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Remittances and poverty alleviation

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As a livelihood strategy, overseas employment has duly drawn the attention of academics and policy-makers as it is crowned as a driver of economic growth. The role of remittances in Bangladesh's growth and development needs no elaboration as two Rs (RMG and remittance) on the external account are keeping the wheels of the economy moving. The direct and indirect impact of foreign as well as local remittances on reduction of poverty is amply documented in available literature. In fact, as researches reveal, had there been no remittances flowing from other countries, the incidence of poverty in Bangladesh would have been higher by a few percentage points. Thus, overseas employment is essential, inevitable and potentially beneficial component of the economic and social life of the country.

While there are a plethora of research papers on overseas employment, very few of them originate from household surveys, and perhaps a few from panel dataset. The recently completed survey on households in 62 villages (called Mahabub Hossain Dataset or MH Dataset) provides useful information about it.

How do many households in rural Bangladesh receive remittances from their members working outside the country? MH Dataset reveals that about one-thirds of sample households had at least one member overseas in 2014. This implies that one in every three households appear to receive remittance as opposed to one in four in 2008 and one in five in 2000. Arguably then, overseas employment has been on a rise over time which is also reflected by various official documents.

Who are they? A priori reasoning would suggest that members from relatively richer households go outside the country while the poorer ones migrate inside the country. It is interesting to observe that about half of the foreign job-holders in 2014 constituted members of poor households - defined as owning up to 0.2 ha of land (or 50 decimals). They are called functionally landless households. The proportion of this group has doubled within a decade as the share was just 25 per cent in 2000. It could further be observed that more than four-fifths of the employed overseas in 2014 came from poor and small households who reported to own up to 1 ha (about two and a half acre) as against two-thirds in 2000. On the contrary, workers from relatively solvent groups (1ha +) constituted about one-thirds of all overseas workers in 2000; the share dropped to only 14 per cent in 2014. The upshot is that: (a) between 2000 and 2014, most of the overseas workers were from relatively poor families, and (b) the share of relatively solvent families declined over time. Remittance thus is contributing to growing resilience of households in shocks.

Where are they going? About half of the total workers from Sylhet and Chittagong seem to leave the country. Apparently higher wage and better amenities of life overseas pulled them to jobs overseas.

Among foreign workers, about 70 per cent went to Middle East countries, 16 per cent to Asian countries, and 12 per cent to Europe. Of those who went to the Middle East, 70 per cent are reported to be secondary dropouts, and 26 per cent crossed SSC/HSC. For Asia, the proportion is same. In Europe, only one-thirds are reported to be secondary dropouts. Among foreign workers, 80 per cent have no training whatsoever and the trend is the same across continents. Among those trained, driving, electrician, welding and carpentry constitute the lion share. It is thus no wonder that Bangladeshi unskilled workers earn very low wage. The necessity of training, if at certain costs, could be welcome.

Working abroad has a cost - both monetary and physical. Since non-monetary costs are very difficult to measure, we will consider the monetary cost. In 2000, an overseas worker had to spend on average \$ 2,406 that rose to \$3,805 in 2014. What is to be noted is that the maximum amount of cost in 2000 was \$16,000 and \$23,000 in 2014 which indicates the level of desperation for jobs abroad. However, against the cost of \$3,805 in 2014, foreign workers sent home on average about \$2,413 back home. This means possibly that the cost of getting overseas jobs could be recouped within two to three years. In 2014, two-thirds of foreign migrants left the country for services and one-fourths went for wage labour against 52 per cent and 11 per cent respectively in 2000.

How is the remitted money channeled into the country? There was a time when transaction would take place mostly through 'hundi', an unofficial channel. We have no comparable data but it is suffice to say that in 2014, four-fifths of the cash transfer from foreign countries was made through banks, followed by only 6 per cent through hundi. This is a remarkable achievement as funds are now mostly flowing through official channels.

How is the remitted money being spent? Interesting insights can be found in expenditure pattern. Food expenses account for 43 per cent of total expenditure out of remitted domestic income compared to 27 per cent overseas and 31 per cent for all. About 12-14 per cent of the expenses (both domestic and foreign workers) are earmarked for agricultural pursuits such as buying inputs, machines, land leasing and buying. Within agriculture, foreign migrants spend most of it on buying land (90 per cent). Construction/ repairing and maintenance of households claim 15 per cent for domestic money and 20 per cent for foreign money, education and medical roughly 10-11 per cent each. Business, investment in government securities and stock market are very negligible. However, foreign workers have 10 per cent bank savings. By and large, remitted money seems to be used very rarely for productive investments.

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