RESEARCH NOTE

Remitting Money to Bangladesh: What Do Migrants Prefer?

AKM Ahsan Ullah and Pranab Kumar Panday

City University of Hong Kong

This paper looks into the remittance channels used by Bangladeshi labor migrants in Hong Kong and Malaysia and examines the reasons why they prefer particular modes of money transfer. Data were collected from 126 respondents (56 in Hong Kong and 70 in Malaysia) through a survey conducted during June 2004 to October 2005. An overwhelming majority of migrants preferred unofficial over official channels in transferring money. According to migrants, the informal channels are quicker in transferring money and the exchange rate is higher than the formal channels. They recognized though that there is a considerable amount of risk in remitting through informal channels.

International migration in search of employment has long played an essential role in shaping the economy of Bangladesh where over 46 percent of the population lives below the poverty line (Ullah and Routray, 2003). Over the years, population growth, coupled with the alarming dearth of employment opportunities, have induced many Bangladeshi workers to leave for overseas employment. According to government estimates, more than 225,000 Bangladeshis leave the country every year to take up overseas employment (Skeldon, 2003:5; BMET, 2005; and Siddiqui, 2005). In addition to easing unemployment crisis, migration supports the country's economy by way of remittances.1 Between 1974 and 2004, Bangladesh received a total

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1 The portion of the migrant’s earnings that is sent (or can be sent) either in cash or in kind from the country of employment to the country of origin (Russell, 1986:677; Doorn, 2000; Carling, 2005:12).
of US$31.7 billion (TK145353.96 crore)\(^2\) in remittances (BMET, 2005: 2006). In recent years, remittance flows into Bangladesh have had substantial impact on the country’s fragile economy. Therefore, migration and remittances have become important issues in the development discourse in Bangladesh in recent years. However, the precise amount of remittances could not be known because remittances can be in cash or in kind, and they can be coursed through formal or informal channels.

A major source of foreign exchange, remittances contribute significantly in meeting the country’s international financial obligations, and they account for a significant share of the country’s exports (Siddiqui and Abrar, 2003:9; Athukorala, 1993; Swamy, 1981; and Brown, 1995).\(^3\) Remittances even exceed the net earnings of the garment industry, the highest foreign exchange generator and leading source of employment in Bangladesh, which amounts to more than US$3.5 billion a year (Bangladesh Bank, 2006). The total share of remittances to the national gross domestic product jumped to six percent in 2005 (see Karim, 2006), up from only one percent in 1977-78. Moreover, remittances provide some relief when the national economy experiences a sharp fall in foreign exchange reserves (BMET, 2006). The economic crisis in Asia in 1997 also demonstrated that remittances played a stabilizing role in the economy – during that time, remittance flows supported household expenditure and offset the notable decline in capital inflows.

At the micro level, remittances also represent intra-family obligations that are sustained despite the geographical separation of family members. Carling (2005:17) argues that in non-welfare countries like Bangladesh, it is taken for granted that adult children should support their parents, and children working overseas are expected to provide financial support to their families by sending remittances. The effective use of remittances sent back to origin countries now requires more effective governance so they can be a factor in furthering economic progress (Bowring, 2005:7-8). Thus, it is important to know the channels - formal or informal - through which remittances are being transferred to Bangladesh by migrants and what are the factors that mold their preference for formal or informal channels. The present study intends to answer these questions based on a survey of Bangladeshi migrants in Hong Kong and Malaysia.

\(^2\) Taka (TK) is the Bangladeshi currency. As of 2007, TK70 is equal to US$1; 10 million=1 Crore.

\(^3\) In the 1990s, the share of remittances to total merchandise exports was 44 percent for Bangladesh in 1993; about 13 percent in India in 1990; about 22 percent in the Philippines in 1993; and some 24 percent in Pakistan in 1993 (Puri and Ritzema, 2004:7).
Official and Unofficial Flows of Remittance to Bangladesh

Global estimates of official remittance flows suggest that remittances increased from US$43.3 billion in 1980 to US$70 billion in 1995 (Russell, 1992). More recently, the global amount has reached $100 billion per year (IMF, 2005:69). As Gammeltoft (2002:189-190) points out: “Estimates of migrants’ remittance are in the order of US$100 billion annually, some 60 percent of which go to developing countries. Any policy to make use of migrants as a development resource will have to understand the size and allocation of remittance and the roles played by migrants and their communities in the remittance processes.”

Like the global pattern, remittance inflows to Bangladesh have been increasing over the years. For example, in 1991, remittances amounted to US$769.30 million; in 2005, the amount jumped to US$4249.87 million. In part, this increase also reflects the increasing numbers of workers deployed overseas every year. Official reports suggest that Bangladeshi workers remitted about TK296883.78 million (US$4.8 billion), through official channels in financial year (FY) 2005-2006. However, billions of takas enter the country every year through various unofficial channels (Bangladesh Bank, 2007).

A major portion of remittances comes from Middle East countries, where many workers are based. Between FY 1997 and 2004, almost US$6.9 billion were remitted from Saudi Arabia, more than US$1.9 billion from Kuwait, and more than US$1.4 billion from the UAE (BMET, 2005:26). The shares for Qatar, Bahrain and Oman amounted to several hundreds of million US dollars. The UK accounts for five percent of the total remittance flows (i.e., almost US$900 million) for the same period. Official remittance transfers from Malaysia amounted to more than US$545.31 million from 1991 to 2005 (BMET, 2005). From Hong Kong, Bangladesh received US$43.41 million from 1998-1999 to 2006-2007 (Bangladesh Bank, 2007).

The true value of remittances is likely to be higher as some portion of total remittances does not flow through official channels. Formal channels refer to demand drafts issued by banks or an exchange house, traveler’s cheques, telegraphic transfers, postal orders, account transfers, and transactions through automatic teller machines (ATM) and electronic transfers (Siddiqui, 2001).

The magnitude of remittances sent to Bangladesh through informal channels is estimated to be at least double or even triple the recorded figures (Puri and Ritzema, 1999:9; Abella, 1989). During the mid-1980s, remittances

*TK62 was equal to US$1 in 2006.
sent through informal channels amounted to as much as 80 percent of the total (IOM, 2005). More recently, informal channels account for 20 percent of the total amount of remittance transfers to Bangladesh (IOM, 2005). Among others, the introduction of many formal channels and the lowering of transaction costs have contributed to the increase in formal transfers. Western Union, a well-known money transfer operator (MTO), was introduced in Bangladesh in 2005, which has improved the speed and reliability of money transfers. However, the fees can discourage migrant workers from remitting through formal channels. One of our respondents in Hong Kong reported that he paid HK$160 to remit HK$2,000 to Bangladesh. The fees increase as the remittance amount goes up. In comparison, Filipino workers in Hong Kong pay only HK$28 for remitting to their home countries.

There are many informal channels, of which the most popular is the hundi system. In the hundi system, a migrant-remitter gives money to an intermediary abroad, who contacts an agent in Bangladesh, who is then responsible for paying the equivalent amount that the migrant has given to the intermediary for the intended recipient in Bangladesh. The transaction between the migrant-remitter and the intermediary is sealed by a code number, which the remitter passes on the recipient in Bangladesh. There is no other official document in this process hence some risk is involved. Issues of trust and payment are intertwined in this type of remittance transfer – this is reflected not only in the relationship between hundi operators, but also in the relationship between operators and senders. It is actually a network based on trust where there is a strong bond between the client and the operator. Although some of the literature is skeptical about the transparency of this system, it has been argued that the system runs on the basis of trust. If trust and verbal contracts were broken, punishment or

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5 In 2003, it had 182,000 agent locations worldwide (Carling, 2005:23).

6 Other informal channels include what is known as the “luggage party” – it is a strategy which involves people pretending to be businessmen or tourists. In reality, they are intermediaries who visit different countries where there are many Bangladeshis; for a fee, they deliver remittances from migrants to the homes of intended beneficiaries. Fees depend on the amount. For example, migrants in Hong Kong pay HK$150 for remittances up to HK$10,000; those in Malaysia pay RM40 for remitting up to RM4,0000. Fees for carrying remittances in kind depend on the size of the item.

7 A study on remittances in Bangladesh carried out by ILO revealed that ten out of 100 remittance-receiving families faced problems with the hundi system, whereas 19 percent encountered problems with official transfer methods. The problems encountered with official transfers include delay, lower exchange rate and bribes given to bank officials. Respondents found the hundi system more efficient; however, they acknowledge that it is riskier because are no official documents and there is no legal redress in case the money is lost (www-ilomirror.cornell.edu/public/english/dialogue/actrav/publ/129/8.pdf, accessed on 12 June 2006).
even death will be exacted on offenders. However, there is no evidence suggesting that fear of retribution operates in keeping the remittance process above board (Sandhu, 1998.)

Conceptualizing the Sending of Remittances

The remittances considered in this paper are those that are individually remitted by Bangladeshis based abroad. Russell’s (1886) remittance system model guided our conceptualization of the remittance behavior of Bangladeshi migrants. Her model sought to identify the determinants and effects of remittances. She identified altruism and economic and social drivers as variables influencing migrants’ decision to remit; as to the effects of remittances, community and family factors were cited as factors influencing how the remittances are used. The amount and frequency of sending remittances would depend on various factors, such as migrant’s characteristics (education, marital status, professional skill), wages, length of employment abroad, economic activity/job in the host country/region and in the sending country/region, exchange rates, political risk, and facilities for transferring funds (Udbastu, 2005). Other factors include whether or not migrants were accompanied by dependents, household income level, and relative interest rate between labor-sending and receiving countries or regions (Doorn, 2000). In this study, we zeroed in on migrants’ disposable income, i.e., the amount left after deducting the living expenses, other costs and savings in some cases. In other words, a migrant’s expenditure pattern would determine the amount that he or she can remit.

Figure 1 outlines the remittance decision-making, starting from the available resources that migrants have and ending at decisions concerning

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8 There is also collective remittance, which is money sent back to the home country by a group of migrants or members of migrants’ associations (Miyar, 2003:6; Russell, 1986:630).
the uses of remittances. This study focused on one specific aspect of remittance decision-making: the facilities or channels for remittance transfers which are accessible to migrants. This study sought to determine why migrants decide to use formal or informal channels for sending remittances to Bangladesh.

**Data Sources**

This paper is based on data gathered from both primary and secondary sources. Primary data were collected via a survey conducted among migrants in Hong Kong and Malaysia from June 2004 to October 2005. These two destination countries were chosen for different reasons. As of 2005, there were 2,500 and 50,000 Bangladeshis in Hong Kong and Malaysia, respectively (*Jugantor Daily*, 2004, *Inqilab Daily*, 2004). The relatively large concentration of Bangladeshis in Malaysia was one reason for including Malaysia as a research site. Although the number of Bangladeshi migrant workers in Hong Kong is as not as high as in Malaysia, Bangladeshis have been migrating to Hong Kong since the mid-1970s and very little is known about their situation in Hong Kong.

A total of 126 migrant workers (56 Hong Kong respondents or HKRs and 70 Malaysia-based respondents or MRs) were interviewed. Eligible respondents were those who had stayed in Hong Kong or Malaysia for at least a year. Respondents were selected through snowball sampling. Face to face interviews were conducted based on an interview schedule which included closed and open-ended questions. The questionnaire probed into amount of remittance transfers, forms of remittances, frequency of transfer and modes of transfer.

Males made up 95 percent of all respondents. Among the HKRs, the ages of respondents ranged from 20 to 55 years; the mean age was 34.1 years. Among the MRs, the mean age was 33.1 years. With regards to educational attainment, migrants in both destinations have had formal education – about 43 percent of HKRs have college level education; 38 percent of MRs have completed secondary level education.

HKRs had a mean length of stay in Hong Kong of about five years while MRs had been in Malaysia for around 9 years. Many of the respondents claimed they were legally staying and working in Hong Kong and Malaysia. For HKRs, prior to 11 December 2006, Bangladeshi passport holders can apply for a tourist visa upon arrival in Hong Kong which allowed them to stay for two weeks. To extend their stay, they exited to China or Macau and returned to Hong Kong. Migrants in Hong Kong use several passports, which allow them to re-enter and extend their stay. Thus, while they legally entered and stayed as tourists, they were not working legally in Hong Kong.
As for the MRs, at the time of the study, most of them were living and working in Malaysia in an unauthorized manner. Some of them carried fake visas which could be bought at RM1,000-3,000.

Secondary data on remittance flows to Bangladesh from overseas countries has been collected from the Bangladesh Bureau of Manpower, Employment and Training (BMET).

Findings

Cash and In Kind Remittances

Remittances come in various forms and are remitted through different modes of transfer. For example, in Sudan, as pointed out by Brown (1992) (as cited in Puri and Ritzema, 1999:14), an estimated 80 percent of unrecorded remittances are transferred in cash while the remaining 20 percent are carried in the form of smuggled goods. In many Asian countries, informal foreign exchange markets are fuelled principally by migrants' remittances (Gammeltoft, 2002). The hundi system, a mode of remittance transfer used by Bangladeshi, Pakistani and Indian migrants, contributes to the emergence of informal foreign exchange markets (Kardar, 1992; Kazi, 1989; and Saith, 1989). Note, however, that remittances to Bangladesh may be in cash or in kind.

Cash transfer is the most common form of sending remittance. Data from the survey suggest that not all of the income earners had remitted in the last month of interview – 94 percent among HKRs and 71.4 percent among MRs. Those unable to send money home in the past month cited insufficient income, i.e., they did not have much left after they had deducted their expenses. Most of our respondents reported transferring money every three to five months primarily because they cannot accumulate sufficient savings. While they wait to accumulate more money to be sent home, they encounter a predicament of where to store their money. Their living quarters are not safe places to keep their hard-earned money, while access to the banking system is restricted because they need legal documents to open a bank account.

The frequency of remittance transfer also depends on the needs of the left-behind family, and the availability of the “luggage party.” Around half of the MRs and some one-third of HKRs sent remittances because their families needed money. For a great majority of HKRs, the availability of the luggage party allowed them to send money to their families. It is worth mentioning that this scenario, i.e., the frequent visits of luggage parties to Hong Kong, will be affected by the recent change in immigration policies for Bangladeshi nationals. As mentioned earlier, from 11 December 2006, Bangladeshis are required to obtain a visa before coming to Hong Kong.
Table 1 shows the amounts transferred to Bangladesh by HKRs and MRs in the past month. The mean amount transferred to Bangladesh by the HKRs was HK$3,196.43 (equivalent to US$415 or TK 28,220), while it was RM 475.0 (equivalent to US$135 or TK9,180). Thus, HKRs transferred significantly more remittances than MRs (P<0.000) since they earn more than the MRs.

Different studies show that transfer in kind constitutes quite a significant portion of migrants’ remittance. Carling (2005:29) observes that the nature and volume of remittances in kind depends on the characteristics of the sending and receiving economies. Transferring remittance in kind has recently gained popularity, especially among the HKRs, because certain goods are easy to procure, easy to transfer, and they can be profitable when sold in Bangladesh. A few of the migrants thought that it was more profitable to transfer in kind than in cash. Some items could easily be transferred under the pretext that they are being sent for personal use or as gifts, i.e. computer or camera. However, their recipients in Bangladesh normally sold them for profit making. Secondhand laptop computers had become a popular item to transfer – they are tax free, they are relatively cheap in Hong Kong, and they can fetch a good price in Bangladesh where the demand for computers is very high. According to one respondent, if he transferred US$100 to Bangladesh, his family will simply get the taka
equivalent of US$100. But if he carries goods like second hand laptops or video cameras, he will be able to sell these items and obtain about US$200-300, i.e., two or three times more than carrying or sending cash.

The flow of remittance also depends on the frequency of migrants' visits to Bangladesh. Whenever possible, some migrants sought the help of other friends visiting Bangladesh to send items for their families. As mentioned earlier, MRs seldom visited Bangladesh and hence the magnitude of remittance sent in kind was considerably lower than those of the HKRs. Sending goods rather than cash remittances was also more common among HKRs than MRs. When visiting Bangladesh on holidays, migrants bring cassette players, video cassette recorders (VCR), video cassette players (VCP), computers, television sets, cameras, video cameras, clothes, blankets, home appliances, briefcases, radios, watches and gold for their friends (Siddiqui and Abrar, 2003:34). There are more HKRs visiting Bangladesh because of the proximity of Hong Kong, cheaper travel costs and higher income of HKRs compared with those in Malaysia. Akmal’s story, a migrant worker based in Malaysia for many years, provides a good illustration.

Akmal (36) had been working in Malaysia as an electrical assistant for 11 years. During this time, he had visited Bangladesh twice, when he completed his three-year contract in 1998, and the second time was six years later, in 2004. During his first visit, his company shouldered half of his air ticket, but during his second visit, he did not receive any support from his employer. To recover his expenses, Akmal brought some electronic and other goods such as camera, blanket and watch which were known to be more expensive in Bangladesh. He sold the camera and the watch at Stadium supermarket in Dhaka and the blanket at Gulistan supermarket.\(^9\) He ended with a good profit. When a friend visited Bangladesh last year in 2004, he sent another camera which was sold by his wife.

Table 2 summarizes the number of items and the cash equivalent of the in-kind remittances in the past year.

**Mechanisms and Channels of Transfer**

Remittances in cash are transferred in many ways but they are categorized broadly in two: formal and informal.

Formal transfers involve bank-to-bank transfers, which require a correspondent relationship between the bank in the destination country and a bank in Bangladesh. Other formal modes of transfer is through

\(^9\) Stadium Super Market and Gulistan Super Market are the names of two big markets in Dhaka City.
### TABLE 2
**Remittances in Kind in the Past Year**

<table>
<thead>
<tr>
<th>Items</th>
<th>Number of items</th>
<th>Hong Kong Approximate market price (in US$)</th>
<th>Malaysia Number of items</th>
<th>Approximate market price (in US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile phone</td>
<td>159</td>
<td>11357</td>
<td>42</td>
<td>3000</td>
</tr>
<tr>
<td>Cassette player</td>
<td>12</td>
<td>686</td>
<td>7</td>
<td>400</td>
</tr>
<tr>
<td>VCP/VCR</td>
<td>26</td>
<td>2229</td>
<td>3</td>
<td>300</td>
</tr>
<tr>
<td>Computer*</td>
<td>97</td>
<td>27714</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Television</td>
<td>6</td>
<td>514</td>
<td>6</td>
<td>514</td>
</tr>
<tr>
<td>Camera</td>
<td>141</td>
<td>8057</td>
<td>40</td>
<td>2286</td>
</tr>
<tr>
<td>Video/DVD</td>
<td>17</td>
<td>6071</td>
<td>2</td>
<td>571</td>
</tr>
<tr>
<td>Blanket</td>
<td>31</td>
<td>664</td>
<td>28</td>
<td>600</td>
</tr>
<tr>
<td>Gold**</td>
<td>-</td>
<td>1429</td>
<td>-</td>
<td>1071</td>
</tr>
<tr>
<td>Bags/briefcase</td>
<td>37</td>
<td>1586</td>
<td>5</td>
<td>143</td>
</tr>
<tr>
<td>Radio</td>
<td>14</td>
<td>100</td>
<td>15</td>
<td>129</td>
</tr>
<tr>
<td>Watches</td>
<td>23</td>
<td>329</td>
<td>21</td>
<td>420</td>
</tr>
<tr>
<td>Others***</td>
<td>-</td>
<td>714</td>
<td>-</td>
<td>500</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>61450</td>
<td>-</td>
<td>9934</td>
</tr>
</tbody>
</table>

**Notes:**
* Mostly secondhand laptop computers.
** They transferred but did not know the exact AMOUNT weight. They included only the unit they bought for their personal use.
*** Clothes, shoes and home appliances for personal use.

In calculating approximate market price the values inflation rate has been considered.

branches or subsidiaries of a Bangladeshi bank in the destination country or through exchange houses or banks in the destination country which have a taka (Bangladeshi currency) drawing arrangement (Siddiqui and Abrar, 2003).

Our survey data reveal that only seven percent of HKRs and some six percent of MRs sent remittances through formal channels. Around 38 percent of the HKRS transferred their money through the *hundi*, 27 percent through friends and compatriots, and 20 percent was hand-carried by migrant themselves. Likewise, among the MRs, 41 percent sent money through *hundi*, followed by friends and compatriots (22.9 percent) (Table 3). These data may be compared with the remittance sending patterns of Bangladeshi workers in Malaysia – 46 percent sent through official channels, 40 percent through the *hundi* system, 4.6 percent through friends, and eight percent was hand carried (Skeldon, 2003:6).

In this study, informal remittance channels were mostly used by unauthorized migrant workers. Their major reasons for using the channels were the slowness and higher charges of formal channels. Unauthorized mi-
TABLE 3
CHANNELS USED FOR REMITTING IN THE PAST YEAR (MULTIPLE RESPONSE)

<table>
<thead>
<tr>
<th>Channel</th>
<th>Hong Kong</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F (n=56)</td>
<td>F (n=70)</td>
</tr>
<tr>
<td>Hundi</td>
<td>21</td>
<td>29</td>
</tr>
<tr>
<td>Through Bank transfer</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Both Hundi and Bank</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Carry with them (when they go home)</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Through luggage party</td>
<td>19</td>
<td>7</td>
</tr>
<tr>
<td>Through friends and compatriots</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>No response</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>75</td>
</tr>
</tbody>
</table>

Grants’ lack of access to the banking system also led them to the informal channels. Formal channels require legal documentation, which can only be met by legal migrants. Unauthorized migrants, thus, have no other alternative but to choose informal channels like the hundi. However, even legal migrants also admitted that informal channels offer some advantages like speedier transfer, higher rate of conversion and less paper work.

According to respondents, remitting money through the hundi will reach the beneficiary between 12 hours to two days compared to seven days to two weeks (or even a month, according to some respondents) by demand draft. This is contrary to IOM’s (2005) assessment that the demand draft was the fastest official method for remittance transfers. The telegraphic transfer was found to be time-consuming. For international remittance sent by bank draft to Bangladesh, it takes, on average, about 15 days to liquidate the

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10 If a migrant sends money in the bank, the recipient in Bangladesh receives the amount in taka based on the government’s conversion rate. If money is sent through informal channels in the form of foreign currency, such as US dollar or euro or pound sterling and the like, the recipient in Bangladesh can sell the currency in the black market where the conversion rate is higher than the official banking rate. Our recent field work (late 2006) indicated that the official and unofficial exchange rates are about the same.

11 While the telegraphic transfer is faster than the demand draft, the former takes some time to reach the recipient. Sometimes, the bank official (particularly in remote areas) does not disclose the information to the recipient with a view to earning extra tips. Thus, if the recipient pays some tips, the process works faster.
money.\textsuperscript{12} In another study, Skeldon (2003:6) study found that 46 and 40 percent of remittances were sent through official and \textit{hundi} systems, respectively, 4.6 percent sent through friends and 8 percent was hand carried.

Other than the \textit{hundi} system, migrants' families received remittance in some other ways, too. According to many migrant workers, they try to find an employment for their left-behind friends, relatives and neighbors. They are sometimes able to obtain a work offer for family members or friends in Bangladesh. Some of the MRs claimed that they "sent visas" to their families, either to enable their family members to go abroad, or by selling those visas to others who are interested to migrate.

Another means, as described by Puri and Ritzema (1999:7), involves money transfer through an intermediary financial operator in the informal foreign exchange market. The remittance is transferred to an agent overseas under the agreement that the local currency equivalent determined at an agreed exchange rate is transferred by the agent’s local counterpart to the migrant's family or nominee.

Remittance leakage often takes place because the informal channels offer convenience, which cannot be matched by the banking systems.\textsuperscript{13} In the past, the lack of banking facilities and unfamiliarity with banking procedures resulted in the widespread use of unofficial channels by Bangladeshis (Quibria, 1986; Quibria and Thant, 1988). Some changes, such as the arrival of Western Union in Bangladesh, are contributing to the use of more formal channels. The establishment of electronic transfer system, especially in remote areas, could enhance access to the formal system. However, several conditions must be met before this system could effectively be operational.\textsuperscript{14} Hidden fees charged by international money transfer agencies like Western Union and Money Gram also increase transaction costs.

\textsuperscript{12} Different sources offer different evaluations. For instance, Siddiqui and Abrar (2003:39) claimed that compared to the demand draft, electronic transfer was quick and easily accessible, but IOM (2005) pointed out that the demand draft was widely used while telegraphic transfer was found to be time consuming. None of the respondents in this study sent money through telegraphic transfer; very few used demand draft. The paper work involved in these transfer deterred migrants from using them.

\textsuperscript{13} It has been noted that the tendency to treat remittances transferred through informal channels as foreign exchange leakages is erroneous because these "leakages" also include remittance items, such as 'personal imports' of migrant workers and savings brought home by workers upon their return, which are subsequently converted into the local currency at domestic banks (Athukorala, 1993).

\textsuperscript{14} A system should be in place to facilitate the identification of recipients. Electronic transfers also require a high volume of transactions and relatively large amounts of transfers to ensure the viability of the system.
costs which can be prohibitive to migrant workers - commissions, fees and exchange rates should be clearly communicated to remitters.

Except for a few persons, the majority of respondents hardly remembered the amount charged by the banks. Based on the information we obtained from the banks, transaction costs do not vary much from bank to bank. All the nationalized banks in Bangladesh – Janata, Rupali, Agrani and Sonali – charge TK100 (around US$1.5) as service fee for processing demand drafts. Many respondents in the study reported having to pay what Siddiqui and Abrar (2003:39) termed “speed money,” i.e., the tip given to officials of banks in order to expedite the processing of payment.

**Formal or Informal Channels**

Respondents acknowledged that formal channels are secure and reliable means of transferring money but the relatively longer transaction time was the major problem in transferring money through banks. The banking system does not respond as quickly to meet the urgent needs of migrants’ families. A few respondents admitted that they had to pay bribe to encash drafts. Moreover, a few of the respondents reported that their intended beneficiaries lost the money sent to them because they were held up or the money was snatched from them as they were coming out from the bank. Some beneficiaries reported that those who were illiterate had to bring along someone else to help them process the formalities of encashing a draft; bringing someone along adds up to the cost. Siddiqui and Abrar (2003:44) reported that some bank functionaries had harassed the respondents on trifling grounds in order to secure extra money, while others delayed payment on different pretexts. Thus, from the migrants’ point of view, the problems with the banking system have more to do with the inefficiency of bank officials rather than the illiteracy and inability of recipients to perform bank transactions.

Although informal channels entailed greater risks, they are often cheaper (although this would depend on the country) and the exchange rates were higher than official transfer methods. Bangladeshis turned to the *hundi* system because many of them were not familiar with the banking systems (IOM, 2005). In addition, *hundi* is accessible in remote areas.

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15 Some of the risks are deception, being paid a lesser amount, not receiving the money, or the intermediary holding the money for a longer time to gain some interest. Siddiqui and Abrar (2003:44-5) found that there were some problems with the *hundi* system. For instance, remitters who lose their money have no means to seek legal redress. Most respondents considered hand carrying the money when they go home as the safest. However, some respondents also reported being questioned by airport officials for carrying substantial amounts.
According to the respondents, the *hundi* system offered confidentiality\(^{16}\) than official channels. For most migrants, the primary advantage of the *hundi* system is the transfer of money at the quickest time possible. Moreover, *hundi* operators deliver money at the door step of the beneficiaries.

The *hundi* system persists because senders see many advantages to it. Aside from the oft-cited advantages, low cost, speed, and coverage of remote areas, the study also found that some *hundi* provides some assistance and services of a personal nature.\(^{17}\) For example, some migrants send letters through the *hundi*. Additional benefits or services, such as better exchange rates, shorter transaction time, and deferred payment in some cases, are not offered by formal systems (Siddiqui and Abrar, 2003; Puri and Ritzema, 1999:11-15). For these reasons, the informal system is likely to continue for a long, long time, unless official channels can come up with comparable or better services at affordable rates.

**Conclusions**

The foregoing discussion suggests that Bangladeshi migrants in Hong Kong and Malaysia tend to use more informal than formal channels to transfer remittances to Bangladesh. The foremost concern of remitters is the risk of losing the money in the transfer process, which is higher in the informal process than in the formal system.

The study indicated that Bangladeshi migrants in Hong Kong and Malaysia remitted mostly through informal channels. Although some changes and innovations have increased the share of remittances through formal channels, remittance leakage continues to be significant.

The continuing popularity of informal channels should be addressed by the government. There are a number of interventions that the government must consider not only to generate more remittances but more importantly to facilitate the transfer of funds, which are migrants’ hard-earned money, to reach their families. The government of Bangladesh should look into creating an environment that would encourage migrant workers to transfer their remittances through the proper channels. Particularly, the govern-

\(^{16}\) Confidentiality refers to the occupation of the migrants, reasons for remitting (i.e. how the money is to be spent) and others.

\(^{17}\) Although the *hundi* system is said to be cheaper, respondents in the study commented that the service fee is variable. According to some respondents, they paid HK$80 for remitting HK$3,000. After a few months, the service fee for remitting the same amount went up to HK$100.
ment has to ensure better services in the banking sector so that the family members of migrants can liquidate remittances without any hazards. The government has to ensure competitive foreign exchange rates in the banking sector. Moreover, the government needs to encourage private financial institutions to get involved in remittance transfer to ensure quality service. Private financial institutions like Western Union and Money Gram can be encouraged to expand their business in Bangladesh which would facilitate easy and speedy transfer of remittance. On the other hand, the migrants have to bear with the transaction time required for remittance. They have to bear in mind that transferring remittance through informal channels involves greater risks than the formal channels. By promoting the use of formal channels, remittance transfers are a step closer to contributing to the overall economic development of a country of origin such as Bangladesh.

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