CHAPTER-4

REMITTANCES TO INDIA: AN OVERVIEW

Presently India is the highest remittance receiving nation in absolute terms. Remittances to India have reached USD 55 billion in 2010 from USD 2.1 billion in 1979-80. Additionally, India has maintained its position as the highest remittance receiving nation since the last two decades. Based on secondary data analysis, this chapter highlights key facts and figures of remittances at the national level in India and presents a brief overview of migration flows and the Indian Diaspora. This chapter proceeds to understand the process of data gathering and measurement of remittances in India and unfolds the dynamics of remittances and its relative stability vis-à-vis other forms of capital flows in India’s Balance of Payments (BOP) and further studies the components of remittances.

4.1 Some Key Facts and Figures

Some interesting facts and figures about migration and remittances in the Indian case, in this context, make it a subject of current analysis. Remittances to India have been found to have stabilized at around 3 per cent of the GDP. Though Mexico-US corridor is factually the highest migration corridor in the world, India has sustained its position as the highest remittance receiving country in the world since many years, surpassing Mexico (excepting a few years in between - Figure-4.1).
Two major waves of migration have been responsible for the bulge in remittance receipts of India post 1970’s. The first was the huge exodus from India during 1970’s to Gulf Cooperation Council (GCC) countries due to raise in oil prices and thereby boom in their economy. This was characterized by the flow of mainly semi skilled and unskilled labour (Nayyar, 1994). The second wave of emigration from India was post 1990, mainly to high income OECD (Organisation for Economic Cooperation and Development) countries characterized by flows of highly skilled IT workers (Jadhav, 2003; RBI, 2006; Singh, 2010). This combined with a range of macroeconomic policies post liberalisation in 1991 to mobilize remittances, triggered the flow of remittances to India through official channels (RBI, 2006).

Figure 4.2 illustrates the rise in remittances since 1980. We observe that remittances to India have been steadily rising, especially post 1990’s. This has been attributed mainly to the liberalization process during 1991 onwards. However, a slight fall in the year 2009 may be attributed to the recent global economic crisis.
It is important to consider the source regions of remittances in this context. Table 4.1 gives the present source regions of remittances. From the table it is evident that the major portion of remittances to India is received from North America followed by Gulf and Europe. However, post 1970’s emigration to Gulf countries, the major source region of remittances to India had been the Gulf countries; which was altered after 1990’s when North America became the major source region of remittances due to high exodus of IT professionals to U.S. and Canada.

Table 4.1: Source Regions of Remittances to India

<table>
<thead>
<tr>
<th>Region</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>44</td>
</tr>
<tr>
<td>Gulf Countries</td>
<td>24</td>
</tr>
<tr>
<td>Europe</td>
<td>13</td>
</tr>
<tr>
<td>East Asia</td>
<td>8</td>
</tr>
<tr>
<td>Others</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: RBI, 2006

The above facts and figures about remittances in India triggers an introspection into certain factors related to remittances such as stocks and flows of Indian emigrants in a historical context, related capital flows, concept of remittances in the Indian BOP and its measurement issues, policies and regulations related to
inflow of foreign currency in India, channels of transfer and significance of remittances in relation to other current account receipts in India. The following sections present brief overviews of all these aspects.

4.2 Migration Flows from India

Migration from one place to another in search of betterment of lives is a phenomenon that has existed since times immemorial. Migration from the Indian subcontinent also dates back to several thousand years. But what can be called ‘contemporary migration’ from India has been considered to have started around 175 years back (Khadria, 2009). Major waves of migration from India happened mostly during the British rule (16th to 18th centuries) when labourers from various parts of India were transported to other British colonies, mainly as ‘indentured’ labour. Khadria (2009) mentions that almost 30 million Indians had emigrated between 1834 and 1947. These migrants were mainly transported to colonies in Ceylon, Africa and South East Asia. However, by the beginning of the 20th century there was a decline in this form of labour migration and more Indians began to shift towards The United Kingdom (Nayyar, 1994). But in the context of remittances, two major waves of emigration that were responsible for the major shift in focus of policy makers were during post 1970’s and post 1990’s.

The oil boom during 1973 was responsible for triggering a new stream of low skilled migration from India, especially from the state of Kerala. This oil boom triggered a huge demand for labour in mainly construction sites in the Gulf countries which were experiencing major structural transformations. This also led to a splurge in the inflow of remittances to the country which again led to major structural changes in macroeconomic policymaking in India (discussed in the next section).

The population of Indian immigrants have risen from 10.7 million in 1979 to almost 25 million in 2010 (including NRIs and PIOs). The latest report on Indian migration by Khadria (2009) presents detailed data on emigration patterns of Indian migrants to various countries. According to the report, majority of the immigrants live in the Gulf countries with maximum in United Arab Emirates (U.A.E.) followed by
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the United States of America (U.S.A.). However, Khadria also mentions that though in recent times the U.S. is the most favoured destination, migration to the United Kingdom (U.K.) has always been preferred with a high number of emigrants engaged in professional jobs.

Selected country wise data presented in the report indicate that there exists a continuous rise in the flow of migrants from India to various Gulf countries even in the last two decades, as well as to the United States and The United Kingdom. Increased flow of migrants to the United States post 1991 is fairly recent and is a well known fact but what seemed evident from country wise data is that:

1. United States and other OECD countries reportedly have been the most favoured destinations of the new age migrants.
2. Gulf countries still hold significant stocks of Indian immigrants. Hence, along with increasing stock of migrants in the United States, the traditional flow of migrants to Gulf countries is still on a rise and is significantly high.
3. Official estimates provided by the report also indicate more professional migration to the OECD countries and more unskilled labour migration to the Gulf countries.
4. Additionally an interesting feature has been from the years 2004 to 2008; there has been an increasing trend of Indian residents (with non UK nationality) (see Khadria, 2009 pp 17) which indicates that U.K. still remains one of the most favoured destinations and the Indian migrant stock in U.K. is reportedly “one of the best educated and highest earning groups, achieving eminence in business, Information Technology, health sector, media and entertainment industries” (Khadria, 2009).

These facts are a clear indication that along with new trends in migration, the post independence trends still prevail, although lesser in magnitude compared to that of OECD countries. This signifies that along with the current flows of remittances from OECD countries, individual remittances from the ‘traditional destinations’ like that of the Gulf and The U.K. continue to hold a significant support for the families receiving them.
However, state wise figures for total emigrants are unavailable in official records in India. Official statistics on number of emigrants from India obtained from Protector General of Emigrants of Ministry of External Affairs underestimate the figures for emigrants as only those migrants who are granted Emigration Clearance (EC) endorsement are recorded. Records for the huge outflow of skilled professionals from the country are however, not obtained from such data. So interpretations for states based on such data would be misleading.

Hence, even though, on one side it is evident from the brief history of migration flows that the major source of remittances to India has been the Gulf countries. However, with changing global scenario and emergence of new migration streams, the 1990’s saw a huge outflow of skilled labour to many OECD countries including US, Australia and Canada. Majority of these workers were engaged in the IT and financial services sector with relatively high remuneration. Hence, a huge inflow of remittances resulted from this pattern of migration that led to a boost in the remittance level. But on the other side, following history, migration to some of the destinations like the Gulf countries and United Kingdom has a historical context and is continuous till date. In terms of developmental implications, as the remittances from OECD countries are large in volume but may have highly individualistic uses. But remittances from countries that have a continuous flow of migrants since decades have both individualistic as well as community implications especially for the rural origin areas of migrants.

4.3 Measurement and Reporting of Remittances in India

The total flows of remittances in India are calculated according to the guidelines set by the International Monetary Fund BPM5 Manual which is disseminated on a quarterly basis. Also, further disaggregated data on remittances are released annually in the Handbook of Statistics on the Indian Economy by the RBI. Detailed analysis is also presented annually in the RBI Bulletin as ‘Invisibles in India’s Balance of Payments.’ IMF BPM5 Manual provides the standard format for collecting data on remittances that has been followed by all the countries. Singh (2006) states the sources for data and measurement as follows:
i. Reporting by banks and Authorized Dealers (AD) under International Transaction Reporting System (ITRS).

ii. Survey of small value transactions on receipts.

iii. Funds locally withdrawn from the Rupee denominated deposits for various purposes by the person authorised by the NRI.

iv. Information available on inflows of private foreign donations.

4.4 The Regulatory Framework, Modes of transfer and the Macro Economic Policies

There are several ways through which migrants remit money to their households. These include both the formal as well as the informal channels. The formal channels of remittance transfers include either as directly to the households or in the form of ‘NRI Deposits’ in the banks from where money is withdrawn locally by the migrant’s household members. In Indian Balance of Payments, remittances send to the families by migrants are entered as ‘private transfers’ in the current account whereas ‘NRI deposits’ come under the capital account. Hence, in this context, first the role of the regulatory framework needs to be mentioned. In India, remittances falling under the current account as well as NRI accounts related transactions that are entered in the capital account is regulated by the Foreign Exchange Management Act of 2000 (FEMA). This act empowers the RBI to authorize any person or dealer of foreign exchange to deal with foreign money and reserves the right to provide approvals to institutions or agencies involved in transfer of remittances through the formal network. Hence, the main formal agencies involved in money transfer operations are banks and Authorized Dealers (AD) or money transfer operators (MTO) who are of two types, full fledged money changers and restricted money changers. The full fledged moneychangers are authorized to take both sale and purchase transactions whereas the restricted moneychangers are authorized to accept foreign currency for only conversion purposes and do not involve in sale of foreign currency. Certain schemes had been introduced by the RBI under the current account convertibility regime in order to expand the operations of the formal institutions to broader geographical regions in the money transfer process. Firstly, the ADs could enter franchisee agreements for carrying on restricted conversion of foreign currency
into rupees. Secondly, the introduction of Money Transfer Service Scheme (MTSS) which is basically a tie up of MTOs in foreign countries and their agents in India disbursing funds to the beneficiaries at ongoing exchange rates and also at a much faster pace. However, this comes with certain restrictions. For instance, the agents in India must be RBI or International Air Transport Association (IATA) approved AD with a net worth of minimum ₹25 lakhs or a registered Non Bank Financial Company (NBFC). Also, a cap of US$ 2500 on individual transaction under the scheme has been placed with a single individual receiving only 12 remittances per year. Additionally, to facilitate direct transfers to households, another scheme was introduced, the Rupee Drawing Arrangements (RDA) which are arrangements of banks in India with private exchange houses mainly in the Gulf region. Both these arrangements involve only personal remittances towards family maintenance. But transfer of remittances relies mostly on the speed and cost of transfer. In this respect, banks have been the most favoured mode by the migrants (RBI, 2006 and 2009) followed by drafts (Singh, 2010). The MTSS and the Rupee Drawing Arrangements (RDA) modes are gradually gaining popularity. However, informal modes of transfer still remain a favourite amongst those migrants and their households that belong to areas where financial infrastructure is not developed (Sil and Guha, 2010) and since high cost of transactions in the formal channels still deter migrants (Singh, 2010).

The size of remittances in the developing world including India is usually underestimated due to the presence of voluminous informally transferred remittances. There are various channels through which money is informally remitted. Besides money carried by the migrants themselves and friends and relatives of migrant, there are well organized transfer networks known more generally as hawala or hundi in South Asia. However, since this form of transfer was recognized globally as a threat to national and international security due to laundering, especially post 9/11; the international community has taken major initiatives to prevent such threats. The Prevention of Money Laundering Act, 2002 passed by India is one such initiative. Due to this, large scale transfers of money through this channel were drastically reduced and use of formal channels for money transfers has increased.

Combined with steps to foster effective flow of remittances and increasing competitiveness amongst different remittance service providers, the Indian
government had taken various measures to facilitate the flow of remittances. The main policy initiatives (Gordon and Gupta, 2004; RBI, 2006 and Sasikumar and Hussain, 2007) taken by the government to increase the flow of foreign money into the system that are understood to have facilitated capital inflows are as follows:

1. Higher interest rates on rupee denominated deposits of comparable maturity.
2. Higher interest rates on foreign currency deposits compared to those operational in international markets
3. Exchange rate guarantee for foreign currency denominated accounts
4. Repatriability of deposits
5. No ceilings on amounts deposited
6. Exemption of any wealth or income tax on the deposit amount and interest
7. Market based exchange rate or flexible exchange rate
8. Current account convertibility

These favourable incentives for the migrant community post liberalization led to huge inflow of remittances that was huge enough to not only lift families of migrants at home countries who receive remittances to higher levels of income, but also influence macro variables and hence national economy. Remittances are stated to have, since long, been offsetting trade deficit in India’s balance of payments (RBI, 2009).

The Prevention of Money Laundering Act had also been introduced in 2002 in order to check on the misuse of money transferred through informal channels like that of hawala and hundi mainly for terrorism and other threats to financial systems. But inspite of such regulatory framework, a huge chunk of remittances flow in through informal channels (Singh, 2010; Various World Bank Reports).

### 4.5 Growth Rate of ‘Private Transfers’ and its Relative Stability

One of the main objectives of the study was to understand the flow of remittances to India at the aggregate level and to compare its relative stability with other capital flows in India’s BOP. Table 4.2 gives the Compound Annual Growth Rates of ‘private transfers’ for the four decades. We see a downfall in the growth rate
dramatically during the decade 1980-81 to 1989-90 after which we notice an incredible jump from 1.91 per cent to 21.80 per cent in the decade 1990-91 to 1999-00. This tremendous growth in remittances is usually explained by studies (see for example Nayyar, 1994) as due to oil price boom in the Gulf countries followed by the emergence of a new skilled migration stream to mainly North America. The migrants have been engaged in the IT and financial sectors with high remuneration.

Table 4.2: Decadal Compound Annual Growth rates

<table>
<thead>
<tr>
<th>Years</th>
<th>Decadal CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71 to 1979-80</td>
<td>36.34</td>
</tr>
<tr>
<td>1980-81 to 1989-90</td>
<td>1.91</td>
</tr>
<tr>
<td>1990-91 to 1999-00</td>
<td>21.80</td>
</tr>
<tr>
<td>2000-01 to 2009-10</td>
<td>17.03</td>
</tr>
</tbody>
</table>

The fall in the growth rate from 21.80 per cent in 90-91 to 99-00 to 17.03 per cent in 00-01 to 01-10 may be due to the fact that the price of oil remained subdued till the first half of the 2000’s and meltdown in the technology sector followed by the recent global economic downturn.

However, in order to understand the importance of remittances in the Indian economy, one must understand remittances in perspective. Hence, one must compare remittances with other foreign inflows. One of the characteristic features of remittances, as discussed in various macro level studies on remittances, has been that it is relatively less volatile compared to other foreign inflows. Volatility, measured in terms of coefficient of variation, of various foreign inflows in India, have been compared previously by Jadhav (2003) and some RBI reports. However, Table 4.3 below presents an updated version of the relative volatility of select foreign inflows for the four decades. The coefficient of variation is calculated as,

Coefficient of Variation (C. V.) = (Standard Deviation/Mean) X 100
Table 4.3: Relative Stability (Decadal) of Private Transfers Compared to Other Current and Capital Account Flows in India

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>BOP Account</td>
<td>Mean</td>
<td>SD</td>
<td>CV (%)</td>
<td>Mean</td>
</tr>
<tr>
<td>Current Account</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>844.5</td>
<td>562.8</td>
<td>6.6</td>
<td>3348.2</td>
</tr>
<tr>
<td>Income</td>
<td>201.1</td>
<td>203.4</td>
<td>101.1</td>
<td>541</td>
</tr>
<tr>
<td>Private Transfers</td>
<td>713.5</td>
<td>696.6</td>
<td>97.6</td>
<td>2489</td>
</tr>
<tr>
<td>Merchandise Exports</td>
<td>4511.4</td>
<td>1900.5</td>
<td>4.4</td>
<td>10694.4</td>
</tr>
<tr>
<td>Capital Account</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NRI Deposits</td>
<td>1493.9</td>
<td>819.5</td>
<td>54.8</td>
<td>2613</td>
</tr>
<tr>
<td>Total Foreign Investment</td>
<td>3407.8</td>
<td>2380.6</td>
<td>69.8</td>
<td>25628.9</td>
</tr>
</tbody>
</table>

First it is important to understand the components of current account in BOP. In the Table 4.3, for every component, only receipts were taken for calculation in accordance with the standard method (see Jadhav, 2003 and RBI, 2006). Apart from NRI deposits in Indian banks and the Total Foreign Investment in India in the capital account; under the current account in the BOP, services include travel (expenditure by foreign tourists in India), transportation (receipts on account of carriage of goods and natural persons and other distributive services), insurance (insurance on exports and imports, premium on life and non life policies and reinsurance premium from foreign insurance companies) and Government not included elsewhere (inward remittances for maintenance of foreign embassies, diplomatic missions and offices of international/Regional institutions in India). Income\textsuperscript{23} includes investment income receipts comprising payment of interest on non resident deposits and loans from non residents, payment of dividend/profit to non resident share holders, reinvested earnings of the FDI companies, etc.). Private Transfers are the inward remittances received by the families of migrants. Merchandise exports are the receipts from export of goods and not services.

Hence, in Table 4.3, it is observed that the CV of private transfers for the last decade (2001-10) has been the minimum compared to other components of both current as well as the capital account in the BOP. An interesting finding is also that compared to the previous decade (1991-00), remittances have been more stable and less volatile compared to even merchandise exports in the last decade. This volatility is, however, attributed to the low interest rate and exchange rate sensitivity, as well as, counter cyclicality of remittances (RBI, 2006). Also, relative stability also indicates increases in the components inward remittances for family maintenance and local withdrawals (see RBI, 2009). However, the lowest volatility observed during the period 1980-81 to 1989-90 may be attributed to the a fall in the oil prices during that period that probably led to a stagnant activity levels in the Gulf countries keeping the volume of remittances relatively low and stagnant. Also, the stock of migrants during that period, as indicated in Nayyar, 1994 (Table 7 in Nayyar, 1994), did not change substantially compared to other periods.

\textsuperscript{23} In this component, transactions are in the form of interest dividend and profit for servicing of capital transactions. Also, in accordance of the BOP Manual (5\textsuperscript{th} edition), compensation of employees fall under the heading ‘income’ since 1997-98 (RBI, 2006).
4.6 Components of Private Transfers in India

Migrant worker’s remittances, entered as ‘private transfers’ in the current account of India’s Balance of Payments, are classified under four broad categories (Figure 4.3): Inward remittances for family maintenance, Local withdrawals from NRI deposits, Gold and Silver brought through passenger baggage and Donations to charitable/religious institutions in India. Inward remittances for family maintenance or repatriated funds, together with the local withdrawals form 50 per cent of the remittance flows to India (Singh, 2006). Local withdrawals from NRI accounts namely Non Resident External Rupee Account [NR (E) RA] and Non Resident Ordinary Rupee Account (NRO) are entered as positive items in the current account under private transfers as they no more form a liability of the capital account in the BOP.

Figure 4.3
Components of Private Transfers in India

Source: Reserve Bank of India (2008-09)

Figure 4.4 demonstrates the share of each category to total private transfers for each of the years. This item has experienced steady increases since liberalization
except for the financial year 2004-05. In the figure, the percentage of each of the components of private transfers as a percentage of the total remittances over the years 1999-2000 to 2008-2009 is shown. We see that inward remittances for family maintenance and local withdrawals from NRI deposits form the two major components of the total transfer. However, in the figure we observe a crisscross pattern or rather more specifically a switching between the two components over the years. Also, a noticeable feature is the increasing trend of charity and donations related remittances (figures obtained only till 2008).

Figure – 4.4

![Components of Private Transfers as a Percentage of Total](image)

Source: RBI, 2006 and Khadria, 2009

Figure – 4.5

![Growth Rates of Remittances for Family Maintenance, Local With. and Private Transfers](image)

Source: RBI, 2006 and Khadria, 2009
On further analysis of the growth rates of these two components (Figure 4.5) it was found that although we had earlier observed a stable growth of private transfers over the years which appears much lesser volatile compared to other components of BOP, we see that within private transfers, the components inward remittances for family maintenance and local withdrawals from NRI deposits showed high volatility and switching. This may be attributed to the fact that especially the component of local withdrawals is affected by interest rate motive (also mentioned in Gordon and Gupta, 2004). Due to the averaging effect of these two components, private transfers appeared to be more stable. However, post 2006-07, these two components appear to be relatively stable. In Figure-4.4 also, a noticeable feature is the increasing trend of charity and donations related remittances (figures obtained only till 2008).

Hence, from an overview of remittances to India, starting from migration histories to sources, flows of remittances, measurement issues, regulatory framework, components of remittances and the relative stability discussed in the above sections, certain points that emerged were as follows:

1. Contemporary migration patterns from India provide useful insights to study the flow of remittances as well. Patterns of migration from India have experienced important shifts due to changing global requirements. But migration to the Gulf countries, from mainly the Southern states, especially Kerala, continues to show an increasing trend since 1970’s. Although migration to the North America and other OECD countries show an increasing trend since 1990’s, migration to U. K. and Europe also show a continuous flow, perhaps attributable to colonial connections.

2. Occupational profile of workers in the OECD countries show Indian immigrants involved in more high paying professional jobs while those in the Gulf countries being engaged in mainly low skilled jobs.

3. State wise figures of emigrants are underestimated as only migrants with low skill profile who are endorsed EC is recorded. Data on professional emigrants who do not require such an endorsement are unavailable. Likewise, disaggregated data on remittances for state wise are also not available except for Kerala due to large scale studies conducted in the state.

4. However, aggregate figures for remittances show interesting features. Remittances continue to play an important role in the Indian BOP. It has not
only been instrumental in offsetting the trade deficit, but has also been the least volatile of all components of foreign inflows (as shown in Table 4.3).

5. Decadal growth rate of remittances show phenomenal increase during the decade 1990-91 to 1999-00 and continue to remain high, reflecting the effects of shift in migration patterns, favourable liberalization policies and easing the methods of transfer of remittances.

6. At the micro level, increase in competitiveness of various formal money transfer agencies leading to faster deliveries have reduced the use of informal networks leading to more accuracy in accounting of remittances. However, as higher costs of transfer still prevailing and certain rural pockets still remaining out of the reach of formal financial institutions, informal networks in those areas may continue to play a major role.

7. Amongst the components of private transfers, inward remittances for family maintenance and local withdrawals from NRI deposits share the main percentages in the total transfers. This indicates that remittances are mainly used for family maintenance at the household level.

8. However, less noticeable has been a moderate increase in the level of philanthropic transfers indicated by donations to charitable institutions. This indicates a presence of activities meant at community development that have remained unexplored in the Indian context.

From the above points, it is clearly evident that the crucial waves of migration during the British era, post 1970’s and again post 1990’s has led to increased volume of remittances to India making it a crucial component of India’s BOP that has both direct as well as indirect positive impacts on the national economy. But the main beneficiaries being the migrant households at the micro level, assessment of the impact of remittances and its potential for development is a multilevel approach including the household, the community and the national levels.