money.</li> <li>2. Setting up of a specialized organization to look after investment opportunities of the remittance money.</li> <li>3. Foreign exchange deposits with specially higher rate of interest on time deposits may be allowed.</li> <li>4. Special bonds may be introduced to encourage savings.</li> </ol>
Raisul Awal Mahmood (1986)	Socio-economic profile and process of migration and problems and prospects of adjustment and reabsorbtion	Micro study (sample size 368)	Chittagong, Noakhali, Sylhet and Dhaka	No such findings or recommendations found
Raisul Awal Mahmood (1990)	Common uses of remittances, their productive use and role of Govt.	Micro (sample size 306) and macro study	Chittagong, Noakhali, Sylhet and Dhaka	Offered alternate definitions of the term 'productive use' and found that from narrow definition to broader one, percentage of the total remittances used for productive purposes varied from

				49 percent to 53 percent over the whole sample size
Raisul Awal Mahmood (1991)	Socio-economic condition of the returned migrants, Process of migration and job experience in Japan.	Micro study (sample size 510)	Munshigonj and Dhaka	No such findings or recommendations found
Khan A. Matin (1994)	Remittances and macro economic indicators	Macro study	Not Applicable	As the money belongs to the individuals who have their personal choices of expenditure, a sound investment planning is not possible.

### APPENDIX - C

#### SURVEY NO. 1

## Research Proposal for A study on Inflow of Remittances and their Effective Use

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**SURVEY NO. 1****RESEARCH PROPOSAL FOR A STUDY ON  
INFLOW OF REMITTANCES AND THEIR EFFECTIVE USE****1.0 INTRODUCTION**

The IOM is in the process of identifying suitable consultants to carry out a number of studies related to migration behaviour from Bangladesh. The Bangladesh Institute of Development Studies has a long history of conducting studies on labour migration issues and has expressed an interest in conducting some of the studies. This proposal is addressed to "Survey No. 1" which seeks to obtain a better understanding of the structure, pattern, flow, determinants and impact of remittances, and their role in the context of the development objectives of Bangladesh.

For the last two decades, Bangladesh has experienced a massive outflow of Bangladeshis migrating to work in other countries, leading to the generation of significant financial flows in the form of remittances. The remittances sent home by the migrants have become a valuable source of foreign exchange available for economic development of the country. As in many other countries, remittances have had a salutary impact in alleviating the foreign exchange constraint in Bangladesh, helping to strengthen its balance of payments and enabling much needed imports of capital goods and raw materials. It has also helped to increase savings and investment for capital formation and development (Table 1).

At the micro level, remittances have resulted in improved living standards of recipients and helped in improving the income distribution in favour of poorer and less skilled workers. However, inflow of remittances may increase consumer goods expenditures, generating inflationary pressures, and resulting in little or no investment in capital generating activities. It is widely believed that a significant portion of remittances is spent on unproductive and personal investment such as real estate and housing etc. with obvious implications for growth.

This empirical study is aimed at an examination of the flow, pattern, structure and determinants of remittances and its impact and effect at the macro and micro level. The study is expected to generate insights and policy recommendations that will enable Bangladeshi policy makers to set in motion appropriate policies to encourage both volume and effective use of workers' remittances in light of Bangladesh's development objectives.

## **2.0 UNDERSTANDING OF THE TOR**

- A. Review of literature
- B. Macro-economic Analysis of Remittances
  - Flow, structure and pattern
  - Disaggregation by rural-urban and male-female
  - Separate focus on Sylhet area is to be attempted if suitable data exists
  - Analysis of impact and effectiveness on the macro-economy
- C. Processes and Mechanisms for Channelling of Remittances
  - Existing mechanisms: banks, private, other
  - Pre-departure information set facing migrants
  - Attitude of financial institutions towards the remittance market-problems encountered, how this can be made more effective and efficient, and review of incentives/schemes to encourage flows.
  - Host country institutions and facilities to promote/enable remittances
  - Perception of workers about the role of the Government in the remittance process and its productive use
  - Legal/taxation issues that may have a bearing on remittance flows/investment
- D. Analysis of Alternative Investment Schemes (e.g. Wage Earners Scheme, special dollar-denominated bonds etc.)
- E. Evaluation of the Migrants' Welfare Fund (objectives, actual operation, addressing migrants' needs)
- F. Suggestions and Recommendations: (a) to improve flows through official channels, (b) encourage productive use, and (c) improving the operation of the Welfare Fund. Specific attention is to be given to an analysis of alternative investment schemes and role of the Government and financial institutions to encourage remittance/effective use.

## **3.0 METHODOLOGICAL APPROACH**

In order to fulfil the requirements of the TOR as we understand it, the study will need to be pitched at a number of levels, as explained below.

### **Review of Literature**

The major studies in this field include Muhammad and Oman (1980), Habibullah (1980), Mahmood (1986, 1990, 1991), Matin (1994) and Shamsun Nahar (1998). A brief summary of these studies is provided in Annex 1. The major conclusions to emerge from this review are as follows:

- The question of effective use of remittances has been inadequately addressed (Mahmood, 1990; Habibullah (1980);
- There is some debate about the meanings of the words "effective use" and "productive use" in the context of the individual as well as society at large;
- The literature is now dated as no major studies were conducted over the last decade or so to examine the questions and issues identified above. This has become urgent in the face of significant changes in the international environment for labour migration in the wake of events like the Gulf War, the East Asian Financial Crisis and the recent stock market crash of Bangladesh;
- Econometric tools have generally not been used in assessing macro-economic impact and effectiveness of remittances.

#### **Macro Analysis: The Structure, Flow and Impact of Remittances**

- Analysis of the macro data on remittances will include estimation of trends over time (in real terms) and disaggregation by areas/regions (e. g. separately for Sylhet), rural-urban, and male-female
- Importance of remittances (as a proportion of the development budget, government revenue, exports and imports etc.)
- A three-stage least square model will be estimated to capture the impact of remittances on macro-variables like GNP, consumption, investment and imports. This will also allow us to estimate the remittance multiplier (basic details of the model is given in annex 2).

#### **Processes and Mechanisms for Channelling of Remittances**

An in-depth understanding of processes and mechanisms will entail detailed interviews with (a) private and nationalised banks and financial institutions, (b) the Bangladesh Bank and other government departments, and (c) migrants' families, would-be migrants at an advanced state of readiness and some returned migrants. Thus, the type of respondents who will need to be interviewed have been identified below for each sub-topic (brackets/bold):

- Existing mechanisms: banks, private, other (**Banks/financial institutions/WES branch managers**)
- Pre-departure information set facing migrants (**Would-be migrants**)
- Attitude of financial institutions towards the remittance market-problems encountered, how this can be made more effective and efficient, and review of

incentives/schemes to encourage flows (**Bank managers, Bangladesh Bank, Ministry of Finance**)

- Host country institutions and facilities to promote/enable remittances (**Returned migrants**)
- Perception of workers about the role of the Government in the remittance process and its productive use (**Migrants' families, returned migrants**)
- Legal/taxation issues that may have a bearing on remittance flows/investment (**Bankers, Ministry of Finance, Bangladesh Bank**)

An effort will be made to talk to all the major financial institutions (including the Bangladesh Bank) and policy makers at the Ministry of Finance. In addition, a sample of migrants' families, would-be migrants and returned migrants would be selected and a detailed questionnaire administered. Details of sample selection are provided in Annex 3.

#### **Analysis of Alternative Investment Schemes**

Existing schemes will be reviewed and potential schemes will be identified. The experience of other sending countries (e.g. Philippines, Thailand, Sri Lanka) will also be examined. This section will depend heavily on interviews with financial institutions, the Finance Ministry and the Bangladesh Bank. Cross-country experience will be examined through appropriate literature search including searching the database of the Library of Congress (via internet).

#### **Evaluation of the Migrants' Welfare Fund**

This section will be based on interviews with Fund officials and migrants' families and returned migrants.

#### **TIME FRAME AND BUDGET**

It is expected that the draft final report will be submitted within 12-13 weeks from project initiation, at a total budgetary cost of \$ 24.926. Details of costs and the time frame are shown below.<sup>1</sup>

#### **Budget proposal**

<b>Serial No.</b>	<b>Personnel/item</b>	<b>Person month</b>	<b>Rate per month (\$)</b>	<b>Total amount (\$)</b>
1.	Senior consultant*	03	2500	7500
2.	Junior consultant	03	1000	3000
3.	Research officer	12	250	3000

<sup>1</sup> It is of course being assumed that political factors like strikes and hurtles will not be excessively disruptive.



1977-78	1.1	11.9	12.8	14.5	20.6	8.4	14.2	12.3	11.0	12.2	63.7	105.4
1978-79	1.1	11.8	11.6	13.8	20.0	8.1	13.6	11.6	10.4	12.0	71.7	86.6
1979-80	2.0	22.2	16.5	20.2	34.3	10.5	15.6	18.1	15.3	20.3	43.4	88.9
1980-81	2.7	19.2	19.2	27.8	53.4	14.9	20.8	26.8	21.1	24.3	22.5	72.6
1981-82	3.3	32.3	30.4	32.1	65.9	16.0	21.2	26.1	20.7	33.3	22.2	79.9
1982-83	5.2	55.3	49.3	40.3	89.9	26.7	38.0	43.8	30.5	52.4	22.0	62.2
1983-84	4.3	53.3	43.4	35.4	73.5	25.5	38.9	59.0	37.1	47.0	21.5	59.2
1984-85	2.8	32.3	32.5	26.5	47.0	16.6	25.6	32.4	24.5	34.6	38.7	110.7
1985-86	3.7	40.2	40.5	34.0	67.8	23.5	35.9	52.5	34.4	42.5	33.1	90.0
1986-87	4.1	45.6	47.3	33.7	64.8	26.6	45.0	62.1	38.3	43.7	33.4	85.5
1987-88	3.9	43.8	49.5	32.3	59.9	24.7	42.0	63.7	38.9	44.9	39.2	71.7
1988-89	3.8	42.7	53.7	30.7	59.7	22.8	37.0	55.8	35.8	46.2	38.1	75.0
1989-90	3.5	37.4	40.7	27.4	49.9	21.2	34.0	48.1	32.5	42.0	39.7	74.5
1990-91	3.4	34.2	44.5	26.4	44.5	22.0	43.6	77.9	43.8	44.1	41.5	78.5
1991-92	3.7	34.0	45.2	24.6	42.5	24.5	57.7	140.0	58.4	52.6	39.7	64.9

Source : Bangladesh Economic Survey (1992-93).

### Literature review at a glance

Author and data	Major issues	Methodology	Research locality	Findings and recommendations regarding effective use of remittances
Wahiduddin Mahmud and S.R. Osmani (1980)	Workers' remittances and foreign exchange market, actual and potential level of remittances	Theoretical and macro study generating various estimates.	Not applicable	Even though purchasing of land and construction of houses are treated as unproductive, remittances have found to be income augmenting.
Dr. A.K. Md. Habibullah (1980)	Manpower export promotion, maximization and productive use of remittances	Micro (sample size 554) and macro study	Dhaka, Chittagong and Sylhet	<ol style="list-style-type: none"> <li>1. Taxes can be imposed on conditional terms depending upon the mode of use of the remittance money.</li> <li>2. Setting up of a specialized organization to look after investment opportunities of the remittance money</li> <li>3. Foreign exchange deposits with specially higher rate of interest on time deposits may be allowed.</li> <li>4. Special bonds may be introduced to encourage savings.</li> </ol>
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Raisul Awal Mahmood (1990)	Common uses of remittances, their productive use and role of Govt.	Micro (sample size 306) and macro study	Chittagong Noakhali, Sylhet and Dhaka	Offered alternate definitions of the term 'productive use' and found that from narrow definition to broader one, percentage of the total remittances used for productive purposes varied from 49 percent to 53 percent over the whole sample size
Raisul Awal Mahmood (1991)	Socio economic condition of the returned migrants, process of migration and job experience in Japan	Micro study (sample size 510)	Munshigonj and Dhaka	No such findings or recommendations found
Khan A. Matin (1994)	Remittances and macro economic indicators	Macro study	Not Applicable	As the money belongs to the individuals who have their personal choices of expenditure, a sound investment planning is not possible.

### The Macro-econometric Model

The model:

$$Y = C + I + G + Rm. + Ex. - M.$$

Where,

- Y = National income
- C = Private consumption
- I = Total Investment
- G = Govt. expenditure
- Rm. = Remittance
- Ex. = Export
- M = Import

A simple national income identity model will be estimated which states that the value of national income generated in the economy equals the sum of private consumption an investment, government expenditure, export, remittances minus imports. Now we will define each component of national income determination in functional form.

### Consumption function:

$$C = C_0 + cYd + e_1.$$

Consumption expenditure is a function of disposable income  $Yd$ .  $C_0$  is the autonomous consumption expenditure that is independent of income.  $c$  is the marginal propensity to consume out of disposable income ( $Yd$ ).  $e_1$  is the random disturbance term that explains the unexplained component of consumption.

### Investment function:

$$I = I_0 + bY + e_2.$$

This equation says that private investment is a function of national income (GNP).  $I_0$  is the autonomous part of investment, which is independent of income. 'b' is the marginal propensity to invest. 'e<sub>2</sub>' is the random disturbance.

**Import function:**

$$M = M_0 + mY + e_3.$$

The value of import is also a function of GNP.  $M_0$  is the autonomous part, which is independent of income. Import is positively related with income with the magnitude m, which measures marginal propensity to import. 'e<sub>3</sub>' is the error term.

**Tax function:**

$$T = T_0 + tY + e_4.$$

Here,  $T_0$  = Autonomous tax that is independent of income.

t = Tax rate.

So, total tax collected is a function of GNP. The higher the GNP the higher the govt. revenue from tax. 'e<sub>4</sub>' is the error term that explains the unexplained components.

**Disposable income:**

$$Y_d = Y - T$$

So, our national income identity model

$$Y = C + I + G + Rm. + Ex. - M.$$

Includes six endogenous variables.

1. Private consumption.
2. Private investment.
3. Import.
4. Tax revenue.
5. Disposable income.
6. GNP

And the model has three exogenous variables, namely,

1. Govt. expenditure (G)
2. Remittance (R)
3. Export (Ex)

The endogenous variables will be substituted into our national income identity model to get the reduced form of national income equation to allow us to solve for the remittance multiplier.

**Sources of Data:**

1. Various issues of Statistical Year Book.
2. Various issues of Statistical Pocket Book.
3. The Fifth Five Year Plan.
4. Economic Trends, April 1999, Vol. XXIV; No. 4.

**Methodology**

The methodology of appropriate sample-selection involves the following two stages.

**Stage one: identifying the target group**

Those households currently receiving remittances from any member/members working abroad are our main target group. Although a separate study on returned migrants has been envisaged, this category of respondents will be needed for this study as well, in order to fulfil some elements of the TOR, as explained in the main text. In addition a sample of would-be migrants would also be useful to identify and select for study.

**Stage two: reaching the target group**

Reaching the target groups (e.g. families with at least one member currently working abroad or would-be migrants) is quite difficult, given the lack of a sample frame. While some information may be available from the relevant institutions such as BMET, BAIRA, Travel Agencies, Bangladesh Bank and state owned banks, this is insufficient and of dubious quality. Since most of the migrant workers are illiterate, this hampers official paper processing and record keeping, and generally their original permanent addresses are not clearly recorded. These limitations have lead us to search for an alternative approach to reach the target group.

Official estimates and prevailing literature suggests that external migration is mainly concentrated in the districts of Sylhet, Chittagong, Noakhali, Comilla and Dhaka so that it would be sensible to cover these areas. From these districts, it would be important to select the Thanas which will be treated as our programme areas. It is common practice in this context to use the sex ratio of the age group 15-35 in selecting areas from where out-migration has been high. It is likely that a high sex ratio in favour of females of the stated age group in a particular area signals the presence of external/internal migration. Therefore, on the basis of a high female sex ratio for the 15-35 age group, sample Thanas will be chosen which will enable us to determine the size and composition of the sample.

It is suggested that one Thana be sampled from each of the four districts, namely Sylhet, Comilla, Chittagong and Noakhali. Two villages per Thana will be chosen after suitable discussion with Thana officials and local elite on the basis of relatively high migration rates. Households would then be selected on the basis of a complete census of all

village households conducted to identify the different categories of respondents: migrants' families, returned migrants and would-be migrants. The last category may be difficult to identify through a questionnaire survey (as it may be sensitive information) requiring the use of key informants for the purpose. Households for in-depth study will be chosen at random, as follows:

- 10-15 households belonging to the "migrants' family" category, per village
- Five households with a returned migrant (someone who has returned within a year of the interview, after spending at least two years in the Middle-East)
- Five households with a member who is likely to leave for employment abroad within three months of interview.

Altogether, a total of 20-25 respondents per village will thus be sampled making a total of 80-100 respondents in the four villages/Thanas.

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