CHAPTER-2

REVIEW OF LITERATURE

Owing to dramatic growth in remittance flows in recent years, there has been a vast growth in literature on remittances compared to the previous decades. Since the phenomenon of remittance flows is highly intertwined with that of migration where remittances is considered to be one of the major impacts of migration, theories on remittances is highly related to and originate from the theories of migration. The evolution of such theories and empirical evidence has been discussed in this chapter. First the theoretical approaches to the study of remittances have been observed from literature and presented in section 2.1 followed by empirical evidences in section 2.2. Section 2.3 reviews studies based on remittances at the national level in India. Finally, the rationale for the present study is presented in section 2.4.

2.1 Theoretical Underpinnings

There were two contrasting approaches to the study of population movements dominating literature; especially post 1960’s when urban unemployment and underemployment problems were gaining increased attention in the field of economic development. They were the neoclassical approach and the historical structural approach.

2.1.1 Neoclassical and the Historical-Structural Approaches

The neoclassical theories of migration had their roots in neoclassical economics where economic agents were rational, self interested and autonomous individuals who maximised their well being subject to income and time constraints. In this framework, migration was conceptualised as people responding to uneven distribution of factors of production which determined unequal returns to each other. Hence migration was considered as ‘development fostering’ (United Nations, 1993)
correcting imbalances in rural-urban and other interregional imbalances in factor returns.

On the other hand, the historical structural approach perceived the consequences of migration for development as generally negative. This was due to the increased dependency of periphery regions on the core regions due to migration from latter to former and in the process draining the periphery regions of their economic surplus and skilled people. This was believed to increase disparities between the two regions. Proponents of this approach believed that migration was an inevitable part of transition towards the development of capitalism, hence international migration and remittances was conceptualised in terms of advantages of global capital accruing to richer nations (Nikolanikos, 1975, Wood, 1981; de Haan 2006). Factors influencing international migration were considered to mould the impact of the migration and hence remittances (Taylor, 1999). In this context, it would be worthwhile to consider the criticisms of the above approaches to understanding migration in the first place.

Neoclassical theories of migration (individualistic approaches), namely Todaro (1969) and Harris-Todaro (1970) models, have been criticized for their failure to explain the continued disequilibrium in wages and income across regions even post considerable flows of migration over time. These models also fail to encompass other influences on migration decisions other than wage differentials and expected earnings, especially those related to remittances (Mendola, 2006). These models also assumed the poorest areas as likely places for migration, but various empirical studies established the fact that the poorest do not migrate, as they do not have the means to afford migration to far off destinations which involved money as well at social networks. Emphasis on segmented labour markets and assumptions of migration out of agricultural areas to modern urban industrial areas also cannot be applicable to countries like India and countries in Africa where large scale migration occurs within rural areas (de Haan, 2006). Hence, there was a need to delve into factors affecting migration flows that would encompass both the individual as well as the structural components in migration research.
2.1.2 The New Economics of Labour Migration Theory: The Paradigm Shift

In a landmark shift to the theories of migration, the New Economics of Labour Migration (NELM) theorists Stark and Bloom in 1985 attempted to lift migration theories beyond the neoclassical and the structuralist approaches to accommodate for other factors influencing migration decisions and considered the ‘family’ or ‘household’ as the unit of analysis. The NELM approach had profound implications for investigations on remittances and hence its impact. Several theoretical and empirical approaches to studying remittances and their determinants and impact had adopted this approach. The approaches towards the study of remittances under the NELM can be categorized into studies on determinants of remittances, transfer mechanisms of remittances from host to origin countries and the impact of remittances at the receiving end. Apart from migrants’ income, savings and family in the host country, determinants of remittances are mainly found to be depending on the motivations to remit which include a host of factors ranging from ‘pure altruism’ to ‘pure self interest’. Also including implicit family agreements; for instance, co-insurance, family loan (Poirine, 1997) and portfolio diversification (Grigorian and Melkonyan, 2008; Carling, 2008; Aydas, Neyapti and Metin-Ozcan, 2005; Bouhga-Hagbe, 2006; Jadhav, 2003). But most empirical evidence shows a combination of all these factors behind decision to remit, hence compartmentalizing motivations based on above theories is more complicated in practical sense. Recent focus of literature on remittances has been more on the impact of remittances at the receiving areas, especially the developmental impacts.

Contemporary studies on remittances at migrant sending as well as receiving areas at both macro as well as micro level have generally displayed more optimism about its developmental impacts. At the macro level, remittances have been found to have a positive impact on a country’s long run economic performance by not only increasing foreign exchange reserves, but also financing trade deficit in certain countries (Rapoport and Docquier, 2005) and also increasing the credit ratings of a country (Newland, 2007). In case of labour surplus economies especially, remittances

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8 Hoddinot (1994), however, criticizes this approach by pointing to its ‘oversimplification’ leading to overlooking the role of migrant’s decision making in the process and the sharing of costs and benefits of the migration.
have offset the loss of human capital and have increased the per capita income of countries (Jadhav, 2003). But whether labour depletion or even ‘brain drain’ is compensated by remittance flows depends on the skill composition of labour supplied by sending countries and that demanded by host countries. This is because many developing countries do not have a control on the skill composition of their labour supplies as it is mainly determined by the host countries (Newland, 2007). So this leads to a skill mismatch in the labour surplus economies. According to Taylor (1999), developmental impact of remittances lies between two extremes. One, where remittances instigate reduction of production constraints of the poor in developing countries, and the other where migration opportunities elsewhere cause labour depletion in sending areas and also cause ‘brain drain’.

Additionally and importantly, remittances have been proved to be counter cyclical in times of economic downturns in migrants’ home countries (Córdova, 2004; Gupta, 2005; Ratha, 2007 and Chami, et al, 2008). But most studies that have analysed this have done in cases of economic downturns in the home countries, that is, in cases when the host countries were not affected by the crisis. It would be of vital concern the case when there is a global economic downturn such as that faced by all the countries in the present situation and especially when it has originated in the ‘world’s largest economy’ which is the United States of America (U.S.A.).

At the micro level, issues revolve around elimination of credit constraints of households and scope for enhancement of investment opportunities and savings mobilization. But such impacts of remittances at the micro level vary amongst developing countries. An important factor to consider in this respect is financial infrastructure at the origin areas which are usually rural in nature, which vary from country to country. Another area which is of growing concern is the remittance transfer systems and processes. The optimal positive impact of remittances is, to a large extent, offset by the exorbitant charges of the transfer agents. It varies from 13 to 20 per cent (Ratha, 2004 and RBI, 2006). As Ratha (2004) puts it “reducing fees by 5 per cent would increase remittance flows to developing countries by USD 4 to 5 million”. Hence, reduction of transfer costs of remittances is highly stressed (Orozco, 2006; Ratha, 2008; Ebeke and Combes, 2010).
A host of country specific micro level studies on impact of remittances can be observed in literature. These studies explore impact on various aspects such as consumption and savings pattern of households (Hoyos, 2004; Parinduri and Thangavelu, 2008; Zhu, Wu, Wang, Du and Cai, 2009), household welfare (Quartey, 2006), labour supply and school attendance (Andersen, Christensen and Molina, 2005; Acosta, 2006, Binzel and Assaad, 2009), precautionary saving and asset accumulation (Adams, 1996 and 2002), rural factors like agricultural expenditure and insurance (Azam and Gubert, 2006) and gender (Guzmán, Morrison and Sjöblom, 2008). Commonalities between these studies include indications of positive impacts of remittances on household welfare through consumptions smoothing and positive insurance role, also the fact that most of the remittances is used up for subsistence with less percentage used for investment or other productive purposes. However, these studies also indicate variations of impact of remittances between the developing countries. For instance, Zhu, Wu, Wang, Du and Cai (2009) found no influence of remittances on farm output or agriculture in China and also finds that mps from remittance income is less compared to other sources, whereas, in Pakistan Adams (2002) finds that the mps out of remittance income was more than other sources such as rental income.

At the village or community level, the effects of remittances received by migrant households, spilling over to the community to which those households belong to; has also been a contemporary an intriguing part of research on remittances. However, substantial investigations to capture this aspect are relatively scarce. A recent study of Lao worker’s remittances by Sisenglath (2009) attempts to capture the impact of remittances at both household as well as community levels. It is indicated in the study that in the long run, there exists a possibility of a decrease in the dependency of the community on external sources of income and increase in ‘community autonomy’ leading to ‘new buildings’, means of transport and ‘more shops’ that indicates improvement in the retail sector. An attempt of this nature had been made earlier and in a more unique fashion by Adelman, Taylor and Vogel (1988). The attempt was to understand the spill over effects of remittances to a Mexican village by its emigrants in United States of America, through an analysis of interdependence between sectors of a village economy. They found substantial linkages between village sectors where per unit increase or decrease in remittances
indicated major effects on the village economy. Such an attempt by Adelman, et al (1988) to study of impact of remittances encompassing migrant households as well as the community or the village using a social accounting matrix approach, however, does not include collective remittances by Mexican migrant Home Town Associations though the presence of such associations and their activities has been highlighted by Orozco (2006, 2007).

Sisenglath’s (2009) study also points out that there were improved farming and community schools due to the remittances sent by ‘community members’ working in Thailand. This reflects that if groups of migrants belonging to a common origin exist and have a common objective of improving their homeland through collective remittances, then such remittances could play a major role in the origin areas. Therefore, a comparatively current area of concern has also been the role of Diaspora associations or ‘Home Town Associations’ (HTA), as they are fondly referred to, in fostering development at the origin. HTAs have been found to act as ‘development players’ (Orozco and Rouse, 2007) for their respective origin areas. Apart from being involved in building places of worship, they also play an important role in income generation activities in the origin areas likewise building of schools and colleges (human capital which has future employment implications), microenterprises and a host of other developmental activities. They have also attracted government attention for engaging into collaborative projects. They have been successfully involved in many developing countries like Mexico and Phillipines (Delgado-Wise and Guarnizo, 2007 and Silva, 2006). It has been observed that villages linked to HTAs have better infrastructure compared to those that do not (Sorensen, 2004). But some of the nature of their involvement has been criticized to be sexist in nature in favour of men (Sorensen, 2004). Also, at the same time it is important to understand that the size of membership of HTAs and the occupational profiles of the members, which may vary widely, which forms an important factor in determining their nature and size of donations or rather their involvement for developmental activities at the origin.
2.2 Empirical Approaches and Evidence

Empirical studies on determinants and impact of remittances may be categorized broadly under macro, micro and meso level studies:

2.2.1 Macro Level Studies

Macro level studies on remittances cover aspects such as macro determinants of remittances and effect of economic shocks on remittances (Chami, Fullenkamp and Jahjah, 2003; Bouhga-Hagbe, 2004; Quartey and Blankson, 2004 and Sayan, 2006). In studying the determinants of remittances, Buch and Kukulenz (2004) find no correlation between remittances and private capital flows. They also find that economic growth, economic development and rates of return on financial assets do not necessarily have an impact on the flow of remittances. They conclude that remittances are ‘market driven’ with social considerations like migrant’s decisions on how much to remit, play an important role. Hence, similar studies (Chami, Barajas, Cosimano, Fullenkamp, Gapen and Montiel, 2008 and Bouhga-Hagbe, 2006) identify migrants’ sending motives as the first important factor for studying the determinants of remittances. However, they also point out several other macro variables such as stock of migrants in the host countries and interest rates (also indicated by Bouhga-Hagbe, 2004 and Aydas, Neyapti and Metin-Ozcan, 2005) and also micro variables such as income of the migrants and their decision making factors. Hence, what basically emerges is that determinants of remittances are a complex interplay of both macro and micro variables with especially the macro variables varying from one developing country to another.

The counter cyclical nature of remittances, which is that remittances increase during economic shocks in the migrant’s home country, had been studied by Sayan (2006) in his comparative study of 12 high remittance receiving countries belonging to groups of lower income and lower middle income countries to find that although remittances have been counter cyclical, yet it cannot be generalized for all countries, since it depends on the state of economic activity in the home countries and individual country characteristics. He found remittances to be counter cyclical for countries like
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Bangladesh and India, whereas it was pro-cyclical, which is that remittances increase only during favourable economic conditions in the home country, for countries like Jordan and Morocco and acyclical, meaning remittances decrease during economic shocks or unfavourable economic conditions in the migrant’s home country, for Dominican Republic, Ivory Coast and Senegal. A study done by Quartey and Blankson (2004), using pooled panel data sets also find counter cyclical nature of remittances for Ghana. Similar studies by Chami, Fullenkamp and Jahjah (2003) also find a negative impact of remittances on economic growth of the developing countries leading to moral hazard problem that is reduced economic activities by members of the recipients households. However, with the overall positive consequences of remittances stated by various studies, such instances of moral hazard problems need more specific country based micro level investigations to understand the extent to which it occurs and how it varies across countries. Hence, micro level investigations on various issues such as migrant’s remittance sending decisions and migrant characteristics along with impacts of remittances in the receiving households, form the basis of understanding macro level impacts.

2.2.2 Micro Level Studies

Micro level studies on remittances, on the other hand, may be further categorized into studies based on sending side, that is, studies based on migrants at destination countries; receiving side, that is, studies that are based on origin countries of the migrants and both sides, that is, studies that cover both sending side migrants and the receiving side households. These studies are mainly based on remittances sent by migrant to his/her family at the origin hence such remittances are termed individual remittances in literature (Levitt, 2001). Sending side studies have tested theories based on altruistic motive of the migrants (Hoddinot, 1994 and Bouhga-Hagbe, 2006). Hoddinot (1994) for instance finds that remittances are a function of migrant as well as household characteristics including reward offered by the parents using cross section data on migrants in Western Kenya. However, according to Carling (2008) this would have been somewhere in between pure altruism and pure self interest, somewhere which he calls ‘tempered altruism or enlightened self interest’. Again, in an interesting study by Dustmann and Mestres (2009) on the relationship between remittances and permanency of migration and residential
location of the family for migrants in Germany using panel data, found that remittances decrease with increase in permanency. Hence, they advocate for policies aimed at encouraging temporary migration, which according to them would lead to increase in remittance flows.

Attempts have also been made in recent times to capture the impact of remittances at both sides (migrant as well as their households). A study by Osili (2007) demonstrates this by taking a matched sample of Nigerian migrants in Chicago and their respective households. He finds that poorer families receive larger remittances. This may due to the fact that migrants from these poorer families send a major portion of their savings to their homes. He also finds that skilled migrants may not be interested in investing in origin assets due to low precautionary motive for saving but they do send larger transfers to their families. The study also emphasises that the impact of remittances on the development of a country depends on end use of remittances, size of emigrants and position of origin households in origin country’s income distribution pattern.

Many recent studies based on household data on the receiving end have focused on impact of remittances (Adams, 1998; Zarate-Hoyos, 2004; Andersen, Christensen and Molina, 2005; Acosta, 2006; Yang, 2006, Quartey, 2006; Osili, 2007 and Parinduri and Thangavelu, 2008). A general consensus on the positive effects of remittances on the households as well as the economy has been observed in these studies that mainly look at the consumption, savings and investment nature of the households for remittance income. One of the initial studies done in this area by Adams (1998) in rural Pakistan find that marginal propensity to save is more for sources of income that are variable and uncertain in nature, that is also more temporary in nature like that of external remittances, compared to other sources. Interestingly, Zarate-Hoyos (2006) find that households invest mostly on productive activities leading to multiplier effects on the economy. But he also argues that migrant households do not necessarily engage in conspicuous consumption compared to non migrant households as claimed by previous studies. Andersen, Christensen and Molina (2006) find that remittances lead to increase in schooling of children in migrant households and lead to upward mobility of the families; however, they also find that remittances also lead to ‘moral hazard problem’, evidence also found by
some others like Chami, Fullenkamp and Jahjah (2003) where members of the migrant households receiving remittances from abroad who are in their working ages do not engage themselves voluntarily into any economic activity. A common finding amongst these studies has been that remittances lead to increased welfare of the households in general and increase in human capital investments, entrepreneurship, healthcare and consumption smoothing in particular.

An interesting critique of studies based on the impact of remittances on the households receiving them has been that of Taylor (1999) who enlightens the fact that studies on impact of remittances have been limited to ‘household economy approach’ where only influence of remittances on household expenditure has been investigated. He points out that multiplier effects have not gained much attention apart from the exception of the study by Adelman, et al (1988) who study the multiplier effects of remittances in a Mexican village. According to Taylor (1999), impacts of remittances differ across locales and hence he questions ‘why remittances lead to positive development in some areas and not in others and stresses on defining development’. Remittance use surveys also hardly reflect on how remittances affect income from other sources in the household.

2.2.3 Meso Level Studies

Investigations in the field of remittances and its impacts have gone to much advanced levels in recent times also encompassing exclusively instances of collective remittances from Diaspora communities involved in the development of the origin areas (at mainly meso/ community level). Of late, there have been growing discussions on migrant associations or Diaspora organizations as development players in literature, many of which are policy papers. The House of Commons, International Development Committee paper on Migration and Development (2004), defining Diaspora as ‘international migrants, who although dispersed from their home country, remain in some way part of their community of origin’, highlight that they are the actors who ‘build transnational’ networks on the basis of emotional and family ties.

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\(^9\)Orozco and Welle (2006) define transnationalism as ‘dynamics of migrant cross-border engagements, encompassing a range of activities, including but not limited to sending of remittances, the building of
and in many cases a strong sense of commitment and responsibility’. The report also emphasize that these organisations involve themselves in charitable activities at both home and host societies and raise funds for disaster relief and play a crucial role in improving health and educational conditions at home communities. These activities are said to be carried voluntarily with or without the assistance of respective governments of the origin countries. An International Organization on Migration policy paper on Migration and Development (2004), also project the participation of Diaspora communities for development at origin and advocate for a possible government collaboration\textsuperscript{10} for more encouragement and effective channelization of such resources for development. Several instances of migrant community organizations who have been involved in both economic and social development of their origin societies can be found in literature. Migrant associations in different parts of the globe, especially those based in developed countries, have taken part in several ways to contribute towards betterment of both societies. But most of these instances are of, especially, Latin American associations. However, instances of some Filipino and African Associations (e.g; Ndofor-Tah, 2000) can also be found in literature.

Studies on Diaspora communities highlight the several ways in which migrants stay connected to their home country and find that emotional ties and sense of community belonging play a significant part in maintaining such ties. One of which is popularly known as Home Town Association or (HTA). Instances of involvement in community development both at home and destinations have been popularized by mainly Latin American and Filipino organisations. It is said that there are some 3,000 Mexican, 1,000 Filipino and 500 Ghanian migrant associations (Orozco and Rouse, 2007).

Several differential characteristics that vary between associations, have been put forward by noted scholars, likewise, differences in their activities and commitments, differences in organizational structure, differences in the way decisions are taken and differences in the size of their resource endowments that depend on the characteristics of their respective members (Andrade-Eekhoff, 1997; Paul and Gammage, 2004; Orozco, 2006). While Orozco (2006) points out that the activities of social networks and economic relationships and fostering of cultural practices and political participation.

\textsuperscript{10} Taking a cue from Latin American countries and in certain communities where government collaborations do not exist.
these organizations may range from mere get together or religious establishments\textsuperscript{11} to productive projects\textsuperscript{12}. Andrade-Eekhoff (1997), enlighten on key differences in the organizational structure of such establishments which may be either hierarchical or mutually collaborative or having a federal structure. Paul and Gammage (2004) in their study on Salvadorian HTAs find that there exists a hierarchy amongst the members with project identification being carried out mainly by the elite leaders rather than discussions with all the members. However, they also find that the HTAs have been responsible for many developmental projects in their hometown where there was lack of public investment.

Elaborating on the uses, purposes and mechanisms of collective remittances, Goldring (2004) identifies that the projects that are a result of collective remittances, provide ‘collective enjoyment’ to the donors and also the community as they do not intend to derive any profit from such projects. Also, in most cases, they are a ‘substitute’ for government responsibility. Commenting on the mechanisms on which they operate, he says that either these bodies work autonomously or through partnership with the government. Citing examples from Mexican states, he identifies the matching funds schemes (two for one or three for one scheme) that are collaborations of migrant HTAs and Mexican state governments that have immensely led to various developmental projects at the origin.

Ndofor-Tah (2000) in her study on U. K. based African migrant organisations and their contributions to Africa’s development find that the organisations raised funds not only through membership fees, annual fundraising events, voluntary donations and emergency donations but also through fines for late coming and continuous absence. She also finds that the ability of these organizations to facilitate developmental projects at origin depended on a range of factors including not only characteristics of migrants at the destination but also the availability of ‘reliable structures in hometowns to liaise with’ which clearly indicate that knowledge of specific needs of the origin areas is essential for decision making regarding need based specific projects.

\textsuperscript{11} For instance, building of churches or other religious facilities.
\textsuperscript{12} For instance, public infrastructure like water sewage facilities or educational institutes or paved roads or hospitals, which also generate employment opportunities.
Explaining the various ways in which the Diaspora and development at origin can be linked, a study by Johnson and Sedaca (2004) emphasizes the role that the hometown associations (HTAs) can play in social and economic development of the respective origin areas. They highlight the success of many such HTAs especially in the Latin American countries. But while Johnson and Sedaca (2004) maintain the significant scope and role of migrant communities in bringing about positive changes to their origin areas through collective remittances in some specific communities, not much is known about the existence and role of such associations for some other high remittances receiving countries like India and Bangladesh.

Beauchemin and Schoumaker (2009), in their study on role of migrant associations on local development in Burkina Faso, find that migrant associations do not have a significant impact on agricultural modernization and provision of basic amenities. But they also highlight that they do have a significant role in building of schools, health centres, and all season roads in the villages. Hence, migrant associations in Burkina Faso were found to have a limited but powerful impact at the village levels. Ghai (2004) and Orozco and Rouse (2007) also emphasize on the role of Diaspora or migrant associations on the development of their origin communities. However, empirical investigations on country-specific impacts, though, are observably very limited.

Thus, collective remittances and its impact is a relatively current area of concern. Few studies have delved into the migrant associations and their functioning and impact prior to the year 2000, as mentioned by Orozco (2006). There appears to be an increased focus and inclusion this phenomenon and its advantages for development at the origin in recent policy initiatives. Instances through various case studies of migrant associations working towards development of their origin areas, including various ways in which they operate, is observed in literature. However, most studies are concentrated in the Latin American region with instances of various case studies of groups of HTAs and their contribution and their problems, with of course, the exceptions of some African and Filipino organisations. Lack of studies in the South Asian segment is clearly visible in literature. India, Bangladesh and Pakistan are the countries which attract huge remittances with India being the highest.
remittance receiving country in the world (International Monetary Fund, 2009). However, not much is known about the existence of any collaborative efforts of migrants in these regions.

### 2.3 Studies on Remittances in India

From the above sections it is evident that at the global level literature on remittances is growing and evolving in recent times due to a general consensus on its positive developmental impacts at origin countries of migrants, especially focussing on developing countries. In this respect it is imperative to review studies on remittances in India, especially when it has been the highest remittance receiving country in the world for nearly two decades (International Monetary Fund, Statistics Yearbooks and [www.worldbank.org](http://www.worldbank.org)). In the Indian context a seminal attempt had been made by Nayyar (1994) to study the impact of labour flows (international migration) and financial flows (private transfers and NRI deposits). He studied the financial flows from Gulf and industrialized economies and their effects on country’s savings, investment and balance of payments and found that financial flows in the form of remittances and capital flows may have been small in terms of the economy but have been significant in terms of balance of payments which has also been supported by Jadhav (2003). He found that a favourable macro situation during late 1980’s were responsible for the spurt in remittances and that more inflows from industrialized economies had offset the reduction in remittances from the Gulf due to drop in oil prices during 1980’s. There has been some spurt in macro investigations in India currently including certain studies published by Reserve Bank of India (RBI) (RBI, 2006 and 2009). Jadhav (2003) for instance discusses increase in flows of remittances pre and post liberalisation and how the development process due to such inflows could be facilitated with certain proactive policies. Gupta (2005) who studies the behaviour of remittances to India post liberalisation finds that economic activities in the source countries have been significant in explaining the flows of remittances and also substantiate the counter cyclicality of remittances.

In a more recent study, Mallick (2008) observes the impact of remittances on private consumption and investment in India and its implication on economic growth
over the period 1966 to 2004. He observes that the growth rate of remittances do not affect the growth rate of output of the economy and adversely affects private investment which implying that the government policies should aim at inducing the private sector to spend more on productive investments to accelerate the rate of growth. He also points out that if significant portion of the remittances was spent on private consumption then it would not lead to any contribution towards growth in the economy. But interestingly though, this study also distinguishes between endogenous migration approach and portfolio approach of migrants to sending remittances where in the former, based on altruistic motive discussed earlier, the migrant decides to allocate his savings between home and host countries depending on his length of stay, whereas, in the latter, the decision to remit is determined by ‘rates of return on various assets’ and ‘return differential’.

However, if we consider a multi level approach based on the origin areas of emigration, towards the study of remittances in India; as we have seen above that at the global level, in many other developing countries, empirical research on impact of remittances have advanced phenomenally over the years encompassing various aspects ranging from migrant’s individual aspects to their households and state policies. But on the other side in India, such pertinent research in the country receiving highest amount of remittances since the past few decades, seems to have taken a backseat with the exception of, of course, the state of Kerala.

In this context, it needs to be mentioned that much of the limited literature on remittances in India is mainly focussed on the state of Kerala. A series of studies on migration and its impact including impact of Gulf remittances can be observed initiating mainly during 1970’s and continuing till date. These include mainly macro level studies with a few encompassing certain micro insights. For instance, Prakash (1998), in his analysis of secondary data pertaining to migration from Kerala to Gulf, finds that remittances lead to higher levels of income for migrant households in Kerala and an overall reduction in poverty with reduced unemployment but at the same time it also lead to increase in prices of land, construction material, food, consumables, education and healthcare in turn affecting the non migrant households. Following the neoclassical framework, his study also indicated non uniform effects of remittances due to uneven migration patterns, with more emigration from the northern
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districts of Kerala to the Gulf compared to the southern districts. However, the study highlights the important issue of effective channelization of remittances for ‘productive uses’ (Prakash, 1978).

Many scholars (Prakash 1978; Mathew and Nair, 1978; Kurian, 1979; Sasikumar and Hussain, 2007; Mallick, 2008), in this regard, have highlighted the issue of ‘productive uses’ of remittances which, from these studies, can be perceived as uses of remittances that would generate future income instead of being used up into current consumption and unproductive assets like housing and purchase of gold. ‘Productive uses’ in these studies are generally referred to investment of remittances into income generating activities like big or small business enterprises, livestock or other financial investments which, although, require good financial infrastructure especially in rural areas, good investment opportunities for the households and investment awareness including training for return migrants.

Interestingly, certain village level studies had been conducted during the ‘oil boom’ period in Kerala which enlightened certain household level features of those households that had migrant members and received remittances. Of these studies, though, Mathew and Nair (1978) conducted their survey in Trivandrum district in the south of Kerala, Prakash (1978) and Kurian (1979) focussed on the northern districts. Muslims constituted majority of the emigrants in all these three studies. Also, in these studies emigrants were characterized by low educational levels, low income levels at origin, utilization of most part of the remittances for daily consumption or investment in ‘unproductive assets’ like houses or land. Mathew and Nair (1978) however, discuss the impacts of emigration on labour, employment, land prices and real estate. They found that emigration to Gulf and remittances had lead to changes in local labour employment patterns where large scale migration lead to shortage of labour and inflow of construction workers from other parts of the country especially from Tamil Nadu. Also, there had been multiple increases in land prices and housing. A major finding in these studies was that emigration from Kerala had impacted the sex ratio of the villages drastically with females outnumbering the males due to mostly male. The wives and other family members were usually left behind. There was an increase in the number of vocational training institutes also in Kerala during this period. This study also indicated a change in the banking system and procedures in
the study areas due to rise in the inflow of remittances – an aspect not widely explored by other studies.

Department of Economics and Statistics, Kerala (1988) had conducted a survey to study the uses and impact of remittances in migrant households compared to that of non migrant households in Kerala. Purchase, construction and improvement of houses along with purchase of ornaments and vehicles were found to have constituted the major portion on which remittances were used. These findings of the survey were consistent with the previous studies by Prakash (1978), Mathew and Nair (1978) and Kurien (1979).

The Centre for Development Studies in Trivandrum, Kerala, in recent years, conducted a series of studies in the field of migration and remittances in Kerala (Zachariah, Prakash and Rajan, 2002; Kannan and Hari, 2002; Pushpangadan, 2003, Zachariah and Rajan, 2005 and 2007). While Zachariah, et al (2002) analyze wages, working conditions and employment of Kerala emigrants in U. A. E. throws light on the migrant side, many of these studies delve into hardcore macroeconomic impacts of emigration and remittances. For instance, Kannan and Hari (2002) and Puspagandan (2003) analyze the macro impact of remittances on different sectors of Kerala economy. Puspagandan’s (2003) study shows that the increased demand for consumer durables and other services due to remittance income of households lead to increased trade in the state as the domestic sectors could not meet the increased demand. This increased demand lead to a boost in the telecommunications, transport and services sectors leading to accelerated growth in the tertiary sectors in the 80’s and 90’s. One of the most recent studies conducted by Zachariah and Rajan in 2007 gives us most current insights into the phenomenon. The study was based on the results of Migration Monitoring Survey conducted periodically by CDS which covered migration, remittances and employment and was conducted in all the districts of Kerala indicating certain changes in trends of migration. In this study, Malappuram district is said to have surpassed Thrissur district over the years in terms of emigration as well as remittances. Muslims continue to remain the dominating community in the emigration stream to Gulf with Christians also catching up. The study indicates that current consumption and ‘unproductive investments’ in the form of housing and purchase of gold, etc. in the migrant households, continue to remain an area where
most of the Gulf remittances are used up. Though the authors indicate a gradual process of more ‘development-oriented’ investments by the return migrants possessing expertise and skills earned from their experiences abroad, it still remains unclear as to without imparting proper training and business investment skills to these return migrants, how could such ‘development-oriented’ investments would be possible.

It is observed that considerable investigations have taken place to understand migration and remittances in Kerala. But on the other side, the scarcity of studies on these aspects in other regions or states in India, especially village based, is glaring. Punjab, Gujarat, Tamil Nadu and Uttar Pradesh are known to be major emigration centres since decades (Nangia and Saha, 2002; Sasikumar and Hussain, 2007; Khadria, 2009), yet hardly any insights on impact of remittances can be obtained on these states. A major reason for this drawback, however, appears to be lack of appropriate state wise statistical data on migration and remittances for states other than Kerala. At the micro level, it was way back in 1980 when Oberai and Singh made an attempt to study the uses of remittances sent by internal migrants in households in rural Punjab where they found that significant amount of remittances were used for productive investments and that remittances lead to more equal distribution of income in the study area. Subsequently, Banerjee (1984) attempted to study the determinants and amount of remittances sent by migrants in Delhi. He disagrees with the ‘remittance decay hypothesis’ and says that the motivations for sending remittances are best indicators of their uses. However, it may not truly reflect so at the destination area and more investigations are needed to enlighten facts.

Theoretical approaches and empirical investigations to study migration and remittances have evolved considerably over the years, especially as new streams and patterns of migration surface. But meagre state specific insights on interpretations on the phenomenon of remittances and its impact in the Indian context exist, excepting for the state of Kerala. Insights on other states that are also centres of high emigration and remittance recipients like that of Gujarat, Punjab and Tamil Nadu and other emerging high emigrating states of Uttar Pradesh and Andhra Pradesh as indicated by few recent studies, rarely exist in literature. Migration and remittance related studies in Kerala also do not encompass a multilevel approach that looks into the dynamics of
remittances that accrue to the households as well as the village or community. India being such a diverse country with different cultures and traditions and with different historical contexts especially affecting migration flows, variations on effects of migration are bound to exist. This calls for state specific investigations to capture the varied impact of remittances.

However, unavailability of sufficient disaggregated data on migration as well as remittances makes empirical investigations extremely difficult. Data on international migration is compiled by Census of India but only for immigrants (UNESCAP, 2006). Data from Protector General of Emigrants (PGE) only gives details of low and semi skilled migrants moving abroad for work. State specific statistics on remittances all the more cease to exist except a few studies by RBI (2006 and 2009) from which only certain assumptions about state related remittances can be drawn. This proves to be a major reason for paucity of empirical investigations in Indian context, especially at the household and community levels.

Empirical investigations that look into community level impacts such as that of Beauchemin and Schoumaker (2009), though, are extremely new and very limited, also appears to be pertinent for India as presence of various migrant associations and philanthropy of migrants lead to many community wise structural developments at the origin (Report of High Level committee on Indian Diaspora, 2000). Such investigations, in the Indian context have also never been attempted although there exists numerous migrant institutions that are spread over all parts of the globe (see Appendix).

2.4 Rationale for the Study

From the review of literature on remittances in India, a lacuna in research on many facets of migration and remittances and its implications for development in the Indian context, especially at micro (household) and meso (village/community) level is clearly evident. India being the highest remittance receiving country today, calls for greater understanding of the role played by remittances in the country. Evidence from RBI bulletin (2006 and 2009) clearly indicates variations in utilization pattern of
remittances between regions in India. RBI Bulletin (2010) states that even though ‘family maintenance’ accounts for most of the utilization, certain centres like Ahmedabad and Chandigarh show a higher portion of remittances kept as bank deposits. Sasikumar and Hussain (2007) also indicate that Gujaratis, being more entrepreneurial in nature, invest more remittances into business enterprises or save them as bank deposits. On the other hand Zachariah and Rajan (2007) show that 94 per cent of households in Kerala used remittances for ‘subsistence’. Hence, existence of variation in the utilization pattern of remittances across Indian states is evident which is intriguing and raises several questions about region wise uses and impact of remittances. Hence, there certainly arises a need to understand the role played by remittances in different regions in India to capture the causes and differential impact. Additionally, one needs to understand the impact at various levels, for instance, impact of remittances on migrant households receiving them as well as impact on the village or town community.

Hence, taking into consideration the existing gaps in research, the present study, therefore, attempts to understand impact of remittances understanding the impact of migrant worker’s remittances on the migrant households, both economically and socially. Also, it attempts to understand the spill over effect of remittances from households receiving them to the village economy in which these migrant households belong.

It is obvious from review of literature that uses of remittances would differ according to type of migration (temporary or permanent), socioeconomic status of migrant households prior to migration, family size and other variables. Hence for this study it is imperative to identify regions or states in India that have been receiving high amount of remittances. The study, therefore, identifies the states of Kerala and Gujarat in India as the most intriguing areas for the study. These two states have been the highest emigration states for decades (see Sasikumar and Hussain, 2007), yet there is considerable difference in their migration patterns, streams, history and possibly remittance utilization patterns.

\footnote{In the absence of state specific data on inward remittances, say for Gujarat, it is assumed that Ahmedabad which is one of the cities which receives most remittances (RBI, 2006), forms the main corridor for delivering remittances to interior areas of the state.}
There have been a few micro level investigations on the uses of remittances in Kerala during 1970’s and 80’s when major migration of workers took place from Kerala to the Gulf countries (Department of Economics and Statistics, 1988), however, detailed analysis of impact of remittances would require more multivariate data which previous studies could not focus in depth. Also, over the years migration to Gulf from Kerala had matured and also skill composition of workers has changed from mainly low skilled to low as well as semi skilled workers (Zachariah and Rajan, 2007). Taking cues from the macroeconomic consequences of remittances as analyzed by Chami, Barajas, Cosimano, Fullenkamp, Gapen and Montiel (2008), a study by RBI in the Kerala state find that remittances did increase the household consumption of durables and non durables and hence, increased inter state trade. The study also finds evidence of ‘moral hazard problem’ leading to more educated unemployed; a phenomenon associated with negative impact of remittances. However, presence of continued migration from the state as a solution to unemployment provides contradictory evidence. Hence, the study emphasises on further exploration on many aspects of impact of remittances for policy implications (RBI, 2009). Hence, against this backdrop, it becomes imperative to study certain micro aspects of impact of remittances in Kerala, pertaining to household welfare.

Additionally, due to unavailability to disaggregated data on remittances, perspectives on states other than Kerala with high incidence of emigration and remittances, like that of Gujarat, is virtually absent. Sasikumar and Hussain (2007) clearly point out that three aspects of remittances, namely family maintenance, savings for future and investments from remittances would differ according to destination of migrants and their occupational categories of migrants and entrepreneurial and investment cultures like that existing in Kerala and Gujarat. This certainly calls for an empirical investigation which may be expected to give a different perspective (region wise) on micro as well as meso aspects of impact of remittances. The present study is intended to capture aspects. The comparative study of two states with different patterns of emigration and possible remittance utilization.
would also throw light on other high emigration regions\textsuperscript{14} in India that have emigration patterns similar to either of these states.

\textsuperscript{14} For instance, Azamgarh and Jaunpur areas in Uttar Pradesh (Sasikumar and Hussain, 2007) and Palamoor in Andhra Pradesh (Adapa, 2007) have similar emigration patterns like that of Kerala; and Doaba region in Punjab that have similarities with that of Gujarat.