

## Reform Agenda-Increasing Efficiency of Migrants' Remittances

Extracts of Speech by Special Guest, Dr. Salehuddin Ahmed, Governor, Bangladesh Bank



Migrant workers of Bangladesh are our unsung heroes. Remittances from migrant workers constitute a major element supporting the balance of payments. The remittance receipts in FY 06 reached US\$ 4.8 billion and in eleven months of FY 07 it has reached as high as 5.5 billion. These remittances have substantially cushioned the economy from the severity of internal and external shocks, including the oil price shock. Consumption and investment would have been curtailed drastically because of the high import cost of oil and other items if we did not have continued healthy growth in remittances.

Given this importance of remittance for the economy, Bangladesh authorities have accorded high priority to improving remittance services for migrant workers, with initiatives towards: expanding access, bringing the services closer to their workplace in host countries and closer to the recipients in Bangladesh; lowering costs for the remittance services; ensuring competitive exchange rate and providing convenient saving and investment options both in foreign and local currencies.

Expanding access to remittance services: to enable migrant workers to remit funds through intermediaries as close to their workplaces as possible, Bangladesh Bank has supported and encouraged establishment and expansion of drawing arrangements between banks in Bangladesh and remittance intermediaries in the source countries including banks and duly licensed and supervised money transfer/exchange houses. Banks in the source countries usually have only limited interest in handling small remittances of migrant workers without other more remunerative banking relationships; exchange houses/money transferors have therefore assumed prominent role in handling workers' remittances.

Besides the numerous drawing arrangements (exceeding 400), banks in Bangladesh have also set up subsidiaries/branches in the major host countries of Bangladeshi migrant workers (UK, USA, UAE, Kuwait, Singapore, Italy etc.) for mobilizing remittance.

At the receiving end in Bangladesh, several bank branches out of 6576 branches spread all over the country, are active in delivering remittances to recipients. The authorities have set 48 hour and 72 hour delivery time standards respectively for urban and rural areas; but the 72 hour delivery time standard for rural areas is often breached than complied with. To improve

**Professor Tasneem Siddiqui, RMMRU, University of Dhaka**  
In the past, the Bangladesh Bank has undertaken various steps to encourage quicker flow of remittances as outlined by Salehuddin Ahmed, the Bangladesh Bank Governor. However, more reforms need to be initiated in the following three areas.

### Legal Reforms

Bangladesh Bank has been providing able leadership in increasing the use of electronic transfer systems by most of the remittance transferring banks. It has initiated projects for the introduction of an automatic clearing house. However, rules need to be framed to govern these new technological changes i.e. Electronic Fund Transfer. Common software is required for fast transfer of remittance among EFT using Banks. A central guideline from Bangladesh Bank is required for that. Major resource has to be allocated for the development of infrastructure for the functioning of the automatic clearing house.

Currently there is no consumer protection law in operation with regard to migrants' remittances. To protect the right of the remittance receiver and sender we suggest that a law be made. Once the remitter and provider agree to undertake a transaction the provider should give the remitter reference number to track the transaction, as well as information on all charges, including the exchange rate.

Globally along with the money system; two other new technologies have come into force in remittance transfer, which have reduced the time and cost of transfer. These are computer networks and telecommunications. The Central Banks of India, the Philippines and Malaysia, all are implementing projects which have merged services of banks and telecommunication companies. Such joint transfer has reduced the time and cost. A general survey of the Bangladeshi scenario shows that all necessary conditions for the introduction of these new technologies of remittance transfer exists. Bangladesh has a large number of remitters. Among 70 developing countries who receive sizable remittance Bangladesh is the 7<sup>th</sup> largest. It has 2.5 crore mobile subscribers. These telephone networks have spread up to the remote villages. Less literate people also use this technology. Bangladesh Bank and Bangladesh Telecommunication Regulatory Commission (BTRC) may jointly explore and introduce such new methods. They should also develop guidelines for ensuring a level playing field as well as introduce a mechanism for customer protection.

### A Need for Increased Tools for Investment

Recent workshops with Bank officials organised by RMMRU, highlighted that in Bangladesh, increased inflow of remittances are not matched by investment opportunities floated for the remitters. Investment products offered by Bangladesh Bank mostly satisfies the need of long-term migrants or a section of relatively better-off short term migrants. Migrant families do not have many choices. Wage earner welfare bond is the only available product in a Taka account where they can invest. Diversified products are needed to match the demand of different age groups of remittance receivers as well as small remitters. Private Banks like Islami Bank Bangladesh Ltd. and BRAC Bank have introduced interesting products targeting short term migrant workers and their families. Public commercial banks are constrained by Bangladesh Bank regulations in creating targeted packages.

Currently the Government of Bangladesh provides Commercially Important Person (CIP) award to those who remit more than Tk.10 lac. Unskilled migrant workers are usually small remitters. They remit almost all of their hard earned income at frequent intervals. They are not honoured. Contribution of unskilled migrants should be recognised and small but frequent remitters should also be honoured.

### A Need for an Improvement of Services

Most of the banks in the receiving countries are situated in the capital or a few major cities, however, workers are located in distant parts of the receiving countries. The banks require representatives or brokers to motivate migrants to use official transfer channels. The Central Bank of the Philippines has 16 representatives all over Saudi Arabia to motivate

matters, banks are cooperating towards faster deliveries, using the services of each other's branch networks. Furthermore, some banks have engaged the extensive branch networks of microfinance institutions of mainly NGOs in delivery of remittances to recipients in the remotest rural localities.

Lowering cost of remittance services: Only about five percent of migrant workers from Bangladesh are well paid professionals, the large majority are low wage unskilled and semiskilled workers who send small amounts out of their earning at regular intervals for subsistence of their families in Bangladesh. The flat fees charged by banks and money transferors for these small sized remittances tend to be high relative to the amounts remitted. The high costs involved in transfers through the formal system result in a large volume of remittances of migrant workers being siphoned off by illegal informal channels ('hundi' or 'hawala' operators).

The main approach in efforts for lowering of remittance costs facing the migrant workers has been to increase competition amongst intermediaries in collecting the remittances in the host countries. The number of drawing arrangements of banks in Bangladesh with banks and licensed money transfer/exchange houses in host countries of migrant workers are continually being expanded, and information on all the available remittance options are being disseminated amongst the migrant workers and the remittance recipients in Bangladesh.

A 'challenge fund' in the recently undertaken 'Remittance and Payments Partnership Project (RPP)' between the government of Bangladesh and the British DFID will provide grant support to banks and other remittance intermediaries for financing part of their implementation costs of innovative initiatives of improving delivery of remittances and other financial services to the unversed/underserved population segments in rural areas of Bangladesh. Automation of cheque clearing and modernization of the payment settlement arrangements to be implemented by Bangladesh Bank under the RPP will also contribute substantially towards higher efficiency and lower costs in remittance delivery.

Competitive exchange rate and convenient saving and investment options for migrant workers: Migrant Bangladeshi workers abroad are free to maintain non-resident accounts with banks in Bangladesh in US Dollar, Pound Sterling, Euro or Yen; balances in these accounts can earn interest and are freely transferable abroad. Savings options at attractive interest rates are available for them in 3 year US Dollar Bonds, in 5 year Taka Wage Earner Development Bonds and in 5 and 10 years Taka Treasury Bonds issued by the government, with free repayability of principal; interest earned is also freely repayable from abroad on all these bonds except the wage Earner Development Bond. Migrant workers abroad may also make portfolio investment through stock exchanges in Bangladesh, using non resident investor's Taka accounts maintained with banks. The transition from May 2003 to market based floating exchange rate for Taka has further facilitated remittance growth, protecting the remittance inflows from the adversity of inappropriate overvaluation of domestic currency.

migrants to use banks and to help them with easy processing of banking services. Bank of Ceylon has 8 representatives. The private banks would like to send more representatives and they are ready to pay for the costs incurred. Exchange houses have agreed to pay for space and salary of representatives of public commercial banks. Bangladesh Bank needs to realise the importance of the services of the representatives and allow private banks and public commercial banks to engage them. Therefore, control over sending bank representatives in destination countries needs to be relaxed and foreign exchange transfers for the salary of these bank representatives should be eased.

RMMRU research has shown that most of the public commercial banks do not have any specialised training for the bankers who process remittances. Motivational trainings are particularly required for the grassroots level bankers to make them understand the importance of remittances to the national economy, as well as the market demand of customer friendly services.

The importance of remittances to the Bangladeshi economy cannot be overemphasised. In the past, remittance inflow has helped Bangladesh to cut poverty by 6%. In this respect, these changes would lead to further streamlining of migrant's remittance transfer system and its utilization in Bangladesh.

**Mr. Md. Nazrul Islam, Assistant General Manager, Foreign Remittance Management Division, Agrani Bank**

I am talking about the present delivery system of remittance and how it can be improved. I think, the system or methods followed by the banking sector in our country mainly are backdated and are responsible for the delay. Most of the national bank follows the draft method but due to the postal communication those draft could not be deposited in different branches in the right time and it takes 4 or 5 more days. I think Electronic Fund Transfer is a possible way to avoid this type of problem. Remitters feels there is more incentive if the beneficiary can get money within 2 to 3 days through the spot payment system and then the remitter prefers sending money illegally via the Hundi method. I think, if we can remove the obstacles from the whole process, people will feel more incentive to send and we can earn more than twice of the \$6 billion. On the other hand, the private banks of the country make themselves effective in this sector innovating online services. I think our nationalized banks should also make a change in their process following the private bank.

**Mr. A K M Mosarrat Hossain, Assistant General Manager, International Division, Bangladesh Krishi Bank**

We are very much concerned in the inward remittance, but not with the issue of use of these remittances in a profitable manner. The better use of remittance is still a neglected issue. I would like to say that we have only a few products for investment like US Dollar, Premium Bonds, US Dollar Investment Bonds and Wage Earner Development Bonds for the migrant workers. But we do not have other options which can be benefited for the migrant workers and the nation as a whole. However, some private banks have introduced some interesting products for the short term migrants. The problem with the private banks is that they have their operations only in the urban areas, not in the rural areas. The public or government banks should come forward to introduce more investment tools targeting small savings of migrant workers so that more investment options could be made available to the wider expatriate community.

Only AD branches of public commercial banks are allowed to offer Bangladesh Bank- introduced saving products. Role of AD branch is to open FC and LC for import and export. For example, only 40 of the 866 branches of Agrani bank are AD branches. Most of the local level branches where remittances come are not AD branches. Therefore, they do not have much role in selling investment products to the migrants or their families. Reforms are needed to make investment products available at the local level branches. Bangladesh Bank can consider the options to introduce other products that can

Philippines, Syria and Egypt we would see that these countries have ratified the Convention, but their volume of migration has not declined.

**Mr. Shamsul Haque, Director General, Ministry of Foreign Affairs**

We felt that labour and employment committee by itself could not work much as it needs the support from the Ministry of Home Affairs because at the airports migrants could be harassed at times. We also need support from the Ministry of Foreign Affairs because they have embassies abroad and migrant workers need the support from them. So, we formed the inter-ministerial committee.

When I was in the government my son was proposed that if I allowed a recruiting agency to establish an agency, he would give my son a lot of money. A gentleman whom I knew also proposed to me that if he could send workers abroad, I would get \$1800 for each. I was so shocked. He insisted that there is nothing wrong with this because I was helping a worker to go abroad. I told him that how he could think that I would take a part of a poor man's earning. I think such practices should be stopped. There is a migrant workers' welfare fund. It is a huge fund. And migrant workers do not get anything from that fund. But nobody wants to discuss it. I think this is a huge resource which should be tapped for the welfare of the migrant workers.

We have discussed the issue of the ratification of the 1990 UN Convention I definitely want to see the ratification. Although we heard that there may be some problems in ratifying the Convention, I think these would be of temporary feature. What is important is that the ratification would help our migrant workers.

But I think the exploitation part still remains. I think of migration as a thrust sector. We must make it a win-win situation where our human resources go abroad and earn money and they send back the money and their families also benefit.

One other step I took was to form a committee in the ministry because

be sold by these branches. There are more than 600 AD branches who can introduce other types of products under the regulatory measures of Bangladesh Bank.

The wage earner welfare bond is the only available product in TK account in which migrant families can invest. Diversified products are needed to match the demand of different age groups of remittance receivers. It is important to introduce age differentiated and gender differentiated products. The number of women migrant is increasing that is why it is needed to develop women specific products.

I request to the policy makers to introduce more investment products and more packages for the beneficiary and for the greater interest of the country.

**Mr. Mohammad Abdul Mannan, Deputy Executive President, Islami Bank Bangladesh Limited;**

I would like to recommend that one hundred skilled bankers be sent to the major remittance source country. These bankers would stand by the migrant workers and they can look after all the sorts of queries and problems relating to remittances through the banking channel. There are countries which take such initiatives. For example, there are sixteen Filipino bankers in Saudi Arabia who look after the remittance issue of Filipinos expatriates in Saudi Arabia in spite of the fact that Filipino expatriates on average are illiterate. In a situation where many of our expatriates are illiterate, we need such bankers even more badly. Therefore, this issue should be addressed with due importance immediately. A rough estimate suggests that it would cost 12 lakh US dollars to send 100 bankers abroad and in return we could ensure a remittance flow of 12 billion US dollar which is currently stands at 6 billion US dollar. The Central Bank and the banks which deal with the remittance issue should consider this point with due importance.

Awareness campaign for marketing of remittances should be undertaken both in Bangladesh and in various camps where the expatriates reside in the host countries. The marketing executives of various banks involved in this process and Bangladesh embassies in those countries should undertake such initiatives. It would be better if the officers with pro-people attitude and competent in local dialects are posted in those embassies. Our print and electronic media could play an important role in this regard. Video cassettes containing short films, telefilms, documentaries on this issue could be disseminated among the expatriate Bangladeshi community and within the country, billboards and advertisements could be made on the theme by the Central Bank and other banks as well and it should be ensured that such advertisements reach the expatriate community.

**Dr. Jamaluddin Ahmed, Bangladesh Bank**

The Bangladesh Bank has undertaken a new project called Remittance & Payments Partnership. Under this project four pillars of legal and regulatory activities can be built. These are: National Payments System Law, Anti-Money Laundering Amendments to existing Law, Amendments to Foreign Exchange Regulation and Migrant Workers Consumer Protection Legislation. This strategy will address a formidable portion of the needs in the remittance industry but by no means an exhaustive list of the legal changes that need to be accomplished. Once strategy is agreed on, sequencing these activities with a strategy that works to assure the passage or promulgation of these efforts will constitute a significant portion of legal and regulatory work through out the time remaining on the project.

Check list for attaining the generally accepted minimum best practices are as follows.

**Transparent Market:** Remittance providers shall fully disclose to the customer complete information regarding commission, fees, foreign exchange rates applied and transaction time involved.

**Consumer Protection:** Adequate and timely information regarding fees, charges, and rates; Safeguards and guidelines on use of personal information obtained; Information regarding choice in products, services and value; Guarantee of money being delivered and if delivery is not timely or does not occur a dispute resolution and complain procedure in place;

**Safe, Sound and Efficient Payment System:** Technologies should be investigated and wherever possible used to help reduce cost, decrease transfer time, screen for money-laundering, weighing the mitigation of risks; Entry and exist criteria should be established within the context of a licensing regime that provides a minimum level of supervision and oversight;

**Competitive Market Access to Financial Services:** Remittance providers shall provide full information concerning all products for which it is licensed to provide without steering, influencing or structuring transfers; Remittance providers shall not engage in unfair pricing, false advertising or high foreign exchange rates

**Well-Governed Services & Risk Management in Place:** Bank's goals regarding remittances are to facilitate remittances into the mainstream by developing supportive legal and regulatory framework and a level playing field among market participants; Improve data collection, analysis, information sharing and reporting mechanisms to improve quality of data and assist in assuring market works to benefit of all; Promote increasing level of financial literacy among workers and their families, encourage formalization of financial services directed toward assisting this sector of the economy including better understanding of saving vehicles, investment possibilities, other financial products and consumer rights in remittance transactions.

I think, the Customer Protection Law will be the best for that purpose, the policy label should think about this legislation process. At the same time Central Bank should create a competition among public and Private sectors.

**Dr. Anwar Chowdhury, RPP project, Bangladesh Bank:** There should be full automation and computerization of the bank; I can not see why branches can't have mobile phone to communicate with the remittances delivery information. I very humbly submit to the session chair to incorporate here possible recommendations emerging from the group discussion in this afternoon of liberating the MFI network given adequate endowment to the private commercial bank and the national commercial bank. To ensure adequate computerizing of the maintaining electronic fund transfers have an access to internet based banking like the Western Union. And also continue the possibility of using mobile technology for effective fund transferring which is already taking place in Malaysia and in the Philippines. On instruments for remittance, one area that could be liberating the generational commercial and stock exchange to allow the reserve quota for IDO's for the remittance just as much as they do for non-resident Bangladeshi or the diaspora there. The migrant workers are the major contributors to the remittance but we really ignored them. I think the present caretaker Government may give very serious concern to ensure the coming up of infrastructure of the bank other than all suggest for coming up export import bank- that is a possibility as well. With regard to various types of instruments, awareness dissemination is very important to make sure it is adequately published and make aware of potential migrant community living in the sending country and in the receiving country.

**Mr. Robert Smith, RPP project, Bangladesh Bank:** I think Bangladesh should think a little bit about how it can encourage investment. The government is able to make sure of it. I think in that case, partnership is very important policy instrument that Bangladesh Bank can help some of the banks to develop the infrastructure they need. I would like to mention that Bangladesh Bank when they are considering about license and when they are considering policy changes, they need to think developmental and to be

experimental a little bit more than we saw in the past.

**Mr. Baijit Sarkar, Bangladesh Bank:** I would like to propose if we can form a Wage Earner Bank it will solve all the problems that we have faced in this sector. It will help to increase the investment opportunity because that bank will be formed by the capital support of wage earners. We should consider the whole remittance experience from Philippines and India where the remitter of Philippines directly invest to their local Government so why can't we create this opportunity.

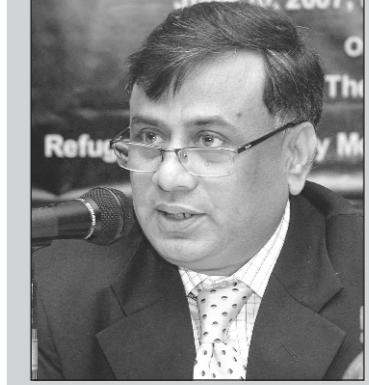
**Mr. Najmul Hossain:** Actually our remittance is coming through several ways one is draft, one is electronic fund transfer and lastly the Cash system. I would like to suggest something on Cash system needs only internet connectivity. Central bank informed that they have more than 6 thousand branches in our country so in that case if we get at least email connectivity to at least 4 thousand branches in our country so the number of remittance will be increased soon. Normally automation or internet banking seems very tough but simply if we go to one company just for example BRAC Bank, they have branch. So, if we have arrangements with one organisation like BRAC that will help to build up internet network among the branches with minimum cost so the remittance delivery system will reach up to the world standard.

**Mr. Debu Rahman:** Over the years private bank are coming up in remittance business but they do not have the branches network as required for door to door delivery. So, if the Government banks have no many branches in the rural areas they should allow the private banks to use their network for distributing the remittance, I think the remittance delivery system will be improved.

Second suggestion would be on investment tools presently we have government bond, wage earner bond, investment bond but all bonds are based on internet. But our expatriate mostly who are in the Middle East countries would like to have profit based remittance products.

**Mr. Atique Rahman:** I want to point out two issues; firstly, can we give some incentives to the remitter? We know this type of incentive giving system is available in Pakistan. We cannot expect more and more remittance unless we would able to give incentive to the remitter. Secondly, when the banks are designing their products either it is deposit or investment, they tend to see their profit. In that case Government should come forward to introduce some sort of foreign remittance Quota for the migrant workers

**Extracts of Speech by the Chair of Working Session 2, Mr. Khandakar Muzharul Haque, Executive Director & RPP Project Director, Bangladesh Bank**



When we talk about the reforms of banking system for remittances perhaps we should discuss three things. One is legal. The second one is procedural and perhaps the third one is not related with reforms, but the investment opportunities.

At present Bangladesh Bank is scrutinizing some of the present laws. Our legal experts have put forward an important law which is called Migrant Workers Consumer Protection Law. Experts are also verifying other laws which are related to foreign exchange and one is very important which is related with payment system law.

Mobile banking or mobile centric payment system has good scope in Bangladesh. You know how the mobile industry has been coming out. In last 10 years this industry could reach only 1 million people, but last three years they have been able to reach two billion people and next one year they would reach three billion people.

If we can link the financial sectors with the NGO sector, perhaps our delivery of remittance would be very much smooth. Incidentally, I am also the chief executive director of micro credit committee authority and recently we have received about 4000 application from micro credit institutions. So, there is an opportunity of linking micro finance institutions with the formal banks and the NGOs can deliver things easily. We have channelled a fund of about 4 million dollars which is small amount but it is the first step forward. We have also received 39 proposals from the NGOs