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Channel of remittances – A micro level study

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Abstract

This study was conducted to review the existing remittance channels in transferring remittance money from abroad to selected areas of Bangladesh. The study is based on carefully collected primary level data from forty-three villages of Habiganj district. The sample of the study consisted of 100 migrant workers - 40 from England, 32 from Saudi Arabia and 28 from Malaysia. Findings showed that the advantages of the Hundi system over the bank draft in terms of time taken, security and costs involved (per remittance) attracted most of the migrant workers to remit their savings through Hundi. Its main attraction is speed and this becomes important under certain circumstances (e.g. like emergencies). It is also found that out of total remittances more than 90% of these remittances comprised cash remittances. Delay in encashing cheque, high commission/taxes compared to informal channels and unawareness about formal channels were the major problems associated with remittance transfer to Bangladesh. More consciousness of the migrant workers as well as the timely government intervention could minimize some of these problems.

Keywords: Migrant workers, Remittance money, Hundi, Demand drafts

Introduction

Bangladesh has now the experience of overseas migration of its nationals of about half a century for employment. For years, people have been migrating to foreign countries in search of employment. Unemployment and under-employment at home, better job opportunities and higher standard of living abroad are the main contributing factors: Between 1990-91 and 2003-2004 (up to April), about 2.95 million people have been migrated to different countries of the world for overseas employment (Bangladesh Bank, 2004). The earning of these people i.e., remittances was an important source of foreign exchanges for the government of Bangladesh.

By this period Bangladesh earned a total of Taka 1136864 millions equivalent to US\$ 22943.46 million as remittances from Bangladeshi nationals working abroad. In US dollar terms, the growth of workers' remittance was 32.89% in 2001-2002 compared to 6.8% in 1997/98. During the financial year 2002-2003, total remittance was US\$ 2782.20 million compared to US\$2529.80 million during the same period of the previous fiscal year - a growth of nearly 10%. A look at the annual development budget shows that remittances accounted for 12.8% in 1977-78, increasing to 49.3% in 1982-83, after which this ratio ranged from 30-50%. In more recent years (2002-2003), the volume of remittances (Tk.177288.10 millions) sent by these migrant workers to Bangladesh outweighed the annual development budget (Bangladesh Bank, 2004 and Murshid, *et. al.*, 2001).

Workers' remittances to Bangladesh now constitute the single largest source of foreign exchange earnings and play a crucial role in reducing the foreign exchange constraint and supporting the balance of payments, enabling imports of capital goods and raw materials for industrial development. Moreover, it increased the supply of savings and investment for capital formation and development. It also has been an important source of disposable income for thousands of migrant households mostly scattered over the districts of Sylhet, Chittagong, Noakhali, Dhaka, Comilla and Khulna. At micro level, remittances have resulted in improved living standard of workers' families and helped in improving the income distribution in favour of poorer and less skilled workers.

Despite such importance of remittances in the Bangladesh economy, there is no systematic information on the magnitude of remittances sent through different channels and less knowledge about the exact number of people working abroad. Information on remittances as available from the official sources would seem to provide an underestimation of the actual flow of remittances from nationals working abroad. So, the thrust of the present study is to review the different remittance channels and to suggest measures for enhancing flows through recorded channels.

Materials and Methods

Bangladeshi nationals who migrated to the different countries of the world between 1991 and 2001 were considered as the population of this study. Considering the constraints of time and fund, from the migrant workers of United Kingdom (England), Kingdom of Saudi Arabia and Malaysia, a sample of 100 i.e., 40, 32 and 28 respectively were randomly selected according to the intensity of the migrant workers of the respective countries from forty-three villages of Habiganj district, a migrant workers intensive district in Bangladesh. A well-designed interview schedule was used in collecting necessary data from the migrant workers through face to face interview, telephone and e-mail during November 2003 and February 2004, when a large number of migrant workers visited Bangladesh to enjoy the Eid festivals with their family members and relatives. To attain the objective of the study, the collected data were summarized, tabulated and analyzed accordingly. The simple tabular method was followed in analyzing the collected information.

Results and Discussion

Migrant workers generally send remittances to their country of origin, i.e., Bangladesh where their family members, relatives reside through different channels. An attempt has been made here to analyze the different types of remittance channels, their relative advantages, disadvantages, operation system and preference of the migrant workers towards different channels.

Means of Transferring Remittances

Migrant workers generally transfer their remittances either through formal or informal channels. The former refers to the official Wage Earner's Scheme (WES) and to all recorded foreign exchange transactions. It includes principally demand drafts, telegraphic transfers and postal orders, channeled through banks or post offices. The prominent informal mode is the Hundi system - a method that bypasses the banking system to transfer money or goods through friends, relatives or trusted agents. In other words, informal channels refer to various means and ways of sending remittances in cash or kind into Bangladesh with no official approval or record. These clandestine flows do not appear in government statistics nor do they figure in government policy making.

(a) Formal channels

Demand draft

The sender in the host 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. The bank or the exchange houses 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.

The receiving party upon receipts 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 14 days to liquidate the money. But if the draft is made from an exchange house, and the Bangladeshi bank had arrangements with the exchange house payment is made instantly.

(b) Informal channels

Informal transfer can be broadly classified into two types: cash and kind.

Transfer in cash

(i) Cash/ Traveler's cheques: Migrants or their friends and relatives bring foreign exchange without declaring it to the appropriate authority. This can be in the form of cash or traveler's cheques. This foreign exchange can either be sold to black market dealers in foreign exchange or kept for personal use.

(ii) Hundi system: The main method of informally transferring money into Bangladesh is through the use of the 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 receive an equivalent amount of money in Taka. The agent in Bangladesh is contacted by telephone, fax or e-mail by the Hundi agent in the host country and the sub-agent pays the money to the relative of the sender. The Hundi rate is usually 1-2% higher than the official exchange rate. Even if the Hundi and WES rate is the same, the migrant still saves money by not paying commission charges etc.

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 dollar amount in UAE or Singapore, buys goods/machinery, brings these back, sells them in the local market and makes a profit. Thus remittance money eventually arrives in Bangladesh in the form of smuggled goods.

Transfer in kind

- (i) Under Baggage Rules, Bangladeshis are allowed to bring about consumer durables, gold, electronics items, etc. for personal use. Many migrants subsequently sell most of these consumer goods for Taka, even though this is prohibited.
- (ii) Gold and consumer durables are transferred to Bangladesh through different Seaports and Airports.

Comparison between Formal and Informal Channels

Advantages of informal channels and as such disadvantages of formal channels

Advantages of the informal channels reflect the disadvantages of formal channels and vice-versa.

- (i) The main advantage of informal transfer is that usually the migrant receives a higher exchange rate as compared to the official rate.
- (ii) The time of delivery usually ranges from 4 to 5 days as compared to weeks for telegraphic transfer and draft for the banks. Sometimes "door to door" delivery is also given to the migrant's relatives.
- (iii) The migrant does not have to fill in any forms - an important factor considered by many migrants those who are functionally illiterate. Even many educated migrants may not know the procedures of sending remittances through official channels.
- (iv) The migrant does not have to approach a bank thus saving transportation costs and commission for drafts. A Hundi agent can always be found in the neighborhood or even visit the migrants.
- (v) Customer care or services is better than that offered by Bangladeshi banks. The chaos at these banks puts many people off.
- (vi) There have been allegations of fraud in banks, post offices, etc. For example, money is withdrawn under false signatures, money goes astray, etc. Unscrupulous post office officials keep track of letters sent by migrants. Acting on this information they may use various means of getting hold of the remittances money sent.
- (vii) Especially in the UK, many Bangladeshis run businesses such as hotels, restaurants, and shops. Most of them do not disclose their true income to the UK tax authorities, thus paying less tax. If they were to send their true level of savings through official channels, they would leave themselves open to scrutiny from UK tax authorities. Thus, to avoid harassment by the tax authority they find it safer to use the Hundi.
- (viii) Migrants in short of money can borrow from a Hundi dealer to meet his/her immediate cash needs back home without or on little interest.
- (ix) Some migrant workers stay abroad illegally and they avoid banks for fear of getting caught.

Disadvantages of informal channels and advantages of formal channels

- (i) Migrant workers sending remittances through formal channels can open a foreign exchange account i.e., FCA (Foreign Currency Account), NFCD (Non-resident Foreign Currency Deposit - for whom living abroad), RFCD (Resident Foreign Currency Deposit - for returned migrants) at different branch offices of commercial banks.
- (ii) With the help of different commercial banks they can buy wage earners' development bonds, US\$ premium bond, US\$ investment bond circulated by the Bangladesh government and NRB gift cheque.
- (iii) The migrant workers who send up to certain level of remittance money through formal channel may get VVIP status in Bangladesh.
- (iv) The illegal nature of informal transfer is not an alternative to many migrants as a matter of conscience. Migrants realize the detrimental effect of smuggling on the economy, and they disapprove of their foreign currency being used for smuggling.
- (v) If a migrant makes an investment in Bangladesh, the GOB may want to know the source of funds. Informal transfers have no records thus the migrant would not be able to prove that the money came in legally. He could, therefore, face legal action.
- (vi) Risk is involved since a Hundi agent may cheat a migrant. The migrant may get caught in selling his foreign exchange or goods on the black market.

Remittance Channels Used by Migrant Workers in Remittance Transfer

Respondents using different channels and volume of remittances sent through different remittance channels are presented in Tables 1 and 2.

Table 1. Different Remittance Channels Used by Selected Respondents

Channels	England		Saudi Arabia		Malaysia		All	
	No.	%	No.	%	No.	%	No.	%
Demand Draft	9	22.50	13	40.63	22	78.57	44	44.00
Hundi	27	67.50	17	53.13	2	7.14	46	46.00
Friends & relatives	4	10.00	2	6.25	4	14.29	10	10.00
Total	40	100	32	100	28	100	100	100

Source: Field survey, 2004

Table 2. Volume of Remittances Sent Home through Different Channels

Channels	England		Saudi Arabia		Malaysia		All		
	Taka	%	Taka	%	Taka	%	Taka	%	
Demand Draft	100000	22.22	15000	27.78	20550	52.69	45183	24.96	
Hundi	250000	55.56	20000	37.04	3600	9.23	91200	50.39	
Friends/ relatives	Cash	74000	16.44	10850	20.09	8500	21.79	31117	17.19
	Kind	26000	5.77	8150	15.09	6350	16.28	13500	7.46
Total	450000	100	54000	100	39000	100	181000	100	

Source: Field survey, 2004

(a) Migrant Workers in England

In England the Hundi system is not only prevalent but seems to be the pre-dominant channel of remitting money with 68% of respondents admitting to using this channel. Through this channel they transferred about 56% of their remittances to Bangladesh through their whole period of stay abroad. It is observed that bank draft was another method practiced by 23% of the England migrants through which they sent about 22% of their remittance money to Bangladesh. Another 10% of the migrant workers in England transferred 22% of their remittances (both cash and kind) with the help of their friends and relatives while they visited Bangladesh.

(b) Migrant Workers in the Kingdom of Saudi Arabia

Like the migrant workers in England, similar methods were practiced by the migrant workers living in the Kingdom of Saudi Arabia. But the magnitude was not the same.

Hundi is found to be the predominant mode of sending money by the Saudi Arabian migrants (53% reported using this channel). Hundi, however, is significant and seems to be on the rising trend through which the migrants sent 37% of their total remittances to Bangladesh. Over 40% of their migrants used demand draft to transfer their remittances (28%) to the family members and relatives living in Bangladesh while the rest of the migrants sent both cash and kind remittances (35%) through informal channels like friends and relatives visiting Bangladesh.

(c) Migrant Workers in Malaysia

In case of the migrant workers living in Malaysia, an opposite scenario was found in transferring remittances. Here, demand drafts are the main channel for remitting money. The incidence of Hundi is negligible. It was found that 79% of the migrants of Malaysia used to remit money using bank draft and use of Hundi was meager (7%). Migrants were using mostly demand draft (53% remittances) while the incidence of Hundi (9% remittances) was found to be rare. Cash and kind remittances transferring through friends and relatives were used by the rest of the sample migrant workers living in Malaysia.

Considering all the samples together it is found from the Table 1 that 46% of the migrant workers remitted their savings through Hundis while 44% used demand drafts, the remainder sent remittance money via friends and relatives.

Migrants' Preference towards Remittance Channels

To get the feelings of the migrants' perception about each channel, the researchers used subjective criteria to assess whether they consider each channel as excellent, good or bad in terms of time, security and cost. There is, however, considerable country level variation in the preference of migrants in terms of channels used to send remittance money. The preferences of the migrants and their family members (receiving party) towards the remittance channels are presented in Table 3.

Table 3 indicates that, over 55%, 44% and 43% of the migrant workers in England, Saudi Arabia and Malaysia respectively considered the demand draft is excellent in terms of time taken. Around 35%, 38% and 39% of the same migrant workers respectively ranked it as good and very few had complaints about the speed of the demand draft. More than 10%, 28% and 54% of the England, Saudi Arabian and Malaysian migrant workers respectively found demand drafts to be very safe. In terms of the expenditure incurred to remit money through demand drafts about 43%, 56% and 50% of the same migrant workers thought this was "good".

Table 3. Preferences of Migrant Workers for Different Remittance Channels

Basis	Rank	Demand Draft			Hundi		
		England	Saudi Arabia	Malaysia	England	Saudi Arabia	Malaysia
Time	Excellent	22 (55.00)	14 (43.75)	12 (42.86)	27 (67.50)	20 (62.50)	15 (53.57)
	Good	14 (35.00)	12 (37.75)	11 (39.29)	10 (25.00)	8 (25.00)	9 (32.14)
	Bad	4 (10.00)	6 (18.75)	5 (17.86)	3 (7.50)	4 (12.50)	4 (14.29)
	Total	40 (100)	32 (100)	28 (100)	40 (100)	32 (100)	28 (100)
Security	Excellent	4 (10.00)	9 (28.13)	15 (53.57)	26 (65.00)	15 (46.88)	8 (28.57)
	Good	28 (70.00)	16 (50.00)	10 (35.71)	12 (30.00)	10 (31.25)	11 (39.29)
	Bad	8 (20.00)	7 (21.88)	3 (10.71)	2 (5.00)	7 (21.88)	9 (32.14)
	Total	40 (100)	32 (100)	28 (100)	40 (100)	32 (100)	28 (100)
Costs	Excellent	8 (20.00)	7 (21.88)	5 (17.86)	27 (67.5)	18 (56.25)	9 (32.14)
	Good	17 (42.50)	18 (56.25)	14 (50.00)	12 (30.00)	10 (31.25)	13 (46.43)
	Bad	15 (37.50)	7 (21.88)	9 (32.14)	1 (2.50)	4 (12.50)	6 (21.43)
	Total	40 (100)	32 (100)	28 (100)	40 (100)	32 (100)	28 (100)

Figures in parentheses indicate percentages

Source: Field survey, 2004

On the other hand, 92.50% (excellent - 67.50%; good - 25.00%), 87.50% (excellent - 62.50%; good - 25.00%) and 85.71% (excellent - 53.57%; good - 32.14%) of the England, Saudi Arabia and Malaysian migrant workers respectively found the speed of Hundi satisfactory. More than 65%, 46% and 28% of the same migrant workers ranked Hundi as very safe and around 68%, 56% and 32% of selected migrants found it "cheap" (Table 3).

The advantages of the Hundi system over the bank draft in terms of time taken, security and costs involved (per remittance) influenced migrant workers and their family members to realize that the Hundi is better than demand drafts. 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 Hundi and demand drafts to transfer money depending on the nature of his/her need.

Problems Associated with Remittance Transfer

In transferring remittance money to Bangladesh, migrant workers from abroad faced the following problems.

(a) Delay in encashing cheques

Most of the migrant workers transfer their remittances through Hundi. Because, encashing a demand draft takes on an average two weeks while Hundi pays instantly. So, 25%, 34% and 46% of the migrant workers in England, Saudi Arabia and Malaysia respectively reported about this problem.

(b) High commission/taxes compared to informal channels

The transaction cost for the sender of remittances is the service charge of formal institutions plus the postal expenses while, on the other hand, sending through Hundi enables the sender to get 1-2 per cent higher rate than the official exchange rate avoiding commission and postal charges therein. So, 80%, 79% and 82% of the mentioned respondents in the present study reported that commission and taxes/levy on remittance transfer in official process were relatively higher.

(c) Lack of awareness about formal channels

There were many migrant workers who did not know the complex official procedure of remittance transfer. The illiterate as well as lower educated persons even higher educated persons sometimes avoided official channel because of its procedural complexity. About 10%, 31% and 43% of the selected migrants reported about such problem.

Conclusion and Policy Implications

Based on the major findings of the study, the following conclusions and recommendations are put forward:

1. In England the Hundi system is not only preferred but also the pre-dominant channel of remitting money.

2. Like migrant workers of England similar methods were practiced by the migrant workers living in Saudi Arabia although the magnitude was different.
3. An opposite scenario was found in transferring remittances by the migrants living in Malaysia. The incidence of Hundi here is negligible. Most of the migrants in Malaysia used to remit using bank draft - use of Hundi was meager.
4. Use of Hundi is most popular to the major part of the migrant workers than the demand drafts and other methods of remittance transfer.

In order to improve official remittance flows and their productive use there should be a provision of information with respect to existing facilities and opportunities (for sending remittance money, investing in savings instruments or in other productive areas); and should undertake motivational work. These have to be conducted by relevant institutions, such as BMET, recruiting agencies and NGOs. At present, there are little systematic efforts to provide pre-departure orientation or briefings. This is deemed to be essential and should be continued. Introduction of new financial products and mechanisms for channeling 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 Sylhety migrant /families where Hundis tend to be more popular. In a similar vein financial institutions need to think about how better to serve this market. 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 include measures such as offering attractive rates on savings certificates and easy access to the share market, mutual funds and so on.

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