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Remittances and Poverty: A Comparison of Bangladesh and Pakistan, 2000–2016

Rashid Amjad*

The aim of this paper is to examine the extent to which the decline in poverty in Bangladesh and Pakistan can be explained by the manifold increases in remittances in both countries and, more importantly, the mechanism through which this worked. The methodology used is not based on sophisticated economic modelling or growth accounting and while some regression analysis is undertaken, its basic approach is to identify the key economic factors that can explain this decline. The basic conclusions are two-fold. The first that there is strong evidence that remittances do not directly flow to either the poor or the poorest households and the main mechanism through which poverty was reduced in both countries is its indirect effect through generating jobs and incomes both overall but more so at the local or district level. Second, the evidence shows that Bangladesh was able to achieve sustained high economic growth in this period as a result of better macroeconomic management which remittances, by easing the foreign exchange constraint, made possible as compared to Pakistan which despite similar increases in remittances was unable to do so. In this case, the much better export performance of Bangladesh (mainly readymade garment) as compared to Pakistan was also an important factor besides remittances.

Keywords: Remittance, Poverty, Bangladesh, Pakistan, Economic Growth

1. INTRODUCTION

In 2004, when remittances were hailed as the “new development mantra” (Kapur, 2004), few observers could have foreseen the extraordinary pace at which these flows would increase over the next decade and their far-reaching impact on the economies of Bangladesh and Pakistan (among other developing countries). In both countries, remittances increased manifold between 2000 and 2016: from US\$1.95 billion to US\$14.93 billion in Bangladesh and from US\$0.98 billion to around US\$20 billion in Pakistan. Remittances to Bangladesh rose from 3.6 per cent of GDP in 2000, peaking at 10.6 per cent in 2012. In Pakistan, they increased from 1.4 per cent of GDP in 2000 to 7.2 per cent in 2015.

The period post-2000 also witnessed a remarkable decline in poverty in both countries. According to World Bank estimates¹ – measuring poverty per person living below US\$1.90 per day in purchasing parity power (PPP) 2011 terms – poverty levels in Bangladesh fell from 33.7 per cent in 2000 to 18.1 per cent in 2010 and in Pakistan from 28.7 per cent in 2001 to 6.1 per cent in 2013.

There is a large body of literature on both Bangladesh and Pakistan going back to the 1980s that analyses the impact of remittances on (i) the overall economy, (ii)

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¹ *World Development Indicators* for poverty.

reducing poverty as a result of their favourable impact on key macroeconomic indicators and (iii) incomes and consumption at the household level. The latter draws on data derived from that country's national household income and expenditure survey (HIES) as well as selected surveys of migrant households in their home country and returning migrants.

While a detailed survey of these studies and their results is tempting, the purpose of this comparative study is somewhat different. Its twofold aim is to examine (i) the extent to which the decline in poverty in both countries can be explained by the large increase in remittances and, more importantly, (ii) the mechanism through which this relationship has worked. This is critical because the two countries' overall economic performance has varied considerably despite both witnessing a steep decline in poverty over this period.

A comparison between Bangladesh and Pakistan also recommends itself, despite Pakistan's slightly higher per capita income in 2015 at US \$ 1437 compared to Bangladesh at US \$ 1212 (both in current US \$), as their migration history in terms of the broad numbers going abroad for employment and their destination have been very similar. In both countries starting in the mid-1970s the major flows have been of contract workers to the Gulf countries and Saudi Arabia. The remittances sent from these countries account for over 60 per cent of total remittances over the period covered in our study. The rest of the remittances is accounted for from the more permanent migration to the UK (which started in the early 1950s) and then to the United States (in the 1980s) and relatively more recently to Europe and south-east Asia.² It is difficult to estimate the exact numbers living abroad in these countries and regions but estimates (including contract workers) for the Bangladesh diaspora are around 7 million and for Pakistan around 9.2 million, though both these numbers are generally considered to be an underestimate.³

The methodology used here is not based on sophisticated economic modelling, growth accounting or complex multiple regression analysis. While the study relies on some regression analysis, its basic approach is to identify the key economic forces through which remittances may have helped reduce poverty in both countries, given the similarities as well as differences in their economic performance. Two key lessons to draw are that the relationship between remittances and poverty is more complex than earlier studies would have us believe and that mechanical exercises often hide as much as they reveal.

II. ECONOMIC PERFORMANCE

By all accounts, the last 15 years have been good for Bangladesh. On average, its economy has grown at around 6 per cent during 2000–16. While this is not spectacular by the earlier standard of the East Asian economies or the more recent experience of China and India, it is still impressive among developing countries. The country's levels of investment and savings have been relatively high, with the former

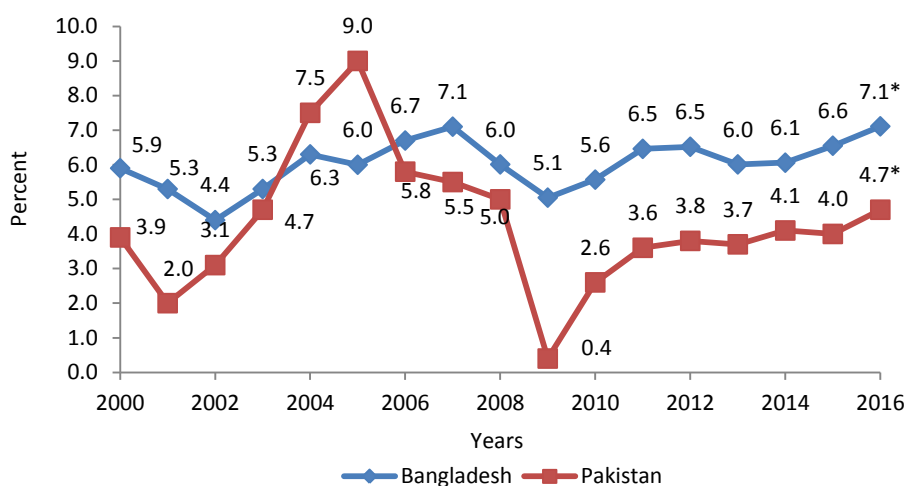
² See Bangladesh, Ministry of Finance, *Bangladesh Economic Review* (various years) and Pakistan, Ministry of Finance, *Pakistan, Economic Survey* (various years).

³ See Osmani (2016a) for Bangladesh and Ministry of Overseas Pakistanis and Human Resources Development (2017) for Pakistan.

increasing from over 23 per cent in 2000/2001 to almost 27 per cent in 2012/2013 (Khan, 2015: 24).

Bangladesh has maintained overall macroeconomic stability to a considerable degree throughout this period to ensure a steady GDP growth rate (Figure 1). This has meant that, despite turning to the International Monetary Fund (IMF) for support twice, in 2003, under a three-year Poverty Reduction and Growth Facility amounting to US\$490 million and in 2012, under a three-year Extended Credit Facility of nearly US\$1 billion, Bangladesh has avoided being subject to conditionalities that could have severely compressed its GDP in the effort to restore macroeconomic stability.

FIGURE 1: Bangladesh and Pakistan, Real GDP Growth, 2000–2016



Source: Pakistan, Ministry of Finance, *Pakistan Economic Survey* (various years) and Bangladesh, Ministry of Finance, *Bangladesh Economic Review* (various years).

Note: *Provisional figures for July 2015 to March 2016 for Pakistan and Fiscal Year 2015-2016 for Bangladesh.

Price inflation, as measured by the consumer price index (CPI), has reached two-digit levels only twice: around 10 per cent in 2007/2008, when there was a sharp increase in global oil and food prices, and subsequently in 2011/12. Moreover, food inflation, while higher, has not shown any sharp increase and has followed the general trend in consumer prices.

In contrast, Pakistan's growth performance post-2000 has been disappointing. After a sharp decline during 2000–2003, the aftermath of the nuclear explosion in 1998 and imposition of sanctions on foreign loans and assistance, the economy experienced a brief growth spurt – around 6.5 per cent on average – over the next four years (2003–2007), following 9/11 and the removal of sanctions and increased assistance as the country became a frontline state in the war against terrorism. This was followed by a sharp decline, with average growth falling to 3–4 per cent over 2007-2016. This fall has been triggered by severe macroeconomic imbalances that emerged, first in 2008 and then again in 2013, in the form of extremely high and unsustainable fiscal and current account deficits. These forced the government to turn to the IMF for support to avoid default on foreign debt and resort to severe measures to regain macroeconomic stability. In 2008 the new government entered into a three-year stand-by agreement (for an unprecedented US\$7.6 billion) with the IMF and the agreed deflationary measures

resulted in economic growth to plummet to 0.7 per cent from which the economy never quite recovered over the rest of its five year term.⁴

Faced again in 2013 with a similar macroeconomic imbalance, the newly elected government entered into a three-year Extended Fund Facility program of US\$6.64 billion with the IMF, which was completed in September 2016. While this period did not see a sharp fall in GDP as under the earlier IMF program, economic growth remained lacklustre at around 4 per cent per annum.

Post-2007, inflation increased sharply as the government passed onto the consumer the increase in global oil and food prices (earlier subsidized) to reduce its unsustainable fiscal deficit as part of the IMF program. The latter had climbed to 8 per cent of GDP in 2007/2008. Inflation, measured by the CPI, rose to over 20 per cent and food prices to as high as 24 per cent in 2008/2009. Inflation remained high in subsequent years until the recent decline in oil prices, together with sharp cuts in the fiscal deficit to nearer 4 per cent, reduced price increases to less than 5 per cent in 2014/2015.

It may be important to mention here that Pakistan in 2008, partly in response to the measures adopted as part of the IMF program and its severe downside on incomes and inflation, launched the Benazir Income Support Programme (BISP), which provided an unconditional cash transfer of Rs. 1000 to the female head of household to deserving families identified on the basis of a point scoring system (assets owned and other family characteristics) through a nationwide poverty survey. The households who were to receive this income support have gradually increased in the initial years from 2-3 million to around 5.3 million in 2016 of the targeted 7 million household. The stipend has been gradually increased over the years and in 2016 was around Rs. 1600 per month per female head of household. A recent study conducted by the BISP in 2016 estimated that the programme has been able to reduce poverty by 7 percentage points based on the new poverty line.⁵

III. KEY VARIABLES: MEASUREMENT AND DATA SOURCES

This section describes and measures the study's key variables: poverty and remittances.

3.1 Poverty estimates

3.1.1 Measurement

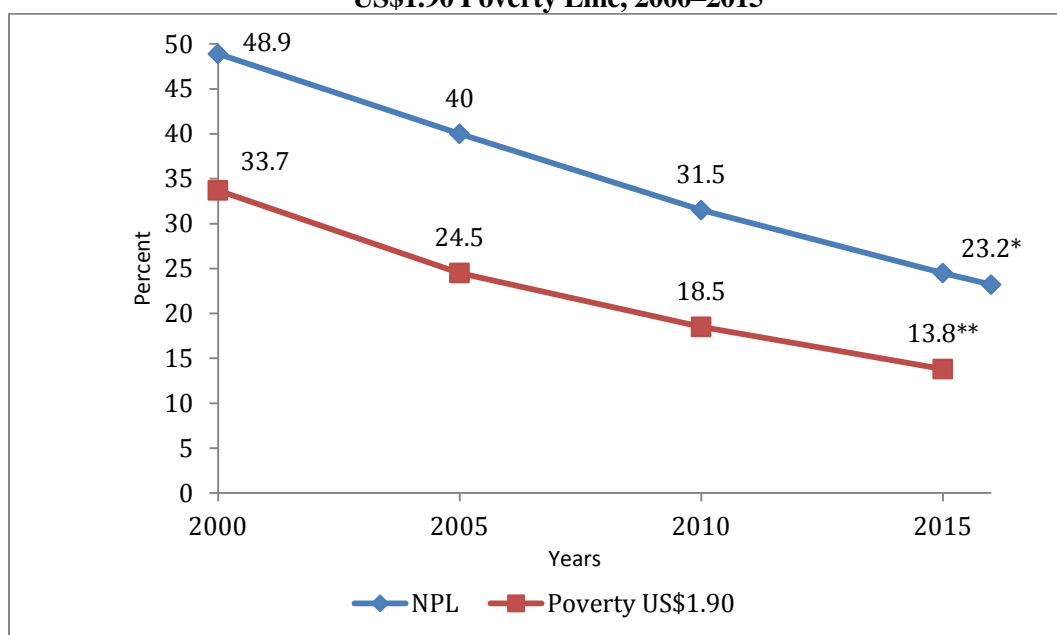
In Bangladesh, poverty is measured using per capita consumption and by estimating a poverty line that represents the cost of consuming 2,150 calories per person per day. This involves two measures of poverty. The first calculates the proportion of households living in extreme poverty, that is, whose total expenditure per day is the same as would be required to consume the daily caloric standard (2,150 calories) set earlier. The second – and this is a more comparable estimate with that of Pakistan and other developing countries – is derived from the national poverty line

⁴ For details see Amjad (2015)

⁵ See BISP (2016).

(NPL). The NPL is constructed by adding to the daily expense of consuming 2,150 calories the amount spent on non-food items by households that are already in a position to consume the minimum caloric requirement. This study uses the NPL estimates for Bangladesh (Figure 2).

FIGURE 2: Bangladesh: Poverty Headcount Ratio at NPL and US\$1.90 Poverty Line, 2000–2015



Source: Bangladesh, Ministry of Finance, *Bangladesh Economic Review* (2016) and *World Development Indicators* (World Bank)

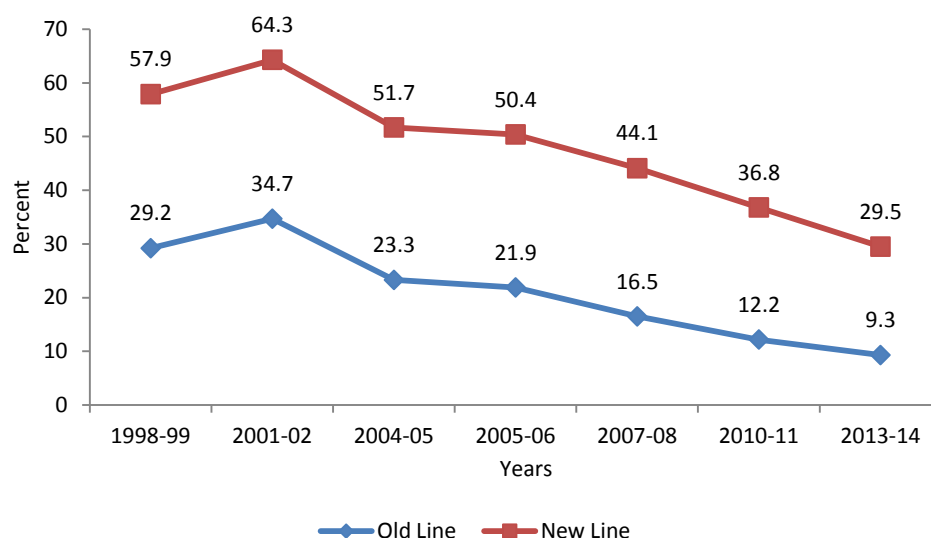
Note: *Provisional first-quarter estimates for 2016/2017.

**Estimated Figures from World Bank (2016)

In Pakistan, the poverty line was set by the Planning Commission in 2000/2001, based on a minimum caloric threshold of 2,350 calories per person per day. As in the case of Bangladesh, it was obtained by estimating what it cost a household to consume 2,350 calories per person per day (food expenditure) and adding to this, its nonfood expenditure. In 2016, the Planning Commission replaced this poverty line with a new measure comprising the cost of basic needs (CBN), the cost of consuming 2,350 calories a day per person and the nonfood expenditure of households in the 10th and 40th per centiles of the distribution of per adult consumption expenditure⁶. This was done to give greater weight to households' expenditure on education, shelter and clothing. In this case, we use both the old and new poverty lines (Figure 3a).

⁶ State Bank of Pakistan (2016)

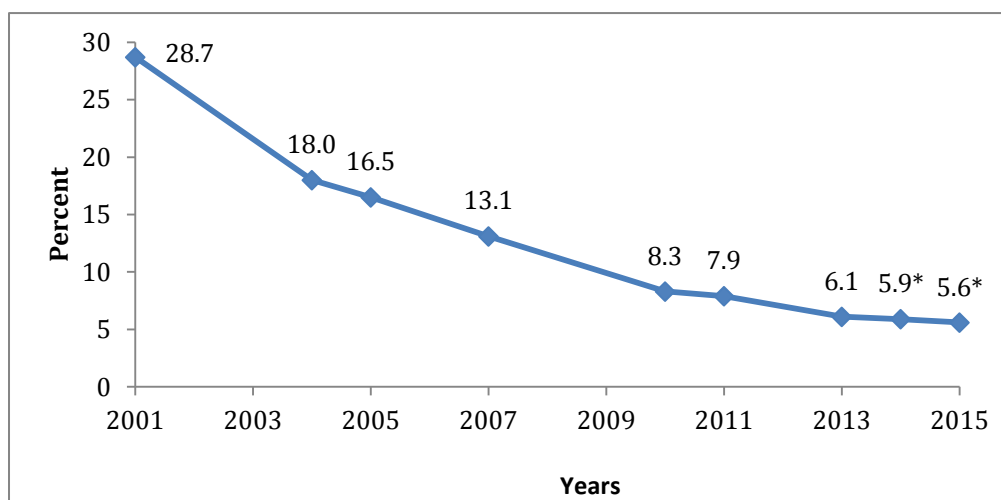
FIGURE 3A: Pakistan, Poverty Headcount Ratio at old and new Poverty Lines, 1998/1999 to 2013/2014



Source: State Bank of Pakistan (2016)

A third measure of poverty used is the World Bank's poverty line of US\$1.90 (based on 2011 PPP) per person per day, which measures the proportion of households living below this threshold in numerous developing countries (Figure 3b). These poverty numbers are revised every six months, based on a poverty-to-GDP elasticity, which we assume remains unchanged and is replaced only when a new national estimate is released, based on the latest HIES. It is worth noting that, in both countries, none of these estimates is referred to in official documents. We can assume, therefore, that policymakers do not use them to monitor poverty trends.

FIGURE 3B: Pakistan, poverty headcount ratio at US\$1.90 poverty line, 2001–2015



Source: World Development Indicators (World Bank).

Note: * Figures (estimates) from World Bank's *Report on Macro Poverty Outlook for South Asia*

3.1.2 Data

The official poverty estimates for Bangladesh are derived from data collected by the Bangladesh Bureau of Statistics (BBS) with technical support from the World Bank.⁷ For the purposes of this study, these estimates are available for 2000, 2005 and 2010. Although the HIES for 2016/2017 is still underway, the government has released preliminary quarterly numbers based on data for the period April–June 2016. Strictly speaking, these numbers are not comparable with annual estimates for earlier years, but are used in this case given that they represent the most recent data available and that the first-quarter results for earlier years are not significantly different from the annual estimates based on earlier rounds of the HIES. It would be surprising if these numbers were to reverse the earlier declining trend in poverty or to significantly slow down the rate of poverty decline. Nonetheless, this limitation concerning the poverty estimates for 2016/2017 should be borne in mind.

In addition to the official estimates of poverty derived from the HIES, there are other estimates available based on periodic sample surveys, the main purpose of which is not necessarily to estimate poverty, but to assess other indicators (such as the extent and use of microcredit). Such data can also be used to derive poverty estimates and identify factors that might explain the fall in poverty, including remittances. A good example of such surveys is that conducted by the Institute of Microfinance⁸ in rural Bangladesh in 2010, which comprised a sample of 6,300 rural households and used a sampling technique similar to that used by the BBS when conducting the HIES.

In Pakistan, poverty estimates are based on data derived from the HIES conducted in 2000/2001, 2004/2005, 2007/2008, 2011/2012 and 2013/2014.⁹ In addition to the HIES, the other principal survey used to monitor poverty is the panel data survey conducted by the Pakistan Institute of Development Economics (PIDE) (with support from the World Bank) in 2000/2001, 2004 and 2010. The first two rounds were confined to rural Pakistan, but the third was extended to urban areas. The panel survey poverty estimates are based on updated versions of the Planning Commission's 2001 poverty line.

3.1.3 Debates and controversies

Not unexpectedly, there has been considerable debate on the official poverty estimates, much more so in Pakistan than in Bangladesh where most studies accept the official estimates. In Pakistan, the controversy has been long and hard fought, especially since the government was not prepared to accept the estimates for 2007/2008 prepared by the Pakistan Bureau of Statistics (PBS) and verified by the World Bank on the premise that the sharp fall in poverty recorded for that year and subsequent years did not reflect 'ground realities'. Only in 2016, when the Planning Commission constructed a higher poverty line, indicating that more households now lived below the poverty line, did the government accept both the earlier and later

⁷ For a detailed description of the official methodology used for poverty estimation in Bangladesh for 2016/2017 see Ahmed *et.al*, 2017.

⁸ Now the Institute for Inclusive Finance and Development.

⁹ In Pakistan, the HIES is now called the *Household Integrated Economic Survey* and is part of the larger *Pakistan Social and Living Standards Measurement (PSLM) Survey*.

estimates. Interestingly, both sets of data reflect the same falling trend in poverty post-2000.

For Bangladesh, the most credible alternative poverty estimates for the period under study (as well as for the 1990s) are those calculated by Khan (2015). He argues convincingly that income is a better indicator of poverty in low-income economies than consumption expenditure, on which the official poverty estimates are based. This, he says, is because the poor can maintain consumption by unsustainable means such as by selling their assets or incurring debt. Khan then constructs two different poverty estimates. In the first, he substitutes income for consumption expenditure, but maintains the same BBS/World Bank poverty line. Second, he constructs an alternative price index to calculate a new poverty line, one different from that used by the BBS/World Bank. In both cases, the resulting estimates do not show as sharp and clear a decline in poverty as the official estimates.

However, Khan does not dispute that, on the whole, even after accounting for the uncertainties and inaccuracies that their measurement is subject to, poverty has declined over the period 2000–2015 (Khan 2015:149).

While leading economists broadly agree that poverty in Bangladesh declined over this period, no such consensus exists on estimates of poverty in Pakistan. This is understandable. In contrast to Bangladesh's impressive growth performance and far lower growth rate of population (1.4 per cent per annum), Pakistan – except for a brief growth spurt during 2002–2007 – has seen a slowdown in economic growth, continuing high inflation (except in recent years) and high population growth (1.9 per cent per annum). Moreover, while there are no firm estimates of income inequality, those based on the HIES show an increase in inequality between 2004/2005 and 2013/2014, with the monthly income of the richest 20 per cent increasing from 2.9 to 3.2 times relative to the poorest 20 per cent. In fact, the latter's monthly income has risen the least over this period¹⁰

In Pakistan the use of the CPI to update the poverty line has been subject to criticism. Anwar (2014) argues that the CPI has risen far more slowly than the food inflation index and sensitivity price index, both of which, he believes, better reflect the consumption patterns of Pakistan's poorer households. Constructing an inflation index based on HIES price data, he estimates a higher poverty line that yields higher estimates of poverty than those produced by the PBS and World Bank. Anwar's results show that rural poverty remained stagnant in 2007/2008 compared to 2004/2005 and that urban poverty increased by 0.5 per cent whereas official estimates show a substantial decline.

The results of the Pakistan Panel Household Survey (PPHS) conducted by PIDE are also more guarded with respect to declining poverty in 2010 when compared to the poverty trends and estimates for 2007/2008 and 2010/2011 presented by the PBS and World Bank. That said, the two surveys are not strictly comparable: the PPHS covers a larger area of poor regions relative to their share of the total population. Its results for rural Punjab and Sindh show that poverty declined between 2001 and 2004 and then increased marginally from 2004 to 2010. Overall, rural

¹⁰ State Bank of Pakistan (2016: 107).

poverty in all provinces declined between 2001 and 2010 from 27.5 per cent to 22.4 per cent (Arif and Farooq, 2014).

Another concern that emerges in the poverty debate in Pakistan (but surprisingly not in Bangladesh) is whether, based on the updated poverty lines using the CPI, those households that are shown living above the poverty line in terms of consumption expenditure still consume the stipulated 2,350 calories.¹¹ Adding these households to those already below the poverty line then increases the number of poor households significantly. Nonetheless, Mansuri (2015) shows that, even for this far higher number of households living below the poverty line, the declining trend in poverty over this period remains unchanged post-2001.

In a more recent paper, World Bank has strongly argued that the CPI is in fact the most appropriate measure for updating the poverty line used for estimating poverty in Pakistan (World Bank 2016). The Bank also goes on show, based again on some hard evidence, that the HIES data considerably underestimates the actual calories consumed by those whose income is above the poverty line. The debate on this issue, however, is far from closed on Pakistan's poverty estimates and trends.

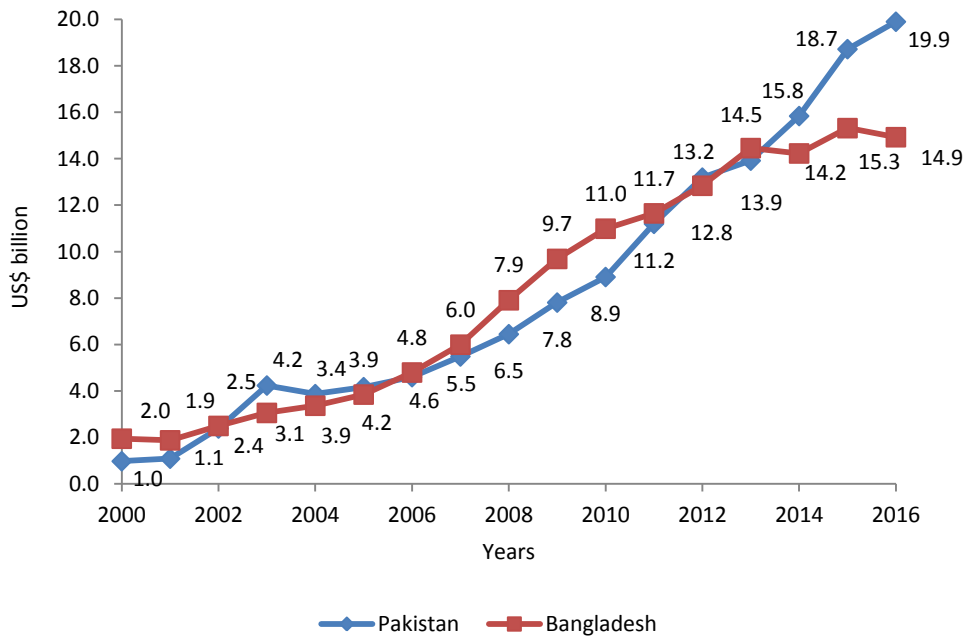
With no credible alternative estimates of poverty available for the entire period, this study opts for using the official estimates (now accepted by the Pakistan government) calculated by the BBS and PBS for Bangladesh and Pakistan, respectively. Since both datasets were prepared with considerable technical support from the World Bank, one can at least expect that both surveys adopted broadly the same methodology. What one needs to keep in mind, however, is that, even if one accepts that these poverty numbers show a declining trend, the absolute numbers, and therefore the extent of this decline, remain mired in controversy.

3.2 Remittances

Post-9/11, there was a tremendous increase in remittances and their volume relative to GDP rose significantly in both countries (Figures 4 and 5).

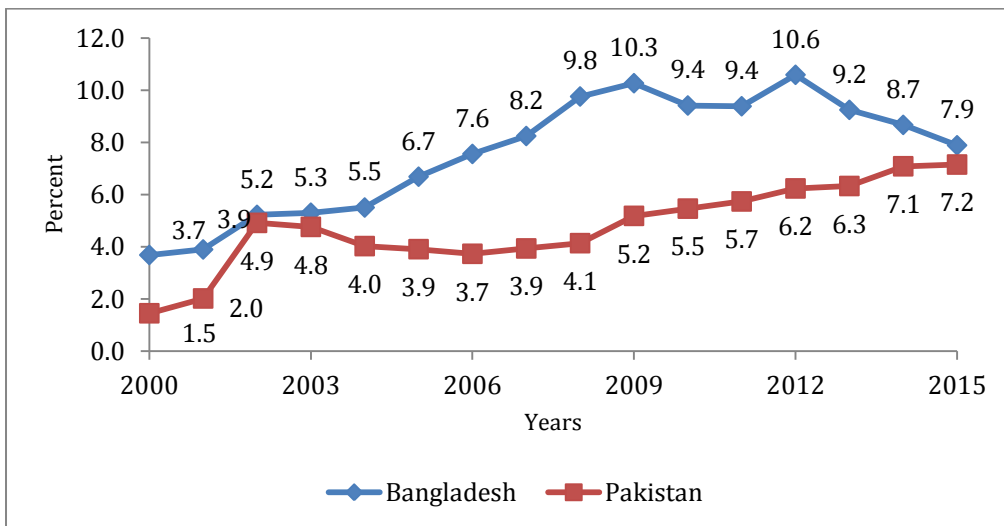
¹¹ I have also raised this issue at a seminar organized jointly by the World Bank and Lahore School of Economics in April 2015 ("Poverty Measurement and Policy Debate in Pakistan") by stating that "a calorie is a calorie" – if we are measuring poverty in terms of a caloric indicator, then those who do not consume this number of calories should be shown as living "below the poverty line."

FIGURE 4: **Bangladesh and Pakistan, remittances, 2000–2016**



Source: State Bank of Pakistan (various years) and Bangladesh Bank (various years)

FIGURE 5: **Bangladesh and Pakistan, Remittances as a Percentage of GDP, 2000–2016**



Source: World Development Indicators (WDI).

It is important to point out that these remittances flowed through official channels and were recorded by the central banks in both countries. A common question that is still relevant is the extent to which remittances flow through unofficial channels, including *hundi*, *hawala* and other informal means. A study by the International Labour Organization’s Asian Regional Team for Employment Promotion (1987) estimated that around 57 per cent of the total remittances sent to Pakistan were through official channels. There is also reason to believe that, in the 1990s, given the sharp fall in remittances, a large part of the remittances to Pakistan continued to flow through unofficial channels. The spike in remittances sent through official channels post-9/11 in

Pakistan partly reflects the shift from unofficial to official channels as measures were instituted both at the global and national level to monitor these flows and penalize those who were sending remittances through unofficial channels.

Along with the Ministry of Finance and the Ministry of Overseas Pakistanis, the State Bank of Pakistan has launched the Pakistan Remittance Initiative to encourage flows through official channels. This includes measures to reduce the cost and time associated with transferring money through the banking system and has proven very successful in ensuring that remittances flow through official channels. Although difficult to estimate, it is possible that as much as 80–85 per cent of total remittances are now sent through official channels and recorded by the State Bank of Pakistan.

Similar studies for earlier periods are not available, but the Bangladesh banking authorities have also taken a number of measures to encourage the flow of remittances through official channels (Azad, 2003). In a survey of 62 villages conducted in 2014, Bayes, Hossain and Rahman (2015) report that four fifths of the remittances received by migrant households were transferred through official channels.

Assuming there has been a shift in remittance flows from unofficial to official channels, what impact would this have on the economy? Amjad (2010) argues that formal flows have a greater impact: not only do they ease the country's balance of payments, but they also have a larger multiplier impact on the economy because the effect of spending these remittances by migrant households is not counteracted by internal transfers of income in the shape of foreign exchange abroad. Given that the study period covers 2000–2016, when remittances were, increasingly, transferred through official channels, their impact on the domestic economy would have eased gradually. However, the favourable impact of remittances being sent through official channels would have been greater post-2000 than in the 1990s.

A related question is the extent to which the impact of remittances on the domestic economy was dampened or 'sterilized' by open market operations such as the floating of bonds and other measures by the central bank in either country. The State Bank of Pakistan appears to have done this on occasion but, by and large, the need to do so did not arise, either because inflationary pressures were seen as being caused by cost-push factors (such as the increase in global oil and food prices or rising government deficits) or because the increase in imports resulting from higher remittance flows could be accommodated by the corresponding foreign exchange made available to the State Bank.

IV. THE DIRECT IMPACT OF REMITTANCES AND POVERTY

We begin with a somewhat mechanical exercise to test if there exists an association between remittances and poverty as well as some of the other key variables normally associated with declining poverty. For this purpose, we pool together the data from both countries.

The basic model tested is:

$$\text{Log PHC} = \alpha + \beta_1 \log \text{GDP} + \beta_2 \log \text{remittances} + \beta_3 \text{DB}$$

PHC, the dependent variable, is the rate of change in the headcount poverty ratio. The independent variables are the rate of change in per capita income and the rate of change in remittances as a percentage of GDP. A dummy variable (1 for Bangladesh and 0 for Pakistan) is used to show if there is a significant difference in the change in poverty between the two countries when the change in the independent variables remains the same. Two other variables, agricultural growth and inflation (CPI), were dropped because they did not prove to be significant in the regressions run earlier.

The results are shown by pooling together the data for Pakistan and Bangladesh using estimates of headcount poverty based on the NPL for Bangladesh, two different poverty lines for Pakistan (old and new) and the World Bank's international poverty line of US\$1.90 (Table 1). Since we only have estimates of poverty for selected years in both cases, we have estimated the trend lines based on these observations and projected the estimates for the missing years.

TABLEE 1
RESULTS OF REGRESSION MODEL: BANGLADESH
AND PAKISTAN (POOLED DATA)

Dependent variable	Log of poverty headcount (new national poverty line for Pakistan)	Poverty headcount (old national poverty line for Pakistan)	Poverty headcount (US\$1.90 international poverty line)
	(1)	(2)	(3)
Log of GDP per capita	-0.99* (0.00)	-0.99** (0.01)	-1.07** (0.01)
Log of remittances as % of GDP	-0.20** (0.02)	-0.42** (0.01)	-0.60* (0.00)
Country dummy (1 = Bangladesh, 0 = Pakistan)	-0.74* (0.00)	0.28 (0.35)	0.2 (0.53)
Constant	12.30	11.73	12.32
R ²	0.84	0.81	0.80

Source: See Table A1 and A2 in the appendix for data.

Note: *Significant at 1%, ** significant at 5%, *** significant at 10%; p-values given in parentheses.

The results have the expected signs showing that both the increase in remittances and economic growth result in a decline in poverty. However, the value of the coefficients and their significance varies according to the estimates of poverty derived from the three poverty lines. The most comparable results (Eqn. 2) are those using old national poverty line for Pakistan and the national poverty line for Bangladesh as the dependent variable. Interestingly the dummy variable is not significant in this equation.

V. THE REMITTANCES-POVERTY DYNAMIC

Although the regression analysis shows that there is a significant negative association between remittances and poverty, the question that remains concerns the mechanism through which this relationship works. This is particularly important given that most studies, conducted in Bangladesh and Pakistan, find that a very small proportion of remittance-receiving households are classified as living in poverty or extreme poverty in both countries.

In the case of Pakistan, Irfan (2011) uses data from the PSLM/HIES to show that the proportion of households receiving remittances in the lowest quintile in 2001/2002 and 2007/2008 is less than 5 per cent of the total number of households in this quintile. The corresponding share of remittance-receiving households in the lowest two quintiles is only 10–12 per cent of the total. Together, these two quintiles account for merely 1–2 per cent of total remittances. In sharp contrast, the highest quintile received around 60 per cent of total remittances and accounted for 41–48 per cent of all remittance-receiving households.

For poor households, the binding constraint to going abroad to work (so that their families might benefit directly from remittances) is the exorbitant cost of obtaining a work visa for the Middle East. This prohibitively high sum consists mostly of ‘indirect’ expenditures in the form of bribes and under-the-table transactions involving officials, recruiting agents and overseas employers. A recent study conducted in 2015 by ILO (2016), based on a survey of 620 migrants who had worked or were working in Saudi Arabia and the UAE after 2011 as unskilled workers in construction or agriculture, finds that the cost of migration was, on average, US\$4,290 for Saudi Arabia and US\$2,358 for the UAE¹².

For Bangladesh, earlier studies had already started pointing out the fact that, “the typical migrant does not belong to the poorest class of society” (Mahmud and Osmani, 1980). A subsequent study by Osmani and Latif (2013) draw on the results of a 2010 microfinance survey of 6,300 rural households; they find that remittances helped reduce rural poverty and enabled households to climb up the asset ladder. In a subsequent study, Osmani (2016) explores whether the poorer segments of the population benefitted from remittances, based on the same survey of 6,300 rural households in 2010, but repeated in 2013. While he finds that 12 out of every 100 remittance-receiving households have a better chance of moving out of poverty or extreme poverty, this result does not necessarily reflect the percentage comprising the poorest or poor households. To overcome this problem to the extent possible Osmani classified households according to their initial assets and found that those not receiving or receiving far less remittances were the same whose initial assets were also much lower. His results therefore showed that that poorer households participated less and therefore benefit less from the migration process.

As in the case of Pakistan, Osmani (2016) estimates that the average cost of obtaining a work visa for Bangladeshi migrants in 2010 and 2013 was US\$3,500 per person. He, therefore, concludes that the benefits of overseas remittances have not been shared by all segments of the population and that the relatively low income households participate less in the process of overseas migration and therefore cannot be expected to benefit from it (Osmani 2006: 44).

To some extent, the finding that poor households do not benefit from overseas migration is contradicted by a BRAC survey of 62 villages conducted in 2014. Bayes et al. (2015) show that half the overseas job holders were members of poor households, which were defined as owning up to 0.2 hectares of land and termed “functionally landless” households. Indeed, their findings suggest that, between 2000 and 2014, most

¹² The much higher cost of obtaining a visa for Saudi Arabia is primarily due to the much higher cost of living in Dubai and Abu Dhabi as well as the perception that it is possible to work in Saudi Arabia for longer period of time as compared to the UAE.

overseas workers were from relatively poor families: compared to the relatively better-off (or what they term “solvent” groups) whose share declined from two thirds in 2000 to only 14 per cent in 2014, the share of poor households doubled from 25 per cent in 2000 to 50 per cent in 2014.

The BRAC survey also reports, however, that (i) the average cost of going abroad to work rose from US\$2,406 in 2000 to US\$3,805 in 2014 and (ii) the maximum cost in these years were as high as US\$16,000 and US\$23,000, respectively. What the study does not explain is how poor households could pay or raise these amounts. If indeed they were able to raise such sums, examining their means of doing so (say, by pooling in money across households) would be most instructive. This issue clearly needs further research, but on the strength of the evidence so far and given the high cost of migration, it appears very difficult for members of poor households to go abroad for work and, therefore, for their families to benefit from remittances.

VI. REMITTANCES AND POVERTY: THE MACROECONOMIC IMPACT

Even if remittances did not accrue directly to poor households, they may have had an indirect effect on poverty alleviation through their positive impact on GDP growth, resulting job creation and increased economic activity from which poor households could have benefited. The regression analysis in Table 1 also points to a positive and, in two out of three, a significant relationship between GDP per capita and poverty reduction.

There is indeed a very large body of literature not just for Bangladesh and Pakistan but also based on large country samples exploring the relationship between remittances and economic growth and its impact on key macroeconomic variables, including poverty. In the short term we would expect remittances to work themselves through the economy in the form of additional consumption and investment expenditures incurred by the remittance receiving household. The resulting increase in GDP of that year would reflect this impact of remittances. In the medium to long term remittances as a result of increase expenditures by households including on education and health could raise productivity and resulting economic growth. A number of studies have also explored the impact of other factors such as business climate and governance conditions prevailing in the country to gauge the impact of remittances on economic growth.

Osmani and Latif (2013) argue that the faster growth in consumption combined with a stable distribution of consumption expenditure “has resulted in the acceleration of the rate in poverty reduction” (Osmani and Latif 2013: 11). This argument would, however, be somewhat diminished by Khan’s (2015) assertion that income, and not consumption, is the better measure of income inequality in Bangladesh.

Clearly, a worsening in the distribution of income would have dampened in Bangladesh the positive impact on poverty of the relatively high economic growth in this period but it would be difficult to deny that high economic growth to which remittances certainly contributed did play a significant part in reducing poverty in Bangladesh.

Unfortunately a similar argument could not be made for Pakistan where growth dramatically slowed down for the period 2008-2016 and inflation rate was exceedingly high for most of these years.

The more interesting question then, in the context of Pakistan, is why remittances did not spur higher growth post-2007. The answer lies in two important economic developments. The first was the rapid deterioration in security and in law and order, which was triggered by 9/11 in 2001 but worsened in subsequent years. Private investment fell to almost half of what it had been in earlier years. The second was, as mentioned earlier, that Pakistan adopted macroeconomic stabilization policies under two IMF programs in 2008 and 2013 to avoid a debt default. This entailed large cuts in public sector development programs, very high interest rates and sharp restrictions on credit expansion. Overall investment levels declined to less than 15 per cent of GDP compared to over 20 per cent earlier.

This downturn in the economy should not, however, mask the fact that the rising inflow of remittances did, in fact, spark a consumption boom – mainly in food and beverages, consumer durables (mainly motorcycles) and many other items such as cosmetics and readymade clothing. Some of this increased consumption flowed into imports as domestic output stagnated due to the lack of new investment.

On reflection, Pakistan's case shows that, while the positive impact of remittances on economic growth may have been dampened by other mitigating factors, the question that remains is whether having adopted more imaginative policies rather than the orthodox IMF programs that were implemented then would have helped remittances stimulate growth. An example of this is the stance adopted by the State Bank of Pakistan to 'jumpstart' the economy in 2003/2004 when, as a result of increasing remittances, the current account was in a slight surplus. The central bank introduced a sharp fall in the interest rate, at times, even allowing private banks to lend at less than the prime rate, and set high credit ceilings for them to lend to the private sector. It also encouraged private banks to adopt leasing policies and higher purchase borrowing for consumer durables (mainly motor vehicles) at a low interest rate. The result was a sharp increase in private investment and economic growth over the next three years. Unfortunately, this boom could not be sustained as the government ran into an unsustainable current account and fiscal deficit in the face of the unprecedented increase in global oil and food grain prices in 2008.

VII. REMITTANCES AND THE BALANCE OF PAYMENTS

As remittance flows increased in both countries, they provided vital support in financing the trade deficit. In Pakistan, despite remittances increasing to almost 80 per cent of its total exports of goods and services in 2015/2016, this was not enough to compensate for the unsustainable current account deficits that emerged in 2008 and 2013 or to avoid turning to the IMF for support, resulting in deflationary measures to restore macroeconomic stability. An important difference post-2008 is that, while Pakistan's exports grew slowly during 2008–2013, stagnated and then fell during 2013–2016, Bangladesh managed to increase its exports, mainly of readymade garments (RMGs) at a healthy pace. It therefore avoided the balance-of-payments pressures that Pakistan faced at regular intervals.

While Pakistan's poor export performance has been analysed by many studies and will not be discussed here, a related and important cause may have been the overvalued exchange rate whereby the increased remittances helped cushion the current account (in what is known as 'Dutch disease'). Did Pakistan suffer from this while Bangladesh did not during these years? Studies on Bangladesh suggest this was not so, but in the case of Pakistan, the debate has recurred throughout the period 2000–2016 with many analyst arguing that the currency has been overvalued especially over the period 2005-2008 and then subsequently post-2012.¹³ While the large devaluation that took place in 2008 under an IMF program led to some increase in exports, they subsequently stagnated and even declined in 2015/2016. Indeed, in early 2017, this debate continues to rage, with many economists and the IMF suggesting a depreciation of around 10–15 per cent to compensate for the overvaluation of the exchange rate. A similar debate is now ongoing in Bangladesh.

VIII. THE IMPACT OF REMITTANCES AT THE LOCAL LEVEL: THE “RIPPLE EFFECT”

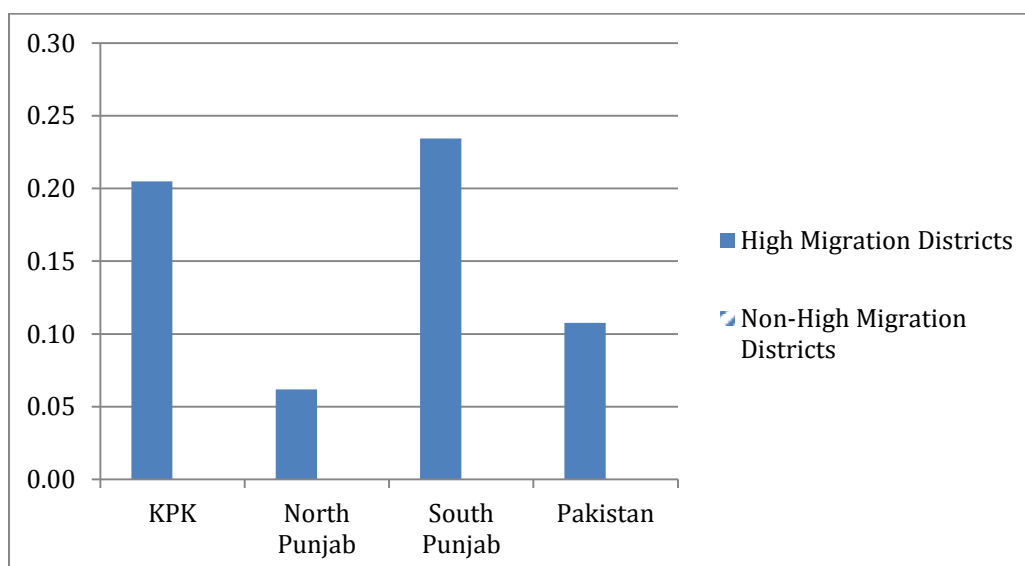
An important feature of migration from both Bangladesh and Pakistan is that it is concentrated in certain districts. This highlights the need for studies at the local level to understand how remittances affect poverty.

In the case of Pakistan, migration to the Middle East is not evenly distributed: almost 60 per cent of migrants come from 20 of the country's 148 districts (Amjad et al., 2016). Migration is heavily concentrated in districts in northern and central Punjab, KP and in only Karachi in Sindh. The population of these 20 high-migration districts was around 40 per cent of Pakistan's total population in 1998.¹⁴ A survey by PIDE/SLBAP conducted in 2007, covering 647 households in ten districts of Punjab, shows that those districts in which households that received a larger share of their total income in remittances were also those with the lowest poverty levels (Amjad, Arif and Mustafa 2009).

¹³ For Bangladesh see Taguchi and Laima (2016) and for Pakistan Javed, Wajid and Ahmed (2016)

¹⁴ The most recent year in which the population census was held. A new census is ongoing in 2017.

FIGURE 5: Average Multidimensional Poverty in High and Non-High Migration Districts



Source: ILO (2016) for selection of high migration districts and UNDP (2016) for Multidimensional Poverty Index (MPI).

A recent study by the UNDP (2016) has calculated the Multidimensional Poverty Index (MPI)¹⁵ for all districts in Pakistan. If we compare the average MPI for the twenty high migration districts (ILO, 2016), weighted by their population, we find that this is much better for these districts as compared to the Pakistan average if we exclude the high migration districts. The results when broken down by KPK province and North Punjab and South Punjab also show that especially in North Punjab the difference is very pronounced but not for South Punjab where overall the availability of education and health services are much lower and overall poverty levels are much higher. In this case even in the few high migration districts in southern Punjab expenditure from remittances on education, health and other social services are not sufficient to make any significant difference to these district' MPI.

It must, however, be kept in mind that the economic well-being of these districts is not determined by the inflow of remittances alone and these districts are located in North Punjab which is otherwise also an economically dynamic region. However, given the significant difference between the average MPI of the high migration districts in North Punjab and the others in all probability, remittances do significantly contribute to these differences. The small difference in Southern Punjab also shows that if, overall, the region is less prosperous, then remittance at best can lead to a marginal betterment.

In the case of Bangladesh, this concentration is not as extreme. Data analysed for 2004 and 2005 shows that, of all recorded migration, 40 per cent was from five of

¹⁵ The MPI developed by the government covers education, health and standard of living (measured through a total of 15 indicators) and is designed to provide a more comprehensive measure of poverty by focussing on its non-monetary dimensions. According to this measure the incidence MPI was estimated at 38.8 per cent in 2014-2015 having dropped from 55.2 per cent in 2004-2005 (see State Bank of Pakistan, 2016:105).

the country's 64 districts: Comilla (11.48 per cent), Chittagong (9.06 per cent), Dhaka (6.48 per cent), Tangail (6.3 per cent) and Brahmanbaria (5.67 per cent).

The reason districts or areas that receive remittances witness a sharper decline in poverty is primarily that the value of the remittance multiplier is much higher in the form of income generation and job creation, including the demand for wage labour at the local level. Studies and surveys on the use of remittances show that a large proportion is spent on consumption (food, education, health), on purchasing agricultural land or constructing houses and on buying locally manufactured goods. These expenditures have a positive impact on the demand for locally available goods and services.

Another important factor which has been overlooked in studies on Bangladesh and Pakistan is that since the bulk of overseas migration has been to the Middle-East most workers return to their home country after working abroad on average between 5 to 10 years. These return migrants can and do play an important role in injecting dynamism to the local economy either in form of skills they bring back or setting up small businesses on their return.

IX. THE RECENT DECLINE IN OIL PRICES, REMITTANCES AND ITS IMPACT ON POVERTY

Has the age of remittances come to an end? How permanent is the current declining trend in remittances growth? Will remittances in the coming years ever again play the dominant role as they did in shaping the economies of these countries in the past?

These are clearly important questions and at this stage it would be difficult to provide any satisfactory answers. In Pakistan after 2000/2001, in 2016/2017 the absolute amount of remittances are expected to decline by 2 to 3 per cent mainly because of the decline from Saudi Arabia. In Bangladesh the decline had indeed started a few years earlier. Remittances as a share of GDP are also expected to decline in Pakistan in 2016/2017 and again have already reduced their share in Bangladesh. Even if the future is difficult to predict it could be said with some confidence that the spectacular growth in remittance over 2000-2016 will certainly not be repeated for quite some time in the future.

For Pakistan, the decline in remittances could not have come at a more inopportune time. After many years of sluggish growth, it has just completed a three-year agreement with the IMF and having achieved a modicum of macroeconomic stability was hoping to accelerate growth significantly over the next few years. Now with falling remittances and stagnant, if not declining exports, it faces a looming current account deficit which may force it to switch course to a much slower growth recovery.

In Bangladesh the situation is more comfortable with continuing growth in RMG exports and it hopes to continue at its current reasonably robust growth rate. But with declining remittances its exchange rate is coming under pressure and may well need to be adjusted to increase exports to make up for the loss in remittances.

But, perhaps, the most important lesson emerging from this and many studies in the past is that the large inflow remittances have had a far reaching impact

on reducing poverty, whatever the exact mechanisms through which this happened. The current slowing down in remittance flows will make this task more challenging. Also in the face of high and increasing inequality economic reforms needed to steer the economy to a more equitable growth path will become more difficult as the classes that have gained from this growth process become more entrenched. The safety net that remittances provided in reducing socio-economic pressures and accompanying tensions will be now much weakened. In this sense the “golden” age of remittances may indeed be coming to an end.

X. CONCLUSIONS

Three important conclusions emerge from this comparative study. First, while periods in which remittance flows increase substantially can also be periods in which poverty falls significantly, it is extremely important to analyse the mechanism through which this relationship works. There is considerable evidence that, overwhelmingly, these flows do not reach the poor or poorest households directly, given the exorbitant cost of migration.

Second, even a very large and manifold increase in remittances, including a significant increase in their share of GDP, might not result in high growth if a country suffers from recurring bouts of macroeconomic instability. Besides facing a more hostile security situation post-9/11, Pakistan’s economic managers were evidently less deft at managing the macroeconomy than their Bangladeshi counterparts. In this, the latter had the advantage of additional foreign exchange earnings from the country’s growing RMG exports, besides remittances. Pakistan, however, failed to undertake the economic reforms sorely needed to make the economy more competitive, including correcting for an overvalued exchange rate – mistakes that Bangladesh has largely avoided.

Third, that Pakistan witnessed a sharp decline in poverty during this period – as did Bangladesh, was most likely because migration flows and remittances were concentrated in selected districts. The resulting increase in expenditures at the local level generated economic activity and employment through which poor households also benefitted. The results, however, also point to the fact that large areas in Pakistan, especially in rural Punjab and Sindh, which house a significant proportion of the population, did not witness a similar fall in poverty as very few households from here went abroad for work. In Bangladesh, the impact of remittances on poverty was more evenly distributed because its corresponding growth in GDP was far higher than in Pakistan, even if migration was concentrated in selected districts, albeit less so than in Pakistan.

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Table A.1
Data for Bangladesh

Years	PHC at NPL ^a	PHC at US\$ 1.90 ^b	GDP per Capita ^c	Remittances as a % of GDP ^d
2000	48.9	33.7	1645.7	3.7
2001	47.1	31.9	1697.0	3.9
2002	45.3	30.0	1730.3	5.2
2003	43.6	28.2	1781.3	5.3
2004	41.8	26.3	1844.8	5.5
2005	40.0	24.5	1936.7	6.7
2006	38.3	23.3	2038.7	7.6
2007	36.6	22.1	2156.5	8.2
2008	34.9	20.9	2260.6	9.8
2009	33.2	19.7	2348.4	10.3
2010	31.5	18.5	2451.3	9.4
2011	30.1	17.6	2579.3	9.4
2012	28.7	16.6	2714.8	10.6
2013	27.3	15.7	2843.2	9.2
2014	25.9	14.7	2979.2	8.7
2015	24.5	13.8	3136.6	7.9

Notes: (a) Estimated figures for Poverty Headcount (PHC) at National Poverty Line (NPL) are available for the years 2000, 2005, 2010 including quarterly estimate for the year 2016. Estimates for all remaining years have been interpolated based on this data.

(b) Figures for PHC at \$US 1.90 poverty line are available for the years 2000, 2005, 2010. An estimate for the year 2015 is extracted from the *World Bank Macro Poverty Outlook Report*. Estimates for all remaining years have been interpolated.

(c) Data for GDP per Capita (GDP per capita, PPP constant 2011) has been extracted from *World Development Indicators*, World Bank.

(d) Data for Remittances (as a % of GDP) has been extracted from *World Development Indicators*, World Bank.

Table A.2
Data for Pakistan

Years	PHC at Old Poverty Line^a	PHC at New Poverty Line^b	PHC at US\$ 1.90^c	GDP per Capita^d	Remittances as a % of GDP^e
2000	31.0	60.0	26.9	3501.8	1.5
2001	32.9	62.2	28.7	3494.6	2.0
2002	34.7	64.3	25.1	3532.5	4.9
2003	30.9	60.1	21.6	3628.8	4.8
2004	27.1	55.9	18.0	3818.0	4.0
2005	23.3	51.7	16.5	4027.9	3.9
2006	21.0	50.4	14.8	4190.2	3.7
2007	18.8	47.3	13.1	4303.5	3.9
2008	16.5	44.1	11.5	4287.4	4.1
2009	15.1	41.7	9.9	4318.1	5.2
2010	13.6	39.2	8.3	4296.6	5.5
2011	12.2	36.8	7.9	4322.5	5.7
2012	11.2	36.3	7.0	4380.2	6.2
2013	10.3	32.9	6.1	4476.9	6.3
2014	9.3	29.5	5.9	4588.6	7.1
2015	8.3	26.1	5.6	4706.2	7.2

Notes: (a) Figures for PHC at Old NPL are available for the years 2002, 2005, 2006, 2008, 2011 and 2014. Estimates for all the remaining years have been interpolated.

(b) Figures for PHC at New NPL are available for the years 2002, 2005, 2006, 2008, 2011 and 2014. Estimates for all the remaining years have been interpolated.

(c) Figures for PHC at \$US 1.90 poverty line are available for the years 2001, 2004, 2005, 2007, 2010, 2011 and 2013. Estimate for the years 2014 and 2015 is extracted from the World Bank Macro Poverty Outlook Report. The rest of the figures have been interpolated.

(d) Data for GDP per Capita (GDP per capita, PPP constant 2011) has been extracted from WDI, World Bank.

(e) Data for Remittances (as a % of GDP) has been extracted from WDI, World Bank.