Migration, Remittances and Development : Lessons from India

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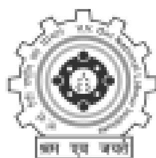

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FOREWORD

International labour flows from the developing countries and counterflow of remittances have increased significantly during the last two decades coinciding with globalisation and post-reform. In many ways, they have now come to occupy the core of the discourse on development – both as important drivers of the globalisation process and also as one of its more important consequences.

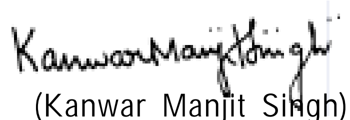
India, with a vast reservoir of both highly skilled and semi and unskilled labour force, is a major contributor to the contemporary global labour flows. Available evidences indicate that migrant labour flows from India since the 1990s have not only registered impressive growth in respect of the traditional destinations like like the United States of America (USA), United Kingdom (UK), Canada and the Gulf countries but also have diversified and expanded to newly emerging migrant destinations in continental Europe (Germany, France, Belgium), Australasia (Australia, New Zealand), East Asia (Japan), and South-East Asia (Singapore, Malaysia). Consequently the proportion of Indian migrants in total immigration inflows in the major receiving countries has registered considerable increases in recent years.

The most beneficial impact of the increasing number of migrant workers from India is the growing amount of remittances, which is now far in excess of the external sector aid and foreign investment flows, and a major factor accounting for the improvements in India's balance of payments. In fact, India is now the largest recipient of workers' remittances, which amounted to US$ 24.1 billion in 2005-06. The inflows come from an Indian Diaspora estimated at 25 million spread across nearly 130 countries and are both quite stable and rapidly growing with the flows all set to diversify further in the years to come.

It is increasingly recognized that migration and remittances, if effectively managed, can generate important gains for India in terms of growth, investment, human capital formation and poverty reduction. Although the macro linkages between labour flows and remittance counter flows are self-evident, it is perplexing to note that issues related to remittances have been studied and understood in India largely as a part of the management of external finances. This may be one of the reasons why there have been certain lacunae in policy and research on the promotional aspects of remittances. In fact in such an approach, what is missed out crucially is the perspective of the migrant, her or his behaviour and also the determinants of her or his choices regarding the quantum and channels of remittance transfers.

It is within this broad context that this research study addresses the following objectives: i) review the trends in flows and cost of remittances to India; ii) analyze the temporal shifts in the composition of remittance and sources; iii) examine the regulatory framework governing remittance flows; iv) study the existing channels of transfer and the agencies and institutions associated with them; and v) suggest the best means for maximizing the development potential and efficiency of remittances.

I sincerely hope that the information and analysis provided in this research study would provide valuable and innovative perspectives to facilitate the maximisation and the socialisation of the benefits from migration and remittances in the wider context of economic development.



(Kanwar Manjit Singh)

Director

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I. INTRODUCTION

International migration is one of the central dimensions of the current phase of globalisation. More people live and work outside their country of origin today than at any time in history, and the numbers of people who move across international borders in search of better economic prospects are expected to rise in the future. Sharp divergence in demographic trends in the developed and developing countries, increased labour shortage in several high-income countries, growing economic imbalances across developed and developing countries, changing trend in consumerism, and the rapid advancement of transport and communication technologies are, *inter alia*, the key factors propelling large scale cross country labour flows (ILO, 2004, 2005; IOM, 2005; Martin, Abella and Kuptsch, 2006; OECD, 2006; UN, 2004, 2006). In 2005, there were 191 million migrants in the world: 115 million in the developed countries and 75 million in developing countries (UN, 2006). During 1990-2005, the world's migrant's stock rose by 36 million, from 155 million to 199 million. The growth rate of migrant stock has been accelerating increasing from 1.4 per cent in 1990-1995 to 1.9 per cent in 2000-2004 (UN, 2006).

Remittances are the most immediate and tangible benefits of international migration. It is estimated that, at the global level, remittance transfers more than doubled over the past decade, rising from $102 billion in 1995 to $ 232 billion in 2005 (World Bank,2006). It is all the more striking to note that the remittance flows to the developing countries have more than tripled during this period, from $58 billion in 1995 to $167 billion in 2005. Consequently the share of remittances transferred to developing countries has increased from 57 per cent in 1995 to 72 per cent in 2005.

India now is the largest recipient of workers' remittances, which amounted to US$ 24.1 billion in 2005-06 (Government of India, Ministry of Finance, 2007). This figure has acquired special importance for India since it has been consistently higher than net foreign direct investment and official financial flows. The inflows come from an Indian Diaspora estimated at 25 million spread across nearly 130 countries[1] and are both quite stable and rapidly growing with the flows all set to diversify further in the years to come.

It is increasingly recognized that remittances, if effectively managed, can generate important gains for India in terms of growth, investment, human capital formation and poverty reduction. Although the macro linkages between labour flows and remittance counter flows are self-evident, it is perplexing to note that issues related to remittances have been studied and understood in India largely as a part of the management of external finances. This may be one of the reasons why there have been certain lacunae in policy and research on the promotional aspects of remittances. In fact in such an approach, what is missed out crucially is the perspective of the migrant, her or his behaviour and also the determinants of her or his choices regarding the quantum and channels of remittance transfers.

Our approach in assessing the remittance flows and channels of such flows and their impact on development will be to situate these issues in an integrated framework that emphasizes the inextricable linkage of migration and remittances. This linkage will be evident in our explanation of the changing pattern of composition of remittances, sources and origin, modes of remittance transfers and end-use and destination of remittances. As regards policy framework, while our focus will be largely on the regulatory aspects of remittances we hope to provide an argument for the necessity for synchronizing the institutional and policy structures governing both migration and remittances.

Finally, we shall argue for a more nuanced understanding of migrant perspective to be included in a flexible and evolving policy framework.

It is within this broad context that this paper specifically aims to: review the trends in flows and cost of remittances to India, analyze the temporal shifts in the composition of remittance and sources, examine the regulatory framework governing remittance flows, study the existing channels of transfer and the agencies and institutions associated with them and suggest the best means for maximizing the development potential and efficiency of remittances.

The study is based largely on the analysis of published data at the macro level supplemented wherever possible by integrating existing micro level research findings. In addition, information obtained through interviews and focused discussion with a range of agencies (both at the national and local level) including, migrants and migrant households, migrant associations, financial intermediaries (both formal and informal), government officials and researchers and academics, have been utilized to fill the large gaps in the available information base of existing studies and data.

The paper is structured as follows. In Section II we have collated and analyzed the information relating to the financial flows associated with migration. Such flows are examined in relation to the remittance flows (which are considered as current account transactions) and also in relation to capital flows in terms of repatriable deposits. Section III describes the policy regime governing financial flows and examines the regulatory framework related to it. Section IV describes the operation of the two broad forms of remittance transfer mechanisms, formal and informal, especially in terms of key institutions and players, costs of transfer of funds, new products and incentives and choice and preferences of migrants. Section V discusses the developmental effects of remittances at the macro and micro

levels. It also outlines some of the major existing policy initiatives for enhancing the developmental benefits of remittances. Section VI examines the policy implications in relation to leveraging remittances for development and productive investments, mainly in relation to increasing the volume and formal remittances and role that the different institutions and agencies could perform in realizing the desired objectives and results. The policy contours are analyzed at three levels: i) facilitating larger international labour mobility as a means of remittance flows; ii) enhancing accessibility, expanding infrastructure capabilities and widening outreach of the formal institutions so that remittance transfers through formal channels are further augmented and those through informal transfers are discouraged; and iii) maximizing the developmental potential of remittances both from the perspective of the nation as well as the from the perspective of migrant and households.

II. TRENDS AND MAGNITUDE OF REMITTANCE AND NRI DEPOSIT FLOWS

One of the most significant and immediate outcomes of migration is the counter flow of remittances. Significant increase in the quantum of remittances sent home by the migrant workers in recent years and the accelerated pace at which it is growing, have infused renewed interest in understanding the remittance flows and its related dimensions.

It is estimated that, at the global level, remittance transfers more than doubled over the past decade, rising from $102 billion in 1995 to $ 232 billion in 2005. In fact, it is more striking to note that the remittance flows to the developing countries have more than tripled during this period, from $58 billion in 1995 to $167 billion in 2005. Consequently the share of remittances transferred to developing countries has increased from 57 per cent in 1995 to 72 per cent in 2005 (World Bank, 2006). Remittance remains the second largest financial flow to developing countries after foreign direct investment, more than double the size of official development assistance. These trends clearly highlight the increasing role of migrant workers' remittances as a source of external financing in developing countries.

Another important dimension to be noted in relation to the remittance flows to the developing countries relates to the stability of the trend of such flows. Whilst, FDI, portfolio investment and other capital flows to developing countries rise and fall cyclically, remittances show remarkable stability over time and even increase in response to economic crises (Ratha, 2003). A further critical dimension of the remittance flows pertains to the informal transfers and formal but unrecorded transfers. One can only speculate about the size of unrecorded remittances. Though it is extremely difficult to arrive at a reliable estimates of the total quantum of such undocumented transfers officials in

major fund-transfer agencies argue, based on the volume of fund flowing through their system that unrecorded remittances may be larger than recorded remittances (World Bank, 2004) Some studies note that adding the undocumented order of magnitude to documented flows, would make the total remittances more than even foreign direct investment (Sander and Maimbo, 2003). Although it is reported that several efforts to curb money laundering in the aftermath of the terrorist attacks of September 11, 2001 have diverted remittances from alternative channels to formal channels, it could be argued that increasing undocumented migration in the light of tightening of border control in the industrial countries may have increased remittances through informal channels.

India is now the largest recipient of workers' remittances amounting to $24.1 billion in 2005-06. For India, workers remittances have acquired special importance since they are consistently higher than net FDI and official financial flows. Two sorts of documented financial flows are associated with international migration in India. First, there are inflows of remittances that represent unrequited transfers from migrants to support their families, whether for consumption or for investments. Second, there are capital inflows in the form of different Non-Resident deposit accounts. In most analysis of workers' remittances, only current account transfers are considered as true index of transfers by migrants. However, we would argue that from a migrant's perspective .current account transfers as well as Non-Resident deposits should be both included in a comprehensive analysis of the financial flows associated with the migration. This is so because; firstly even by a strict definition of current account transfers, withdrawals from Non-Resident deposits should be also included in the analysis of remittances. Secondly, for many migrants these deposits have been and continue to be a preferred mode of transfer of their savings.

To take the remittances first: Workers' remittances to India are recorded under the current transfers in the balance of payments accounts. It includes all unilateral remittances by Non-Resident Indians (NRI) and foreign nationals of Indian origin for the purpose of family maintenance transfer of savings, gold and silver brought by non-residents and gifts. There is no *quid pro quo* for these transactions. The private transfers do not include credits to various non-resident deposits accounts. Only local withdrawals from such accounts are included in the private transfers. That way, the private unrequited transfers are those inward remittances that are eligible to get recorded in the current account of the balance of payments and influence the disposable income of the country (Jadhav, 2003).

It may be important to note that due to certain definitional problems the estimates provided by the Reserve Bank of India (RBI) and the International Monetary Fund (IMF) differ with respect to remittance flows. For instance, according to IMF statistics, the workers remittance to India was estimated at US $ 9 billion in 2000, which accounted for over 14 per cent of the global flows. However, as noted by Debarata and Kapur (2003) the IMF by classifying remittances routed through local withdrawals from non-resident deposit accounts under 'other current transfers', considerably under estimates the remittance flows to India. Correcting for this misclassification yields a significantly higher global share for India at 21 per cent (US $ 12.5 billion). Debabrata and Kapur argue that such an under estimation of the international earnings of labour in balance of payments (BOP) statistics could have adverse implications in a situation where several countries are actively engaged in creating a financial environment for attracting remittance flows and for utilizing them for developmental goals. There is a strong case that the category current transfers should be defined to include all gifts, donations and other transfers that are strictly of an unrequited nature.

The trends in workers' remittance flows for the period 1990-1991 to 2005-2006 are presented in Table 2.1.

Table 2.1: Workers' Remittances to India: 1970-71 to 2005-06

(US $ million)

1990-91	2069
1997-98	11875
1998-99	10280
1999-00	12256
2000-01	12854
2001-02	15398
2002-03	16387
2003-04	21608
2004-05	20525
2005-06	24102

***Source*:** Economic Survey (various years)

It is evident that the workers remittances to India have registered considerable and consistent increases since the early 1990s. The rate of increase was the sharpest during the 1990s when the remittances grew by around 600 per cent. Though the rate of growth has slowed down a bit during the first half of the present decade, the inflow of remittances has still almost doubled during this period.

An analysis of the remittance flows in terms of region of its origin would provide insights about the way in which remittance flows are affected by changing pattern of labour flows. However, it is important to note that such an analysis cannot be undertaken by country of origin as there are no published data on remittance

transfers at such a disaggregate level. What can be attempted is only an analysis in terms of regions. We take up this analysis for the last three decades in order to highlight certain distinct patterns emerging since the 1990s, in sharp contrast to the earlier periods.

For the period 1970-71 to 1996-97, information on remittance flows is available on the basis of currency area: sterling area, the dollar area, the OECD area and the rest of the non-sterling area[2]. However, since 1997-98, the region-wise statistics on workers' remittance are published on a continental basis, replacing the currency areas.

The region wise data on remittance flows based on the two classifications are presented in Figures 2.1 & 2.2. For the purpose of our analysis in the pre-1997 period, the sterling area and the rest of non sterling area will stand for remittances from the Middle East, while dollar areas and Organisation for Economic Corporation and Development (OECD) will represent the industrialized world. For the period after 1997, Asia would represent the Middle East; America and Europe, the industrialized countries.

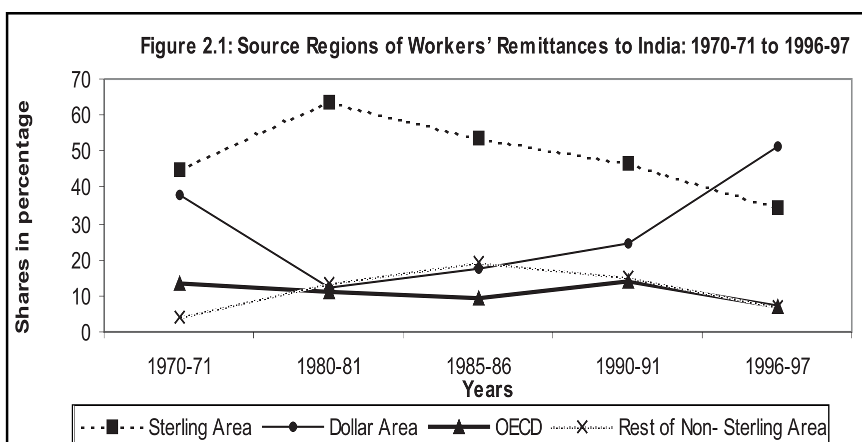
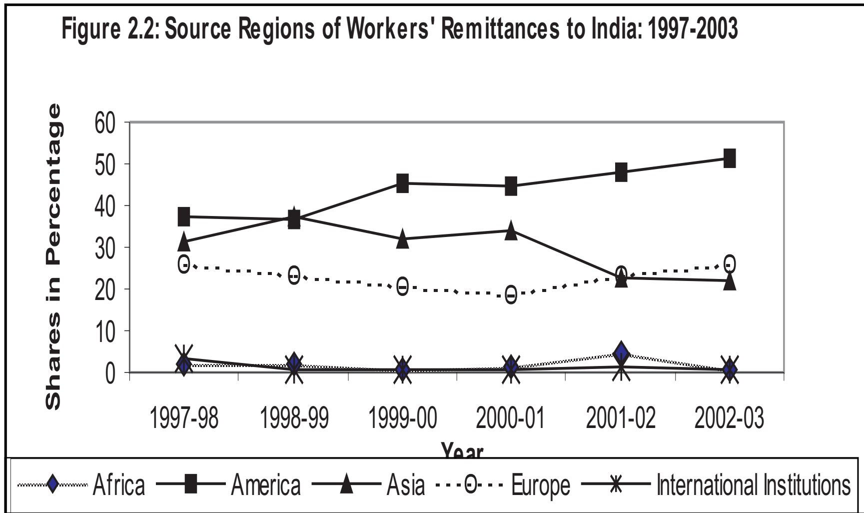


Figure 2.1: Source Regions of Workers' Remittances to India: 1970-71 to 1996-97



We can discern certain significant trends based on the remittance flows from different regions.

1. The main driver of the increase in remittances in the 1970-1980 was the massive labour flows to Middle East region.

2. From the 1980s the share of the Middle East region in the total remittances decline from 77 percent (1980-81) to around 61 percent in 1990-91 to and further to 22 percent in 2003. As regards the relative decline of documented remittances from the Middle East one possible explanation could be tied to the geographical spread of origin of the migrants. As more unskilled labour now originates from relatively backward regions of India marked by lesser development of banking infrastructure, there is a tendency for remittances to be transferred through informal channels[3].

3. During the same period there was a consistent increase of remittances from the industrialized countries' especially from the United States. This trend becomes pronounced from the mid 1990s. The share of America in the total remittances increased from 37 percent to 51 percent between 1997 and 2003.

A fuller understanding of the trends in of transfer of savings of the workers requires, as we have argued earlier, an examination of the trends in the Non- Resident deposits. NRI Deposits have been one of the main sources of attracting savings of Indian migrants. Various NRI deposit schemes have been in place since 1970. These deposits can be broadly categorized as: a) Rupee denominated accounts; and b) Foreign Currency denominated accounts. Currently, the NRI deposits which are operational include: The Non-Resident (External) Rupee Account NR (E) RA Scheme also known as NRE Scheme, The Foreign Currency Non-Resident (FCNR(B)) Scheme and The Non-Resident Ordinary (NRO) Rupee Account[4].

The regulation of these NRI deposits, in contrast to the workers' remittances, has been driven by changes in monetary policy and management of external finance requirements, from time to time. That need not detain us here. What we are interested in presenting for the moment is the broad trends in the NRI deposits over time. Unfortunately, data regarding countries of origin of these NRI deposits are not available and we have to make strong guesses in this regard.

These trends are available both in terms of cumulative deposits as well as net inflows of deposits. The aggregate figures of the different types of NRI deposits for the period 1990- 91 to 2005-06 are presented in Table 2.2.

Table 2.2 : Non-Resident Deposits in India (Cumulative): 1990-2006

(US $ million)

End-March	NRE (A)	FCNR (B)	FCNR	NR(NR) RD	FC(B&O) D	DFC (O)N	Total
1990	3777	8638	-	-	-	-	12415
1991	3618	10103	-	-	265	-	13968
1992	3025	9792	-	-	732	-	13549
1993	2740	10617	-	621	1037	-	15015
1994	3523	9300	1108	1754	533	12	16230
1995	4556	7051	3063	2486	-	10	17166
1996	3916	4255	5720	3542	-	13	17446
1997	4983	2306	7496	5604	-	4	20393
1998	5637	1	8467	6262	-	2	20369
1999	6045	-	7835	6618	-	-	20498
2000	6758	-	8172	6754	-	-	21684
2001	7147	-	9076	6849	-	-	23072
2002	8449	-	9673	7052	-	-	25174
2003	14923	-	10199	3407	-	-	28529
2004	20136	-	10961	1746	-	-	33266
2005	21291	-	11452	232	-	-	32975
2006	22070	-	13064		-	-	35134

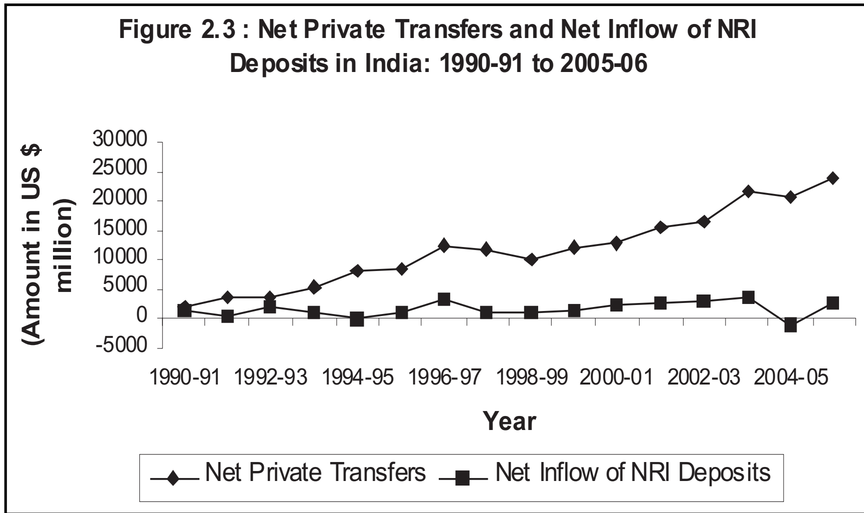
Source: *Reserve Bank of India Bulletin*, various issues.

NRI Deposits have registered considerable growth since the 1990s. However, from an analytical perspective, it is important to understand the growth of net NRI deposits in conjunction with workers' remittances. Table 2.3 and Figure 2.3 provides

the trends in relation to net inflow NRI deposits and net private transfers (which is almost equivalent to workers' remittances), for the period 1990-91 to 2005-06.

Table 2.3 : Net Private Transfers and Net Inflow of NRI Deposits in India:1990-91 to 2005-06

Year	Net Private Transfers	Net Inflow of NRI Deposits
1990-91	2068	1536
1991-92	3783	290
1992-93	3852	2001
1993-94	5265	1205
1994-95	8093	172
1995-96	8506	1103
1996-97	12367	3350
1997-98	11830	1125
1998-99	10280	960
1999-00	12256	1540
2000-01	12798	2317
2001-02	15398	2728
2002-03	16387	2976
2003-04	21608	3641
2004-05	20525	-962
2005-06	24102	2789



It is quite evident that since 1990s there has been a startling growth of the workers remittances as opposed to the moderate trend growth of NRI deposits. It is also very clear that while the net inflow NRI deposits have exhibited sharp fluctuations especially during the first half of the 1990s, the trend growth of workers' remittances have more or less remained stable throughout the entire period. The fact that both these series have exhibited simultaneous growth (though in different proportions), they could be considered as complementary choices reflecting two district combinations in migrant remittance transfer behaviour.

The changing pattern of transfer of workers' savings (both NRI deposits and direct remittances) over time requires to be explained. From the migrant and the migrant household perspective, remittances can be seen comprising of three elements: one for family maintenance (immediate consumption), a second reflecting future security, and the third element is used for investments (short term, speculative and long term). The family maintenance element is relatively the most stable element in the total, while the short-term and speculative element will

be the most fluctuating of the lot, the element of future security would again relatively more stable. The relative weight of these three components of migrant remittances will vary across skill and occupational categories (skilled vs unskilled), migration destinations (Gulf vs the US) also will reflect different levels of entrepreneurial and investment cultures of the migrant. (Keralites vs Gujaratis). These combinations of migrant behaviour and choices are reflected in the different modes of transfer of workers' savings in the form of workers' remittances and NRI deposits and can explain the changes over time.

On the basis of our detailed field level discussions with bankers and migrant associations and migrant households' we can discern certain tendencies of migrant choices and preferences.

1. As regards to unskilled labourers family maintenance is the most important concern and hence workers' remittances are the preferred mode of transfer and constitute the stable element in remittance pattern over time. Macro level analysis shows that the coefficient of variation of workers' remittances remains the least compared to NRI deposits and FDI flows (Jadhav, 2003).

2. Skilled and service workers especially to the Gulf continue to prefer the NRI deposit route as future security is their main concern as they are contract workers and would have to return after a finite period of time. This is strongly corroborated by the evidence from Kerala State by far the largest migrant sending State in the country especially to the Middle East. Net NRI deposits to Kerala constitute on an average one third of the total net NRI deposits to India and have grown consistently higher as a proportion over the 1990s. In Kerala net inflows of NRI deposits have increased more than ten times during the 1990's from Rs. 384 crores in 1990-91 to about Rs. 4161 crores in 2002 –2003 constituting on an average 35 percent of the total estimated

remittances to the State (Kannan and Hari, 2002). This must be contrasted to the All India figures where Net NRI deposits are only 16 percent of the total transfer of workers savings during the late 1990s. The strong preference of the Kerala migrant in 1990s consisting largely of skilled and service professionals for NRI deposit route for transfer of savings has been one of the major factors for the upswing of net NRI deposits in India from the mid 1990s.

3. The spectacular rise of workers' remittances in the 1990s coincided with the liberalization of the exchange rate regime (details in the next section) was fuelled also by the large increase of Indian professional migration to the US. The professional migrants seem to have massively preferred the remittance route to the NRI deposits. This must be contrasted with the 1980s when NRI deposits (because of interest rate differential and exchange rate guarantee) were the preferred mode of the professional migrants specially those who were long-term residents in the US. With gradual withdrawals of incentive structures for NRI deposits there was a strong shift to remittances (Sasikumar, 2005). The speculative nature of these deposits was reflected in the massive fluctuations in net NRI deposits in the early 1990s. Our discussions with bankers especially in Ahmedabad, Gujarat which is one of the largest centers of professional /business migration to the US and other industrialized countries revealed that significant percentage of workers' remittances as well as withdrawals from NRI deposits are now invested in the expanding equity market in India. Thus, workers' remittances (including withdrawals from NRI deposits) have paradoxically become a preferred mode of transfer for short term and speculative investments.

Based on the above analysis of the trend patterns of transfer of savings of Indian migrants, we can conclude the following:

1. The magnitude of the total transferred savings is strongly determined by migration flows, stock of migrants, skill and occupational composition of the migrants.

2. The composition of the total remittances (in the form of NRI deposits and remittances) and the changes in its patterns are determined by policies of external finance management and also strongly by migrant behaviour and choices. The latter in turn reflects skill and occupational composition and investment culture of the migrants.

3. The choice and preferences of migrants and migrant households as regards the end use of the transferred savings (future security vs immediate consumption and investment) has a strong bearing on the preferred mode of transfer (remittances vs NRI deposits, formal vs informal channels) and may partly explain structural shifts in the composition of remittances

Our analysis has only identified trends in documented remittances transferred through formal channels. There is the whole area of informal transfer mechanisms analysis of which needs to be integrated so as to draw meaningful policy options. However, it must be noted that the drivers of the formal transfer systems have a bearing on the way the informal system operates. This is so because of two crucial factors. First, because at the base of both the formal and the informal systems lies the migrant behaviour and choices. Secondly, the regulatory policies, which we have identified as strong driver of the formal transfer system also has a role to play in the shaping of the informal system. This warrants that we examine the policy regime operating in relation to the transfer of workers savings and identify the key actors and institutions involved with the transfer systems both formal and informal. We take up the discussion on the policy regime in the next section.

III. POLICY REGIME AND REGULATORY FRAMEWORK GOVERNING REMITTANCE AND NRI DEPOSIT FLOWS

The policy regime governing the financial flows associated with labour migration need to be separately analyzed in relation to remittance flows and the flow of repatriable deposits. As far as workers' remittances are concerned, there was hardly any policy measure to sustain or increase the inflow of remittances till the 1990s. However, the market determined exchange rate regime and current account convertibility instituted since the early 1990s as a part of the overall shift towards an open economy macro framework have had considerable influences on remittance flows.

It may be useful in this context to provide a brief historical perspective of the management of exchange rate in India[5]. The period after independence was followed by a fixed exchange rate regime where the Indian rupee was pegged to pound sterling. However, effective from 1975 the rupee was de-linked from pound sterling in order to overcome the weaknesses of pegging to a single currency. Even after this de-linking the exchange rate remained muted given the widespread rationing of foreign exchange to the system of licensing, quantitative restrictions and exchange control. During the period 1975 to 1992, the exchange rate of rupee was officially determined by the RBI within a nominal band of +/- 5% of the weighted basket of currencies of India's major trading partners. The adverse BOP situation in the beginning of the 1990s necessitated significant liberalization in the exchange rate management system. To begin with a dual exchange rate management was instituted in 1992 in conjunction with other liberalization measures especially in relation to trade and foreign investment. Under this system, 40 per cent of exchange earnings have to be surrendered at an official rate determined by Reserve Bank and the balance 60 per cent exchange earnings was to be converted at market rates.

The process of liberalization was further continued and the convergence of dual rates made effective from 1993. The unification of the exchange rate was an important step towards current account convertibility, which was finally achieved in August 1994. There is no doubt that the liberalized exchange rate regime has had a significant impact on the quantum of workers' remittances being transferred through formal channels. The significant increases experienced in the workers' remittance during the 1990s could be largely attributable to these policy initiatives. It is argued that such policy initiatives have significantly reduced and even nullified the premium commanded by unofficial exchange rate and thus acted as a major factor for channelising the remittances through formal routes (Debabrata and Kapur, 2003).

As regards the policy regime relating to repatriable deposits, it was extremely pro-active during the pre- 1990 period. A series of incentives were provided during this period to the non-resident Indians to operate different NRI accounts. These incentives included: higher interest rates for deposits denominated in foreign currency than that were operational in the international markets; higher interest rates on deposits denominated in rupees than that for domestic deposits of comparable maturity; exchange rate guarantee for foreign currency denominated accounts; facilities for repatriation of the deposits, as also the interest thereon; exemption of wealth and income tax for the deposit amount and the interest; absence of any ceiling on the amounts that could be deposited. These incentives were provided mainly with a view to augment the foreign exchange reserves of the country, especially in the context of the difficult times the Indian amount had in the sphere of external finance. As noted earlier, these policy initiatives seem to have had a considerable impact on the NRI deposits as the latter half of the 1980s witnessed a significant spurt in the growth of these deposits.

However, since the 1990s there has been a complete reversal in respect of these policy initiatives. NRI deposits are now seen

as an important component of the external debt and hence there is a felt need to reduce the dependence on them[6]. It is also being contended that NRI deposits posit potential problems for monetary and external policy makers in times of crisis as they display a high degree of volatility irrespective of maturity considerations (RBI, 2004b). Some of the major policy developments initiated within these considerations include: withdrawal of exchange guarantee scheme by winding up FCNR (A) scheme; aligning the interests rate of deposits scheme, FCNR (B) with those prevailing in the international rate of relevant currencies to prevent arbitrage; aligning the interest rate on rupee denominated NRI deposit with domestic interests rate; lowering the interest rate ceiling on NRI deposits[7]; raising the minimum maturity of foreign deposits from six months to one year; providing the banks the full freedom to determine interest rates on the various NRI deposits schemes. The latest policy initiative of treating NRI deposit at par with the domestic deposit relates to the proposal in the Union Budget 2004-05 for taxing the interest income on NRI deposit[8].

As discussed, the effects of these policy initiatives on the preferences of migrants to transfer their savings seem to be of a mixed nature. While these policies seem to have influenced the transfer of savings in relation to short-term speculative investment, the effect on the preference of migrants to depend on NRI deposits as a means of future security is very minimal.

Having broadly examined the policy regime pertaining to the financial flows, let us now proceed to broadly highlight the regulatory framework related to the financial flows. This will enable us to identify the key institutions and agencies associated with the transfer of savings of Indian migrants. The Foreign Exchange Management Act (FEMA), 1999, which came into force on 1st June, 2000, repealing the earlier Foreign Exchange Regulation Act, 1973, regulates, *inter alia,* the financial flows associated with capital account transactions involving NRI deposits and the current account transactions involving remittance

transfers. The Act empowers the Reserve Bank of India to license any person to be known as authorized person to deal in foreign exchange, or in foreign currencies. That way no person unless authorized by the Reserve Bank of India can be involved in India with the transfer of capital account or current account transactions or for that matter with any foreign exchange transactions.

The Reserve Bank of India, thus, provides the necessary approvals for the different institutions and agencies involved with the transfer of remittances through the formal channels. The major actors in the formal channels include: banks and other financial institutions' referred to as authorized dealers; moneychangers and money transfer companies.

With the institution of market-determined exchange rate, the Reserve Bank of India has undertaken several measures to widen and deepen the foreign exchange markets. At present there are 91 banks/ financial institutions authorized to deal in foreign exchange. Referred to as authorized dealers, include 21 nationalized banks, 27 private Indian banks, 3 cooperative banks, 33 foreign banks, and 1 other financial institution[9]. The Reserve Bank of India also issues licenses (under section 10 of FEMA) to authorized moneychangers to provide facility for encashment of foreign currency. These authorized money changers are of two types: i) full-fledged moneychangers are those who are authorized to undertake both purchase and sale transactions; and ii) restricted moneychangers are those who have been authorized only to accept foreign currency for conversion into rupees and are not permitted to sell foreign currency and coins.

The RBI, as a part of the promotional measures to expand the operations of formal institutions dealing with foreign exchange in the current account convertibility regime, has recently introduced two new schemes. Under the first scheme, the RBI has permitted the authorized dealers and full-fledged money changers to enter into agency/ franchising agreements at their

options with entities for the purpose of carrying on restricted money changing business, i.e. conversion of foreign currency or traveler's cheques into Rupees. A franchise can be any entity, who has a place of business and whose bonafides are acceptable to authorised dealer or full-fledged money changers. The basic objective of the scheme is to widen the geographical coverage of the formal institutions dealing in foreign exchange so that it benefits a larger population.

Another scheme, money transfer service scheme (MTSS), has been introduced to make the transfer of personal remittances from abroad a quicker and an easier process. The system envisages a tie-up between reputed money transfer companies abroad and agents in India, who would disburse the funds to the beneficiaries at ongoing exchange rates. The Indian agents, who have to be an authorized dealer, full-fledged money changer or registered non-banking financial company (NBFC), IATA approved travel agents (having minimum net worth of Rs.25 lakhs) require RBI approval to enter into such an arrangement. However, a cap of US$ 2500 has been placed on individual transaction under the scheme and a single individual can receive only 12 remittances during a year.

Another important regulatory framework that operates in relation to the financial flows is in the area of money laundering. It is being increasingly recognized world over that money laundering poses a serious threat not only to the financial systems of countries, but also to the integrity and sovereignty. A number of initiatives have been taken by the international community to obviate such threats. In view of the urgent need for addressing this critical concern, India has introduced a comprehensive Act, the Prevention of Money Laundering Act, 2002, "to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering and for matters connected therewith or incidental thereto". It requires, *inter alia,* all banking companies, financial institutions to maintain detailed records of financial transactions and also to verify and

maintain the records of the identity of all its clients. The Act also prescribes stringent penalties for the offence of money laundering which include, "rigorous imprisonment for a term which shall not be less than three years, but may be extended to seven years and shall also be liable to fine which may extend to 5 lakh rupees".

It is very evident from the above discussion of the policy regime and regulatory framework that India has evolved a very comprehensive policy relating to the regulation and promotion of financial flows. The regulatory framework clearly prescribes that funds can be transferred from different countries to India only through the formal channels. However, it is a well-known fact that a significant amount of financial flows still takes place through informal transfer systems. In such a context it becomes important that we undertake a detailed analysis of the working of the informal system of transfers in order to identify the critical policy options by which funds transferred through formal channels can be further augmented and informal systems of transfers discouraged.

IV. FORMAL AND INFORMAL REMITTANCE TRANSFER SYSTEMS

4.1. FORMAL TRANSFER SYSTEMS

The major formal institutions/agencies involved with transfer of migrant savings need to be examined both in relation to recipient country (India) and the originating countries (mainly the Gulf countries and the USA). As noted above the major players in India are authorised dealers (banks and financial institutions), money transfer companies and money changers. They operate through the networks of their branches in different parts of the country as well as through their branches in their sending countries and also through the correspondent banks/ agencies in the sending countries. Many leading banks in India have set up specialized NRI branches in important migrant sending States and commercial centers catering exclusively to the needs of the migrants and their households. For instance the State Bank of India (SBI), which is the major bank dealing with remittances and NRI deposits, operates 13 NRI branches across the different parts of India. They also have their presence in 28 countries globally.

The major banks provide facilities for both sending remittances as well for the operation of the various NRI deposits. Details relating to the concentration of non-resident deposits for the last three years reveal that more than half of the Non-resident deposits with banks are concentrated with six banks (Table 4.1). However, an examination of these percentages in terms of foreign currency deposits as compared to rupee deposits show a higher concentration (61.4%) in the former category. It is important to note that the share of first three banks in rupee deposits have declined from 39% in March 2002 to 36.7% in March 2004, whereas their share in foreign currency deposits increased during the same period. This implies that the smaller banks are receiving increasingly higher

Table 4.1: Concentration of Non- Resident Deposits across Major Banks

Concentration	Non-Resident Deposits			FCNR (B) Deposits			NRE Deposits		
	Mar-04	Mar-03	Mar-02	Mar-04	Mar-03	Mar-02	Mar-04	Mar-03	Mar-02
Share of First 3 Banks (C3)	39.8	40.2	40.4	45.6	42.7	43.3	36.7	38.6	39.3
Share of First 6 Banks (C6)	53.9	54.5	55.5	61.4	60.0	59.6	50.2	51.4	55.3
Share of First 10 Banks (C10)	67.8	68.4	67.6	72.3	72.0	70.6	65.9	67.2	67.1
Share of First 20 Banks (C20)	86.2	86.3	85.2	88.3	88.8	86.7	85.4	85.5	85.2
Share of First 40 Banks (C40)	96.6	96.4	95.5	96.3	96.3	94.9	96.8	96.5	95.9
All Scheduled Commercial Banks (Excluding RRBs)-96	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Reserve Bank of India Bulletin, July, 2004

share of the faster growing rupee deposits. We do not have similar information to analyze the changing role of workers' remittances. However, on the basis of the evidences on NRI deposits and also on the basis of our field level discussions it seems that the shares of the smaller banks in dealing with remittances have significantly increased in recent years. The liberalization policy in foreign exchange management has definitively contributed to this shift.

The increasing presence of larger number of players in transfer of workers' remittances is also evident when we note the rapid growth in the network of major money transfer companies across

India. For instance, in the case of one of the leading money transfer companies, Western Union, which started its operation only in major cities has spread its operational coverage to over 650 cities through its network of nearly 10,000 agent locations.

The financial institutions/agencies operating in different countries play a significant role in the transfer of worker' remittances. As noted above some of the major India players operate their branches in the major sending countries. However, as the operational cost for such a practice is fairly very high, the banks enter into either a reciprocal relationship or an agency relationship with correspondent banks and agencies for transferring workers' remittances. For instance the State Bank of India, which does not operate any of its branches in one of the major originating countries of workers' remittances to India, United Arab Emirates (UAE), has such relationships with 13 banks/financial institutions in the country[10]. In the case of the major money transfer companies, they operate either through their own corresponding offices in the sending countries or through appointing authorized agents.

The migrants in the sending countries transfer remittances to India mainly through demand drafts in rupees, telegraphic/wire transfers. The Demand Draft (DD) in rupee can be obtained by the migrants from the branches of the concerned banks or from correspondent banks or exchange companies, which have rupee drawing arrangements with the concerned commercial banks. The telegraphic /wire transfers, which are faster means for transferring remittances, are available only in those branches of commercial banks, which have SWIFT/TT Drawing arrangements.

As regards the accessibility of migrant workers to the various formal institutions, the skilled/professional categories migrants have very minimal difficulty in establishing necessary contacts with these institutions for transferring their savings back home. Their knowledge base of the banking operations is also fairly

broad and sound. This enables them to have direct links to banks/exchange companies. However, the same is not the case with majority of the unskilled migrant workers especially those working in the different Middle East countries. Being illiterate and less educated, their understanding of the working of the formal institution is minimal. Majority of these workers work and stay far away from the locations of major financial institutions and always resort to agents to reach these institutions. Our discussion with relatives of the return migrant associations in India revealed that their agent charge exorbitant rates from poor migrant and also offer them only lower exchange rate equivalent then those prevailing in the market. In fact, this is one of the main factors, which dissuades them for preferring formal system of transfer. In fact, there is no policy in India, which provides the necessary and relevant information about remittance transfer mechanisms to these unskilled migrants in their pre-departure phase.

It is well documented that the cost for transferring remittances is a key determinant of migrants' preference for the selection of various channels for sending remittances. The costs incurred by migrants are in turn, dependent upon the rates charged by the different financial institutions/agencies either for transferring funds directly or for the preparations of different negotiable instruments and on the rates for converting the negotiable instruments into cash in India. These rates vary both across the financial institution/agencies and across the different countries. For instance, cost of sending US$500 to US$550 from the United States to India through the prominent three forms of financial intermediaries fall in the following range: Banks-6.5-7%; Exchange Houses-8 to8.5%; Major Money Transfer Companies 11.5 to 12%. As regards the cost of sending remittances from the Gulf to India (for instance, transferring 15000 dirhams from UAE) the variation ranges from around 8 to 9% in the case of Banks to about 13 to 14% in the case Exchange Houses/Money Transfer Agencies (we have arrived

at these cost estimates on the basis of our detailed discussions with migrants, migrant-households and functionaries of different financial intermediaries. It is important to note that these estimates are also corroborated by the findings of recent research studies aimed at estimating remittance costs (Orozco, 2003).

Available evidences indicate that with increasing competition, there has been a tendency for these costs to come down in the recent years (Orozco, 2002, 2003; World Bank, 2004; Sander and Maimbo, 2003). However, the existing cost still amounts to a significant burden for migrants to transfer their hard-earned money back home through formal channels. Our interviews with migrant households of unskilled labourers from different parts of the country indicate that such high cost acts as a strong deterrent for migrant workers to resorting to formal channel for transferring remittances. Given the rapid technological progress achieved in the recent decades, especially in the field of information and communication technology in India, there is no reason to believe as to why these costs cannot be further reduced. Reports indicate that innovative linking of information technology and financial intermediation can considerably reduce the cost of transferring the remittances through formal routes. *Global Development Finance Report*, 2004 notes that if funds were channelzed through Fedwire, an electronic transfer system developed and maintained by the US Federal Reserve System, the cost per transaction would drop significantly. The Report also notes that operatonalization of the automated clearing house mechanism, similar to the FedACH mechanism agreed to by the United States and Mexico, could also result in cost reductions in remittance transfers.

Speed and ease with which remittances are transferred is another critical determinant of migrants' preference channel of remittances. In the case of formal institutions, money transfer companies offer the fastest means to transfer remittances. Our enquiries reveal that these companies transfer remittances within 24 hours from the sending countries to most parts in India and

this is precisely the major factor as to why the migrants, especially those in USA resort to this medium in spite of its high cost. In contrast, the time taken for transfer varies considerably in respect of banks. If a migrant worker arranges the transfer through the branches of a same bank, say for instance, an Indian migrant transferring money through the SBI branch at Los Angles to any SBI branch in India, the transfer time is very minimum. However, as noted earlier most of the banks do not operate directly in majority of sending countries and, therefore, the transfer time increases to around 3 to 7 days if it is routed through reciprocal banks/agencies. The time lag increases further if the migrant workers do not have direct access to the correspondent bank in the destination countries and avails the services of an agency to obtain the relevant negotiable instruments from the correspondent bank to transfer savings back home. Our detailed interviews with representatives of the return migrant associations in India further reveal that such time lags is one of the major problems encountered by the Indian migrants in the Gulf, especially unskilled/semi-skilled, for the transfer of remittances through formal channels.

Commercial banks and financial institutions, especially in the light of increased competition, have been offering new deposit products and additional incentives to the Non-Resident Indians for attracting their savings. Although there is not much substantial difference in the rate of interest offered by different banks for various deposits, several banks have been offering increased loan facilities for migrants and their dependents. Many of these loan products like assistance to qualified medical practitioners for setting up clinics, financing of tractors, auto loans, personal loans etc., are being offered at attractive rates against the collateral security of NRI deposits. Some of the incentives offered for availing these loan facilities include: Uniform concessionary rate of interest for a specified package, waiver of processing fees and waiver of pre- payment penalty. A large number of banks also provide housing loans for Non-Resident Indians at

concessional rates. Here again, loans are provided against the security of different NRI deposits. Some of the exchange companies in the Gulf have introduced identification cards (based on a one time application) for their customers which allows the migrants to transfer amounts without having to fill detailed declaration and application forms in subsequent remittance transfers. Such a system has made the procedures much less cumbersome especially for unskilled and semi skilled workers. Some of the financial institutions like Thomas Cook is also offering life insurance coverage to those migrant workers who remit funds on a continuous basis through them. With the introduction of modern information and communication technology, majority of the financial institutions, now offer Internet banking facilities in a large number of branches. Formal banking institutions are also increasingly exploring the possibilities of networking with local level institutions to extend their outreach to the under served areas. One of the most striking examples in this regard is the networking between the Western Union and the India Post, which enables the recipients to receive remittances send through Western Union from the local post offices in India. Such networking between formal financial and local level agencies can provide significant benefits to migrants as remittances and migrant household as recipient of remittances.

4.2. INFORMAL REMITTANCE TRANSFER SYSTEM

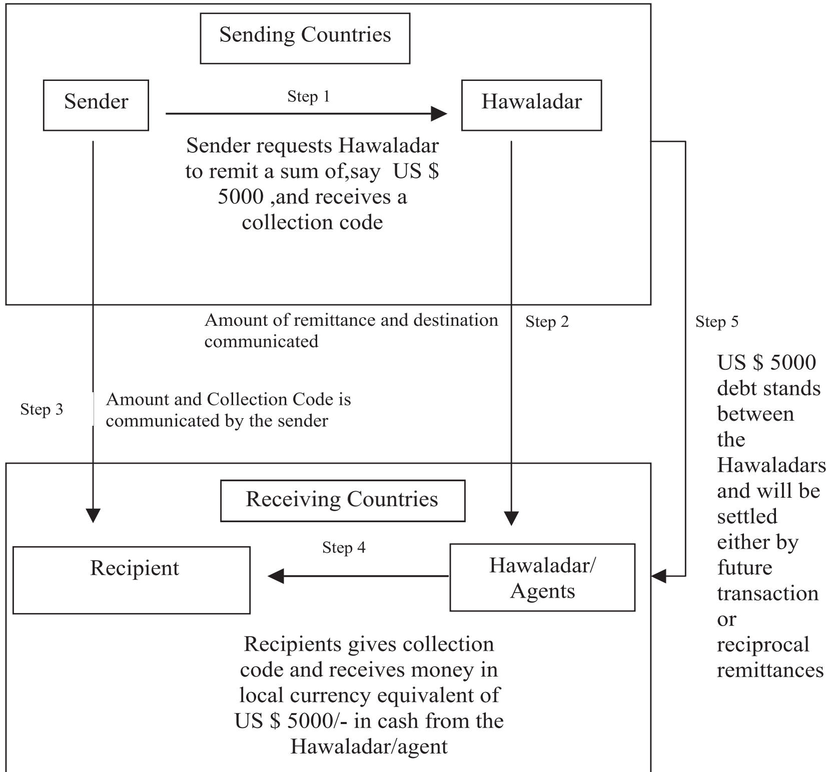
There is almost universal recognition of the fact that officially transmitted remittances as reflected in the balance of payments accounts/ national accounts does not capture the actual level of remittances. This is because of two factors; some amount of savings is transferred through legal channels but which are not accounted in the official statistics (such as personal baggage, duty free allowances and cash carried by returnees or the personal network of migrants) the second and the most

important channel is however illegal and through informal transfer systems circumventing official and formal channels. The most important and extensive form of such transfers, in the context of India, is also referred to as Hawala[11] or Hundi system. Hawala refers to informal channels for transferring of funds from one location to another through service providers known as Hawaladar regardless of the nature of the transaction and countries involved (El-Qurochi-2002). Under this method of remittances, the worker transfers a sum in foreign currency to an agent overseas under the agreement that the local currency equivalent at an agreed exchange rate, which is usually set above the official exchange rate, is transferred by the agents' counterpart to the migrants' family or its nominees.

4.2.1. How the Hawala System works

Hawala works by transferring money without actually moving it i.e. money transfer without money movement. The system is considered to be of old standing associated with old trading networks in the Middle East, South Asia and East Asia. The system has been invigorated by the massive expansion of labour migration in the 1970s and 1980s. The system works on trust and is used both for remittances of legally earned incomes as also those generated or financed through illegal and criminal activities. It is the association with money laundering that has made this system infamous. A graphical representation of the system as described (figure-4.1) provides the different steps involved in a typical hawala operation.

Figure 4.1: Operation of Hawala System



There are essentially five steps involved in the process: Customer in Country I (CI) gives currency to an Hawala operator in Country I.(HI). Then the Hawala operator (HI) provides CI with a code or identification mechanism. HI notifies his counterpart in Country II (H II) by phone or fax etc., of the transaction amount to pay Customer in Country II (C II).CI then contacts C II and provides the relevant remittance code. C II receives the specified amount after providing the code to H II.

Despite rapid developments in the formal banking channels and also the introduction of new technologies for the transfer of funds through formal banking institutions, informal money

transfer system continues to be resorted to by significant numbers of migrants. Our field level discussions in important migrant centers reveal that such systems are more popular among the unskilled and semi skilled migrants rather than among the skilled and professional migrants. In order to obtain deeper understanding of the factors that contribute to the continued existence and sustenance of informal transfers system, we undertook in-depth field surveys in Azamgarh and Jaunpur, two districts in Eastern Uttar Pradesh from where large numbers of people migrate as unskilled/semi-skilled workers to the different countries in the Middle East. In fact, every alternate house in a large number of villages in these districts have at least one migrant who is either working in the Gulf or has returned from there.

Our method for eliciting the requisite information was based exclusively on in-depth discussions and interviews with different interest groups like migrant households, return migrants, functionaries of the formal banking institutions and agents in the informal system network. Our main objective was to identify the major reasons for the popularity of the use of informal transfer systems. Though we have not attempted an estimation of the quantum of remittances transferred through informal system, informed discussions reveal that nearly 50 to 60 per cent of the remittances to these two centers are channelised through informal/ Hawala systems. While reporting our field level observations, we also refer to the conclusions of the major studies on informal transfers systems both in India and abroad, in order to facilitate meaningful and comparisons[12].

Migrants and their households, especially those belonging to the lower income groups, find the costs prevailing in the formal system to be exorbitant. The informal money transfers system provides the migrants a much less expensive option to remit their savings back home. We found that the cost for transferring the funds through informal system ranges from 1 to 2 per cent of the principal amount as opposed to 8 to 12 per cent prevailing

in the formal sector. Another prominent reason for the migrants choosing to transfer the funds through informal means is due to the fact that the duration of sending the funds and receiving the same at the destination is very minimal and much faster than what the formal institutions take to transfer the funds. For instance, while the informal system never takes more than 24 hours to transfer the funds, the time lag involved in transfer of funds formal institutions ranges from 10 to 20 days especially when funds are transferred from interior area in the sending countries to relatively unbanked area. It is also important that the presence of commercial banks and other and financial institutions involved with transfer to overseas remittances is relatively very minimal as opposed to the number of persons who are migrating from this region.

More specifically majority of the existing financial institutions are located in the towns and their outreach to the rural areas from where a significant proportion of migration originates is minimal. That way informal means are the only possible means of receiving remittances from abroad to a significant number of households.

Absence of any procedural formalities to remit funds is another major factor for transferring funds through informal systems. Majority of the migrants and their households being illiterate, often find the procedural formalities adopted by the financial institutions extremely cumbersome. This factor becomes all the significant when we note that there is no effort to provide the basic awareness of transferring through formal institutions neither to the migrant nor to the intending migrant or their households. Contrary to this, agents in the informal networks are actively involved in furnishing information about the operation of the informal system and their advantages especially among the intending emigrants. Thus, strangely the intending emigrants are informed more about informal systems of transfers than formal systems.

Another critical factor which contributes to the preference for transferring funds through the informal system is the fact that being a relatively document free transactions, it offers secrecy and anonymity to the sending and receiving parties of the remittance. That way amounts transferred are totally out of the direct surveillance of government agency involved in taxation. Another major reason for the sustenance of the informal system is due to the unsusceptible trust, which the migrants and their households have on the Hawaladars. In our focus discussion with return migrants who had transferred their funds only through informal system during their working tenure in the Gulf revealed that not even once the system had failed in transferring the funds on time to their households. The migrants consider the 'trust factor' as the central element in the informal system of transfers as the remittances are transferred on most of the occasions to meet certain emergencies or time bound social obligations.

An additional advantage that the informal system of transfers offers to the migrant workers relates to the advanced payment that the Hawaladars are ready to make to the migrant households. In some instances, these advances are even paid 30 days ahead of the transfer of money in the sending region from the migrants to the Hawala chain. We also observe that in some instances the informal system agents offers advances to the intending emigrants to meet the costs of their migration on the condition that all the future remittances would be made through them. It is well documented that the cost incurred for undertaking migration is substantial and many a times the migrants resort to pledging /selling landed properties, ornaments to meet the costs. Some of the intending emigrants with whom we had discussion maintained that obtaining advances from these agents are much cheaper and easier than resorting to disposing of landed properties and jewellery (See Box 1).

Box 1. Using Informal Systems for Transferring Remittances: A Migrants' Perspective

Ahmad migrated to Al Khobar, Saudi Arabia almost a decade back. He went through a Recruiting Agent and had to spend close to Rupees 50,000 to get an offer for a job and necessary clearances. He works as a garden help work and stays along with several other Indian workers.

He has been sending roughly 8 to10 thousand rupees every month to his family in the Azamgarh district of Uttar Pradesh. His favored mode of transfer is through Hawala. Every month an agent visits and collects his savings in Rial and facilitates the transfer of its rupee equivalent to his household. Ten years ago he used to pay a commission to the agent of 350 Rials for each 1000 Rials that he wished to send, to the agent. Over last ten years the cost has come down to about 95 Rials per thousand. This is due perhaps to the fact that the cost of sending remittances through banks have also come down. The services includes: delivery of rupee equivalent to his house. The time taken in the transfer is usually 48 hours. In last ten years the Hawaladar has never defaulted nor the money ever been lost in transit.

What makes Ahmad choose the Hawala route even when the official bank rates are almost equal to the Hawala rates? Ahmad's choice and reason for his choice is shared by the thousands of other migrant Indians. It saves them from complicated papers work, saves them the trouble of visiting a bank that in the least implies loss of one full day's earning and is totally reliable. Back home, their kin, in particular their illiterate wives, who rarely come out of the house without a 'burqa'- a veil, find the arrangement ideal and most convenient.

Based on Our Interview.

Several studies highlight that the overall macro economic environment and government policies and regulations, relating to foreign exchange management has an important bearing on the continued existence of informal money transfer system. It is reported that the difference between the official exchange rate and the market rate acts as one of the most important factor determining the choice of transfer channels. Our field enquiries revealed that the existence of significant differences between official rate and market exchange rate in the pre 1991 period had served as an important incentive for migrants to transfer funds through informal channels. However, with the initiation of exchange rate liberalization and full convertibility in the 1990s, such a premium on foreign currency cease to exist and therefore is not a major factor influencing migrant's choice of transfer channels. Our field level observations in this regard are also corroborated by the findings of two major research studies on remittance transfers to the State of Kerala. ESCAP (1987) reports that nearly 40 per cent of the totals remittances to the State of Kerala were transferred through informal means in the 1980s. A recent study that has estimated the remittances income from abroad to the Kerala economy (Kannan and Hari, 2002) notes that the incentives to send money through informal channels to Kerala have almost dried up with the liberalization of the exchange rate and hence the entire quantum of remittances are channelised through formal banking and financial institutions.

Our discussions also reveal that the migrants and their households who resort to transferring funds through informal systems do not consider their act as illegal. Of course, they are not much aware as to the end use of the foreign currency involved in such transactions. It is being increasingly reported that such Hawala transactions are linked to money laundering and is used for criminal and other unlawful activities. We could not substantiate this argument as the agents involved in informal transfer network in India were often not the end users of the foreign currency that is involved. Determining the involvement of informal systems in illegal activities is a complex and difficult task but is

an important one for designing appropriate policies to regulate such activities.

We also had detailed discussions with functionaries of financial institutions and government functionaries involved with emigration in the State of Tamil Nadu, which currently sends the highest number of unskilled/semi skilled workers from India to other parts of world, to obtain a broad understanding of the operation of the informal systems of transfers. These discussions clearly indicate that informal transfers accounts for a significant proportion of remittances being received by the State. Of course the reasons indicated for the choice of this channel were almost the same as we had reported on the basis of our detailed field survey in the two districts of U.P. However, estimating the proportion of remittances transferred through informal system is extremely complex and time consuming and would entail a separate investigation.

V. REMITTANCES AND DEVELOPMENT

Remittances make significant developmental contributions both at the macro level (effects on the national economy) and at the micro level (to the recipient region and households). The developmental effects of remittances depend mainly on the magnitude of its value and on how productively the receiving economy and the households use it.

At the macro level, as noted earlier, India is the largest recipient of the worker's remittance flows in the world today. The remittances have provided significant support to the Indian balance of payments' position during the last three decades. The role of remittances in overcoming the difficult external finance situation of late 1970s and the early 1990s is well documented. In recent years, workers' remittances have played a critical role in turning the current account around from traditional deficits to modest surpluses. Presently workers' remittances are the largest constituents of the current receipts after merchandise export and finance more than 15 per cent of the current payments since 2001 (Debarata and Kapur, 2003). Studies report that remittances can contribute to faster growth in source countries, particularly if there is in place a policy environment that does not discriminate against productive investment (Faini, 2001). Attempts at the macro level to analyze the growth enhancing effects of remittances in India are minimal. Jadhav, (2003) notes that the private transfers to India have grown consistently during 1990s on an average have stabilized at about 14 per cent of household savings. The study also reports that private transfers as a ratio to personal disposable income also witnessed a rising trend in the 90s stabilizing at about 3 percent.

Remittances have had a considerable impact on regional economies within India. The most striking case in point is that of Kerala. A recent study (Kannan and Hari, 2002) concludes that remittances to the Kerala economy averaged 21 per cent

of state income in the 1990s. This study also reports that an increase in per capita income as a result of remittances has contributed to an increase in consumption expenditure in Kerala. Although the average per capita consumption in Kerala was below the national average until 1978-79, by 1999-2000 consumer expenditure in Kerala exceeded the national average by around 41 per cent.

Recent empirical evidences to assess the impact and the use of remittances at the household/micro level are limited. Review of some of the major micro and field level studies conducted in the 1970s and 1980s, which coincided with the massive increase in labour flows to the the Gulf, (Mathew and Nair, 1978, Nair, 1989, Oberai & Singh, 1980, Prakash, 1978) reveal that there is a hierarchy in spending pattern of remittances.

The first claim is of any loans that the worker may have raised to finance his migration. The first receipts, invariably therefore go towards settling these claims. Then comes the expenditure on daily expenses such as food, clothing and health care i.e. basic subsistence needs. Remaining savings are invested in buying consumer durables (stereos, televisions, washing machines, refrigerator, cell phones etc.). Improvement or acquisition of houses, purchases of land or livestock come next. What still remains is usually put in banks as safe savings instruments like savings account or fixed deposits. Generally, in very few cases and a very small percentage of remittances are used in productive investments. This pattern of consumption and investment behaviour is in consonance with the findings of research studies conducted in other labour sending countries.

One of the very recent studies examining the economic consequences of migration in Kerala (Zachariah, et.al, 2002) notes that the major end use of remittances is reported to be household consumption; 86% of the households mentioned living expenses as the main expenditure item met out of remittances. The other important uses were education (36 %), repayment of

debt (27 %), construction and repair of buildings (11%) and bank deposits (8%). The high proportion of remittances devoted to consumption reflects that migrations are part of the strategies of individual migrants and their families to escape from poverty. Zachariah *et al* (2002) reports that migration has had a very significant impact on the proportion of population below poverty line in Kerala during 1990s. The study notes that the proportion has declined by 3 percentage points as a result of remittances received by Kerala households from abroad. It is important to note that the largest decline has been in the case of the relatively economically backward section of people belonging to the Muslim community, the decline being over 6 percentage points.

In India, there is a regional dimension to consumer behaviour as well. Of the moneys that remain after meeting consumption needs including consumer durables, differing uses are preferred. In Kerala, the most extensively studied migrant economy, there was a clear preference, especially during 1970s and 1980s, for building houses, often quite expensive and far in excess of requirement. It has also become a visible status symbol of newly acquired affluence on account of remittances received in the family. In the neighbouring State of Tamil Nadu also there is a strong preference for building huge palatial houses. In the Western State of Gujarat, where from comparatively wealthier people migrate mostly to USA and Canada, the remittances are bigger in volume and value. Informal discussions with some of them revealed that there is a strong preference for investing the remitted funds into shares and other financial market instruments.

One of the least studied regions from the migration and migration related issues in India is the region that comprise mostly of districts of Eastern Uttar Pradesh. In our field study undertaken in two district of this region, Azamgarh and Jaunpur, where almost every alternate household has a migrant in the the Gulf countries, the use pattern of remittance received was for building pucca houses, purchasing land and to some extent setting up

small shops dealing in grocery, cloth, furniture etc. Of course, these investments follow only after the debt incurred earlier has been settled. Only in rare cases have the migrant families or returnee migrants gone in for ventures like setting up a private hospital or building a cold storage. A very recent trend is that some migrants, especially the wealthy ones, are setting up businesses like hotels, textiles (looms) etc. in bigger cities like Lucknow, Delhi, Kolkata and even Mumbai. Some are also investing in real estate in bigger towns.

We could also observe during our field visit to important migrant sending States that a substantial amount of remittances and NRI deposit are being invested in human capacity development of migrant's kith and kin at home. Such a trend is very clearly visible in Kerala and also in some other States like Tamil Nadu and Gujarat, where there is taking place a rapid growth in the number of self financing professional institutions, resulting from government policy of liberalization of professional education. These institutions are purely private institutions with government recognition and offer courses which are self financing in the sense that the students have to meet the full cost of their professional education. Many of these institutions have prescribed quotas for the wards of Non-Resident Indians and they can be availed by paying 20 to 30 per cent extra amount than the regular fees.

Another important area where NRI investment is taking place is in the health infrastructure. NRI investment in building health infrastructure, especially in Kerala and Gujarat is quite substantial although the exact figure are not deducible. Given the expanding market for private health facilities, it is quite likely that such investments will continue to increase for a long time. The remittances has also persuaded the migrant depended family to avail more and more health facilities from the private health institutions i.e. remittances have flown into the health sector by boosting supply as well as demand. It is this simultaneous dialectic

between supply and demand which is producing phenomenal growth in health sector especially in Kerala and Gujarat

Over the years a number of policy initiatives have been put in place to attract migrants' savings for investment purposes and also for channelising the remittances received for productive investments. Such initiatives, both at the national as well as at the state levels, have considerably increased in recent years with the increasing recognition that the Indian Diaspora can make significant contribution for economic development. It is also being recognized that many of the NRI specific schemes aimed at maximizing the developmental impact of remittances were formulated on an ad-hoc basis and not on a long-term perspective. For instance, various departments of Government of Kerala, like Kerala State Financial Corporation, Kerala State Industrial Development Corporation, had launched several re-absorption/reintegration schemes for returnee migrants especially in the mid 1980s and early 1990s when the process of return migration was the maximum. Majority of the schemes aimed at the setting up of productive enterprises by returning migrants. However, review of the working of these schemes (Sasikumar, 1995) clearly reveal that most of these schemes were wound up immediately after the introduction of them due to a variety of factors like inadequate number of takers, absence of adequate skills and entrepreneurship among those who set up enterprises and failure to highlight the long-term sustainability of such schemes. One of the basic reason for the discontinuation of many of these schemes was due to the fact that they were formulated without adequate knowledge about different aspects like skills acquired, resource position, investment capability, and investment plans of the return migrants. Incidentally lack of such vital information continues to be one of the major factors hindering the formulation of appropriate reintegration and reabsorption schemes for the migrant workers and thus channelising remittances into productive uses.

A number of facilities like import of capital goods, raw materials, components etc. under open general license without an import license were offered to the Non- Resident Indians till 1994 to encourage them for taking up investments in India. However, in view of the recent liberalization in import regime, these facilities for Non-Resident Indians have been withdrawn for the simple reason that apart from specified list, there is no licensing of imports. Several trade promotion exhibitions organized by the Central and different State governments have also encouraged the Non-Resident Indians to undertake investment, especially foreign direct investments in India. However, the results on this front have not been satisfactory. High Level Committee on Indian Diaspora notes that the foreign direct investment made by Indian Diaspora in total cumulative FDI approved since 1991 was 3.78 per cent while it was 9.15 per cent of the actual inflows. Procedural delays and red-tapism are considered the major factors, which fail to attract, the increased FDI.

Other investments on repatriation basis in offer for the NRIs and PIOs include: government date securities/treasury bills, units of domestic mutual funds, bonds issued by a public sector undertaking (PSU) in India, shares in public sector enterprises being divested by the Government of India, provided the purchase is in accordance with the terms and conditions stipulated in the notice inviting bids, shares and convertible debentures of Indian companies under foreign direct investment (FDI) scheme (including automatic route and Foreign Investment Promotion Board (FIPB), shares and convertible debentures of Indian companies through stock exchange under Portfolio Investment Scheme, deposits with Indian companies, non-banking finance companies registered with RBI, housing finance companies and other financial institutions.

One of the most important initiatives in recent years to attract the savings of the Indian migrants have been through floating specialized bonds. Two such bonds, Resurgent India Bonds (RIB), floated in 1998 and the Indian Millennium Deposits (IMD) floated

in 2000 resulted in the mobilization of about US $ 4.2 billion and US $ 5.51 billion respectively. The success of these initiatives clearly provide the national government and the State governments like that of Kerala, Gujarat, Punjab from where a significant number of persons migrate to different parts of the world, an excellent option for raising adequate financial resources for developmental activities through similar schemes.

Constitution of the High Level Committee on the Indian Diaspora in August, 2000 was another significant initiative aimed at understanding and highlighting the significant role that the Indian Diaspora can play in economic, social and technological development of India. The Report of the Committee submitted in 2002 provides a detailed country wise analysis of Indian Diaspora and also suggests a number of measures through which their expertise and resources could be utilized for overall development of the country.

The establishment of a separate Ministry, Ministry of Overseas Indian Affairs in May 2004, to deal with all matters pertaining to overseas Indians, comprising Persons of Indian Origin (PIO), Non-Resident Indians (NRIs) and Overseas Citizens of India (OCI), was a historic step to acknowledge the fact that the overseas Indian community constitutes a significant economic, social and cultural force and needs mainstream attention. The basic mission of this Ministry is to “promote, nurture and sustain a mutually beneficial relationship between India and its overseas community” (MOIA, 2007).

In achieving the above mission, the MOIA is guided by four key policy imperatives. First, the heterogeneous overseas Indian community spread across eight major regions of the world is a product of different waves of migration over hundreds of years and have distinct and often varied expectations from the home country. In facilitating the process of engagement the Ministry seeks to provide for this wide range of roles and expectations. Second, there is a need to bring a strategic dimension to the

process of India's engagement with its overseas community. It is important to take a medium to long term view of overseas Indians and forge partnerships that will best serve India as an emerging economic power and meet the expectations of overseas Indians as a significant constituency across the world. Third, overseas Indians are both the products and the drivers of globalisation. They represent a reservoir of knowledge and resources in diverse fields - economic, social and cultural - and that this reservoir must be drawn upon as partners in development. Finally, the states of India are important players in this process. Any initiative that overseas Indians, individually or collectively, take must be anchored in one of the states. The states must therefore be encouraged to become natural stakeholder partners in the process of engagement with the overseas Indian community.

MOIA is responsible for implementing several programmes and schemes to ensure the accomplishment of the above mandate.

Pravasi Bharatiya Divas

As per the recommendation of *High Level Committee on Indian Diaspora* , the Government of India had decided to celebrate 'Pravasi Bharatiya Divas' (PBD) in recognition and appreciation of the constructive, economic and philanthropic role played by the Indian Diaspora, on the 9th day of January every year. January 9 has been chosen because it was on this day that Mahatma Gandhi, Father of the Nation and a Pravasi Bharatiya in South Africa for almost 2 decades, returned to India in 1915.

The first PBD was celebrated during January 9-11, 2003 at New Delhi. Since then this event held on an annual basis has become the major platform for discussions on a host of issues related to overseas Indians. The high level deliberations have been attended by significant numbers of overseas Indian community from across the globe. It has also become the centre stage for recognizing the contributions made by Indian diaspora

as the Pravasi Bharatiya Samman Award are conferred during this meet to prominent members of the Diaspora. The event has also assumed added significance as it has become the chief podium for announcing the major policy initiatives benefiting the overseas Indians. For instance, it was during the PBD 2003 that the then Prime Minister had announced a compulsory Insurance Scheme for the emigrants going abroad for employment. Similarly it was declared during the PBD 2004 that the Indian government would facilitate the setting up a Pravasi Bharatiya Kendra as an autonomous institution, to promote multi-dimensional welfare of the Indian Diaspora. Similarly during the PBD 2007 it was announced that the government is considering a proposal to establish a Central Council for Promotion of Overseas Employment, a professional body which should devise an appropriate strategy to gives shape to the idea of making India a hub of skilled manpower provider.

Overseas Citizenship of India (OCI) Scheme

In response to a long and persistent demand for "dual citizenship" particularly from the Diaspora in North America and developed countries and keeping in view the Government's deep commitment towards fulfilling the aspirations and expectations of Overseas Indians, Prime Minister Dr. Manmohan Singh had announced at the Pravasi Bharatiya Divas 2005 held in Mumbai the grant of Overseas Citizenship of India (OCI) to all Persons of Indian Origin where local laws permit "dual citizenship" in some form or the other except Pakistan and Bangladesh. Accordingly, the citizenship (Amendment) Ordinance was promulgated on 28.06.2005 amending the Citizenship Act, 1955 extending the facility of Overseas Citizenship of India (OCI) to Persons of Indian Origin (PIOs) of all countries

(who were citizens of India or eligible to become citizens of India on 26 January, 1950 and are citizens of the countries (except Pakistan and Bangladesh). The Citizenship (Amendment) Act was passed in the Monsoon Session of the Parliament in August 2005. The scheme has become operational from December 2, 2005. Persons registered as OCI have not been given any voting rights, cannot contest in elections for Lok Sabha, Rajya Sabha, Legislative Assembly or Council and cannot hold constitutional posts such as President, Vice-President, Judge of Supreme Court or high court.

Registered OCIs shall be entitled to the following benefits: (i)Multiple entry, multi-purpose life long visa to visit India; (ii) Exemption from reporting to the police for any length of stay in India ; and (iii) Parity with NRIs in financial, economic and educational fields except in the acquisition of agricultural or plantation properties.

Specialized NRI Department has been set up very recently in the State of Kerala (box 2). In Gujarat NRI division has been created in the general administration department of the Government of Gujarat. The Punjab government has adopted an innovative approach to deal with NRIs. The Chief Minister of Punjab is the patron of a non-political, non-governmental (democratically elected) and highly professional organization called NRI Sabha. These specialized institutions/departments mainly focus on welfare aspects pertaining to migrants and their dependents. They have the potential to act as the main drivers for channelising the remittances into productive and developmental orientated activities.

Box 2: NORKA

Exploring the horizons of career opportunities, nearly 25,00,000 Keralites have emigrated to various countries. They contribute their expertise and innovative skills to their states of domicile, bringing in additional income to the motherland.

It is to ensure the welfare of these Non-Resident Keralites (NRK), redress their grievances and safeguard their rights that NORKA, Non-Resident Keralites Affairs Department, was set up by the Government of Kerala in 1996.

MAJOR OBJECTIVES

- To Plan and implement programs and schemes for the welfare and benefit of NRKs and to address and devise solutions to their problems.
- To evolve strategies for the resettlement and reintegration of NRKs returning to Kerala and other Indian States.
- To give a thrust to the industrial development of the State by channelizing the NRKs' resources and expertise and helping them set up projects, ventures and enterprises in Kerala.
- To facilitate the creation of a high caliber human resource pool and to assist and monitor human resources export through transparent and lawful methods.
- To undertake the establishment, management and monitoring of worldwide network of organization and groups of NRKs.

MAJOR ACHIEVEMENTS

- NORKA is the first Department of its kind in India.
- In association with the Government of India, it has provided assistance to the 5000 odd Non- Resident Keralites who overstayed in the UAE and who were ousted, as a result of the new laws there.
- A quick survey was conducted in collaboration with the State Planning Board on the Socio-Economic status of returnees.
- Special counters were opened to facilitate the smooth return of evicted NRKs to the UAE by providing them with air tickets from AIR INDIA at reduced rates.
- Assisted the 2000 odd NRKs who were repatriated from Saudi Arabia by setting up assistance counter at the Mumbai airport along with the Malayalee Associations in Mumbai and assisted them in reaching home in association with Indian Railways.
- Launched an Insurance Scheme named Pravasi Suraksha for the NRIs living abroad. It is the first scheme of its kind in India.
- An Infrastructure Initiative Fund has been set up to facilitate NRK investment in Infrastructure Development Projects.
- Formed two department level committees - A Committee to Check Illegal Recruitment and a State Level Awareness Committee to check illegal recruitment.
- Constituted a high level committee to suggest amendments to the Emigration Act, 1983.

VI. POLICY IMPLICATIONS

The above analysis clearly highlights the inextricable linkages between migration and remittances and emphasizes that such linkages can make visible contribution to the process of development. It also demonstrates that evolving an integrated policy framework that recognizes this linkage is central to enhancing the developmental benefits of both migration and remittances. We can identify three broad policy contours in this regard.

1. Facilitating larger international labour mobility as a means of increasing remittance flows
2. Enhancing accessibility, expanding infrastructural capabilities and widening outreach of the formal financial institutions so that remittance transfers through formal systems are further augmented and informal systems of transfers are discouraged.
3. Maximizing the developmental potential of remittances both from the perspective of the nation as well as from the perspective of a migrant household.

FACILITATING LARGER INTERNATIONAL LABOUR MOBILITY

Remittances are a direct function of migration and therefore facilitation of increased labour migration from India would naturally contribute to an increased inflow of remittance flows. The Report of a recently appointed Committee (Ministry of Labour, 2003) which comprehensively addressed different dimensions pertaining to the international labour migration policy in India had concluded that the existing policy regime is predominantly regulatory in nature and that there is a strong need to evolve a pro active external labour migration policy framework. The broad contours of such a labour migration policy

must give increasing emphasizes to promotion and facilitation of external labour flows from India and not be limited only to regulating and protecting function of the State.

Some of the specific modalities through which the state can engage in the facilitation and promotion of international labour migration from India include: Establishing a labour market monitoring authority which would be responsible for projection of manpower requirements in the major labour receiving countries, collection of labour market information relating to overseas employment opportunities and evolving a system to disseminate the information among the potential emigrants; identification of the emerging nature of skill requirements in the external labour markets and ensuring the available matching supply of skills; and entering into bilateral agreements with major labour sending countries;

Though world migration pressures have risen, the progress of globalization in the area of migration is far slower than in trade and capital flows. There seems to be more emphasis on multilateral negotiations on trade rather than on labour flows. This could adversely affect the future migration prospects for developing countries like India. In such a context, it is important that India takes a lead role in highlighting the urgency for developing a comprehensive multilateral framework on international movement of people[13]. It is vital that strategies are formulated at multilateral levels to initiating dialogue between countries of origin and destinations. Such dialogue should endeavour to: exchange information on surpluses and shortages of labour; develop coordination of policy among labour exporting countries; and create harmony of policies among labour importing countries.

One positive step relating to the multilateral negotiations framework is the Mode 4 proposal under GATS (General Agreement on Trade in Services). Although, very limited progress has been made in this regard since it was first negotiated in

Uruguay Round, it is important that countries like India highlights concerns like cross- sectoral leverages (what will India have to offer in return), strategies and approaches for increasing the access under Mode 4; timeframes within which visa must be granted; and flexibility for visas on shorter notice for select categories of services provided, during the different stages of negotiations.

ENHANCING ACCESSIBILITY, EXPANDING INFRASTRUCTURAL CAPABILITIES AND WIDENING OUTREACH OF FORMAL FINANCIAL INSTITUTIONS

Our analysis very clearly reveals that there has been a considerable increase in the quantum of remittances channelised through formal banking and financial institutions in the recent decades. Comprehensive and clear regulatory framework pertaining to foreign exchange management, liberalization in the exchange rate regime, introduction of full convertibility, measures to deepen and widen the foreign exchange market in India, specialized banking services to Non-Resident Indians, involvement of larger number of banking and other financial institutions in the transfer of remittances and strengthening relations with Indian Diaspora in the different countries are some of the major policy initiatives that have contributed to the increased absorption of remittances and savings of Indian migrants located in different countries through formal channels. Such a vast expanse of policy initiatives offers other developing countries viable options for maximizing remittances through formal channels.

However, it is very evident that substantial portions of remittance flows into India are still channelised through informal systems. The migrants, especially unskilled and semi skilled categories, resort to the informal system due to certain distinct advantages of informal channels over the formal institutions. The informal systems are speedier, less costlier, more reliable, more accessible, more flexible, least bureaucratic, more hidden and more

responding. While all the advantages of the informal sector will neither be desirable nor possible in the case of formal transfer systems, many of these advantages need to be integrated to make formal transfers more attractive and acceptable for the migrants and their households.

Innovative linking of information technology and financial intermediation can considerably reduce the cost of transferring the remittances through formal routes. It is important that some of the best international practices from International and experiences are evaluated and considered for replication. *Global Development Finance Report*, 2004 notes that if funds were channelzed through Fedwire, an electronic transfer system developed and maintained by the US Federal Reserve System, the cost per transaction would drop significantly. The Report also notes that operatonalization of the automated clearing house mechanism, similar to the FedACH mechanism agreed to by the United States and Mexico, could also result in cost reductions in remittance transfers. Such systems can also considerably reduce the delays involved in remitting transfers through formal channels. Similarly, the U.S. Treasury Department and the Philippines Ministry of Finance have created an initiative to reduce the costs of overseas remittance services (through greater competition and efficiency), enhance access to formal remittance systems, and ensure compliance with AML/CFT standards.

Increased access to banking services both in the source and recipient countries is known to reduce costs and increase efficiencies. It helps in multiple ways. In India, better banking infrastructure has contributed considerably to formal transfer of remittances. Kerala that enjoys one of the best networks of banks also has maximum remittance coming through formal channels. Conversely, Uttar Pradesh that has one of the least developed banking networks receives the remittances mostly through informal channels of Hawala. Increased access gives senders more choices in terms of transfer agents thus enabling them to pick up the most economic one. It also allows them the

option of bundling their remittances and spread their fixed costs of remittances. Additionally, use of banking system for sending remittances also encourages more widespread use of other banking services. Enhancing the infrastructural and technical capabilities of banking institutions, especially in backward and important migrant sending areas, is another critical requirement for effective mobilization of remittance transfers through formal channel.

Pre-departure orientation programmes for emigrants is recognized as one of the most effective means to address the problems encountered by the migrant workers in the destination countries and also to help migrants, *inter alia,* to channelise their remittances through formal systems. This is evident from the fact that such pre-departure orientation programmes constitute an integral component of foreign employment policy regime in a number of major labour sending countries, especially in Asia. However, pre-departure orientation is the most neglected aspect of foreign employment policy in India. Such pre-departure orientation, *inter alia*, should focus on providing the migrants relevant information about formal remittance transfers and also about the risks including legality of using informal transfers system. The migrants need to be targeted at two levels for imparting such pre-departure orientation: i) as an intending emigrant in India and ii) as migrant worker in the different countries. It is desirable that such pre-departure orientations are organized in important migrant sending pockets. Such initiatives would also provide space for collaboration and networking between financial institutions and those concerned with migrant welfare and support. (both state and non-governmental bodies). Banks, post offices, local level financial institutions and return migrants associations could take a lead role in providing relevant information on financial matters in such orientation programmes. Such collaborations would also strengthen the networking between the formal financial institutions and local migrant community. Such networks would

also enable to overcome one of the important limitations of existing relation between the migrant community and the financial institutions, namely the favoured bias which the local level formal financial institutions have for those who transfer funds through formal means and thereby totally ignoring those who resort to informal transfer systems. Similarly, such orientation programmes should also be organized in the major labour importing countries. The Indian financial institutions or their correspondent banks could tie up with the Indian community organizations in the sending countries in organizing such events.

Office of the Protector General of Emigrants, Ministry of Labour is the only institution that deals directly with the emigration of unskilled and semi skilled labourers from India for overseas employment. As noted above, the Office of the PGE and the subordinate POEs offices are responsible for granting emigration clearances for the emigration check required category for taking up employment. This is one institution that needs to be involved in designing and implementing policies for transferring remittances through formal means. General coordination between the Office of the PGE, Reserve Bank of India, major financial institutions, and the Ministry of Finance, as regards the issue of external labour migration and associated remittance flows must be introduced. The information brochure brought out by the Office of the PGE, *Emigration and You,* which provides various tips to the emigrants for safe migration, but is totally silent on remittance transfers, must incorporate relevant and basic information on the formal systems of remittance transfers.

It would also be worth establishing a government system of offering low interest loans to less well-off emigrants to finance outmigration. Such a system of financing out-migration may also ensure that those emigrants availing the low-interest loans would resort to formal banking channels to transfer their remittances back home.

MAXIMIZING THE DEVELOPMENTAL POTENTIAL OF REMITTANCES

Report of the High Level Committee on India Diaspora (2001) has clearly highlighted the valuable contribution, which the Indian Diaspora in the different countries can provide to the national development process. The Report notes "reserves of goodwill amongst its Diaspora are deeply entrenched and waiting to be tapped if the right policy framework and initiatives are taken by India". In many countries, the migrant workers mainly constitute the Indian Diaspora. We have already highlighted the significant contribution that the remittances of these workers have made to augment the foreign exchange reserves of the country. It needs to be recognized that the remittance inflows are not simply foreign exchange receipts, which can be used to finance the balance of trade deficits or the current account deficit but actually provide a counterpart in terms of domestic resources. The remittances within the control of the Government should be utilized to finance higher levels of investment rather than consumptions, if the object is to maximize development benefits.

While the appropriate government policies on mobilizing and attracting migrant remittances and redirecting them to formal official channels have largely paid dividends and yielded encouraging results, the outcome of government efforts to put surplus resources, thus, brought in the country has not met with much success.

Directing remittances to more productive investment assumes special significance and urgency in view of the fact that funds received in the country may, if properly invested, make remarkable contribution to economic growth of the country. Surprisingly, as we have mentioned earlier also, this is one area where most labour exporting countries have yet to articulate a policy framework. India is not an exception.

The initiatives to be undertaken to direct remittances into productive activities could be situated at three broad levels: first,

there is a need to put in place polices to attract, encourage, facilitate and sustain investment activities like setting up enterprises either directly by migrant or through intermediate mechanism; second, relates to fiscal and monetary incentives required to cater to the special needs of the migrant investors, for example, they could be given preferential treatment in importing investment goods, raw materials and so on. Third, the question of the attitude and mindset of the return migrants also needs to be addressed, so that their inherent diffidence and shyness as well as lack of confidence and skill do not inhibit them from undertaking entrepreneurial activities.

In the context of India, preferential treatment to the migrants particularly, in relation to concessions in imports seems inconsequential in view of the import liberalization policy initiated as a part of overall policy of openness an integration with the world economy. However certain types of fiscal incentives such as removing restriction on repatriation of profits and eliminating needless licensing requirements continue to be relevant in the context of attracting investment. Similarly, there is also scope for offering incentives such as preferential allocation of land, easy and quick availability of credit and expeditious clearance of their projects.

We have noted that NRI deposits continue to be an important means of transferring the savings of the Indians abroad. Several incentives offered for maintaining NRI deposits, however have been withdrawn in the 1990s as a part of overall external debt management strategy. The most recent policy in this regard pertain to the proposal to tax the interest income on NRI deposit. Though we have not assessed the detailed implications of such a proposal on the NRI deposit, our interactions with migrant workers and officials of the Kerala State Government indicate that it could have adverse impacts on inflow of NRI deposits which in turn reduces the potentials for using them for investments. In such a context, there seems to be a need to reconsider the incentives structure on NRI deposits afresh.

It is also important to note that attempts to guide the use of domestic resource equivalent of remittances through incentives or prices have been minimal (Nayyar, 1994). Some of the policy prescriptions which can overcome such a limitation may include: developing a database on remittance flows by country of origin so that it is possible to monitor trends on a disaggregate basis and experimenting with higher rates of returns on remittance receipts placed in specified assets in the domestic capital market, which acts as an incentive to save out of remittances.

As regards training and counseling, it remains a fact that neither policies nor programmes are in place. The post-arrival orientation is one of the major initiatives that could be introduced without any difficulty. Such orientation programmes may cover aspects like information on investment opportunities, information about agencies that could facilitate them in the setting up of enterprises, information on the concessions available to the migrant workers etc. As we had indicated in relation to pre-departure orientation, such post departure orientation would also provide scope for establishing relevant linkages between institutions and agencies involved with investment on the one hand and migrant community and institutions involved with migrant workers on the other. There is also a need to recognize that entrepreneurial activities are as much a function of attitude and mindset as they are of capital and skills. Therefore, in addition to initiating programmes for imparting skills to the potential investors, it is also important to inculcate in them the appropriate attitudes.

Another important policy option for maximizing the developmental benefits of remittances is to channel remittances to small and micro enterprises through financial intermediaries as deposits rather than expecting migrants to directly participate in entrepreneur activities. This will imply that the focus of policy then would be to induce micro finance institutions to capture remittances to be in turn used to fuel productive activities, and not on migrant-centered investment programmes. The basic policy initiative would be to enable migrant's funds to be transferred to

entrepreneurs through these financial institutions. Savings and credit schemes and investment instruments specifically designed to suit migrant workers' risk profiles could be important vehicles in this regard.

Creating comprehensive information base on critical aspects like occupational profile, skills acquired, resource position, investment capabilities and investment plans of the return migrants is vital from the point of view of evolving any re-integration plans aimed at maximization of development benefit of remittances. The responsibility of creating such an information base could be vested with spcalised NRI Departments of different States (like NORKA). Returnee migration associations in India and the Indian community associations in major receiving countries can become important partners in this exercise. The information thus collected could also be channelised to the concerned departments and agencies involved with promoting productive investments

We have noted that Government of India's scheme of issuing specialized bonds had met with considerable success in raising financial resources from Indians working abroad which in turn becomes an important resource for investment purposes. State Governments like Kerala, Gujarat, and Punjab from where large numbers of people migrate to different countries could explore the possibility of floating similar bonds for mobilizing alternative resources. It is essential that the interest rates on such bonds should be remunerative. The resources raised from such bonds must be earmarked for developmental activities, especially in building appropriate infrastructural facilities in the concerned States and by no means should be diverted for meeting the revenue expenditure even in financially crunch situations. Visible and productive outputs from such resources can act as catalyst in further channelising funds from migrants into developmental activities.

Our analysis has emphasised the deep linkage of remittance flows with migration flows. This linkage holds good in the realm of policies, in its developmental impacts and also in academic research. Our analysis has also tried to place the viewpoints of migrants at the centre of policy and academic discourse on migration and remittances. It also argues that this viewpoint must get due consideration and ought to be an input for future policy formulation. A closer integration of migration analysis with remittance transfer management would have a very positive fall out in terms of maximizing their development potential. Out attempt in this paper has been a small step in the direction of an integrated and migrant centric perspective on remittance management.

Notes

1. For details pertaining to the trends, patterns and characteristics of Indian labour migration during the last few decades, please refer Nayyar (1994) and Sasikumar (2003)

2. The dollar area comprises the USA, Canada, the Central American countries and a few countries of Latin, America. The countries of West Europe, excluding the UK, constitute the OECD area. Th sterling area comprises the commonwealth countries, it includes among others some of the Persian Gulf stats namely Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates. The non sterling area comprises the remaining countries of the world, including the socialist countries of Eastern Europe, most of the Latin America and a very large part of Africa, and the Asian countries outside the sterling area.

3. This will be further explored in the section on Informal Channels

4. Details of the NRI Deposit Schemes are provided in Annexure I

5. For a detailed review on management of exchange rate, see RBI, 2004a.

6. The proportion of Non-Resident and other foreign currency deposit in India's external debt has been rising significantly in recent years. This proportion has increased from 13.8 per cent in March 2000 to 17.4 per cent by March 2002 and further to 25.8 per cent by December 2003.

7. Traditionally, the interest rates on FCNR (B) deposits have been linked to the LIBOR rates since October 1997 with the spread kept at 25 basis points. Beginning from July 2003, interest rates on fresh NR (E)RA deposits for one

to three years have also been linked to the US Dollar LIBOR/SWAP rates. The spread on these deposits was reduced from 250 basis points (July 16, 2003) to 100 basis points (September 19, 2003), further to 25 basis points (October 30,2003), and were finally brought on par with LIBOR/SWAP rates for US Dollar of corresponding maturity with effect from April 17,2004. Moreover, the interest rate on NR (E) savings deposits have been fixes so as to not exceed the LIBOR/SWAP rates of six months maturity on US Dollar deposits and are to be fixed quarterly on the basis of the LIBOR/SWAP rate of US dollar on the last working day of the preceding quarter.

8. Making the announcement during the Budget speech, the Finance Minister noted, "I propose to withdraw a few exemptions which have outlived their utility. Interest earned from a Non-Resident (External) Account and interest paid by banks to a Non-Resident or to a Not-Ordinarily Resident on deposits in foreign currency will not be exempt from tax…. These exemptions will cease prospectively from September 1, 2004".

9. List of these banks and Institutions is given in Annexure II.

10. List of correspondent banks/agency of SBI in UAE is provided in Annexure III.

11. The word Hawala comes from the Arabic root h-w-j which has the basic meanings change' and 'transfer'. It is defined as a bill of exchange or a promissory note. It is also used in the expression hawala safar, traveler's cheque. The word 'hawala' and 'hundi' are both used interchangeably to describe the same alternative remittance system. 'Hundi' comes from the Sanskrit root meaning 'collect'. In India, the word is also commonly used in the context of collection boxes kept in the Hindu temples. In addition to this, it also

has the same meaning as 'hawala': bill of exchange, operator is hundiwala, which also means banker or foreign exchange dealer.

12. For detailed information, see Buencamino and Gorbinov (2002); Corroll, L.C. (2002); and Puri and Ritzema (1999).

13. Major international level Reports like *The Report of the World Commission on Social Dimension of Globalization,* (ILO, 2004) and renowned scholars like Bhagwati (2003) strongly argue for developing multilateral regime for international labour migration, so that the potential benefits of migration can be reaped fully.

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Annexure I

Present Non-Resident Deposit Schemes in India

Following are the Non-resident deposit schemes presently available in India:

a) NRE Rupee Account: The Non-Resident (External) Rupee Account NR(E)RA scheme also known as the NRE scheme was introduced in 1970. Any NRI can open an NRE account with funds remitted to India through a bank abroad. This is a repatriable account and transfer from another NRE account or FCNR(B) account is also permitted. A NRE rupee account may be opened as current, savings or term deposit. Local payments can be freely made from NRE accounts. Since this account is maintained in Rupees, the depositor is exposed to the exchange risk. NRIs/PIOs have the option to credit the current income to their Non-Resident (External) Rupee accounts, provided the authorized dealer is satisfied that the credit represents current income of the non-resident account holders and income-tax thereon has been deducted/provided for.

b) FCNR(B) account: The Foreign currency Non-Resident (FCNR(B)) scheme was introduced in 1994 to replace the prevailing FCNR(A) schemem which was introduced in 1975, where the foreign exchange risk was borne by RBI and subsequently by the Govt. of India. The FCNR(A) scheme was withdrawn from August 1994 in view of its implications for the central bank's balance sheet and quasi-fiscal costs to the Government. FCNR(B) accounts can be opened as term deposits in nay of the designated currencies, which are US Dollar, Pound Sterling, Japanese Yen and Euro. There is no exchange risk to the depositor since the account is opened in foreign currencies. The interest received is fully exempt from tax. This is also a repatriable account and can be used to make local payments as well as remittances abroad. Interest rates for different maturities and different currencies are fixed by the bank based on the prevailing rate in the international market. Loans and overdrafts

to NRIs in India and abroad can be granted against security of NRE/FCNR(B) deposits without any limits. Repayment of such loans or overdrafts can be made from the proceeds of forex remittances or NRE/FCNR(B) deposits.

c) The Non-Resident Ordinary (NRO) Rupee account: At a point of time when a resident becomes an NRI, his existing rupee account(s) is designated as Non-resident Rupee (NRO) account(s). Such accounts are maintained in the nature of current, saving, recurring or term deposits. NRIs can also open bonafide transactions or NRNR account holder so desires. Interest earned on NRO account is not exempt from tax. These accounts can be opened in the name of non-resident individuals/entities who have left India for a foreign country (other than Nepal and Bhutan) for taking up employment or business or vocations for an extended period of time or permanently. Funds in this account are not repatriable and cannot be remitted abroad or transferred to NRE accounts without prior permission of the RBI. However, NRIs/PIO/Foreign Nationals (including retired employees or non-resident widows of Indian citizens) can remit, through the AD, up to US dollar one million per calendar year, out of the balances held by them in NRO account/sale proceeds of assets, for all bonafide purposes.

Non-Resident Non Repatriable (NRNR) Rupee Deposit account: This scheme was introduced in June 1992. These accounts can be opened in Rupees out of funds remitted from abroad or transferred from non-resident external accounts. Principal amount of this deposit cannot be repatriated. However, interest is reatriable as a result of current account convertibility. Rupee loans can be granted to deposit holder (for purposes other than investments). This scheme has been discontinued w.e.f. April 01, 2002 and the maturity proceeds can be transferred to NRE/NRO accounts.

Annexure II

List of Banks and Other Institutions to Whom Licenses have been Issued to Deal in Foreign Exchange

Public Sector Banks

Allahabad Bank

Andhra Bank

Bank of Baroda

Bank of India

Bank of Maharashtra

Canara Bank

Central Bank of India

Corporation Bank

Dena Bank

Indian Bank

Indian Overseas Bank

Oriental Bank of Commerce

Punjab National Bank

Punjab & Sind Bank

State Bank of Bikaner & Jaipur

State Bank of Hyderabad

State Bank of India

State Bank of Indore

State Bank of Mysore

State Bank of Patiala

State Bank of Saurashtra

State Bank of Travancore

Syndicate Bank

UCO Bank

Union Bank of India

United Bank of India

Vijaya Bank

Foreign Banks

ABN Amro Bank N V

Abu-Dhabi Commercial Bank Limited

American Express Bank Limited

Antwerp Diamond Bank N V

Arab Bangladesh Bank Limited

Bank Internasional Indonesia

Bank of America N A

Bank of Bahrain & Kuwait B.S.C.

Bank of Ceylon

Bank of Nova Scotia

Bank of Tokyo-Mitsubishi Limited

Barclays Bank p.l.c.

BNP Paribas

Chinatrust Commercial Bank

Cho Hung Bank

Citibank N A

Credit Agricole Indosuez

Deutsche Bank AG

Development Bank of Singapore Limited

Hongkong and Shanghai Banking Corporation Limited

ING Bank N V

JP Morgan Chase Bank

Krung Thai Bank Public Company Limited

Mashreq Bank psc

Mizuho Corporate Bank Limited

Oman International Bank S.A.O.G.

Societe Generale

Sonali Bank

Standard Chartered Bank

State Bank of Mauritius Limited

Sumitomo Mitsui Banking Corporation

Toronto Dominion Bank

UFJ Bank Limited

Private Sector Banks

Bank of Punjab Limited

Bank of Rajasthan Limited

Bharat Overseas Bank Limited

Catholic Syrian Bank Limited

Centurion Bank Limited

City Union Bank Limited

Development Credit Bank Limited

Dhanalakshmi Bank Limited

Federal Bank Limited

Global Trust Bank Limited

HDFC Bank Limited

ICICI Bank Limited

IDBI Bank Limited

IndusInd Bank Limited

ING Vysya Bank Limited

The Jammu & Kashmir Bank Limited

Karnataka Bank Limited

Karur Vysya Bank Limited

Kotak Mahindra Bank Limited

Lakshmi Vilas Bank Limited

Lord Krishna Bank Limited

Sangli Bank Limited

SBI Commercial & International Bank Limited

South Indian Bank Limited

Tamilnad Mercantile Bank Limited

UTI Bank Limited

United Western Bank Limited

Co-Operative Banks

Bombay Mercantile Co-operative Bank Limited

The Maharashtra State Co-operative Bank Limited

The Saraswat Co-operative Bank Limited

Others

Thomas Cook (India) Limited

Annexure III

Correspondent Banks/Exchange Houses of SBI in UAE

Sl.No	Bank/Foreign Institution	Relationship
1.	Abu Dhabi Commercial Bank	Reciprocal
2.	Alahli Bank of Kuwait KSC	Agency
3.	Arab Bank for Investment and Foreign Trade	Reciprocal
4.	Bank of Sharjah	Agency
5.	City Exchange LLC	Agency
6.	Commercial Bank of Dubai PJSC	Reciprocal
7.	Emirates Bank International PSC	Agency
8.	Emirates India International Exchange	Agency
9.	HSBC Bank Middle East (formerly British Bank of the Middle East	Reciprocal
10.	Mashreqbank PSC	Agency
11.	National Bank of Abu Dhabi	Reciprocal
12.	National Bank of Dubai Public Joint Stock Co.	Agency
13.	Union National Bank PJSC	Agency

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