Remittances linked to SME development

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WITH remittances reaching US$ 200 billion for developing countries, almost twice the Overseas Development Assistance (ODA), they emerged as the major mantra for development.

Recent studies show how migrant remittances constitute an indispensable part of the economic survival of many countries, and have the potential to lift people out of poverty at the local level (Nyberg Sorensen, 2004; Adams and Page, 2003). Growing importance of remittances can be seen from some additional researches that claimed potentially higher gains from a marginal liberalisation of international flow of migrants than those from trade liberalisation (Rodrik, 2002).

The remittances sent home by migrants have become a valuable source of foreign exchange available for economic development of the country that is not susceptible to fluctuations of the market forces which is a major problem in the case of export earnings. Remittances also help in improving the balance of payments in the sending countries and ensure the imports of capital goods and raw materials for industrial development.

Remittances help generate savings, which constitutes a major source of capital in the absence of institutional credit on easy terms for a large segment of poor populations. They induce investment by remittances receiving families and diasporas for capital formation which result in employment generation and development as multiplier effects. Migration of workers also helped in reducing the unemployment rate, which is one of the major problems of less developed countries. In addition, the flow of remittances also improves the standard of living of the recipients and helps in improving the income distribution in favour of the poorer and the less skilled workers.

There is growing evidence that remittances can play a leading role if schemes be so designed as to invoke interest of migrants to invest in home enterprises thereby generating employment of his/her family members or relatives, earn additional income from investment property or making necessary preparation for their return. Thus for example, in urban Mexico remittances contribute nearly 20% of the capital invested in micro enterprises through Home Town Associations (HTAs) and self-help groups (World Bank, 2006).

Although there are notable researches on remittances and a few are also directed to SMEs but one may observe acute shortage of research linking remittances with SME development initiatives and their impacts. This paper is just a tip of the iceberg. Premised largely on secondary data sources from official statistics and household level surveys, it attempts to generate understanding on the linkage potential for Bangladesh.

Remittances and SMEs: Current situation and linkage potentials

In Bangladesh both RMG and remittances go hand-in-hand in terms of earning foreign exchange. Whilst remittances crossed six billion dollars in 2006 contributing 8.7% to GDP, export earnings of RMG sector reached US$ 7.9 billion in 2006 representing 75% of the country's export and contributing 12.5% to the GDP. Bakht (2006) underscores the role of SMEs that perform subcontracting jobs for larger enterprises, facilitating the export growth and vice-a-versa. This is because of the significant growth of accessories and packaging industries predominantly belonging to SME sector, while footwear industry increased subcontracts to SMEs.

Export of frozen food, fish and processed fruits and other food items increased remarkably by 236% during 1986-2002 and here too the role of SMEs in the growth process should not be ignored because 28% of the food processing industry belongs to the SME sector. Because of their smallness and labour-intensive nature, flexibility and low risk and low capital requirement, these enterprises are more supportive of poverty reducing development strategies. The incidence of female employment tends to be higher in these enterprises, which increases their potential for poverty reduction.

Growth and development of SMEs are constrained due largely to lack or limited access to finance and equity. Remittances can fill this vacuum in funding and investment for micro and SME development if they may be tailored appropriately. However, any effort to establish such linkage raises some critical questions whether incomes earned by low-skilled temporary migrant workers who constitute around half of the total emigrants are adequate to generate savings after meeting maintenance costs abroad and reimbursing for the cost of migration

Whether more skilled and professional migrants and Bangladeshi diasporas would like to invest in SME from abroad or after their return? How far migrant families are ready to make such investment? Whether the policy makers and relevant stakeholders are willing to undertake necessary reforms for remittances management and in banking practices to attract migrants for sending more remittances through formal channel and influence their use for poverty alleviation through SME development?

Empirical evidence on remittances use, savings and return plans of migrants

From her own research on more than 150 migrant labours in the United Arab Emirates (UAE) and tracers' survey of their families spread over 25 Thanas (Police Districts) the author reports that migrant workers spend around 40% of their overseas income for self-maintenance and send 30% of the same as remittances to their areas of origin. The remaining one-quarter of their income they keep as security money, which they need anytime to meet any exigencies both at home and abroad (Afsar, 2007). However, their expenditure pattern varies depending on the facilities they get from their employers of respective sectors. Accordingly however, the size of their remittances expands or contracts and so are savings. Recent migrants (who have migrated for less than one year) and those who do not have any regular jobs in host countries are likely to have no savings. Debt burden is another important determinant that often compels a large number of recent migrants (between 40% and 60%) to remit more by curtailing their maintenance costs.

Estimates suggest that average cost for migration to Middle Eastern (ME) countries that remain at the top of destination countries attracting more than 85% of Bangladeshi temporary migrant workers is US$ 2000 approximately, which increases further by another US$ 500 to 1000 for Singapore and Malaysia and gallops to US$ 5000 to 10,000 for western Europe, USA and Canada (Afsar et al. 2000; Siddiqui and Abrar, 2002; Bin Zamir 1998; Mahmood, 1998).

In the absence of any insurance and institutional credit facilities, migrant workers rely heavily on borrowing from informal sources to finance such huge amount of money they need for overseas migration. More than one-thirds of total migration costs have been financed from the loans extended largely by relatives/friends. Borrowing from the moneylenders met less than 10% of the migration cost but migrant workers paid exorbitant rate of interest at 28% for such funds as opposed to the borrowing from relatives that incur zero or minimal interest (Afsar, 2007). In addition to debt burden, working overseas in construction, manufacturing, cleaning and other informal services sectors also involves health and other types of risks and cost factors.

A comparison of household income and expenditures show that the migrant households could barely meet both ends in the pre-migration situation, international migration of workers has enabled these families to increase the level of household surplus to a respectable level of Taka 25 thousands annually (Afsar, 2007) (Table 1.1). A major share of the remittances (36 percent of total remittances sent back home) is used to meet the recurrent consumption of the family. Invariably all of the migrants appeared to have incurred the costs. Purchase of land and construction/repair/extension of houses consume another 40% of remittances. Total land holdings have increased by around three percent after migration, which is particularly geared to extension of homestead land.

What is most important to note from the perspective of SME investment is that nearly 90 per cent of the migrant workers wanted to return to Bangladesh and start business upon return. As most of the migrants have had no bank account in their own name in their areas of origin they channel the bulk of their incomes ranging between 40-57 per cent through other members account. Hence, prudent management and productive use remittances become critical. Based on the asset position and discounting for probability of crisis induced expenditure such as flood, death, accident and other health hazards plus social problems such as theft, rent seeking, etc Afsar et al. (2000) claimed that between three-quarters to four-fifths of the migrant are likely to have some means to fall back once they return home. Elsewhere the author wrote (Afsar, 2007):

With regard to remittances the government has taken several important steps to achieve better remittances channelling and encouraging greater flow through reward system and by reducing transaction costs. ...What is more important is to linking remitters with credit facilities so that they and their families can get access to medium size loans for starting business and other income-generating activities after migrants return home.

Table: 1.1
Change in household expenditure pattern (annual) after migration of workers

Heads of Expenditures	Expenditure	(Tk.)	Percentage	Percent	Distribution
Heads of Expenditure	Before	After	Change	Before	After
1. Food Expenditure	28103	31560	22.18	58.71	54.23
Rice	12377	12492	0.93	25.86	21.46
Other Food Items	15726	19068	21.25	32.85	32.76
3. Footwear/Apparels	2971	3792	27.62	6.21	6.52
4. House Maintenance	583	609	4.39	1.22	1.05
5. Educational Costs	3381	5126	51.60	7.06	8.81
6. Medical Expenditure	1173	2442	108.10	2.45	4.20
7. Social/Religious Costs	1829	2556	39.73	3.82	4.39
8. Electricity	1331	1462	9.80	2.78	2.51
9. Water, Gas, Fuel	1976	2483	25.65	4.13	4.27
10. Conveyance	1217	1554	27.70	2.54	2.67
11. Occupation Related	4390	5213	18.74	9.17	8.96
12. Cosmetics	823	1209	46.92	1.72	2.08
13. Other Costs	91	192	110.53	0.19	0.33
Total Costs	**47870**	**58197**	**21.57**	**100.00**	**100.00**

Source: Afsar et al. (2000)

Best practices promoting remittances with SME linkage

As a first step toward linking remittances for SME development it is important to ensure greater flow of remittances through formal channel. Dramatic increase in the volume of remittances since 2001 in Bangladesh may be related to streamlining measures undertaken by the Bangladesh Bank largely in response securitization in the aftermath of 11th September and for encouraging remitters to use formal channel. These measures ranged from introducing flexible exchange rate to tax exceptions and attractive interest rates for saving in the country as may be seen from Table 1.2.

Table 1.2: Schemes and savings facilities offered by Bangladesh Bank to migrants

Type of scheme and conditions	Benefits
Wage Earners' Development Bond (WEDB)any Bangladeshi migrant can invest the Taka counterpart of their foreign currency in this Taka denominated bond	Interest earned @12% per annum and is tax-free. Bonds are convertible to foreign exchange and proceeds are transferable abroad.
Non-resident Investor's Taka Account (NITA)-- Bangladeshi migrant can invest in the home country's capital market shares and securities once they open the account with any dealer branch of scheduled bank.	Profits/dividends/gains can be deposited in this account and are tax-free. Balances of this account are convertible and transferable abroad.
Balance of Foreign Currency Account (FC) can be maintained in any commercial banks in Bangladesh	Freely convertible and transferable
Non-Resident Foreign Currency Deposit (NFDC) account	Interest bearing and tax-free. It is renewable, flexible yielding withdrawal facilities, convertible and an accountholder can maintain it for unlimited period.

These reform measures create huge difference in the flow of remittances through formal channel. From a negative growth in 2001 fiscal year when the flow in remittances was lower by US$ 67 million compared to the previous year, remittances received in 2001-02 shoot up registering 132% increase. Ever since the flow of remittances increased remarkably and recent estimates from the Bangladesh Bank suggest that they have crossed five billion dollar mark.

Most remarkable gain from these reform measures comes from the OECD countries. There is a huge difference in the size of remittances from OECD countries in the pre and post reform period. Flow of remittances increased by 468% from US$ 28.32 million in 2000-01 to US$ 1316.40 million in 2005-06, and subsequently their contribution to total remittances almost doubled from 14.9% to 27.4% during this period. This may be interpreted as signal for growing interest of diasporas to invest in new saving schemes. Remittances from GCC countries also have increased remarkably from US$ 1502.43 million to 3161.01 million during the same period (GOB, 2006). Nonetheless it is important to examine whether these reforms are conducive to generating enough interest among migrants for investment in SME. Azad (2004) for example argues that all these schemes are more conducive for generating savings rather than investing in SMEs, which can be risky and uncertain in terms of returns from capital and other investment.

However, some of the recent efforts by government demand attention as these are directed toward investment. For buying disinvested industries, industrial units and for investment in the transport and communication sector expatriate Bangladeshis will enjoy tax exemption and are eligible for discounted price provided they pay in cash, in foreign currency and within 30 days.

A few incentives e.g. Important Non-Resident Bangladeshi (INRB) status, trophy for the highest remitters, etc. are in place to honour those expatriates who invest half-a-million dollars in industrial sector and send remittances through formal banking channel (www.bmet.org.bd/ministry/html). Undoubtedly these are good initiatives. However, these are mainly targeted to educated migrant and diasporas although they may not have adequate information about these facilities in the absence of any type of publicity campaign.

However, how far these schemes are accessible to migrants and diasporas, what problems they have in availing them and to what extent these are beneficial need to be studied. Moreover without addressing the problems of migrants in the process of migration, their welfare concerns while they work abroad and reintegration prospects after return, these schemes may not generate enough interest among migrants at large for investment. Some of the best practices available globally that link remittances with community development such as HTA may be instructive to draw some useful lessons for policy imperatives. Box 1.1 summarises some of the best practices and the key lessons.

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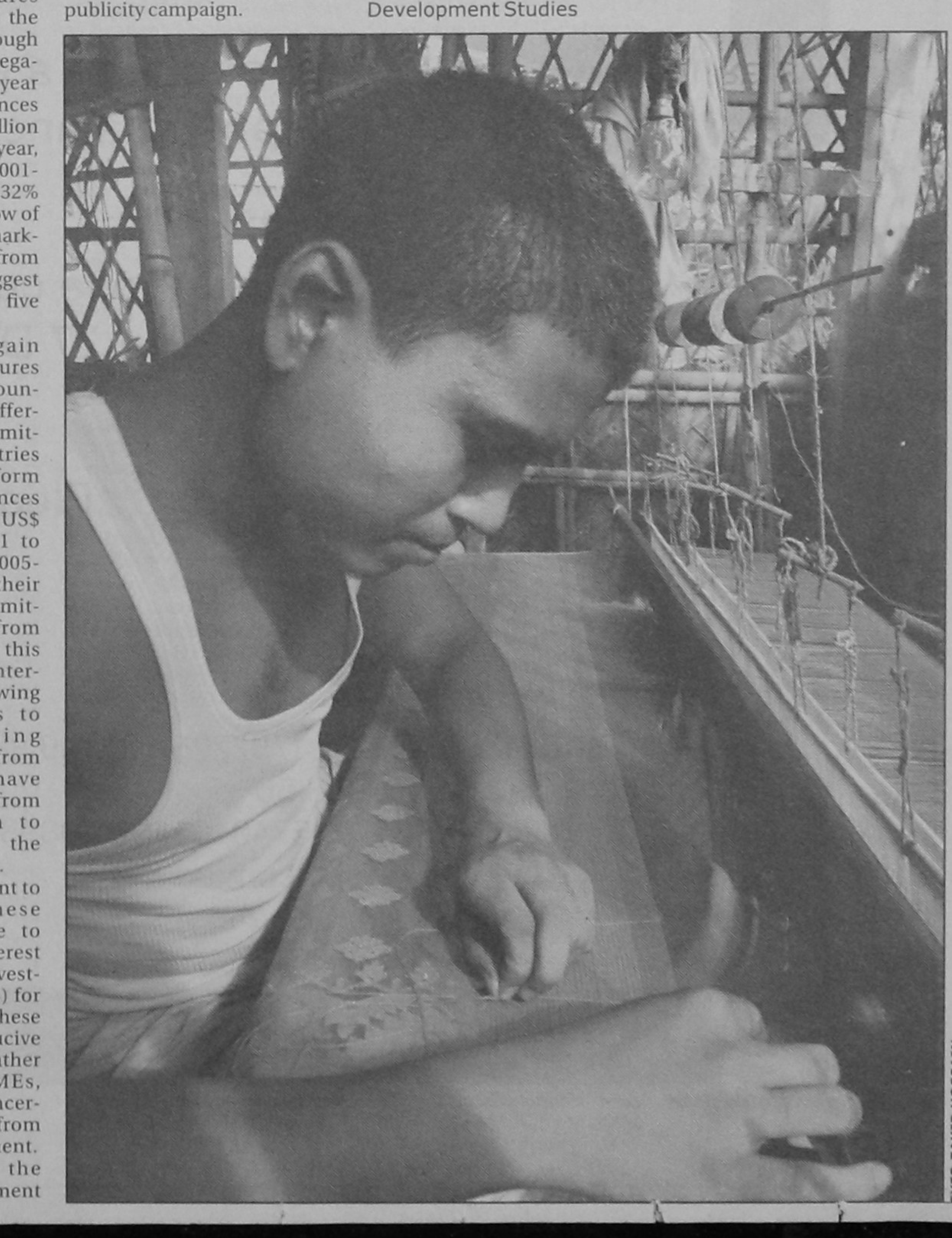

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