

# The Impact of International Labour Migration and Remittances on Poverty in Bangladesh

Md. Morshed Hossain\*

## *Abstract*

*International labour migration is an important feature of the present day globalizing world, which offers opportunities for promoting personal well-being as well as national economic growth through increased income remittances from abroad. Out-migration and remittances of migrant workers also have significant contribution to poverty reduction. The paper discusses the impact of migration and remittance on poverty reduction in a number of countries citing evidence from a number of past studies carried out elsewhere. It then examines the impact of migration and inward remittances on the poverty situation in Bangladesh in an historical respect and identifies areas where policy intervention will be needed to increase labour migration and encourage larger remittance inflows to the country.*

## **1. Introduction**

In 2005, an estimated 190 million of the world's people lived outside their country of birth, 49.6 percent of them women, 50.4 percent men. Of the world's migrants, 82 percent come from developing countries, with Bangladesh, China, India, Mexico, Russia and Ukraine sending the largest numbers (World Bank 2006a). International labour migration has become an increasingly important feature in a globalizing world in which not only more people are on the move, but also the frequency and the different modes, channels and directions of mobility have expanded and extended into every corner of the world. This trend is not only set to continue but to increase. The migration of workers across international

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\* Associate Professor, Economics & officer on Special duty (on Deputation), Directorate of Secondary & Higher Education, Ministry of Education.

boundaries in search of economic opportunity has enormous implications for development. It can have significant positive impacts on household well-being and economic growth through improved income opportunities, knowledge transfers, and increased integration in the global economy (World Bank 2006b).

This paper explores the impact of international labour migration and remittances on poverty in Bangladesh. It identifies the areas for policy intervention to increase the international labour migration and remittances.

This paper contains four sections. The first section is an introductory one. Literature review has been done in the second section. The third section reviews the impact of international migration and remittances on poverty in Bangladesh. An over view of international migration, remittances and poverty scenario is provided in section 4. The final section draws conclusions and major policy implications.

## **2. Literature Review**

Adams and Page (2005a) focuses on the positive side of remittances resulting from migration, which they argue reduce poverty. Adams and Page uses cross-country regression based on 74 countries and find that a 10 percent increase in the share of remittances in a country's GDP can lead to an average 1.2 percent decline in the poverty headcount.

Chimhowu and Pinder (2005) examines the nature and role of remittances in household income and the impact of remittances on poverty reduction. This study reached a number of conclusions about the impact of remittances on poverty. First, remittances form an important part of household livelihood strategies. Remittances contribute directly to raising household incomes, while broadening the opportunities to increase incomes. Remittances also allow households to increase their consumption of local goods and services. However, available evidence suggests caution in drawing further conclusions on the extent to which remittances can be a broad strategy for poverty reduction. Remittances can be unreliable and hence can make specific contributions only at a particular moment in time. In the long term, they can cease altogether as migrants either return to the home country or are integrated into the host community.

Second, at the community level, remittances generate multiplier effects in the local economy, creating jobs and spurring new economic and social infrastructure and services, particularly where effective structures and institutions have been established to pool and direct remittances. Where these have been set up and

encouraged and where the state is supportive, remittances can make a difference, particularly in remote rural locations where state resources have not been effective.

Third, at the national level, remittances provide foreign currency and contribute significantly to GDP. However, for countries with low GDP, remittance receipts can distort formal capital markets and destabilize exchange rate regimes through the creation of parallel currency markets.

Fourth, remittances can redistribute resources from rich to poor countries. The increase in remittances, which now surpass official aid transfers to developing countries, reduces international inequality and promotes poverty reduction.

Adams (2004) has used a large nationally representative household survey to analyze the impact of internal remittances (in Guatemala) and international remittances (from the United States) on poverty in Guatemala. With only one exception, the study finds that both internal and international remittances reduce the level, depth and severity of poverty in Guatemala. However, the paper finds that remittances have a greater impact on reducing the severity as opposed to the level of poverty in Guatemala. For example, the squared poverty gap - which measures the severity of poverty - falls by 21.1 percent when internal remittances are included in household income. This is true because households in the lowest decile group receive a very large share of their total household income (expenditure) from remittances. Households in the bottom decile group receive between 50 and 60 percent of their total income (expenditure) from remittances, their income status changes dramatically, and this in turn has a large effect on any poverty measure - like the squared poverty gap - that considers the number, distance and distribution of poor household beneath poverty line.

The themes of the Global Economic Prospect 2006 published by the World Bank are international remittances and migration, their economic consequences, and how policies can increase their role in reducing poverty. In section "Remittances, Poverty and Inequality" the report says, "Remittances directly affect poverty by increasing the income of the recipients. They also indirectly affect poverty in the recipient country through their effects on growth, inflation, exchange rates and access to capital. Measuring the impact of remittances is complex. But a growing body of evidence from poverty simulation model, cross-country regressions and analysis of household survey data shows that remittances, in fact, do reduce poverty although the evidence of their effect on inequality is mixed" (World Bank 2006c).

Adam and Page (2005b) examined the impact of international migration and remittances on poverty in the developing world. In this study, they used cross-

country data to analyze how international migration and remittances affect poverty in the developing world in line with the basic growth poverty model suggested by Ravallion and Chen (1997). This latter study uses a new data set on international migration, remittances, inequality and poverty from 71 developing countries. The results show that both international migration and remittances significantly reduce the level, depth and severity of poverty in the developing world. The results suggest that, on average, a 10 % increase in the share of international migrants in a country's population will lead to a 2.1% decline in the share of people living on less than \$ 1.00 per person per day. A similar 10% increase in per capita official remittances will lead to a 3.5% decline in the share of people living in poverty.

Although the available evidence is still relatively limited, growing evidence from household survey data complements the findings of the model that international remittances have reduced the incidence and severity of poverty in several low income countries. According to that evidence, remittances are believed to have reduced the poverty headcount ratio by 11 percentage points in Uganda, 6 percentage points in Bangladesh, and 5 percentage points in Ghana (Adams 2006).

Wodon and others (2002) conclude that in Guerrero and Oaxaca, two southern Mexican states with significant international emigration and remittances inflows, the share of the population living in poverty is lower by 2 percentage points due to remittance income. They argue that this poverty effect is similar in magnitude to that of many government programs in poverty reduction, education, health and nutrition.

Yang and Martinez (2005) studied the impact of variations in the exchange rate on remittances sent by Filipino workers and the ultimate impact of remittances on poverty in the recipient regions. Using a large dataset from the Overseas Filipino Survey, they found that an appreciation of the Philippine peso led to an increase in remittance flows, which contributed to the reduction in poverty. Interestingly, increased remittances not only reduced poverty in the migrant families, they also had spillover effects on non migrant families.

Taylor, Mora, and Adams (2005), using data from a 2003 survey, finds that international remittances account for 15 percent of per capita household income in rural Mexico. The study concludes that an increase in international remittances would reduce both the poverty headcount and the poverty gap.

In his study, Adams (1991) used predicted income equations to evaluate the impact of international remittances on poverty and income distribution. Using this

framework, the study shows that international remittances have a small, but positive, effect on poverty. Poverty-line calculations indicated that the number of poor households declines by 9.8 percent when predicted per capita household income includes international remittances. Such remittances account for 14.7 percent of the total predicted per capita income of poor households.

Miambo and others (2005) analyzes the impact of international remittances on poverty using a growth-poverty model. This model which has been used by a host of poverty researchers assumes that economic growth—as measured by increases in mean per capita income—will reduce poverty.

The results are interesting. The analysis finds that, when the estimated values for unofficial remittances are added to official remittance figures, total remittances (official and unofficial) reduce the level of poverty in South Asia. On average, the point estimates for the poverty headcount measure suggest that a 10 percent increase in total remittances (official and unofficial) will lead to a 0.9 percent decline in the level of poverty in South Asia. This means that for a representative country where exactly one-half of the population lives below the poverty line, a 10 percent increase in total remittances (official and unofficial) will bring the proportion living in poverty down to about 0.48 percent.

Remittances may have reduced the share of the poor people in the population by 11 percent in Uganda, 6 percent in Bangladesh, and 5 percent in Ghana. Remittance income was also associated with higher school attendance in Philippines and Sri Lanka, improved health outcomes in Guatemala, and increased investment in micro enterprises in Mexico. (World Bank 2006b)

It can be concluded from the studies reviewed in this section that the impact of international labour migration and remittances on poverty reduction is positive.

### **3. Earlier Studies Impact of International Labour Migration and Remittances on Poverty in Bangladesh**

Afsar and others (2000) found that migrant households experienced enormous expansion of their income base during the post-migration period. Currently a fifth of the migrant households have monthly income between Taka 20,000 and 30,000 compared to a solitary household prior to migration of the respondents. Expansion of income base leads to a dramatic improvement of the household's poverty situation. Using HCI (Head Count Index), the study estimates that 21 percent of the migrant households were moderately poor prior to overseas migration by the respondents. In the post-migration period the proportion of such household slashed down dramatically to 7 percent.

The same study also found that remittances promote development through increased material and human capital investment. The study shows that from zero level of savings, respondents now save a quarter of their overseas income from remittances. Apart from that their investment on health and education of family members, the two major indicators of human capital, has increased significantly compared to the pre-migration level.

Siddiqui (2005) explores the extent and nature of international voluntary migration from Bangladesh today. It identifies the areas for policy intervention to increase the opportunities available for poor people to migrate beyond national borders with maximum protection. The study emphasises that through timely and appropriate intervention, migration can be turned into a major development enhancing process. It can reduce poverty and be an important sustainable strategy of the poor.

An earlier study by Siddiqui (2001) looked into both social and economic costs and benefits of female short-term international migration. It found that 56% of families experienced positive economic results, 26.5% negative economic results, and for 15.5% families, the economic impact of migration was mixed. Economic Impact was assessed on the basis of 10 indicators : (a) reasonable length of stay abroad or returning home before one year of stay; (b) reasonable flow of remittances or inability to generate remittances; (c) repaying loans for migration or inability to repay the loan; (d) buying land or inability to buy any land; (e) constructing a house or inability to construct a house, (f) generating savings or inability to generate enough or any savings; (g) investing in business or inability to invest in business; (h) increase in income as percentage of family income or no increase in income as percentage of family income; (i) substantially bearing the subsistence costs of a family for a prolonged period or inability to bear the subsistence costs of family; (j) improved living standard or general deterioration in living standard.

Human development is considered to be the pre-requisite for poverty alleviation and growth and development of the country. Mahmood (1998) observed that international migration and human development are interlinked. Enlarging people's choices is by far the most important contribution of international migration to human development. It widens individuals' choices in terms of employment opportunities and for being more productive and creative. For the very poor, migration enables survival from hunger and starvation. It opens opportunities for employment and income for the unemployed; being more productive, for the underemployed. The study also observed that overseas

migration and remittances contribute to better and higher education among migrant family members, enable better health and medicare, and significantly underline improved housing and sanitation for the family. Various transfer payments made by migrant families towards their relatives, friends and neighbours also contribute to the latter's welfare. Moreover, participation and contribution of migrant families in development of local infrastructures and various institutions contribute to local human development. These include, in particular, construction and development of schools, colleges, health centers, water supply and sanitation, rural electrification etc. Migration also helps development or strengthening of local level institutions such as family values and social norms and traditions, which have a positive bearing on human development.

In his 1991 study, Mahmood found that the level and the pattern of use of remittances by migrant households would have diverse implications for the welfare of the respective households as also for the community and locality to which they belong to. Overseas remittances ensure a better living condition for a family at present, and enhance its resource base for the future. Transfer of remittances in the form of gifts and donations, and use of the same for alternative purposes create various linkages for the local economy. An increased demand is generated for various goods and services, which encourages local production and trading, and therefore generates employment opportunities. The various sectors and activities, which are influenced most, are construction, agriculture, services, manufacturing, transport and communication, and social infrastructures.

The remittance earnings have a direct poverty alleviation impact. A study shows that the higher the skill and education level of the overseas workers and employees the lower their ties with the host country and incidence of sending remittances back home. About 94 percent of the Bangladeshi overseas workers are outside professional categories; they have strong ties with home and tend to send a significant portion of their remittance back to Bangladesh. The investigation on the pattern of expenditure of the workers shows that the expatriate workers spend 29.8 percent of their income on personal consumption abroad; they send 44.9 percent of their income back home and save 22.8 percent. The remittances sent by the overseas workers are used for various productive, investment and consumption purposes. A major share of remittances (36 percent) is used to meet recurrent consumption which includes education, health care, and food. Such expenditures have a direct poverty alleviation impact. Another 20 percent is used for investment in land properties, while around 14 percent of remittances are spent to provide better housing. Moreover, remittances for the families play a role in restructuring the income structure and consumption (Raihan, 2006).

The impacts of migrant remittances touch not just the macro economic factors and the dependents of the migrants in home countries. They influence the social structure in terms of life standards, rural financial and trade activities, and income consumption levels of the people of particular community/villages both actively and passively. Many recipient families get rid of extreme poverty situation, at least marginally (Azad A.K. 2006).

#### **4. An Overview of International Migration, Remittances and Poverty Scenario in Bangladesh**

##### **4.1 Nature of Migrant and Scale of Migration**

Systematic recording of migration of Bangladeshi workers started from 1976. The Bureau of Manpower, Employment and Training (BMET), which is under the Labour and Employment Ministry of the Government of Bangladesh, is in charge of keeping the record of Bangladeshis who have left the country for overseas employment. BMET has classified temporary migrant population into four categories : professional, skilled, semi skilled and unskilled. Doctors, engineers, teachers and nurses are considered professionals, manufacturing or garments workers, drivers, computer operators and electricians are considered skilled, while tailors and masons etc. are considered semi skilled. Housemaids, cleaners and menial labourers are considered unskilled workers. Table - 1 shows the skill composition of workers that migrated during the 1995-2006 period. From 1976 to 2005 half of the total migrants were unskilled (Bangladesh Economic Review, 2006). In 1995, professionals, skilled and semi-skilled workers were 52.42 percent of total migrants. But in 2005 it increased to 55.46 percent. The composition of workers going abroad in 2004 was : professional 0.77 percent, skilled worker 44.98 percent, semi-skilled 9.71 percent, and low skilled 44.54 percent.

The formal “export of manpower” began in 1976 with the number at 6,087 workers only. In 2005 the export went up to 252702. From 1976 to April 2006, altogether 42,73,000 people have migrated from Bangladesh on overseas employment. (Bangladesh Economic Review, 2006). Table-2 shows the migration by country of employment. Bangladesh exports contract labour mostly to Middle Eastern and Southeast Asian Countries. Saudi Arabia, UAE, Kuwait, Oman, Malaysia and Singapore are some of the major countries of destination. Saudi Arabia is the largest employer of Bangladesh migrant workers. Bahrain, Qatar, Jordan, South Korea, Brunei, Mauritius, Italy, UK, USA, Spain, Japan, France, Australia, and Canada are also preferred countries for migration.

## 4.2 Flow of Remittance

The Bangladesh Bank documents remittance flows to Bangladesh from all over the world. Table-3 shows that the remittances sent by migrant workers have grown over time. It has increased from US \$ 1217.06 million (1995-96) to US \$ 3889.74 million (2005-06, April). In 2005-06 April remittances increased 21.91 percent compared to the figure for 2004-05. In 2004-05 remittance earnings were equivalent to 6.37 percent of GDP. This ratio has a secular increasing trend over the years. The ratio of remittances to export earning is also increasing steadily and in 2004-05 it was 44.46 percent (Table-4).

In 2004-05, 39.25% of total remittances came from Saudi Arabia. The second largest remittance sending country was US, 14.48%. UAE and Kuwait were third and fourth, 11.49% and 10.57%, respectively.

## 4.3 Poverty Scenario

Poverty has manifold expressions and, indeed many roots. It is about income deprivation. It is about shortfalls in consumption and inadequate supply of nutrition. It is about poor access to education and low physical asset base. It is about risks, uncertainties and vulnerabilities. It is about personal insecurity as much as it is about the lack of food security. It is about crisis coping capacities. It is about self-development initiatives. It is about the dismal state of health and health care access (Sen and Rahman 1998).

By most estimates Bangladesh has witnessed a modest poverty reduction rate of around one percentage point a year since the early nineteen nineties. The percentage of population living in poverty fell from over 70 percent in 1970 to about 50 percent in 2000. A decline of nearly 10 percentage points occurred in just the first half of the nineties. The rate of decline slowed down between 1996 and 2000, corresponding to a slowdown in economic expansion. Table-5 illustrates the declining trends in poverty and extreme poverty from 58.8 percent to 49.8 percent and from 42.7 percent to about 33.7 percent, during the nineties.

There has been a substantial improvement in the welfare of those identified as poor through earlier rounds of Household Income and Expenditure Survey (HIES). The impact of economic growth seems to have been widespread, with many people moving out of poverty. The poverty Gap (P1) measures the average distance the poor are from the poverty line, and the Poverty Severity (P2), the square of the Poverty Gap, investigates the distributional characteristics of the poor. Changes in these measures suggest that the average distance from the

poverty line had decreased for the poor between 1991/92 and 2000 from 17.2 percent to 12.9 percent, and the rate of decline in  $P_1$  and  $P_2$  measures was faster than that of the head count rates (World Bank, 2006d).

Human poverty trends have shown faster improvement than income-poverty trends. The Human poverty index (based on deprivations in health, education and nutrition) stood at 61 percent in the early eighties (1981/83), but declined to 47 percent in the early nineties (1993/94) and dropped further to 35 percent in the late nineties (1998/00). The index of human poverty declined by 2.54 percent per year compared with 1.45 percent in the national head-count ratio for income-poverty over the last two decades.

While Bangladesh has made significant inroads in poverty alleviation, the overall incidence of poverty still remains unacceptably high with nearly 50 percent of the population below the poverty line. Although the head count rate has declined, the actual number of the poor has remained roughly the same during the nineties, around 63 million people. The number of people in extreme poverty declined modestly from 45 million to 42 million over the same period.

## **5. Conclusions and Policy Implications**

International migration and remittances have a strong statistically significant impact on reducing poverty in developing countries. In Bangladesh the large increases in international migration and remittances have had a significant impact on poverty reduction. Yet, Bangladesh still receives lower amount of remittances compared to the number of nationals working abroad. Compared to the other labour sending countries, the number of Bangladesh immigrants is smaller, mostly short term in employment, less skilled in working performance, and low paid. Informal remittance transfer has long been seen as a strong barrier to receiving remittances in full. (Azad A. K. 2006)

The positive impact of international migration on poverty makes the policy question of “managing migration” assume a greater importance in the international development community. While the international community has paid considerable attention in the past to international movements of goods, services and finance, much less attention has been given to the international movement of people. There would be substantial potential benefits to the world’s poor if more international attention were focused on integrating “migration policy” to within the larger global dialogue on economic development and poverty reduction.

Strong institutions and good policies will enhance the benefits of migration for developing countries. A stable business climate encourages the investment of income from remittances and a sound financial infrastructure is essential if remittances are to have a positive impact on financial deepening. Sound macro economic policies and openness to trade will also help manage the macro economic risks associated with high remittances inflows in small economies.

There are suggestions that bilateral agreements can enhance the benefit of migration by reducing the incentives for illegal migration and ensuring that migration is of equal benefit to both sending and receiving countries. But these suggestions have yet to be fully evaluated. Improved incentives are at the core of encouraging skilled people to stay or return home. The creation of more better private sector jobs and the implementation of strategies for public sector retention - combining performance-based systems with improved working conditions - can increase incentives to stay. Portable social security benefits can increase incentives to return. Today only one migrant in five worldwide has full pension portability (World Bank 2006b).

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*Annex :***Table 1 : Year Wise Official Flow of Bangladeshi Workers by Their Skill Composition (1995-April 2006)**

Year	Professional	Skilled	Semi-Skilled	Unskilled	Total
1995	6352	59907	32055	89229	187543
1996	3188	64301	34689	109536	211714
1997	3797	65211	193558	118511	381077
1998	9574	74718	51590	131785	267667
1999	8045	98449	44947	116741	268182
2000	10669	99606	26461	85950	222686
2001	6940	42742	30702	109581	188965
2002	14450	56265	36025	118516	225256
2003	15862	74530	29236	136562	254190
2004	19107	81887	24566	147398	272958
2005	1945	113655	24546	112556	252702
2006 up to April	384	38224	9775	47652	96035

Source : Bureau of Manpower, Employment & Training.

**Table 2 : Migration by Country of Employment**

Year	Saudi Arabia	Kuwait	UAE	Bahrain	Oman	Malaysia	Singapore	Others	Total
1995	84009	17492	14686	3004	20949	35174	3762	8467	187543
1996	72734	21042	23812	3759	8691	66631	5304	9741	211714
1997	106534	21126	54719	5010	5985	152844	27401	7458	381077
1998	158715	25444	38796	7014	4779	551	21728	10640	267667
1999	185739	22400	32344	4639	4045	-	9596	9419	268182
2000	144618	594	34034	4637	5258	17237	11095	5213	222686
2001	137248	5341	16252	4371	4561	4921	9615	6656	188965
2002	163254	15767	25438	5370	3927	85	6870	4545	225256
2003	162131	26722	37346	7482	4029	28	5304	11148	254190
2004	139031	41108	47012	9194	4435	224	6948	25006	272958
2005	80425	47029	61978	10716	4827	2911	9651	35165	252702
2006 up to April	26697	10159	34293	5203	1856	3254	4466	10107	96035

Source : Bureau of Manpower, Employment & Training.

**Table 3 : Country Wise Flow of Remittances**

Financial Year	Saudi Arabia	UAE	Qatar	Oman	Bahrain	Kuwait	USA	UK	Malaysia	Singapore	Others	Total
1995-96	498.20	83.70	53.28	81.71	30.08	174.27	11.536	41.28	74.43	3.99	60.76	1217.06
1996-97	587.15	89.64	53.16	94.45	31.52	211.49	157.39	56.20	94.51	6.66	93.32	1475.40
1997-98	589.29	106.86	57.81	87.61	32.42	213.15	203.13	65.80	78.09	7.69	83.57	1525.42
1998-99	685.49	125.34	63.94	91.90	38.94	230.22	239.43	54.04	67.52	13.07	95.82	1705.74
1999-00	916.01	129.86	63.73	93.01	41.80	245.01	241.30	71.79	54.04	11.63	81.14	1949.32
2000-01	919.61	144.28	63.44	83.66	44.05	247.39	225.62	55.70	30.60	7.84	59.91	1882.1
2001-02	1147.95	233.49	90.60	103.27	54.12	285.75	356.24	103.31	46.85	14.26	65.29	2501.13
2002-03	1254.31	327.40	113.55	114.06	63.72	338.59	458.05	220.22	41.40	31.06	99.61	3061.97
2003-04	1386.03	373.46	113.64	118.53	61.11	361.24	467.81	297.54	37.06	32.37	123.18	3371.97
2004-05	1510.45	442.24	136.41	131.32	67.18	406.80	557.31	375.77	25.51	47.69	147.60	3848.29
2005-06 (up to March)	1245.71	405.60	123.99	120.39	50.34	345.41	560.75	393.81	14.00	48.51	166.61	3475.12

Source : Bangladesh Bank.

**Table 4 : Ratio of Remittances to GDP and Export Earnings**

Financial Year	Percent of GDP	Percent Export Earning
1997-98	3.46	29.49
1998-99	3.74	32.04
1999-00	4.14	33.89
2000-01	4.01	29.10
2001-02	5.26	41.78
2002-03	5.90	46.76
2003-04	5.98	44.35
2004-05	6.37	44.46

Source: BBS, EPB, Bangladesh Bank.

**Table 5 : Trends in Consumption Poverty**

	Upper Poverty Line			Lower Poverty Line		
	1991-92	1995-96	2000	1991-92	1995-96	2000
Head count Rate (P0)	58.8	51.0	49.8	42.7	34.4	33.7
National	44.9	29.4	36.6	23.3	13.7	19.1
Urban	61.2	55.2	53.0	46.0	38.5	37.4
Rural						
Poverty Gap (P1)	17.2	13.3	12.9	10.7	7.6	7.3
National	12.0	7.2	9.5	4.9	2.6	3.8
Urban	18.1	14.5	13.8	11.7	8.6	8.2
Rural						
Poverty Severity (P2)	6.8	4.8	4.6	3.9	2.5	2.3
National	4.4	2.5	3.4	1.5	0.7	1.2
Urban	7.2	5.3	4.9	4.3	2.8	2.6
Rural						

Source: World Bank (2002), "Poverty in Bangladesh; Building on Progress" based on analysis of the HIES.