

# Impact of foreign remittance in bangladesh economy



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Worldwide immigration can craft considerable social welfare gains for migrants in both countries from where the workers move and to where they resettle. The gains to origin countries are recognized mostly through the utilization of remittance in micro-level activities where the advancement of life conditions and alleviation of poverty are some of the core focuses. For developing countries like Bangladesh, remittance, a key source of external finance, plays a pivotal role in social uplift. Bangladesh is a worthwhile source of cheap manpower in international labor market. Our labors are often recruited by overseas agencies and thus we collect a fine figure through remittance every year. The remitter's funds are typically utilized in satisfying the fundamental needs of the family and building knowledgeable members along with elevating living standards of the migrant's family. Some are seen to invest the surplus in lucrative prospects and thus generate alternate income sources. Altogether, remittance assists in alleviating poverty, offer boost to the social status and indirectly build more sophisticated generation for future. This paper straightly highlights the micro-level development issues associated with foreign remittance, some crucial problems in facilitating remittance properly and practical suggestive measures to improve the effect of remittance on social development.

Keywords: Foreign Remittance, Social Uplift, Migrants, Remittance Utilization.

## **Introduction**

Workers' remittance to Bangladesh now constitutes the single largest source of foreign exchange earnings and plays a critical role in the socio-economic development of Bangladesh. Remittance has resulted in improved living standards of workers' families and helped in improving the income

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distribution in favor of poorer and less skilled workers. The countries of Middle East and Northern Africa have been the key destinations for these migrant workers. In the recent past, there have been large flows of Bangladeshi migrant workers to Southeast Asia – particularly to Malaysia and Singapore – as well. The natural resource based economic prosperity of the first group of destination countries since the 1970s has formed a huge demand mainly for unskilled and semi-skilled workers to work in different sectors of those economies.

Similarly, the economic boom of the Southeast Asian countries in the late 1980s and the 1990s has generated demand for unskilled and semi-skilled workers. Bangladesh with a large population and limited economic opportunities has decidedly taken advantage of economic growth and prosperity in those countries. These flows of migrants leaving the country have not only fulfilled the mandate of the government policy to encourage out-migration as a means of easing unemployment pressure on Bangladesh's ever exploding labor market but also the remittance received from the migrant workers have had significant impact on the socio-economic development. Over the years, under the government patronage, the international migration of workers has taken some pressure off from the domestic labor market and has enhanced the economic well-being of the families left behind by the migrants. Intuitively, there are several ways in which remittance inflows may have macro-economic impact on a poor country like Bangladesh. For example, if a significant part of the remittance is used for savings and investment, it could lead to higher growth of the economy in the long run. If the remittance-receiving families spend a

momentous amount of these transfers on education and health – two important elements of human capital – this may also contribute to long run growth of the economy. Furthermore, by alleviating foreign exchange constraint, remittance may facilitate imports of capital goods and other important raw materials that are used in the production processes. Even in the short-run, remittance may contribute to the growth of output in the economy by augmenting the aggregate demand if the remittance-receiving households spend most of these transfers on consumption.

While foreign direct investment and capital market flows fell sharply in the last years due to the recession in the high income countries, migrant remittance continued to grow, reaching USD 11650. 32 million in 2011. Bangladesh has sent more than 6. 7 million workers to over 140 countries during a period of more than three decades since the mid-1970s. More importantly, the remittance transfers received from these migrant workers have reached a phenomenal level of over 11 billion US dollar in 2011, approximately 12 percent of GDP in Bangladesh.

## **Objectives of the study**

The prime objective of this study is to identify the flow of remittance and its impact on the social development of Bangladesh. This study also focuses on the sectors where the remitted money is used along with their proportion of importance and evaluation of the contribution of remittance in social development factors, while recommending policy measures to improve the effective use of remittance.

The specific objectives of the study are:

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To learn recent trends of remittance in Bangladesh.

To check the impact of remittance in macro-economic development.

To find out the typical uses of remittance in remitters family.

To evaluate the impact of remittance on uplifting living standards.

To investigate ongoing problems in different sides of migrants remittance.

To suggest effective solutions for resolving problems.

## **Limitations of the study**

The limitations of the study are the following:

People were dealt with the whole process of data collection and replies may vary abnormally from person to person based on their literacy rate, background etc.

The primary data was collected through a questionnaire. The various responds from the respondents may create confusions.

Unavailability of quality and accurate data on remittance flows was a major limitation.

## **Research methodology**

### **Research hypotheses**

Research hypotheses are the definite testable forecasts prepared for the independent and dependent variables in the study. The research hypotheses of this study are as follows.

Ho: There is no significant relationship between Remittance Inflow and Gross Domestic Product (GDP).

Ho: There is no significant relationship between Remittance Inflow and Gross National Income (GNI).

Ho: There is no significant relationship between Remittance Inflow and Debt service on external debt

Ho: There is no significant relationship between Remittance Inflow and Household final consumption.

Ho: There is no significant relationship between Remittance Inflow and Imports of goods and services.

Ho: There is no significant relationship between Remittance Inflow and Imports of aggregate savings.

Ho: There is no significant relationship between Remittance Inflow and Food expenditure.

Ho: There is no significant relationship between Remittance Inflow and Clothing expenditure.

Ho: There is no significant relationship between Remittance Inflow and Savings.

Ho: There is no significant relationship between Remittance Inflow and Education expenditure.

Ho: There is no significant relationship between Remittance Inflow and Other expenditure.

From our calculated results based on data from questionnaire, all the above null hypotheses are rejected and proved that remittance has a great impact in our socio-economic variables.

## **Sampling Frame and Size**

The study considered the remittance clients of various banks. To get a normal distribution, it is necessary to have at least 30 samples. But as the number of remittance clients is large enough, initially, 90 samples are selected for this study for better accuracy and reliability. Considering 95% completion and incidence rate, the final sample reaches 100 in total (see appendix for calculation).

## **Sampling Procedure**

The samples are collected on a random basis. The clients have to wait for a while till the remittance process is completed. In this duration, the samples are surveyed.

## **Methods of Data Collection**

This broad perspective of this study is to investigate the use of remittance in different societal variables and evaluate the role of remittance. This area entirely requires first-hand primary data from the remitter's family which is to be collected by a standard and independent questionnaire. Also, information has been gathered from various business and economic journals,

newspapers, business magazines and websites which were of ample help in preparing this research work.

## **Nature of research**

The study is a type of conclusive research as it tests some hypotheses to make a conclusion about the fact whether remittance has any significant impact on variables responsible for social development.

## **Tools and techniques for analysis**

Correlation is used to test the hypothesis and draw inferences. How much one variable depends on different factors can be calculated by statistical tools. In business statistics, after data have been collected and tabulated, further analysis to find the difference on the impact of remittance on the social variables such as food, clothing, education, savings and other expenditures is estimated using single regressions. T-distribution is applied to consider the individual impact over the dependent variable by the independent variables. For analyzing data, SPSS (version 12. 0) software is used which is a statistical analysis tools to analyze data. SPSS is used to find the most important statistical variables so that a thorough analysis can be done with the variables. Hypothesis testing through the T test method have also been focused.

## **III. Review of the literature**

### **Remittance defined**

As per the World Bank's definition, remittance covers all the monetary flows through worker's remittances, employee's compensation and migrant transfers. All of these can be found in the balance of payment's amount of

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remitters and receivers. However, the International Monetary Fund excludes the “ migrant transfers” as it is unrelated to remittance and misleading in most cases. Here, transfer of migrants denotes capital transfers of financial assets by migrants while residing in another country, staying more than one year.

## **Figure 01: Types of remittance**

Source: Formulated from online resources

In general, remittances are of two types, namely i) Individual; ii) Collective. Individual remittance is the financial transfers to household or relatives. While, collective remittance covers bulk transfers by a group of migrants, associates or professional bodies gathering resource together and send for community programs. Individual remittances are mostly used in family matters whereas collective remittances are contributed for community advancement. Workers’ remittances are present transfers by migrants who are employed or intend to stay employed for more than a year in another economy in which they are considered residents. Social remittances are typically defined as the ideas, practices, identities and social capital that flow from receiving to sending country communities.

## **Figure 02: Year-wise remittance inflow**

Source: <http://bmet.org.bd/BMET/resources/statistics>

From the graph, Bangladesh consistently kept a rising figure in remittance inflow. Remittances from expatriate Bangladeshis exceeded US\$1. 21 billion in January 2012, the highest ever monthly inflow. Estimated at \$1. 215 billion

in January last, remittance went up by \$68. 58 million (6% increase) than that of the previous month. As Bangladeshi Taka (BDT) weakened significantly against US dollar recently, remitters are trying to grab the exchange rate benefit. We received an amount of US \$7. 28 billion in the first seven months of the current year (FY), 2011-12. As per Bangladesh Bank data, this figure entails a 11. 70% growth over that of the corresponding period of the previous fiscal year. However, remittance growth was decreasing during the fiscal year ender June 2011 with only 6. 03% as compared to 13. 4% in 2009-2010. After the peak of 32. 39% in 2007-2008, remittance growth has been slowing down. Remittances constitute Bangladesh's second largest source of foreign exchange, next to exports. Remittance growth downfall had a significant impact over the Gross Domestic Product (GDP). Remittance contribution to GDP reduced to 10. 53% in FI 2010-2011 from 10. 95% in FI 2009-2010. Lower labor migration has been identified as the major reason for declining remittance growth. Increasing hiring cost relative to wages declined number of overseas workers by 33. 74% in FI 2008-2009 and 34. 29% in 2009-2010.

### **Figure 03: Top ten remittance Earners in 2011**

Source: <http://www.thedailystar.net/newDesign/news-details.php?nid=213896>

According to the global survey report of World Bank, Bangladesh stands eighth in the race of remittance earners with a major contribution from Middle East countries. Bangladesh earned \$11. 99 billion where India stood first with \$57. 82 billion and China was second with \$57. 28 billion.

Bangladesh holds fifth position among the developing countries. The Bureau <https://assignbuster.com/impact-of-foreign-remittance-in-bangladesh-economy/>

of Manpower Employment and Training (BMET) data explained that our number of jobseekers has increased to 567, 505 in 2011 from a figure of 390, 702 in 2010. Also, our exchange rate of US dollar against BDT rose to Tk85 plus per dollar recently which was around Tk 70 some months back. Bangladesh's remittances rose over \$8 billion in the first eight months of the current fiscal year (July 2011-June 2012), having 12. 15 percent growth year-on-year. The stream of inward remittances in July-February phase of the current fiscal year reached at \$8, 414. 99 million. Millions of non-resident Bangladeshi migrants, working in over 100 countries, sent home \$1, 130. 90 million in February, nearly 14. 58 percent higher than that in the same month a year ago. Remittance received in January 2012 was \$74. 19 million more than that of the previous month. A total of 63, 608 Bangladeshi workers went to different countries on jobs in January 2012 as against 32924 in the corresponding period of previous calendar year. Overseas recruitment in 2011 recorded a 45% growth over that of the last year when demand for Bangladeshi workers declined significantly for a spill-over effects of global economic meltdown.

### **Figure 04: Country-wise remittance earned**

Source: <http://bmet.org.bd/BMET/resources/statistics>

Bangladesh always receives the highest amount of remittance flow from Kingdom of Saudi Arabia. Next to K. S. A., United Arab Emirates and U. S. A. holds the second and third positions with an inflow of 1892. 52 and 1591. 98 million dollars respectively. United Kingdom is in the fifth place with a significant amount of 824. 82 million dollars. On the other hand, Saudi Arab is also the biggest employer of Bangladeshi migrants, as revealed by data <https://assignbuster.com/impact-of-foreign-remittance-in-bangladesh-economy/>

from 1976 till 2010. UAE provides jobs for 25% of all our expatriates. Though a small country, Malaysia covers a significant 10% of our total overseas employment.

### **Figure 05: Country-wise overseas employment from (major countries)**

Source: <http://bmet.org.bd/BMET/resources/statistics>

A great variety of literatures can be found on the impacts of remittance from various researches, surveys and journals. Many economists and policy makers have studied over the flow of remittance and remittance related issues. Several micro level studies have been found after the commencement of Wage Earners' Scheme(WES) in 1974 that enriched the remittance literature. After that, in the recent decades, a broader range of studies has been conducted on different remittance issues. A study by Habibullah (1980) addressed the socio-economic conditions of returnee migrants and Mahmood (1991) focused on the use of remittance at the household level.

Habibullah (1980) had a prime focus on the migrant's demographic characteristics along with their education, reasons for migration, job nature, channels of migration, employment status etc. whereas Mahmood (1991) explored the area of the utilization of remittance that is directly related to our study. The savings and expenditure patterns of migrant's families largely influence the investment figure of the economy. The socio-economic development of the migrant's family or the community as a whole depends largely upon the income, expenditure and savings behavior of the migrated

funds. Also, the savings and expenditure pattern of the remitters in the foreign country is a dominant factor which affects the recipient household's pattern of remittance use.

Mahmood (1991) found while the monthly average income of remitters was tk. 11000, 75% spent less than tk. 2000 per month and more than one-third had a monthly expenditure below tk. 1000 per month. Thus a higher income of recipient households is assured by the migrants remitting habit that covers more than 80% of their income. In a similar income group, the remittance receiving household's savings rate is much higher than that of the non-receiving households. While remittance receiving households save from 50% to 75% of their total income, the non remittance-receiving households save only 5%.

Mahmud and Osmani (1980) showed that savings ratio increases with the increment in income level and in their findings the highest ratio was around 76%. Duration of staying abroad, number of migrants from one household, skill level of the migrant, socio-economic conditions and demographic characteristics of remittance receiving households are some of the major factors that influence the pattern of the remittance income utilization. Ownership of land before migrating is a significant factor for repurchasing lands, while the accommodation quality prior to migration tends to have a negative relationship with bank savings. Investment in business is found negatively correlated with marital status.

The most fragment of overseas remittance is used in land purchasing as found in the studies of Mahmood (1986 and 1991). The expenditure chart

also topped by the purchasing of durable goods (15-40%) and house renovation (10-30%). Regional variations were also found as expenditure in house purchase and renovation was highest in Dhaka followed by Comilla, Sylhet and Noakhali. For occupational differences expenditure patterns also changed such as people with higher skill level tends to have higher level of expenditure. Rural remittance receiving households used up more on consumption, interest payment and festivals than the non-receivers.

Remittance receivers in urban areas spent more on clothing, food and drink, fuel and lighting than their counterparts in rural areas. Unskilled migrants spent more than a professional and semi professional in the case of gifts, donations and assistance to relatives. And for payment of loans and liquidation of debts, a semi skilled worker spent more than the professional.

Urban households consume in conspicuous sectors much more than the rural ones as noted by Habibullah, 1980. The existing literature is all about the different uses of remittance at household level but we can not find papers on solely understanding the relationships of the societal variables and remittance inflow so that we can understand the extent of influence of remittance over the development of the standard of living.

In our study, we also found a high degree of relationship of remittance flow with major socio-economic variables. Remittance receiving families are better off than non-remittance receivers in every case of social status. But we found that a significant part of remittance is now being used in owning land and home renovation. Also, remittance receiving families live above poverty line which can be inferred from their amount of income every month.

## IV. Analysis of data

### Macro-economic Impact of Remittance

### Regression Analysis (Remittance with Macroeconomic variables)

#### Single regressions

Regression equation:  $\hat{Y} = a + bX$

#### Table 01: Regression equations

Dependent Variables

$\hat{Y}$

Independent Variable (Remittance Inflow)

X

a

b

#### Gross Domestic Product (GDP)

3. 212E10

5. 322E6

#### Gross National Income (GNI)

3. 222E10

6. 048E6

**Debt service on external debt**

5. 762E8

31647. 012

**Household final consumption**

2. 608E10

3. 746E6

**Imports of goods and services**

4. 240E9

1. 834E6

**Savings**

4. 9E09

8. 43E05

Source: Based on the calculation of survey data (see appendix)

**Regression 1: GDP and Wage Earner's Remittance**

If Wage Earner's Remittance is zero then  $a = \hat{Y}_0$  which is a constant. Here  $\hat{Y}_0 = 3.212E10$ . It indicates that some other variables other than Wage Earner's Remittance contribute in our GDP. Now, we find there is Positive relation between GDP and Wage Earner's Remittance. When Wage Earner's Remittance increase 1 time then the GDP will be increased by 5.322E6 times assuming all other variables are constant.



## **Regression2: GNI and Wage Earner's Remittance**

Here  $\Delta Y = 3.222E10$ . It indicates that some other variables other than Wage Earner's Remittance contribute in our GNI. Now, we find there is Positive relation between GNI and Wage Earner's Remittance. When Wage Earner's Remittance increase by 1 unit then the GNI will be increased by  $6.048E6$  assuming all other variables are constant.

## **Regression 3: Debt service on external debt and Wage Earner's Remittance**

Here  $\Delta Y = 5.762E8$ . It is positive because the economy has some other sources for servicing external debt.

Now, we find there is positive relation between Debt service on external debt and Wage Earner's Remittance. When Wage Earner's Remittance increase by 1 unit then the Debt service on external debt will be increased by 31647.012 units assuming all other variables are constant.

## **Regression 4: Household final consumption expenditure and Wage Earner's Remittance**

Here  $\Delta Y = 2.608E10$ . It is positive because the households afford their consumption expenditure from other income sources. Now, we find there is Positive relation between Household final consumption expenditure and Wage Earner's Remittance. When Wage Earner's Remittance increase by 1 unit then the Household final consumption expenditure will be increased by  $3.746E6$  units assuming all other variables are constant.

### **Regression 5: Imports of goods and services and Wage Earner's Remittance**

Here  $\Delta = 4.240E9$ . It indicates that the import of goods and services will still continue without remittance inflows. Now, we find there is negative relation between Imports of goods and services and Wage Earner's Remittance. When Wage Earner's Remittance increase 1 time then the Imports of goods and services will be decreased by  $1.834E6$  time assuming all other variables are constant.

### **Regression 6: Gross domestic savings with Remittance**

Here  $\Delta = 4.9E09$ . It indicates that the Gross domestic savings will still continue without remittance inflows. Now, we find there is a positive relation between Gross domestic savings and Wage Earner's Remittance. When Wage Earner's Remittance increases by 1 unit then the Imports of goods and services will be decreased by  $8.43E05$  units assuming all other variables are constant.

### **Coefficient of correlation (R) between remittance and macroeconomic variables**

R is the coefficient of correlation. It shows the extent of positive or negative correlation between dependent and independent variable.

**Table 02: coefficient of correlation (R) between remittance and macroeconomic variables****Variables****R****Explanation**

GDP (Dependent) and Wage Earner's Remittance (independent)

. 981a

strongly positive relation

GNI (Dependent) and Wage Earner's Remittance (independent)

. 984a

strongly positive relation

Debt service on external debt (Dependent) and Wage Earner's Remittance (independent)

. 841a

strongly positive relation

Household final consumption (Dependent) and Wage Earner's Remittance (independent)

. 978a

strongly positive relation

Imports (Dependent) and Wage Earner's Remittance (independent)

. 988a

strongly positive relation

Source: Constructed on the basis of various issues of Economic Trends,  
Bangladesh Bank

### **Ratio analysis (Remittance vis-à-vis other macroeconomic variables)**

An interesting way of analyzing the dynamics of remittances is to examine the trend lines of remittances as a share of key macroeconomic variables such as export, import, GDP, Annual Development Program (ADP) etc. The figures as presented by Table-30 provide an idea about the relative importance of remittances relative to the key macroeconomic variables and the variation of this importance over time. According to the table, remittances in Bangladesh as a percentage of most key macroeconomic variables showed upward trend during the period from FY95 to FY06. Most importantly, the remittance-GDP ratio touched 7.75 percent mark in FY06 as compared to 3.5 percent in FY97. Over all, upward tendency of the share testify to the popular view that remittances are gradually providing more and more important contribution in our GDP over time.

**Table 03: Percentage analysis of remittance with major macroeconomic variables****Year****FY97****FY98****FY99****FY00****FY01****FY02****FY03****FY04****FY05****FY06****FY07****FY08****FY09****FY10****Remittance/****Tax revenue**

45

46

52

57

52

66

71

70

74

87

86

90

95

99

**Remittance/**

**ADP**

57

63

66

63

63

102

115

118

126

186

164

177

189

202

## **Remittance/**

## **Savings**

22

20

21

23

22

29

32

31

32

38

37

39

41

43

## **Remittance/**

## **Investments**

17

16

17

18

17

23

25

25

26



31

30

32

33

35

## **Remittance/**

## **Export**

33

29

32

34

29

42

47

45

45

46

50

52

54

56

## **Remittance/**

## **Import**

21

20

21

26

22

32

35

34

32

36

39

41

42

44

## **Remittance/ Trade deficit**

54

65

63

105

94

141

138

145

117

167

173

185

197

209

## **Remittance/**

## **Reserve**

87

89

112

122

144

158

124

125

131

138

151

156

161

166

## **Remittance/**

## **GDP**

3. 49

3. 46

3. 73

4. 14

4. 01

5. 26

5. 9

6. 17

6. 37

7. 75

7. 6

8. 1

8. 5

9. 0

## **Remittance/**

### **FDI**

92. 2

61. 3

86. 1

51

34. 2

64

81. 4

122. 2

48. 1

71. 3

72

72

72

72

**Remittance/****Foreign Aid**

100

116

116

124

137

200

193

353

306

388

383

415

448

480

Source: Constructed on the basis of various issues of Economic Trends,  
Bangladesh Bank

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## **Micro-economic Impacts**

A small scale survey is conducted among the 100 remittance clients of different State-owned Commercial Banks (SCB), Private Commercial Banks (PCB) and Foreign Commercial Banks (FCB) to get insights about different aspects of the source, volume and utilization of remitted money to their family basic needs. The answers from the questionnaire are then quantified and analyzed for the purpose of understanding the social impact of foreign remittance. Following shows an extensive analysis of what have been found so far.

### **Utilization of remittance**

Remittance is used in various sectors. Respondents were asked to ratify the major expenditures that they meet by the remittance. The following figure (Figure 07) is extracted from the survey. I found that 16% is used in buying foods while 12%, 26%, 8%, 20% and 18% of the money are used for clothing, housing, savings, education and others.

### **Figure 06: Utilization of remittance**

Source: Calculated on the basis of researcher's survey data

Improved standard of living and higher educational facilities are dependent on the consumption pattern of the remittance receiving households. The local economy of the remitter's family is greatly influenced by the consumption behavior, land or other investments from the remitted money. The one-hundred interviewee spent 16% of Remittance in food and clothing. Their spending in food was not found to be obvious rather they made sure improved food intake. This can be seen as investment in future human



resource development. Medical treatment (Others) and children's education consumed another 38%.

Purchase of arable land, real estate, releasing mortgaged land, repayment of debt altogether accounted for 26% of the remitted fund. In recent years, a changing pattern has been so obvious that people tend to buy more real estate than productive arable land for the reason of swelling price appreciation of real estate in recent decades. The amount of savings was comparatively low. It was 8% of the total Remittance. Savings were kept in banks and finance companies, few had some fixed deposits and still a few others had taken insurance policies to back their families up. The "Others" part includes repayment of loan, business investment, financing migration of other family members, social ceremonies and community development activities. Migration absorbs massive upfront cost and it was seen before that a considerable part of these costs was made available through borrowing. 11% of Remittance of these families went into debt repayment. Another 5% went into resolving debts incurred due to reasons other than migration.

Other than these variables, a study by Siddiqui and Tasneem (2003) with similar