Economics of Migrant Remittance: Management and Regulation

Jamaluddin Ahmed*

Abstract

Migrant remittances contribute to economic growth but these may have some unwelcome consequences as well. The optimal monetary and fiscal policy in the presence of remittances thus deviates from the norm in the absence of remittances. The paper highlights the macroeconomic impact of remittances from a theoretical perspective as well as real life effects on various segments of the economy. The paper dwells at some length on informal money transfer and the framework of regulatory activity in the fund transfer system. It also suggests an effective regulatory framework for attracting remittances and directing them through the formal official channels from unofficial ones. The mechanisms suggested include those recommended by the FATC as well as those undertaken under bilateral and private sector initiatives. The paper in particular looks upon the importance of inward remittances in the Bangladesh economy and the policy challenges regarding their management and regulation. The paper ends up with same plausible recommendations for the government on the regulatory framework and the role of the foreign missions and the commercial banks on the issue of labour migration and associated remittance flows.

1. Introduction

Migration and remittances as statistical concepts are defined only vaguely. An international technical meeting on measuring migrants' remittances in early 2005 identified a number of areas where the statistical treatment of remittance needed

* Treasurer of Bangladesh Economic Association, Vice President Institute of Chartered Accountants of Bangladesh and Partner of Hoda Vasi Chowdhury & Co- Affiliate Firm of Deloitte Touche Tohmatsu. Author is currently working as Senior Financial Expert with DFID funded Remittance Partnership Program.

to be improved (Alfieri et al., 2005; Hussain, 2005). In particular, balance of payments conventions do not provide a robust basis for measuring remittances: the one year rule does not allow identification of all migrants; the distinction between remittances and other private transfers is somewhat blurred; there is no methodology for compiling information about informal flows; and the impact of remittances on development is measured by household surveys in the sending and receiving countries (Alexei Kireyev, 2006). The statistical treatment of remittances is further complicated by differences in the definition of migrants (Bilsborrow, et al., 1997). Broadly, three balance of payments components are seen as most relevant for capturing remittances (Reinke and Patterson, 2005). These are, *first*: compensation of employees- earning by resident individuals for work performed in another economy and paid for by residents of this other economy; *second*: workers' remittances-current transfers by migrants who are employed in economies and considered residents there and non-residents of the home economy; and *third*: migrants' transfers-the flow of goods and changes in financial items that occur with migration i.e., to or from the migrant as resident to the same person as non-resident.

The number of international migrants has an increasing trend. This phenomenon has attracted the increased attention of policy makers, scientists, and international agencies and is likely to develop further in the coming decades as a part of globalization process. The transfer of human resources has undergone extensive scrutiny in developing countries but also in industrial countries like Canada, the United Kingdom, and Germany, where important fraction of talented natives are working abroad. The ILO defines migrant workers' as "people who are permitted to be engaged in economic activity in the country other than their country of origin" (Bilsborrow, 1997). Aside from the significance of the magnitude, remittances are generally a less volatile, hence more dependable, source of funding than private capital flows and Foreign Direct Investment (Ratha, 2003,; Buch and Kuckulenz, 2004). Being unilateral transfers, they do not create any future liabilities such as debt servicing or profit transfers. Furthermore, remittances are argued to have a tendency to move counter cyclically with GDP in recipient countries, as migrant workers are expected to increase their support to family members during down cycle of economic activity back home so as to help them compensate for lost family income due to unemployment or other crisis induced reasons. Wherever true, such a countercyclicity enables remittances to serve as a stabilizer that helps smooth out large fluctuations in the national income over different phases of business cycle. Yet, as shown by considerable number of studies in the existing literature, the decision to remit is a complex phenomenon involving other factors than motivation to help finance current, as opposed to future, consumption spending of family members and relatives back home (Russell, 1986).

The objective of this paper is to examine the economics of migrant remittance and find ways of its effective utilization. section 2 of the paper is structured to examine the impact of remittance on the different segments of an economy, and the need for motivation and fiscal incentives for remittance, section 3 dwels on informal money transfer and regulation mechanisms, while the importance of migrant remittance to the Bangladesh economy and the issues on management and regulation of migrant remittance in the country are discussed in section 4. Some policy conclusions and recommendations appear in the fifth and final section of the paper.

2. The Macroeconomic Impact of Remittances

Microeconomic theory treats remittances mainly as a household issue. Most literature that has focused on the microeconomics of remittances aims at explaining their patterns, motivation, and the impact on family consumption by using population censuses and other household-level data (see Rapoport and Docquier, 2005 for a detailed review).

The literature on the macro impact of remittances remains largely fragmented. It is generally recognized that the long-run impact of remittances on receiving economies depends on whether they are spent on consumption or investment. Since remittances have a substantial impact on income distribution in the receiving countries, some endogenous growth literature associates the macro impact of remittances with their distributive effects. Such studies focus on human capital formation and inequality as key determinants of productivity that have an impact on growth (see Chami et al., 2003 and Rapoport and Docquier, 2005 for a discussion). However, there is no identifiable theoretical or empirical study that looks at the impact of remittances on key macroeconomic sectors. What follows are some initial ideas on what could be a starting point for a more in-depth analysis of the macroeconomics of remittances.

Possible theoretical frameworks for assessing the macroeconomics of remittances are suggested in the Keynesian model, the Mundell-Fleming model, the Rybczynski effect, and a national accounts approach.

In using a *Keynesian model* approach for Bangladesh, the lack of expenditure data on GDP precludes any numerical assessment of the marginal propensity to save, although low bank consumer deposits and quick withdrawals of remittances suggest that it should be very small. At the same time, booming imports, particularly in recent years, in parallel with growing inflows of remittances, suggest that a substantial part of remittances is spent on (imported) consumption. Bangladesh's marginal propensity to import based on recent data is 0.65. The impact on growth depends on the interaction between the magnitude of net remittances and the unknown marginal propensity to save. Under this approach, the impact of remittances on growth is likely to be small. But at the same time, the Keynesian model is more appropriate for a large closed economy, where the exchange rate is not particularly relevant.

The *Mundell-Fleming model* applies the Keynesian approach to a small open economy. While Bangladesh broadly pursues a flexible exchange rate regime, it remains detached from international capital markets, and the Mundell-Fleming framework is applicable. The central bank of Bangladesh has had difficulties in controlling reserve money, because to meet the demand for domestic currency it has to purchase increasing amounts of foreign exchange, much of which stems from remittances. The impact of remittances on the exchange rate has been ambiguous; strong appreciation pressures that emerged in early 2004 could have been the result of inappropriate monetary management that tried to constrain cash in circulation, rather than a result of the inflow of remittances. At the same time, during most of 2004-early 2005, the foreign exchange market seems to have been close to equilibrium, with the central bank on the margins and some nominal depreciation of the exchange rate. Therefore, in Bangladesh the impact of remittances through the monetary channel has so far translated mainly into additional inflationary pressures rather than into real growth, which remains broadly exogenous. So far, the inflationary impact has not been pronounced and affected mainly land and real estate prices and private sector wages.

The *Rybczynski theorem* if applied to Bangladesh can be seen as a reverse of the original Rybczynski effect: contraction in one factor will lead to an absolute contraction of the output and exports of the product that uses that factor relatively more intensively and an absolute expansion in the output and exports of the good that uses the other factor intensively. As labor is assumed to be an abundant factor, its contraction should have an ultra-antitrade production effect. However, the total impact on trade requires the estimation of both production and consumption effects. As a general rule, if the consumption effect is pro-trade, the country's participation in trade will decline with the decline in the abundant factor. The welfare implication of the decline in the abundant factor should be positive, as per capita income of those left in the home country would increase.

But the Rybczynski effect can also lead to an opposite conclusion. Labor is not homogeneous, and the welfare effect of a loss of labor would depend on the composition of the labor force relative to the composition of the migrants. Mostly very old, very young and economically inactive people tend to remain behind in high-emigration countries. Emigration from some countries consists mainly of professionals, from others, mainly laborers. In some countries relations with home communities remain strong; in others, people leave for good. The durability of remittance streams are probably affected, as are the choices between consumption and investment. In Bangladesh domestic wages dropped to close to subsistence, with 84 percent of the population living under the poverty line and widespread unemployment and underemployment. In such a case, departure of excess labor in itself should not reduce growth, but rather increase the incomes of those left behind. The ultimate impact on growth is again ambiguous and depends on the degree to which exogenous growth factors would be able to offset the impending decline in the factor-abundant sector.

Under a *national accounts approach* to remittances, their macroeconomic impact depends mainly on the behavior of the current account. There are at least three channels of impact: a direct channel as remittances are an integral part of the current account, and two indirect channels, through the exchange rate and relative prices.

The direct impact of remittances on the current account is ambiguous: on the one hand, this net inflow helps improve the current account; on the other hand, as a substantial portion of remittances is spent on imports, they work in the opposite direction by widening the trade deficit. While the actual effect will be determined by remittances' marginal propensity to import, under this approach the current account can never be worse with more remittances. In the extreme case, where remittances' marginal propensity to import is 1, the current account would be unchanged, otherwise it would improve.

The indirect impact on the current account through the exchange rate is likely to be negative. An inflow of foreign exchange normally leads to real appreciation, either through a nominal appreciation as demand for domestic currency increases, or through inflation as additional demand pushes consumer prices up. Real appreciation should—all things being equal—worsen the current account, as domestic exports become less competitive internationally.

The indirect impact on the current account through relative prices is ambiguous and depends on whether remittances are spent on tradables or nontradables. Spending primarily on tradables—irrespective of whether consumer or investment goods can either increase their output or prices, or both. If the spillover from this increase to non-tradables is limited, the improvement in the relative prices of tradables should stimulate the production of exportables and contain import growth, thus improving the current account. If remittances are spent primarily on nontradables, there may be an opposite effect—an increase in their relative price would be akin to nominal appreciation, leading to a growing current account deficit.

A serious limitation of all these models is that they are static. They can be used only for an assessment of the possible impact at one point in time, whereas in the case of remittances it is likely to be particularly important to look at their impact over time. Dynamic models could help identify the impact of changes on flows of migrants and on the inflows of remittances, as well as the impact of convergence or divergence of wages and incomes on the flows of remittances over time.

2.1 Fiscal and monetary policy in the presence of Remittance

The presence of remittances alter the scope of optimal monetary and fiscal policy. In the baseline economy without remittances, optimal government policy follows the Friedman rule, which consistent with the finding by Alvarez, Kehoe, and Neueyer (2004) and Chari, Christiano, and Kehoe (1991, 1996) that the Friedman rule is optimal in a variety of monetary economics with distortionary taxes. In contrast, the economies with remittances produce higher steady-state rates of labor taxation, higher debt levels, and money growth as the government seeks to finance the same level of spending while raising revenue from a smaller base of domestic production. Optimum monetary policy in the presence of remittances, therefore, deviates from the Friedman rule as the government finds it optimal to use the inflation tax. The inflation tax acts as a tax on remittances since households are forced to accumulate cash prior to purchase units of the cash good, exposing the households to the risk of unexposed inflation. One important conclusion that can be drawn from no-optimality of the Friedman rule in the presence of remittances, therefore, is that government needs to have a sufficiently rich set of policy instruments to carry out its policy plans.

2.2 Motivation for Remittance

On the motivation for remittances, the literature has been divided between those who argue that remittances are altruistically motivated and those who argue that remittances behave more like capital flows- that is, they are driven by selfish reasons and remitter’s desire to invest in the home country. This latter approach has often been referred to as the portfolio motive behind remittances and has been advanced in a variety of studies, including Straubhaar (1986), Elbadawai and Rocha (1992), El-Sakka and McNabb(1999), and Buch, Kuckulenz, and Le Manchec (2002) to suggest that remittances promote development and enhance growth opportunities. The theory of altruistically motivated remittance flows related to family ties in the home country and the desire of the remitter to provide resources and care for those family members left behind. Altruistic motivations for remittances are discussed in Luca and Stark (1985), Chami, Fullenkamp, and Jahjah (2003, 2005), Gupta (2005), and World Bank (2006), and have their roots in Backer's (1974) analysis on economics of the family.

Establishing primary motivation behind remittance behavior is important since the altruistic and portfolio motives have different implications for the relationships between remittances, household decisions, and other economic variables of interest in the receiving country. For example, if remittance flows were primarily motivated, then one would expect remittances, like investment, to be procyclical relative to output in the receiving country. However, if remittances were primarily motivated by altruistic behavior on the part of the remitter, then remittances as compensatory income transfers would be countercyclical relative to output in the receiving country. The remitter would attempt to remit more when economic conditions were worsening in the home country and may remit less during economic expansions in the home country. Chami, Fullencamp, and Jahjah (2003, 2005) concluded that remittances appear to be primarily intended to serve as compensation for the poor economic performance in the home country.

2.3 The Contribution of Remittances to Development:

Remittances have contributed to financing the trade deficit and kept the current account deficit manageable. Remittances covered up to 80 percent of the growing trade deficit, which reached 19 percent of GDP 2004, driven by real growth and high import demand. This has been the only continuous flow of financing for the trade deficit since early 2000. As inflows of remittances may be under-recorded in the balance of payments, the negative balance of the current account could also be lower than reported.

Remittances and labor migration have had a positive impact on public finances. Imports boosted by remittances are a source of additional revenue collection in the form of VAT and import duties. In 2000-2004 imports increased on average by 15 percent annually. As emigration has eased the unemployment problem and helped contain the associated fiscal expenditures, it can be seen as alleviating the fiscal burden of government. In addition, the consequent remittances can be seen as providing a social safety net, which otherwise would have to be met by the government. Remittances have also contributed to exchange rate stability and even to some exchange rate appreciation that contained and somewhat reduced expenditure in local currency on the external debt serviced by the government. This experience is at slight variance with some other countries, where strong inward flows of remittances created instability of the exchange rate.

Remittances have helped to strengthen the banking system and enhanced competition. With simplified regulations for bank transfers, whereby the recipient does not need to have a current account with the bank to receive remittances, the banks have to compete with each other and other financial intermediaries (i.e., Western Union) for customers. Nevertheless, for many Bangladeshis receipt of remittances represents their first contact with the banking system.

As more recipients gain the confidence needed to deposit remittances, the scope for financial intermediation will grow and the burden of cotton sector debt will decline. More specifically, remittances have helped strengthen the financial base of microfinance institutions, which in turn will be important in channeling remittances to productive use.

Remittances and labor migration have contributed to poverty reduction and human capacity building. Since remittances mainly finance primary consumption, their impact on poverty alleviation has been substantial. Although the precise impact of remittances on this decline is not known, it is likely to be positive. In households receiving remittances, children usually enjoy better education through private tutoring, and all family members tend to have access to better healthcare and other personal services. Also, labor migration has reduced local labor supply and as such has been one of the factors generating growth in wages in the private sector. Remittances have boosted the overall reservation wage, as Bangladeshis returning from abroad expect higher wages at home.

Remittances may be more efficient as a source of development finance than official development assistance. Remittances are based on private incentives and mainly take place between members of the same household. Intra-family transfers give no direct incentive for corruption. Both senders and recipients are likely to be more concerned about the efficiency of their transfers than may be the case in the public sector. Although a fraudulent banking system can be a major impediment to remittances, in Bangladesh even marginal improvements in banking services, reduction of costs of money wiring, and assurances of unrestricted withdrawals of such transfers have been sufficient to change the attitude to banking from one of hostility to acceptance. Actually, the whole visible inflow of remittances through the banking system started from a simple administrative act—the abolition of a tax on their withdrawal from banks in Bangladesh.

The longer-term impact of remittances will depend largely on their pattern. While in many countries remittances have been a relatively stable source of external financing—more stable than foreign investment or development aid—they can still be volatile and should be viewed as being composed of a permanent and a variable component. The permanent flow of remittances from Bangladeshis living continuously abroad can be seen as an additional source of stable development financing, whereas remittances by seasonal workers will most likely remain highly volatile, vulnerable to political and economic conjuncture and largely countercyclical, and should not be viewed as a reliable source of sustainable financing.

Transportation: One key source of communication among immigrants and their families is the use of air transportation. Relatives in Latin America visit family members in the United States, or immigrants travel home to visit their relatives. The end result is a significant amount of air travel among family members. Thirty percent of remittance-sending immigrants indicate that they travel to their home country at least once a year.

Tourism: Economic connectivity between migrants and their native country has become a regular practice. Visiting the home country entails more than staying with relatives. Immigrants who return home to visit are also tourists who spend considerable amounts on entertainment with their families. The visits take place on various occasions, and other religious holidays. Other immigrants go on special trips to their hometowns for weddings, birthdays, deaths, or other emergencies. Immigrants spend significant sums during their stays, and the contributions of such spendings to the economy may be almost as important as remittances.

Telecommunications: Telecommunications connects migrants living abroad with their home countries. The volume of calls has increased as connectivity has improved, opening opportunities for business expansion and investment in cellular telephony, the Internet, and cable transmission. Home-to-home phone calls may be responsible for most of the revenue generated in international long-distance telecommunications.

Trade: Another important feature of contemporary migration is consumption of home-country goods. Migrants have become a new market for exports from their home country. Ethnic imports to the United States-called nostalgic trade and including items such as beer, rum, cheese, and other foodstuffs-are gaining attention among producers in Central America and the Caribbean.

The magnitude of these dynamics has macroeconomic effects. Healthy demand for nostalgic goods has induced migrants to invest in home-country manufactures of foodstuffs such as cheese, fruits, and vegetables. To cite an example, Central American migrants residing in the United States have set up businesses back in their home countries to establish stores of various kinds. Thus, Roos Foods, Inc., a food manufacturer, produces and sells processed milk products in Central America and to Central Americans and Mexicans living in the United States. Roos operates in the United States but with franchises in Nicaragua and EI Salvador. This trend of migrant investment in home countries is likely to continue.

3. Informal Money Transfer

In the aftermath of the September 11 attacks, informal money transfer systems (IMTS) have become the subject of heightened attention around the world. Strong concerns have been voiced about the actual and potential use of these unregulated systems by terrorist organizations as these systems have historically proven themselves to be one of the safest methods to transfer money without a trace. Accordingly, IMTS have come under intense scrutiny by domestic and international law enforcement authorities. Much less consideration has been given to very important economic functions these systems perform. In fact, IMTS provide a fast and cost-effective method for worldwide remittance of money, particularly for low income people who may be outside the reach of the formal financial sector or who transfer relatively small sums that are often subject to prohibitively high minimum charges at conventional institutions. Because of these features IMTS are sometimes called "the poor man's banking system". The available information on IMTS is limited, vague and contradictory, while misconceptions about their operations are many.

Many IMTS operate openly, as they do in the street markets of Asian cities or out of legitimate businesses, such as travel agencies, import/export or shipping companies, grocery stores, gold and jewellery shops, textile or apparel shops and many other business establishments. Some operators based in the United States, particularly those who do not get involved in the transfer of illegal funds, also operate openly. Many operators advertise their services in ethnic newspapers.

It is also widely believed that IMTS arise when political instability impedes the efficient workings of conventional institutions or when people seek ways to evade trade and foreign exchange controls. These factors may be parts of the reasons why IMTS continue to exist today but they certainly are not the reasons why they developed in the first place. IMTS also are not generally associated with violence and do not fit the Western description of gangs and crime syndicates. It has been argued that IMTS operations run relatively smoothly because they are free of bribery and corruption. Their beginnings were, in fact, benign, and were the result of people of similar ethnic background seeking a workable, efficient, cheap and secure means of transferring money and settling accounts with one another.

Although IMTS have operated in various communities over time, the largest ones operating today evolved from two original types, namely the hawala (hundi in Pakistan), which developed in South Asia (Bangladesh, India, and Pakistan) and the fei ch'ien, which started in China. In addition to these two systems, several money transfer systems have developed through the years, most notably, the Colombian system, which has arisen in the context of the black market for pesos.

The operation of hawala essentially involves a hawaladar (or "broker") delivering money from his cash reserve or account at the request of a counterpart hawaladar in another country who is serving a client. In country A, a client hands over a sum of money to the hawaladar and requests that the equivalent amount (usually in the currency of the receiving country) be sent to a designated recipient in country B. The sending hawaladar relays all the necessary information concerning the transaction to a counterpart hawaladar in country B either through telephone, facsimile or email. At this stage of the process, a "collection code" is agreed between the two hawaladars. The hawaladar in country A will then communicate this code to the client, who, in turn, will relay it to the designated recipient in country B. The hawaladar in country B will give the money to the recipient upon presentation of the collection code. If the sending client is also the recipient, he would have to present the code to the counterpart hawaladar, upon arriving in country B before the money could be released to him. In many cases, the payment will be made by the counterpart hawaladar to the designated recipient within hours after the request to remit money was placed by the client in Country A. The income of the hawaladar from the transaction comes from charging a commission ranging from 0.25 per cent to 1.25 per cent of the amount involved and is paid either in local currency or foreign exchange. The lower operating costs of hawalas enable them to entice clients to use their services by offering exchange rates that are more attractive than the official rate available through conventional banking institutions.

In the transaction described above, money is transferred between two parties living in two different countries but cash does not cross borders. Also, the money never enters the conventional banking system. The transaction is based upon a single communication between the two hawaladars and is usually not recorded or guaranteed by written contract between them. A bond of trust that exists between the two "brokers" secures the debt. Country B hawaladar has no legal means to seek redress in the event of a default by the Country A hawaladar on payment of the debt. In some cases, that trust between client and Country A hawaladar enables money to be delivered to the recipient party in Country B even before the sending hawaladar has received the money from the client.

The fei ch'ien (means "flying money or coin") system of money remittance evolved during the latter half of the T'ang Dynasty (618-907 AD) as a result of the growing commodity trade within China. Later on this fei ch`ien system of money remittance started to spread all over the world as the Chinese began to migrate to many parts of the world. With the advent of Chinese emigration in the nineteenth century, the fei ch'ien system became "internationalized". The "within-the-family" structure of the remittance process offered the added advantage of privacy in the transactions and many clients would use the system to shield their income from the heavy tax burdens imposed by some governments on the ethnic Chinese.

Besides the hawala and the fei ch'ien systems, there are some other systems of informal money transfer like, "chop". The chop system works the same way as the hawala system and is still in use today. The "Colombian black market peso exchange system" has been developed more recently as a vehicle for the movement of money across borders.

3.1 Framework for Regulatory and Market Activity in Fund Transfer System (FTS)

The Informal Fund Transfer (IFT) system has proven to be a resilient method of transferring value from one location to another and has been especially attractive to migrants sending remittances. On the other hand, the use of formal systems to send remittances significantly enhances the development potential of remittances and promote greater transparency in the market (Ratha, 2003). There should be attempt to facilitate the shif from informal to formal system and framework for examining the funds transfer systems within each economy, in particular for the foreign loan syndrome economy of Bangladesh. Ultimately, the framework is a step toward balancing the need for IFT systems regulation with an appreciation for the incentives IFT systems offer. The IFT systems provide valuable, efficient services at low cost in places where conflict, poverty, or remote geography prevent formal financial infrastructure from being built. The formal sector can learn and adopt its practices to provide similar services. The need to strike a balance between appropriate levels of regulations and minimizing financial abuse, on the one hand, and promoting cost-efficient and accessible services on the other, is therefore necessary and expedient to enhance the development impact of remittances in a more integrated world.

The fund transfer system faces risk of misuse for money laundering or financing of terrorism, as do other financial sector activities. Countries need to consider the appropriate level of regulation to maintain the integrity of legitimate flows without impeding that flow, particularly for workers' remittances, given the importance they have as a source funds for developing countries like Bangladesh.

3.2 Rationale for shifting from Informal to Formal System

The use of formal method of sending remittances enhances the development potentials of remittances and promotes increased transparency and accountability in the remittance market even as the informal method might be popular among migrant workers. This positivity affects not only the government and the financial sector, but also the individual remitters and their families. Channeling remittance through transparent, formal systems, as opposed to opaque, formal ones, protects remittance flow from illicit flows through better monitoring and recording. Also, because migrants worker remittance flows are believed to comprise a substantial portion of IFT flows (Buencamino and Gorbunnov, 2002), shifting them into formal channels enables law enforcement to better focus their efforts on the illegitimate flows remaining in the formal sector. Opaque IFT systems also present challenges in terms of their adverse effects on the market. Banking and financial services depend on a reputation for integrity, and criminal involvement can reduce investor confidence and diminish opportunities for growth (Buencamino and Gorbunnov, 2002).

Broader concerns include the destabilization of financial markets, because illegal funds are an unstable deposit base; and the loss of revenue and control over economic policy, because money laundering decreases government tax revenue and, when laundered funds are invested, can distort currencies and interest rates. Economic distortions also can occur when money launderers channel money to sectors in which funds are easily hidden. Their subsequent decisions to leave the industry can cause those sectors collapse, possibly damaging the entire economy. Because money laundering enables drug traffickers, smugglers, and other criminals to expand their operations, it obliges governments to increase spending for law enforcement and health care. Formal methods of transferring remittances are also preferable to informal ones because of their increased ability to foster development. The development aim is to encourage savings and investment mechanism, which can be best facilitated and streamlined through formal remittance channels that offer these financial services in conjunction with remittance delivery. In addition, by developing formal remittance channels that compete with informal ones, the formal financial sector has an incentive to develop and benefit from the overall opportunity to grow and expand through the remittances market. Individual remitters also come out ahead because remittance services competitive to those in IFT systems are available but with additional benefits that formal transfer systems afford, such as protection from the flow of illicit proceeds.

3.2.1 The International Financial Action Task Force (FATF) against Money Laundering

As the international standard-setter in anti-money laundering and combating the financing of terrorism (AML/CFT), FATF addresses IFT systems in its Special Recommendations on Terrorist Financing (Special Recommendation VI) (FATF 2001). An Interpretative Note supplements the Special Recommendation and a note on International Best Practices adopted in June 2003 (box 13.1). In 2000, the FATF identified IFT systems as an area of concern in anti-money laundering efforts (FATF 2000). The report discusses some of the general attributes of IFT systems and describes several 1FT systems - the Black Market Peso Exchange in the Western Hemisphere, the informal hawala system in the Middle East, and IFT systems operating in China and East Asia. FATF's goal with regard to 1FT systems is to ensure that they are not abused by criminals and become a weak link in a nation's AML/CFT regime.

Alternative Remittance: Recommendation VI of FATF's Special Recommendations on Terrorist Financing addresses alternative remittance systems. Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or net-work, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions. Specifically, the objective of Special Recommendation VI is to increase the transparency of payment flows by ensuring that jurisdictions impose consistent AML/CFT measures on all forms of funds transfer.

Funds Transfer Market Initiatives: Through Micro-Level Policies and Market Products, various private sector entities and a handful of governments have implemented new products, incentives, and policies to encourage individuals and institutions to use formal remittance systems. The initiatives include card-based programs, international networking initiatives, and banking and account-based programs. The following section details these initiatives as examples of practical measures taken by businesses, organizations, and governments to meet the remittance needs of migrant workers while regularizing funds transfers.

3.2.2 Bilateral Initiatives to Strengthen Remittance Services in the Formal Sector

Recognizing the need for cooperative measures to manage the flow of remittances, some countries have made bilateral arrangements to improve methods of money transfer. Examples are the US-Mexico partnership for prosperity, US-Philippines initiative, Latin America-Spain cooperation agreement etc. Essentially, these agreements are initial attempts to promote fund transfer through FFT and streamline the remittance process.

3.2.3 Private-Sector Initiatives to Improve Remittance Services

Along with effective government regulation, private sector initiatives and investments are key to developing a market in which formal remittance services are competitive, efficient, and widely available. A market that meets these criteria will increase the likelihood that money is held, invested, and transferred through intermediaries that adhere to AML/CFT standards and other financial sector regulations.

4. Importance of Migrant Remittance for the Bangladesh Economy

Migrants of Bangladesh represents only 3.5% of the country's total population compared to other labor exporter countries. For example, Filipino migrants cover almost 9% of total population while Mexican migrant manpower comprises 15% of its total population. Migrants' remittances in Bangladesh is about 9% of GDP, around 3.7 times the externally financed public investment program, and eight times higher than foreign direct investment and any other private inflows which is very high by international standards, compared with, for example, Maldova (25%), Lesotho (19%), Jordan (18%), and Albania (15%). Most of other traditionally high remittance countries: Pakistan, Tonga, Tunisia, and Vietnam have remittances of less than 10 percent of GDP.

These migrants are semi-skilled and unskilled with average monthly earning of USD 300, which is half or less than the earnings of the Filipino and Mexicans (Azad, 2005). Available estimates indicate that a typical Bangladeshi migrant remits 55% of his income, and remittances constitute 51% of the income of the recipients' families. Law and practice in Bangladesh strictly prohibit sending remittances through informal channels, such as, hundies and hawala. Despite this restriction, maximum 46% of the remittances are routed through official channels, and 40% through the informal hundi system, and 4% through friends and relatives and on visit to Bangladesh.

According to Bangladesh Bank data, the remittance of Bangladesh in 2006-07 comprised a third of the country's total foreign exchange earnings, 54 percent of export earnings, and 368% of foreign loans and grants to the country. These indicate a positive contribution to the foreign loan syndrome economy of Bangladesh from the migrants. With the significant reduction of foreign loan and grants flow to Bangladesh GoB has been actively considering to introduce positive attempts to capture these potential resources in the recent times.

4.1 Foreign Employment

Foreign employment and workers' remittances contribute significantly to the economic development of the country through reduction of unemployment and augmenting foreign exchange reserves and income. It may be noted that in FY 2004-05, the remittances from expatriate Bangladeshi workers as percent of GDP and commodity export stood about 6.43 percent and 44.47 percent respectively. A sizable portion of labour force of the country is employed in different countries of the world including Middle East. Manpower export has been increasing every year. More than a half of the expatiate workers are unskilled although the number of skilled workers and professionals are on the increase. During 1976-2005 manpower of about 40 lakh was exported. In order to increase workers' remittances, the Government created a separate Ministry called the Ministry of Expatriate Welfare and Foreign Employment and expanded the existing facilities for sending remittances through banking channel with various incentives along with the implementation of Money Laundering Prevention Act. As a result, the amount of remittances is on the increase. From US$ 3062 million in FY 2002-03, remittances rose to US$ 5979 million in 2006-07, growing at an annual rate of 18.2 percent. BMET data reveals that the major share of total remittance comes from the countries in the Middle East. But individually the position of USA was just behind Saudi Arabia over the last few years.

Manpower export is an important tool for poverty alleviation. To maintain the flow of remittances, the Government has established a database computer network in District Employment and Manpower Offices. These offices are intended to create a transparent process in foreign employment. Bureau of Manpower, Employment and Training has already introduced computer based online immigration clearance programmer. A 'One Stop Service Centre' has been constructed with all facilities and a welfare desk has been established at ZIA International Airport for facilitating safe arrival and Departure of wage earners.

4.2 Policy Challenges of Remittances

The inflow of remittances presents significant challenges for macroeconomic management. Remittances can be considered neither as a solid foundation for longer-term growth, nor as a sustainable development strategy. Consumption, not investment, tends to be the primary goal of remittances. Most remittances are altruistically motivated income transfers by relatives to their families left in Bangladesh. As such, they are intended to offset the authorities' economic failures by supporting immediate private consumption, rather than to finance investment needed to underpin longer-term growth. The weak overall investment climate contributes to the fact that—irrespective of the inflows—the investment ratio remains below 25 percent, and more remittances are used on imports rather than on productive domestic investment and job creation, apart from residential construction.

The inflow of remittances impedes monetary management and can rekindle inflationary pressures. In a small economy with a shallow foreign exchange market and insufficient instruments for the conduct of monetary policy, the sheer magnitude of foreign currency inflows and their pronounced seasonal pattern create significant uncertainties for monetary management. In the environment of unstable money demand and a largely impulsive transmission mechanism, the need to sterilize the large inflows of foreign exchange can result in an overshooting of reserve money targets and translate into higher inflation. On the other hand, migration, by reducing the excess labor supply, tends to raise domestic wages and, in the case of Bangladesh, bring them closer to the regional norm. While increased wages make labor less competitive, any improvement in living standards or reduction in poverty would have the same effect. Higher wages may have a more significant inflationary impact only if the outflow of migrants is temporary and the excess labor returns to the home country. However, historically labor movement has been much more stable than financial flows and commodity trade. In addition, accounts held by migrants abroad present a technical problem for monetary management: how to measure money supply in a country where a large number of residents have ATM bank cards linked to accounts in other countries?

The inflow of remittances may lead to an appreciation of the national currency, which can potentially hamper competitiveness. However, developments in the balance of payments, in particular the growing trade deficit, have tended to offset the strong appreciation pressures stemming from the inflow of remittances. Competitiveness has also been largely unaffected, because of the overall low costs in Bangladesh compared to its trading partners, notably labor. However, the growing confidence in the local currency will inevitably translate to a higher demand for it for both transaction and saving purposes, making the appreciation pressures self-reinforcing. In fact, during most of 2004, the Taka was under strong pressure to appreciate, reinforced by the falling dollar.

Remittances contribute to the expansion of the trade deficit. A substantial portion of remittances is used to finance imports, as most consumer goods, other than traditional food, and virtually all investment goods, are imported. While exports grew by an average of 16 percent in 2003-2004, the expansion of imports by 22 percent can be attributable largely to remittances. Although the net inflow of remittances has so far helped to cover the largest part of the trade deficit, booming domestic demand for imported consumer goods will eventually stimulate a further increase of remittance-financed imports. This may bring the current account to the brink of sustainability, if remittances are not captured as its integral item.

Remittances create a strong disincentive for domestic savings. Current consumption financed by a steady inflow of remittances creates the illusion of financial stability in households, which manifest a strong preference for receiving philanthropic transfers from abroad rather than saving from domestic sources. Declining domestic savings can potentially deplete the resource base for investment and even turn negative, as has already happened in a number of high-remittance countries.

Remittances outside the banking system may be a more fertile ground for money laundering than remittances through the banking system. The development of uncontrolled money- transmitting arrangements, which are largely outside the central bank's supervision, and which account for a similar amount of transfers as the banking system itself, may suggest the existence of a parallel payment system in Bangladesh. This system is privately owned, international in nature, and highly efficient. The informal bankers know their clients well, most likely by face. However, this system does not require any proof of the legality of the source of the remitted money nor any indication that all taxes have been paid on the income by the remitter. Such elements are exactly what is needed for money laundering, drug money flows, and ultimately the financing of terrorism. However, limiting such informal transfer mechanisms in the name of fighting illegal activities requires careful handling as it can drive most of such transactions even further underground and lead to more disintermediation.

Remittances reflect the continued exodus of labor from Bangladesh. If labor is merely treated as a commodity of a comparative advantage, the country may end up in a long-term path of continuous migration, marginal foreign investment, and latent growth. The current flood of emigration consists mainly of unskilled, able-bodied young people, which is already depriving the country of its future manpower. The departure of skilled labor (teachers, doctors, engineers) is also important, although less visible statistically, suggesting a substantial brain drain.

Although remittances help growth, they simultaneously depend on growth. Increases in remittances may point to either weak growth in the home country, which stimulates emigration, or to higher growth in host countries, bringing higher earnings to migrant workers who can then afford to send larger remittances home. Moreover, remittances cannot be viewed a sustainable source of financing, as they may become extremely volatile if the political and economic conjuncture change, both in Bangladesh and the host countries. In this sense, remittances can be a potential source of additional economic vulnerability.

Finally, the inflow of remittances represents a serious moral hazard problem, diminishing pressure for reforms. This type of philanthropically supported consumption creates an unfortunate illusion of growing and sustainable affluence, which often hinges on broken families, humiliating employment conditions abroad, and harassment associated with carrying cash. The ability of the private sector to address its immediate needs independently from the government can create a disincentive for the authorities to create a better business environment and to deal aggressively with the underlying economic and structural problems that forced the people to leave the country initially.

4.3 Policy Options For Donors And Governments In Linking Migration And Development

The trends and patterns observed with regard to the ties immigrants have with their home countries show that the relationship is significant. The implications for businesses and the policy environment are also important. Nine policy options are summarized below that relate to reducing transactions costs, leveraging the capital potential of remittances through banking and financing, promoting tourism and nostalgic trade, and establishing a state policy that recognizes the country's diaspora.

Cost reduction. Remittances are an important source of income. Fees and commissions for sending money are expensive, a concern to development agencies, immigrants, and other interested parties. Technology already exists through which money transfers can (and do) cost next to nothing for savvy senders and recipients–but how can these advantages be extended to immigrants and their relatives? Possible options to reduce costs include the formation of strategic alliances between money transfer companies and banks and between banks in the remitting and the recipient country (for example, using debit card technologies that rely on automated teller machines); the use of software platforms designed for money transfers; and transfers from credit union to credit union.

Enabling policy and regulatory environments. Expanding sending methods, increasing competition, and educating customers about charges all help reduce costs associated with money transfers. A comprehensive effort to support senders and recipients should foster an environment in which remittances are less costly and can also have developmental leverage. This includes detecting unfair business practices.

Banking the un-banked. Not all migrants have meaningful access to bank accounts. The effects of being un-banked are significant. The un-banked not only face higher costs and other difficulties on a daily basis, they also lack the ability to establish credit records and obtain other benefits from financial institutions. Helping senders and recipients to participate in the banking industry would help ensure lower transfer fees. Governments and private institutions already engaged in that effort could devise a strategy linking remittance transfers with banking options as a way to attract migrants into the financial system.

Investment and micro-enterprise incentives. Studies have shown that, on average, between 5 percent and 10 percent of remittances are saved or invested. Some people are in a position to use their money for an enterprising activity. Both private sector and development players can insert themselves as credit partners for these potential investors. The effect is the provision of remittance-backed credit in local communities that lack active credit markets and production networks. Tying remittances to micro-lending has great potential to enhance local markets.

Tourism. Currently, a significant percentage of immigrants visit their home country as tourists, yet there is no tourist policy aimed at members of the diaspora. That void reflects government neglect and a lost opportunity. Governments and the private sector can participate in joint ventures to offer their migrants tour packages to discover and rediscover their home countries. They can also work out investment alliances with migrants interested in partnering to establish joint ventures relating to tourism.

Reaching out to the diaspora. An outreach policy to the community residing abroad is key to any migrant-sending country's economic strategy. Currently no such policy is in place, and government could gain significantly from such an approach.

Nostalgic trade. Significant demand exists for so-called nostalgic goods, and many of the small businesses created by migrants rely on the importation of such goods. Government, development agencies, and the private sector, particularly artisans' businesses, find a natural opportunity to enhance their productive and marketing skills by locating their products with small ethnic businesses in host countries, where strong demand exists.

Hometown associations (HTA) as agents of development. The philanthropic activities of HTAs have proven development potential. Some of the infrastructural and economic development work performed by these associations provides momentum for development agents to partner in local development.

Remittances and new technologies. A key partnership opportunity among development players and the private sector lies in tying technology to remittance transfers, including through micro finance institutions. One emerging technology, Wi-Fi (wireless fidelity), allows rural residents to place telephone calls through low-cost wireless Internet telephony, using low-cost computer servers and terminals. Wi-Fi-enabled computers send and receive data securely, reliably, and quickly, through radio technology–indoors and out, anywhere within the range of a base station. A Wi-Fi network can be used to connect computers to each other, to the Internet, and to wired networks. The technology has strong potential to be used by micro-finance institutions to manage money transfers. Linking Wi-Fi technology to remittances and micro-finance institutions offers an advantage to local businesses and, more important, opens financial windows for new markets. Remittance-receiving households have a demand for savings and credit, and internationally connected micro-finance institutions could provide the necessary service to that sector.

4.4 Management and Regulation of Migrant Remittances in Bangladesh

Migrant remittance plays a crucial role to foreign loan syndrome economy of Bangladesh. Currently migrant remittance accounts for nearly four times of donor driven foreign resources to the country. Evidently, remittance in the official channel is les than 50% of the total. To bring the unofficial remittance in to the formal channel lots of efforts are under process. For the Bangladesh economy the contribution of remittance in the balance of payments is crucial, being the second largest financial flow after exports.

The growing importance of migrant remittances warrants stronger efforts to increase remittances in formal channels, increase efficiency and decrease the cost in delivering the remittance, and better utilization of remittances by beneficences in the country. Important in this regard are the fiscal incentives and investment tools offered by the government or other actors to enhance the inward remittances.

4.4.1 Government Policy Measures to influence the flow of remittance

Following are some of the important policy measures adopted by government to increase the flow of remittances:

- Increased facilities to remit money through official Channel.
- Five of the country's commercial banks have opened five branches abroad to facilitate remittance of money for the Bangladeshi expatriates.
- Fifteen-money exchange branches have been established.
- At present 1051 numbers of correspondent banks of the five commercial banks are working for transaction of remittances.
- Government has passed a new law titled, Money laundering Prevention Activity 2002 in which provision has been made to punish the act of money laundering. Maximum Punishment is 7 years imprisonment.
- Bank have taken effective measures to ensure disbursement of remittances to the family members of the migrants within 2/3 days.
- All remittances are tax free, if sent through banking channels.
- Bank charges have been reduced for sending remittances to the home country.
- Publicizing different announcements on the disadvantages of money laundering system to motivate overseas workers.
- Strengthening receiving system of remittances by introducing electronic transfer systems. Bangladesh foreign missions are motivating the overseas workers/ employees for sending remittances through official channels.
- Government has introduced a new Dollar Bond at 5% interest rate to discourage money laundering and encourage sending remittances through regular banking channels. This bond will be made available in the commercial banks. Interest and deposited money will be paid in local currency.

4.4.2 Utilization of Remittances

Remittance in rural area generally boosts consumption. A significant portion is used for purchase of land and home construction. They also help to expand business in agricultural products and construction materials. It may be mentioned here that while going abroad a migrant worker generally collects the fund for his migration either by selling or by mortgaging land. So to retrieve the sold or mortgaged land and also to purchase additional land, remittances play an important role. A very small portion of the remittance is used by the recipient for investment in business or other savings. While returning home, the migrant workers bring some luxurious products like colour TV, CD player, cosmetics or other electronic items, which reduce the actual remittances that could be sent by them. It is also evident that most of the remittances are used for nonproductive purposes.

4.4.3 Tools for Investment of remittance

The Government offers the following savings instruments for the non-resident Bangladeshi to attract remittance that will boost the local economy.

(a) Non Resident Foreign Currency Fixed Deposit Account (NFCD) : Expatriate Bangladeshi Nationals and persons of Bangladesh origin including those having dual nationality may open non-resident Foreign Currency Fixed Deposit Account with any authorized dealer in Bangladesh for a period of one month, three months, six months or twelve months on renewable basis depositing minimum US Dollar 1000/- or Pound Sterling 500/-. Interest on NFCD Account is applicable on the basis of Euro currency interest rate which is tax free in Bangladesh. Principal amount including accrued interest is convertible in local currency as well as reparable to the account holder abroad.

(b) Resident Foreign Currency Deposit (RFCD): Persons ordinarily resident in Bangladesh may open RFCD Accounts with the foreign currencies, US dollars and pound sterling, brought in at the time of their return from abroad. Interest is payable if the deposit is maintained for a term of not less than one month. Balances of such accounts are repatriable abroad.

(c) Non-Resident Investor's Taka Account (NITA): Expatriate Bangladeshis may invest their hard earned money in the Stock Exchange for purchase of Bangladeshi shares and securities. For this purpose, the expatriates may open NITA account with any authorized dealer branches of the commercial banks. Dividend earned from shares/securities is tax-free in Bangladesh. Balance of NITA account is repatriable abroad at the prevailing rate of exchange.

(d) Wage Earners Development Bond (WEDB): Expatriate Bangladeshi Wage Earners may invest their hard earnings in five years WEDB on renewable basis for denomination of Taka 25,000/-, Taka 50,000/- and Taka 100,000/- or any multiple of these amounts at an attractive rate (Present rate 12% per compoundable in every six months) of interest and the accrued interest is tax free in Bangladesh. Principal amount of WEDB is reparable to the bond holder abroad.

(e) US Dollar Investment Bond: The Government introduced US Dollar Investment Bond in 2002 to facilitate investment of hard-earned foreign currency by the non-resident Bangladeshis at attractive interest rates (5.5%-6.5%). Interest is payable on six-monthly basis in US dollar. Both interest and principal are repatriable.

(f) US Dollar Premium Bond: It was introduced by Government in 2002 to facilitate investment of foreign currency by the non-resident Bangladeshis. Interest rate is 6.5%-7.5% depending on maternity. Interest is payable on 6-month basis, and in Taka only. The principal is repayable in Taka or dollar as desired by the purchaser.

Income Tax Facilities for Non-Resident Bangladeshis: The National Board of Revenue (NBR) of Bangladesh Government has undertaken various initiatives in the income tax rules for Non-Resident Bangladeshis to increase the flow of remittances. The Government has taken the following steps, among others, to provide income tax rebate to nonresident Bangladeshis:

- The amount of remittance transferred by non-resident Bangladeshis through banking channel enjoys full exemption from income tax (Finance Law, 2002).
- No Tax Identification Number (TIN) Certificate is required upon purchase of fixed assets by non-resident Bangladeshis (Finance Law, 2002).
- The interest income of non-resident Bangladeshis from 'non-resident foreign currency deposit account' is fully exempted from tax.
- The 'Wage Earners Development Bond' purchased by non-resident Bangladeshis is exempted from income tax.

4.4.4 Remittance Regulatory Instruments

(a) Foreign Exchange Regulation Act, 1947 is the primary regulatory instrument of Bangladesh with respect to all kind of foreign exchanges including that of a foreign currency transfer like remittance. Under this Act, only commercial banks are eligible to make an arrangement with a foreign exchange houses to receive and deliver the worker remittances to their relatives.

(**b) Money Laundering Prevention Act, 2002** also acts as instrument for regulating remittance. According to this guideline each bank and financial institution shall preserve correct and full information of their customer. In case of request to remit money through draft/T.T from any person other than the account holder, correct information with regard to full name and address of the person requesting for such remittance should also be preserved.

There are provisions for giving punishments in case of violation of both the acts –Foreign Exchange Regulation Act, 1947 and Money Laundering Prevention Act, 2002.

(c) Regulation and Monitoring of remittance service business between a Local commercial bank and foreign exchange house Bangladesh commercial banks are the authorized institutions for receiving foreign remittances. For this purpose they have to establish drawing arrangement to the foreign exchange houses. It may be mentioned here that the banks can make drawing arrangement to the foreign exchange houses or they themselves can open overseas branches in the foreign country. In both cases they have to take permission from Bangladesh Bank.

5. Conclusions and Recommendations

Remittances play a major role in the balance of payments as well as economic development of a country. The government and donor communities have given proper emphasis for boosting remittance flows. When proposing policy measures, it must be kept in mind that remittances are private money flows. Therefore the role of the government should be focused on enabling migrants to send and use their remittances in the most effective ways. Based upon observations of this paper, the following recommendations are made:

Strategic: The prevailing policies and strategies to attract remittances and bring them through formal channels should be continued. Boosting the capacity and efficiency of financial institutions is crucial to direct more funds under the formal network. Banking services in the country should be improved with emphasis on computerization of the banking system, connecting branches through the computer network, and developing an electronic money transfer system. Private commercial banks that are more efficient service providers, but have a limited number of branches in rural areas, need to create a better network in partnership with licensed micro-finance institutions to broaden the service area coverage. Innovative delivery agents such as courier/postal service, Non government organization offices, mobile phone outlets, points of sale, and bank ATM/booths need to be used to compensate for the limited rural banking network. At present foreign clearing is not completed within the day. It takes 3-4 days, which should be done within the day.

Legal and Regulatory Aspects

Foreign exchange regulation act 1947 and Foreign Guideline should be updated with international best practices to facilitate the migrant remittance. Requirement of the Form-C should enhance immediately from 2000 USD to 5000USD. Foreign Exchange houses should be brought under the purview of Bangladesh Bank supervision with the cooperation of the host country authority. Every overseas worker should have a nominated bank account where they should send the remittance. This should be ensured before their departure.

Regulations can increase costs and bar certain stakeholders from lawful participation in the remittance market e.g., undocumented migrants and smaller service providers. The cases or such stakeholders should be specially considered and some arrangement like USA-Mexico treaty may be taken into consideration.

Since good governance and advice can help reduce administrative burdens on the sector and increase compliance, the regulating body needs to take special care in creating awareness by providing adequate information and necessary education to the sector regarding the money service business operator's obligations. It would be better if an industry-wide body for doing this function for the money service business is established

Measures that can be taken to increase flows through formal channels include:

- Light regulation (registration and reporting) to move informal operators to the formal sector
- Avoiding over-valued exchange rates
- Allowing irregular migrants to remit funds on the basis of consular documents
- Keeping transfer costs in the formal sector competitive
- Effective banking supervision and transparency

Commercial Banks

Bank should reduce the charges and be more time efficient at the time of delivering the remittance. Banks should take appropriate measures to increase the inflow of remittance in legal channel by campaigning in remittance prone countries. Banks may take initiative to campaign in the remittance prone areas of our country to educate both the remitter and beneficiaries of the foreign remittance to send and receive the remittance in banking channel. Banks can extend credit facility to the workers on the basis of their recruitment and salary. All commercial banks should develop their own infrastructure (computerization, internet and phone banking) to deliver the migrant remittance in a faster way. Local banks may take an initiative to collect and coordinate the migrant remittance from the source through their agents. It has been said that Islami Bank (BD) Ltd. is motivating and giving the service in Middle East by visiting the work and dwelling place of migrant remitters.

Role of Government

Ministry of foreign affairs [Our foreign Missions] and Ministry of Expatriates' Welfare & Overseas Employment can play a very important role. The foreign mission can give information and induce our people to send money through legal and banking channel. The Philippines government has taken initiatives to use their missions to induce people to send the money through banking channel. Our foreign missions can do campaign and arrange seminar/symposium to educate people in these aspects. Posters printed in this connection can be displayed in our foreign missions. The GoB can take initiative to reduce the cost of remittances by signing contracts with remitting countries. For example, the US Treasury and the Philippines Ministry of Finance have taken an initiative to reduce the cost of remittances. Especially where a large number of migrants are working, the government can take initiatives to reduce the cost of remittances.

Government should properly monitor the activities of the recruiting agents to reduce harassment of the overseas workers in respect of employment, salary, and other benefits. Appropriate measures should be taken against the defaulting recruiting agents. Government should concentrate on the capacity building of the remittance beneficiary for the better utilization of the remittances. Enhanced coordination should be there between government bodies on the issue of external labor migration and associated remittance flows.

Governments and foreign missions abroad can take initiative to develop the new corridor and market for migrant workers in the European and Eastern European countries in collaboration with the Bangladeshi associations.

References

Alexei Kireyev, (2006*) "The Macroeconomics of Remittances: The Case of Tajikstan",* The IMF Working Paper 06/2, Policy and Review Department. IMF Washinton DC.

Alfieri, Alessandra, Ivo Havinga, and Vetle Hvidsten., (2005), *" Definition of Remittances and Relevant BMP Flows"* UN Department of Economic and Social Affairs Statistics Meeting of the Technical subgroup on Movement of Natural Persons-Mode 4, Paris, January 31-February 1, 2005

Alvarez, Fernando, Patrick, J. Kehoe, andPablo Andres Neueyer, (2004), *"The Time Consistency of Optimal Monetary and Fiscal Policies",* Econometrica, Vol. 72, pp. 541-67.

Bilsborrow, R.E., G.Hugo, A.S. Oberrai, and H.Zlotnik, (1997) *"International Migration Statistics: Guidelines for Improvement of Dta Collection Systems"*. Geneva: ILO.

Buch, C. and and A. Kuckulenz, (2004) *"Worker Remittance and Capital Flows a Source of Capital for Development?",* Working Paper No. WPO/03/189, Washington, DC: International Monetary Fund.

Buch,Claudia M., Anja Kuckulenz, and Marie-Helene Le Manchec (2002), "*Worker Remittances and Capital Flows",* Kiel Working Paper 1130 (Kiel: Kiel Institute for World Economics).

Buencamino, Leonides, and Sergei Gorbunov. (2002). *"Informal Money Transfer Systems: Opportunities and Challenges for Development Finance."* DESA Discussion Paper 26, United Nations, New York.

Chami, Ralph, Connel Fullenkamp, and Samir Jahjah (2003), *"Are Immigrant Remittance Flows a Source of Capital for Development?"* IMF Staff Paper Vol-52, pp.55-81.

Chami, Ralph, Connel Fullenkamp, and Samir Jahjah (2005), *"Are Immigrant Remittance Flows a Source of Capital for Development?"*

Chari, V.V, Lawrence J. Christiano, and Patrick J. Kehoe (1991), *"Optimal Fiscal and Monetary Policy: Some Recent Results"*, Journal of Monetary Economics, Vol. 37, pp.203-23.

Chari, V.V, Lawrence J. Christiano, and Patrick J. Kehoe (1996) *"Optimality of Friedman Rule in Economies with Distorting Taxes"*, Journal of Monetary Economics, Vol. 23, pp.519-39.

EI-Qorchi, Mohammed, Samuel Maimbo, and John F. Wilson., (2003), *"Informal Funds Transfer Systems: An Analysis of the Hawala System.*" IMF Occasional Paper No. 222, International Monetary Fund and World Bank, Washington, DC.

Elbadawai Ibrahim A., and Robert de Rezende Rocha (1992), *"Determinants of Expatriate Worker' Remittance in North Africa and Europe",* World Bank Policy Research Paper 1038, World Bank Washington.

El-Sakka M.I.T., and Robert McNabb (1999), "The Macroeconomic Determinants of Emigrant Remittances", World Development , Vol. 27, pp.1493-502.

FATF. (2000) *"Report on Money Laundering Typologies (1999-2000)."* Paris: OECD.

Gupta, Poonum., (2005), *"Macroeconomic Determinants of Remittances: Evidence from India,"* IMF Working Paper 05/234 (Washington: International Monetary Fund).

Hussain, Mustaq (2005), *"Measuring Migrant Remittances: From Perspective of the European Commission",* European Commission Eurostat, Unit c4.

Kocherlakota, Nrayana., (2005), "Optimal Monetary Policy: What We Know and What We Don't Know", Federal Reserve Bank of Minneopolis Quarterly Review, Vol. 29, pp.10-19.

Lucas, Robert E., and Odel Stark., (1985), *"Motivation to Remit: Evidence from Botswana,"* Journal of Political Economy, Vol. 93, pp. 901-18.

Rapoport Hillel, and Frederic Docquier (2005), *The Economics of Migrants' Remittances*.

Ratha, Dilip. 2003. "*Worker's Remittances: An Important and Stable Source of External Development Finance. In Global Development Finance 2003*. Washington, DC: World Bank.

Reinke, Jens., and Nell Patterson, (2005), Remittances in the Blance of Payments Framework, (unpublished; Washington: International Monetary Fund).

Robinson, William., (2001). *"Transnational Processes, Development Studies and Changing Social Hierarchies in the World System: A Central American Case Study."* Third World Quarterly 22(4): 529-563.

Russell, S.S. (1986) *"Remittances from International Migration: A Review in Perspective".* World Development, Vol-14, pp. 677-696.

Sayan, Serdar (2006) *"Business Cycles and Workers' Remittances: How Do Migrant Workers Respond to Cyclical Movements of GDP at Home?"* Working Paper WP/06/52, International Monetary Fund, Washington DC.

Sayan, Serdar and A. Tekin-Koru, *(2005)"Workers' Remittances and output Fluctuations in Developed Host and Developing Home Economies",* Paper presented at the Sixth Annual Conference of the Global Development Network, Dakar Senegal: January 21-26.

Sayan, Serdar (2004), *"Guest Workers' Remittances and output Fluctuations in Host and Home Countries: The Case of Remittances from Turkish Workers",* Emerging Markets Finance and Trade, Vol. 40 (6), pp. 70-84.

Schott, Paul Allan. (2003). *Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism*. Washington, DC: World Bank and IMF.

Spatafora, N., (2005), *"Workers' Remittances and Economic Development",* (Chapter II) in World Economic Outlook: Globalization and External Imbalances, Washington, DC: International Monetary Fund, PP.69-84.

Straubhaar, Thomas., (1986), "The Determinants of Workers Remittances: Issues and Prospects," World Bank Staff Working Paper 481 (Washington: World Bank).

Tinbergen, J., (1956), *Economic Policy: Principles and Design* (Amsterdam: North Holland).

United Nations (2002).

World Bank (2006), *Global Economic Prospects: Economic Implication of Remittances and Migration* (Washington)