The Round Table
The Commonwealth Journal of International Affairs

ISSN: 0035-8533 (Print) 1474-029X (Online) Journal homepage: http://www.tandfonline.com/loi/ctrt20

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To cite this article: Amba Pande (2018): India's Experience with Remittances: a Critical Analysis, The Round Table, DOI: 10.1080/00358533.2018.1424078

To link to this article: https://doi.org/10.1080/00358533.2018.1424078

Published online: 19 Jan 2018.

THE ROUND TABLE, 2018
https://doi.org/10.1080/00358533.2018.1424078

Routledge
Taylor & Francis Group

India's Experience with Remittances: a Critical Analysis

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ABSTRACT
India has been the highest recipient of workers' remittances for the past several years. Remittances have had a multiplier effect on the Indian economy and have played a crucial role in the economies of several Indian states like Kerala, Goa, Punjab and Gujarat. However, the absence of a coherent policy framework on dealing with these remittances has not only impeded their optimum utilisation but also led to certain negative impacts in India. If harnessed productively, through institutional backing, remittances can actually become viable instruments for creating alternative livelihoods and sustainable development in the rural areas of the country.

KEYWORDS
India; remittances; development; Kerala; Goa; Punjab; Gujarat; rural; Reserve Bank of India

Introduction

As diasporas become an integral part of national economies seeking to participate in the developmental processes of their home countries and their host lands simultaneously, countries around the world are applying different strategies to engage them in the various aspects of development. The diasporas, too—owing to increased transnational connectivity—are keenly looking forward to credible opportunities to be part of this developmental process. Remittances are one of the major ways in which the contribution of diasporas is manifested. Remittances have a multiplier effect and impact the economy at both macro and micro levels (see Pande, 2014a). On the one hand, they directly influence poor households in terms of basic needs such as food, shelter, education and health care. On the other hand, studies show that remittances to the homeland can have negative effects, too. This paper aims to explore various aspects of the inward remittances received by India over the years and to critically examine their utilisation and mis-utilisation in various parts of India, focusing mainly on the states of Kerala, Punjab and Goa.

Modes of diaspora engagement for development: a theoretical overview

The concept of 'diaspora' has undergone a sea change over the years turning from that of tragic and victimised groups to one of vibrant communities capable of simultaneously participating in the economic, political and cultural processes of both the home and the host lands (see Pande, 2014). In modern times, rather than assimilating the migrants in a 'melting

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pot' process, their 'circulation and simultaneous commitment to two or more societies' are encouraged' (De Haas, 2005). Across the developing world, policy makers are increasingly appreciative of the role diasporas play in supporting schemes for sustainable development in their home countries by transferring resources, knowledge and skills.

Nevertheless, the relationship between development and migration (and thereby the diaspora) is complex and cannot be generalised. There are different kinds of developmental impacts and experiences for each country, region, community and the conditions in which migration takes place. The relationship between remittances and development too has been complex with different results ensuing in different countries. In the literature on migration/diaspora and development, remittances have received much importance in recent decades. The availability of data on remittances (from both sending and receiving countries) has improved significantly because of the efforts of the World Bank and the International Monetary Fund. It is therefore easier now to fully understand the various interrelated aspects of migration: the remittances, the determinants and impacts, the socio-cultural factors and the motives, and how they change over time. An analysis of some of the empirical studies on the reasons for sending remittances brings out some common factors like (a) altruism—the desire to help the family in the home country; (b) insurance—to insure the family against adverse risks and shocks (c) investment—to invest in the home country or to be able to receive potential family inheritance. Any one of these factors or a combination of them impacts the decision to remit (Rapoport and Docquier, 2006; Czaika and Spray, 2013, pp. 1300–1302).

In general, a majority of available studies point out that remittances benefit the home country in several ways: in terms of improved foreign exchange reserves and the balance of payments; augmenting consumption which stimulates local economies; easing liquidity constraints on small businesses where micro-financing is not widely available; and channelling resources towards productive investments (see Giuliano and Ruiz-Arranz, 2009). They act as insurance during crises and natural disasters, and contribute to improving current account sustainability and credit worthiness (see Ratha, 2012). They are also appreciated as one of the few mechanisms for the redistribution of capital between developed and developing countries (see Russell, 1986; Jones, 1998). Aggarwal et al. (2006), in a study of 99 countries over a 28-year period (1975–2003), have found that remittances have a positive effect on bank deposits and on the credit to GDP ratio. Yang and Martinez (2006) in their study find evidence of favourable spillover effects to non-migrant households as well. Thus, Remittances augment consumption and, if harnessed effectively, provide benefits at both micro and macro level.

Interestingly, the most significant impact of remittances has been on poverty reduction, as they flow directly to poor households and are spent primarily on basic needs such as food, shelter, education and health care (see Russell, 1986; Adams and Page, 2005). One of the studies conducted by Adams and Page (2005) in 71 developing countries showed that a mere 10% increase in the per capita official international remittance can lead to a 3.55% decline in the share of people living in poverty. Various other studies also reflect this impact such as Acosta et al. (2008) in Latin America, Lokshin et al. (2010) in Nepal, Adams (2006) in Ghana, and Taylor et al. (2005) in Mexico and show positive (at times modest and at times significant) reduction in poverty levels owing to such remittances.

In 2010, worldwide remittance flows were estimated to have exceeded US$440 billion, of which developing countries received US$325 billion or a share of over 70% (World Bank,

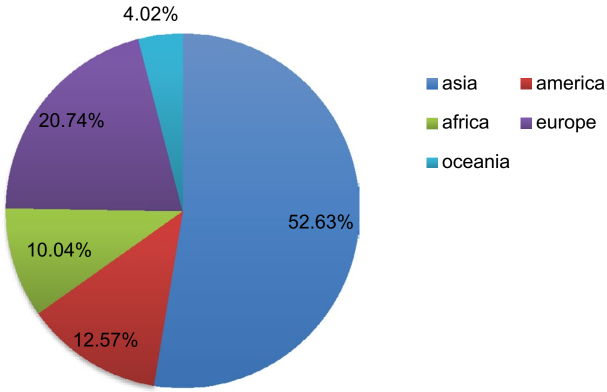

Figure 1. Regionwise distribution of the Indian diaspora. Source: data provided by MOIA.

2011, p. x). Recorded remittances in the previous year (2009), were nearly three times the amount of official aid and almost as large as foreign direct investment flows to developing countries (World Bank, 2011, p. x).

The Indian diaspora: an overview

The term 'Indian diaspora' is all-inclusive, covering a diverse set of people and various migration streams. This diversity not only represents heterogeneity in the phase, pattern and process of migration, but also emerges from host country variations (see Pande, 2013) (see Figure 1). While the government of India places the diaspora in three categories—Non-Resident Indians (NRIs)[1], People of Indian Origin (PIOs)[2] and Overseas Indian Citizens (OICs)[3]—I have looked at the Indian diaspora on the basis of its history and the patterns of migration which have continued to be an integral part of their identity and define their links to the homeland. First, I bifurcate the diaspora into 'The Old diaspora', the result of migrations of the colonial days, and 'The New diaspora', the outcome of post-colonial migrations. The Old diaspora has been further identified in two broad categories: the first with the 'indentured labourers' (and similar migration patterns) and the second of 'free migrants' (including traders and professionals and employees of the British Government). 'The New diaspora' is further identified as highly skilled/skilled, and small time traders and retailers present in western countries; semi-skilled/unskilled labour present in the Gulf and Southeast Asia; 'students' (migrating for higher studies); and 'the political diaspora' (see Pande, 2013). These categories have their own specific relationships with India, and only a limited number send remittances to India.

Contribution of remittances in the development of India

Though India has been the highest recipient of remittances by its diaspora in recent years, this phenomenon is not new, as, even in the pre-independence period when Indians were largely involved in circulatory migrations with their families staying back home, remittances were being received in India largely through personalised channels. Several decades later, the oil boom of the 1980s led to a huge flow of migrant workers to West Asia and a resultant inflow of remittances that benefited India's foreign exchange reserves. This was the first time that the economic potential of the diaspora became obvious to the government, and several policy changes were initiated, such as the welfare of migrant labourers in the Gulf, including their evacuation during the Gulf war; a new Emigration Act providing for compulsory registration of recruitment agents; and a banking system that facilitated the transfer of foreign exchange, increased interest rates for foreign exchange deposits, etc.

At present, remittances are accounted for as 'private transfers' by the Reserve Bank of India (RBI) and include (1) inward remittances for family maintenance and (2) local withdrawals/redemption from NRI deposits accounts, (3) personal gifts/donations to charitable/religious institutions in India (generally through current accounts) and (4) the import of gold and silver brought in by passengers (introduced in 1993). Migrant financial flows are also reflected in the 'Compensation of Employees' account, which captures financial flows of temporary migrants, i.e. those working abroad for less than a year. This item was brought into the accounts only in 1999, and grew from roughly US$100 million in the year 2000, to a little under US$1 billion in 2010.

Apart from the inward remittances from Indian workers abroad towards the maintenance of their families or towards 'local withdrawal' in rupees, there are also capital inflows in the form of different NRIs deposit accounts. Various NRI deposit schemes have put in place with higher interest rates to attract deposits by the diaspora. Figure 2 and Table 1 show the flow of remittances over the years and their share in the GDP, as released by the World Bank and the RBI respectively.

Figure 2 clearly reveals that the flow of remittances started in the 1970s but remained more or less stagnant through to the 1980s. In post-reform India, from 1991 onwards, the graph reflects an upward trend, and though India's GDP also experienced a significant surge, the share of remittances has kept pace with it (Das et al., 2010, 7). The increase during the 1990s is attributable to two significant factors. The first is the rise in immigration from developing to developed countries especially America and, second, the shift in the type of migrants from semi-skilled and unskilled to skilled and highly skilled (World Bank, 2007; Chandrashekhar, 2012). The increase could also have been a result of the shift towards formal channels from informal channels of money transfer; defined by a reduction in transaction costs, technological improvements in the processing of transfers, etc. (Guiliano and Ruiz-Arranz, 2009).

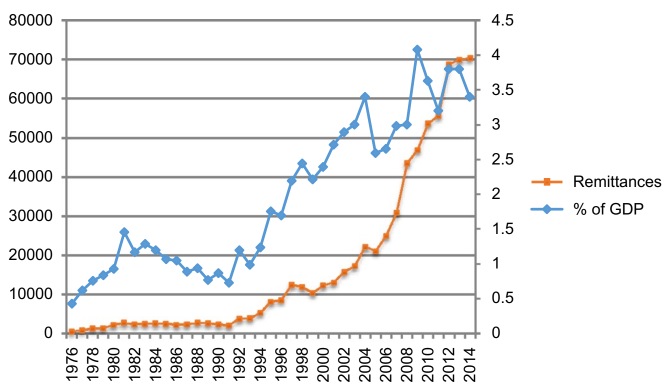

Figure 2. Remittances and their share in GDP (1976–2014). Source: World Bank data 2015.

Table 1. Remittances and their share in GDP 2005–2006 to 2013–2014 (US$ billion).

Year	Remittances	Percentage of GDP
2005–2006	21.3	3.7
2006–2007	25.4	3.7
2007–2008	38.7	4.9
2008–2009	51.60	4.6
2009–2010	55.06	2.8
2011–2012	66.10	3.8
2012–2013	67.60	3.8
2013–2014	70.39	3.4

Source: RBI data 2015.

Table 2. NRI deposits (outstanding): US$ billion (2005–2015).

Year	NR (E) RA	FCNR (A)	FCNR (B)	NR (NR) RD	NRO	FC (B&O) D	FC (O) N	Total
2005	21,291		11,452	232				32,975
2006	22,070		13,064		1148			36,282
2007	24,495		15,129		1616			41,240
2008	26,716		14,168		2788			43,672
2009	23,570		13,211		4773			41,554
2010	26,251		14,258		7381			47,890
2011	26,378		15,597		9707			51,682
2012	31,408		14,968		12,232			58,608
2013	45,924		15,188		9710			70,822
2014	52,908		41,823		9114			103,844
2015	62,746		42,824		9593			115,163

NR (E) RA: non-resident (external) rupee accounts.
FCNR (A): foreign currency non-resident (accounts).
FCNR (B): foreign currency non-resident (banks).
NR (NR) RD: non-resident (non-repatriable) rupee deposits.
NRO: non-resident ordinary rupee accounts.
FC (B&O) D: foreign currency (bank and other) deposits.
FC (O) N: foreign currency (ordinary) non-repatriable deposits.
Source: RBI data.

During this period, NRI deposits also witnessed an upward surge owing to favourable policy frameworks and opportunities in India (Tumbe, 2012, p. 7). Another well-known method of diaspora contribution in the capital market is through deposit accounts known as NRI deposits. A portion of remittances also go into these accounts. The popularity of these schemes rests on factors such as the positive interest rate differential; the favourable tax treatment on their capital gains; the lowering of transaction costs; and the phased removal (over the past two decades) of operational hurdles thereby facilitating the opening and subsequent operation of the accounts. Various NRI deposit schemes have been in place since 1970. Table 2 shows these deposits between 2005 and 2015.

Table 3 reflects the cross-country break-up of remittance inflows, in which the Gulf countries and North America are in the top two positions accounting for the maximum proportion of total remittances (about two-thirds). The third place is of Europe. Regions like Australia/New Zealand, East Asia and even Africa are slowly picking up. Some of the key economic determinants of remittances are the size of emigrant stock, the level of skills the migrants possess, the type of employment, the economic conditions at home and in their host countries, the availability of facilities to transfer money (remittances), etc. Of these, the size of the migrant community and the level of skills have been given much importance (Freund and Spatafora, 2008; Lueth and Ruiz-Arranz, 2006; Adams, 2009). The evidence, as reflected by Table 3, however, reflects a different scenario, as the amount of remittances

Table 3. Regionwise distribution of inflows of remittances to India (%).

Year	Gulf countries	North America	South America	Europe	Africa	East Asia (including Japan)	Australia New Zealand
2006–2007	24	44	6	13	2	8	3
2009–2010	27	38	6	18	4	5	2
2012–2013	37	34	3	12	3	7	4

Source: RBI data 2015.

received by India from North America (which has mainly skilled and highly skilled Indian migrants) and the Gulf region (which, on the other hand, has mainly semi-skilled and unskilled migrants) is almost the same in the recent past.

However, it is clear from these data that remittances have remained at the level of a 4% or less than a 4% share of the overall Indian economy, though in some states like Kerala, Punjab and Goa, this share is appreciably high, and that these economies are heavily dependent on international remittance flows. In Kerala, remittances play a crucial role in the economy, and the state has recorded a substantially high Human Development Index in spite of lagging behind in industrialisation and manufacturing. More than 2,500,000 Keralites have migrated to various countries over the years. A survey by the state government showed that remittances by the diaspora supported at least 5,000,000 people in the state, which has a population of 31.5 million. Inward remittances have increased the level of economic activities and the construction of houses on a large scale along with making an entire generation of people of Kerala, especially in the lower classes, move up the social ladder (Zachariah and Rajan, 2010). To yield the best out of its people on the move, and to redress their grievances and safeguard their rights, the Non-Resident Keralites Affairs Department (NORKA) was set up by the Government of Kerala in 1996. Within less than two decades (by 2014–2015), the deposits in Kerala by its NRIs had crossed the magic mark of Rs. 1 trillion—an increase of over 17%.

This is similar to the case of Punjab where the arrival of remittances also led to massive construction of houses and the uplift of living standards in general. It also led to profitable investments such as the purchase of tractors, the construction of tube-wells and the acquisition of machinery, all of which helped in higher agricultural yields (see Ballard, 2005; Thandi, 2006; Chanda and Ghosh, 2013). Chanda's study on the Punjabi diaspora in the UK has shown their contribution in: education; infrastructure; social and the agricultural sector; and the rural economy overall. Studies have found that these funds were also used for the development of village infrastructure such as roads, water supply and sewerage systems, and for the growth of sports, etc. (see Singh and Singh, 2007; Kullar and Toor, 2009). In the case of Goa, according to a survey conducted by the government, it received Rs. 7 billion annually in the form of remittances, which contributed to 6.3% of the State Domestic Product (Business Standard, 2009). Here, too, a similar outcome of remittances could be seen with massive construction of houses, churches, chapels and schools (see De Souza, 1990). A study by Rajan and Zachariah (2011) in Goa indicates that around 82% of the recipients used their remittances for their daily subsistence, and only a third of the remittances were used for educational purposes, while some amount also went towards servicing debts. Less than one-fourth of the total amount remitted was invested in bank deposits, though the average level of savings and investments of the migrant households is higher than for non-migrants. Remittances also impact established socio-economic hierarchies, upsetting, for example, the caste hierarchies in a big way (Ballard, 2004).

The manner of spending remittances is an open issue with studies indicating different priorities for different countries and regions. Yet the larger consensus determines that it is spent on food, consumer goods, education, housing, etc., and only a small part is invested in entrepreneurial activities or in the creation of small businesses. Studies also indicate that the pattern of spending remittances changes over time, since, in the initial stage, they are spent on the maintenance of the families and on improving land productivity, followed by the next stage of 'conspicuous' consumption, and it is only in later phases that they are invested in commercial and non-agricultural activities (see Helweg, 1983).

Drawbacks of remittances

Studies point out the adverse impacts of remittances in terms of the 'dependency syndrome', 'excessive consumption' and non-productive investments (Keely and Tran, 1989; Adams and Page, 2005). The unaccounted flow of remittances or '*havala*' is another nuisance that has allegedly converted 'the new development paradigm' into a 'destabilising force' (Kapur, 2004, pp. 18–19). Other than these, the social and human costs of remittances have been much more severe than expected in terms of the exploitation of workers in foreign countries, the vulnerability of left behind women, children and the elderly population, as well as labour shortages created in the home country by the emigration of workers.

Unfortunately, several of these features are clearly evident in India. The absence of a coherent policy framework in India has not only impeded the maximum utilisation of remittances but also led to its misutilisation. Table 4 shows the consumption pattern of remittances under various heads. A major chunk of the remittance money is utilised for family maintenance, i.e. to meet the requirements of the migrant families in terms of food, education, health, etc. A significant portion also goes into bank deposits. The use of remittances for investment purposes remains very low.

In the case of Kerala, one of the foremost states of India, having witnessed remittance-induced development, the 'easy money' came to be treated like allowances and went mainly on raising the living standards of the receiving family—i.e. a new house (often quite expensive and far in excess of requirements), a car, a large TV set and so on, with the amount remaining being usually deposited in banks, as a financial safety net. A very small percentage of the remittance money was used for productive investments. The case of Punjab is also not quite different where we also see evils like the rise in drug and alcohol consumption as a consequence of the availability of remittance money. However, in states like Gujarat, where remittances are sent by comparatively wealthier people in the USA and Canada, the volume is greater, and there is a marked preference for investing the remitted funds in shares and other financial market instruments (Sasikumar and Hussain, 2007, p. 41).

Table 4. Utilisation pattern of remittances in India (as a percentage share of the total remittances).

Year	Family maintenance	Deposits in bank	Investment in land and property	Investment in equity/ shares, etc.	Investment in gold instruments	For social/ religious functions	Others
2006–2007	54	20	10	3			13
2009–2010	61	20	4	3			12
2012–2013	49	20	3	4	0	3	21

Source: RBI data 2015.

The situation is all the more worrying in states like Uttar Pradesh, which is gradually picking up in terms of migrations to the Gulf (of mostly unskilled and semi-skilled workers) and the consequent inward remittances. Several districts in the state remain extremely backward in terms of socio-economic indicators in spite of having historically witnessed the migration of labour. This new wave of migration to the Gulf, the flow of remittances and the skills enhancement, too, has failed to make any significant impact on the local economy. In the absence of local livelihood options and the desperate need to earn money, the migrant labourers are often duped by agents and are made to pay large amounts of money, which they borrow locally at high interest rates by mortgaging land. In the countries of their destination, they face extremely hard living conditions with no institutional backing to address and redress their problems. They are subjected to myriad human rights abuses and exploitation, like fraudulent contracts, confiscation of passports, underpayment, late payment and worse, even non-payment of wages, withholding of residence permits and absence of health and safety protections. Thus, migrant workers are pushed from one exploitative situation to another. It is actually a kind of trap, from where it is difficult for the migrant worker to escape unless he manages to create an alternative livelihood for himself and his family, the avenues for which are scarce. The wives and families left behind face another set of challenges in terms of personal, psychological, managerial, social and children-related problems in a highly orthodox society.

The way ahead

Remittances can have a strong impact on development, at both the macro and micro levels. Its multiplier effects of consumption, growth of financial institutions, micro-financing, etc. all lead to development. Even the so-called non-productive investments contribute to economic and social development in the long term. But as one analyses the overall picture of the flow of remittances and their utilisation in India, it is evident that India has fallen far short of their optimum utilisation for development. The absence of opportunities for small- and medium-scale investments is leading to underutilisation/misutilisation of the capital contribution from the diaspora in the form of remittances. The Indian diaspora constitutes mainly semi-skilled/skilled/highly skilled professionals—entrepreneurs, restaurateurs, retailers and wholesale businesses, belonging to the middle- and upper-middle-income groups. They look for credible opportunities of investment with assured returns on their savings and hard-earned money. Against this backdrop, facilitating investment options in small-scale and medium-scale enterprises, joint ventures, brown-field investments and micro-credits become pragmatic and viable opportunities for the diaspora (Pande, 2014b). Such efforts will also encourage employment-generating activities and so reduce further emigration and save workers from exploitative conditions abroad by providing them alternative livelihood options in their own country. What we require, therefore, is a coherent policy framework to harness remittances into generating capital for productive investment in small and micro-enterprises and also create employment for the would-be migrant worker as well as the returnee. Another major contribution can come through a collective use of remittances for philanthropic activities. It can be a remedy for specific deficiencies in the local infrastructure such as schools, clinics and roads.

To convert the remittances into a viable instrument for sustainable investment, particularly in rural areas, instead of just a means for reducing individual household poverty, the government needs to intervene and streamline the utilisation of the remittances for productive use and diversification of livelihood options. Maximisation of the developmental potential of remittances needs careful attention and a sustained policy intervention at both the micro- and macro-level. With innovative thinking, 'these mega flows can be leveraged to finance development and infrastructure projects' (Basu, 2015). As one of the UNCTAD (2010, pp. 31–32) reports suggests, 'for remittances to work for the poor requires a sustained policy intervention at each stage'.

In the coming decades, India will become a nation with the highest number of working-age people, and possibly one of the world's largest suppliers of migrants. While it is no panacea yet, by making effective use of remittances as a positive force in supporting sustainable development initiatives and thus creating alternative livelihoods (which will in turn also mobilise and attract remittances to formal channels), the Government can not only boost the local economy and economically empower the families of the migrant worker but also save the migrant workers from the traps of exploitation.

Notes

1. NRIs are Indian citizens and hold Indian passports. Ministry of Overseas Indian Affairs (MOIA) records their number as 10,037,761.
2. PIOs are no longer Indian citizens and number around 11,872,114.
3. OIC is a partial citizenship given to PIOs. Until 2014, around 1,203,613 OCI cards were issued by the Government of India.

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