

## CONSOLIDATED REPLY

### **Query: Domestic Remittances in India: Estimates and Uses? Examples & Advice**

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Responses were received, with thanks, from:

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## Summary

An e-query soliciting experts' and practitioners' comments on "Domestic Remittances in India: Estimates and Use" initiated by UNESCO in June 2015 received only eight but highly significant responses. The discussion, also drawing upon additional desk research, brought to fore three key issues:

a) Despite their significance to the domestic economy, internal migrants and the remittances by them have not attracted much academic or even policy attention. Thus, internal migration remains grossly underestimated; the only comparable representative data of remittance patterns in India is available from the 64th Round (2007-2008) NSS survey;

b) Research carried out in India and elsewhere reveals significant impact of remittances on economic growth and poverty reduction through fulfilling consumption needs, smoothening consumption, and creating wealth and asset accumulation besides developing adaptive capacities of migrant households;

c) Limited research on domestic remittances in India however disallows a comprehensive understanding of its direct and indirect effects on a person's lives, and poor households. While most studies see a positive correlation between remittances and poverty; a few have noted low volume of remittances, household needs, lack of financial inclusion, lack of financial

literacy and knowledge of financial services as major constraints limiting the effects of remittances.

Outlining the fact that governments continue to be negatively disposed towards internal migration and remain unaware of its development potential, the discussion strongly recommends that with financial inclusion now as an integral part of the overall strategy of achieving inclusive growth, a more holistic approach is needed to meet the needs of the migrants and their households. Appropriate steps, complementary policies and institutional mechanisms (including increasing the reach of formal financial system) are needed to support migrants' efforts to improve the lives of their families through remittances. All responses to this discussion are also available on GYM site. Kindly share the Consolidated Reply within your networks for wider dissemination.

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## **Introduction**

India is home to one of the largest internal migrant population in the world and the domestic remittances sent by them have a significant impact on the socio-economic conditions of the households receiving the remittances (NCAER, 2014). Particularly, in semi-arid and drought-prone areas, the inability of agriculture to fully guarantee livelihood security has accelerated migration as a much needed livelihood option, with consequent remittances being used for several purposes that includes higher spending on education, health, household consumption, human capital formation, and small enterprises (NABARD-GIZ, 2011).

Despite their significance to the domestic economy, internal migrants and the remittances sent by them have not attracted much academic or even policy attention. Also, internal migration remains grossly underestimated due to empirical and conceptual difficulties in measurement. Though, by recent estimates, internal migrants in India constitute nearly 30 per cent of the population, far exceeding the estimates of Indian emigrants, the internal migrants have been accorded very low priority by the government. The existing policies of the Indian state have failed to provide legal or social protection to this vulnerable group (UNESCO, 2013).

## **Current Estimates of Domestic Remittances in India**

The National Sample Survey (NSS) provides some representative data on remittances pattern in India. As of today, there are two rounds of NSS namely the 55th round in 1999-2000, and the 64th round in 2007-08 providing some comparable estimates of remittances.

Particularly, the NSS 64<sup>th</sup> Round (2007-08) gives detailed data on economically active "out-migrants" - both within (i.e. intra and inter-district and interstate migrants) and outside India; their present destination; and the amount and frequency of remittances sent during the last 365 days. The data on frequency and amount of remittance sent per out-migrant over the last 365 days is available with a male-female and rural-urban break-up.

According to NSS 64th Round, during the last 365 days prior to the date of survey, remittances from rural and urban out-migrants (male and female) in India were Rs. 13,000 (approx. 200US\$) and 26,300 (410 US\$) per out-migrants respectively. Overall (rural-urban) remittances from internal out-migrants was Rs 14,600 (228 US\$) per out-migrants. Internal out-migrants from Goa sent highest remittance Rs. 92,400 (1443 US\$) per out-migrants in 2007-08 while domestic migrants from Chhattisgarh sent the least - Rs. 7,600 - (118 US\$) during the same time. The size of the domestic remittances was about Rs 50, 000 crore (10

billion US\$) in 2007-08 at all India level. The poorer states like Bihar and Uttar Pradesh have received a higher share in the total remittances. Nearly 80 percent of the domestic remittances went to households in rural areas. At the all-India level, 60 percent of domestic remittances were inter-state transfers and 40 percent were intra-state transfers.

It is significant that the household remittances sent by internal migrants were twice that of the household remittances sent by international migrants in 2007-08 (NSSO, 2010).

It may be also added that as per the NSS 2007-08, women constitute 80 percent of total internal migrants; about 30 percent of the migrants are youth aged 15-29 years; another 15 million are children. It is argued that there isn't enough data on women migrant labour because of the assumption that most women migrate because of marriage. This assumption blocks further analysis of the women migrants engaged in paid labour and an understanding of how their vulnerabilities are being compounded by contemporary economic practices and not just because of historical or cultural baggage. This leads to the "invisibilization" and undermining of women in policies.

The National Council of Applied Economic Research's (NCAER's) latest round of the 'National Survey of Household Income and Expenditure' (NSHIE) concluded in 2012 has recorded the quantum of domestic remittance flows. According to NSHIE, about 1.15 crore households (11.5 million US\$) received remittances totalling to Rupees 49,501 crore (495 billion US\$) during the financial year 2010-11. Of the total number of households receiving remittances, 86 per cent lived in rural areas and accounted for 83 percent of the total remittances. The remaining 14 percent of the households were located in urban areas and they accounted for the balance 17 percent of the total remittance flows. The states accounting for the bulk of such flows include Bihar and Uttar Pradesh topping the list followed by Andhra Pradesh and Maharashtra.

### **Usage of Domestic Remittances by Migrants**

Research carried out over the decades in various parts of the world reveals the positive and significant impacts of remittances on economic growth and poverty reduction through fulfilling consumption needs, smoothening consumption, and creating wealth and asset accumulation.

Two rounds of NSS suggests that domestic remittances are used for multiple purposes viz. meeting basic need, spending on education and health, repayment of debts and loan, for marriage and related factors. It is learnt that the migrants are more likely to spend on education and health of children compared to non-migrants.

As per NSS data, at the all-India level, over 90% of rural and urban remittance-receiving (RR) households used remittances for some form of household consumer expenditure. Remittance spent for consumption purposes includes purchase of food items, education of household members, household durables, marriage and other ceremonies, health care, and other consumption purposes. It is suggested that 'consumption expenditure' as the most dominant use cannot be considered to be 'unproductive' as it includes expenses on food, schooling, etc. Besides such consumption purposes, other uses include improving the housing structure, debt repayment, financing working capital, initiating new entrepreneurial activity, saving/investment, and other purposes.

Available evidence supports that remittances are an important means of food security as higher proportions of households with lower socio-economic background depend on remittances for food expenditure. Remittances are also utilized for debt payment, marriages

and house construction. Remittances augment disposable income and to that extent widens the choices households have in making expenditures whether on food or leisure.

A research study in select districts of Assam (Lakhimpur, Dhemaji, Dibrugarh, and Tinsukia), affected by floods on a regular basis, indicate that a considerable number of remittance recipient households used remittances to procure food. Though the inflow of domestic remittances is low in these areas, the use of remittances include savings, healthcare, consumer goods, community activities (e.g. festivals, sports, etc.), housing, and communication (e.g. mobile phone bill). Some households used remittances in activities that could be considered as disaster relief or recovery. For instance, the recipient households' flood responses focused on coping during the flood (e.g. temporary shelter for livestock and people, storing food or drinking water) and on recovery in the immediate aftermath of the flood. Others had used it to repay loans; few recipient households used remittances to procure insurance or invest it in a business activity.

While the broad trend across States in India is towards using remittances for household consumption expenditure (and within that food expenditure), the NSS data shows some distinct state/regional variations. For instance, in Kerala and Tamil Nadu, there was higher reportage of using remittances towards debt repayment. This could be due to the debts incurred in overcoming the high transaction costs of migrating to the Gulf and also the fact that higher income levels in these States require less expenditure on household items. In Odisha, there was much higher reportage of using remittances towards marriage and ceremonial expenses and also towards improving housing condition ('house purchase/repair' is also a marker of status symbol in rural societies). Most of the North-Eastern States have shown high usage of remittances towards education; while in Goa and most Union Territories there was higher reportage of use towards savings or investment.

### **Impact of Remittances on Poor Households**

The role of domestic/internal remittances has been neglected so far. The NSS data while it includes information on how far remittances (from both internal and international sources) are used for productive or entrepreneurial activities, does not provide insight as to whether regular remittances induces savings or reduces poverty.

In the context of India, limited research on domestic remittances disallows a comprehensive understanding of its direct and indirect effects on a person's lives, and poor households. Nevertheless, of the available studies, more see a positive correlation between remittances and poverty.

Using both secondary and primary data, Jha (2008) concluded that in India after 1991 out migration played a decisive role in asset-building in the areas of origin and contributed to the poverty reduction through remittances. Chellaraj and Mohapatra (2014) concluded that both internal (and international) remittances have a poverty-reducing effect with remittances enabling higher household expenditure on health and education. Sagarika Dey (2014) also concludes that remittances enable greater expenditure and hence have a marked effect on poverty. UNDP Human Development Report (2009) had earlier noted that household remittances are vital in improving the livelihoods of millions of people (in developing countries). Similarly, a study by Samal (2006) highlighted the positive impact of domestic remittances on wealth creation and asset accumulation that helps households not just to escape poverty but also have adequate scope to become viable rural investment tools (provided required policy, institutional and social security support systems are in place). Using 2004-2005 Human Development Profile of India Survey, Mueller and Sheriff (2009) show the

link between migration, remittances and human capital investment. They found a positive correlation between remittances received and teen schooling attendance (particularly male teens).

Several studies, also undertaken internationally, have pointed out that migration is a family strategy wherein one or more members are employed in urban areas as insurance against distress and crisis, and it also improves their credit worthiness. For example, a study, using panel household level data from Uganda for the period 2005 to 2011, shows a) internal remittances increases credit use, especially from formal or semi-formal credit sources compared to informal sources; b) it has a positive impact on the ownership of formal savings accounts for households having a higher education background, but the impact is negative for households without any education; c) education levels appear to influence the relevance of gender roles for financial inclusion, where gender is less of a determinant of financial access among the more educated. Overall, the results suggest that internal remittances have the potential to catalyse financial inclusion in Uganda especially through more formal financial institutions.

Tumbe (2014) in his paper on 'Missing Men, Migration and Labour Markets' argues that there is a gendered impact with men benefiting more than women. According to Tumbe, remittance-receiving regions have peculiar characteristics such as low industrialization, diversification of non-farm services sectors (with men taking up new opportunities in construction and trading activities for example; also jobs with higher wages), and feminization of the agricultural workforce. The migrant workers who send back the remittances are generally male and work in the informal sector in urban centres. This out-migration of men exposes women to new tasks related to disaster preparedness, food security and farm management, for which they are often unprepared. Out-migration of men therefore requires women to acquire new skills, capacities and knowledge to deal with new challenges.

Thus migration is also a source of women's empowerment as women migrate mostly with men or when left behind gets the benefit of receiving remittances and managing the household and the education of children. Migration unfolds women's agency, enable them to take decision leading to their autonomy and empowerment. There are a few studies as well that report about women's burden in absence of their husbands (but largely the positives outweigh the negatives).

It may be added here that "remittance economies" have evolved in response to climatic shocks (coastal Odisha and lower Gangetic floodplains) and provide a stable means of incomes in the face of high agricultural uncertainty (that such areas are prone to). However, it is argued that they could also be contributing to a low-middle income trap whereby substantial upward mobility is denied. Through available studies/data, it is difficult to gauge the long term implications of migration and remittances on the adaptive capacity of a recipient household; however, such studies do indicate a positive association between the volume of remittances and access to for example, insurance and a savings bank account. A positive association is found between migration status and access to insurance, cropped area, access to rural employment guarantee scheme, and good quality primary construction material of exterior walls of a dwelling. Such findings support the notion that migration serves to embed migrant households in what can be considered a better structural position to enhance their adaptive capacity. However, it has also been suggested that this impact is lower among households in the lowest expenditure category, suggesting that migration is less helpful in promoting adaptive capacity amongst households that are the most vulnerable to the impacts of climate change.

The majority of studies suggest positive effects of domestic remittances. There are some which also focus on the challenges in sending and receiving remittances. For instance, a study by NABARD (2009) indicates challenges such as availability and access to banks, acceptability of clients to these institutions, and migrants suffering from other forms of social exclusion at their destination points, as well as lack of acceptance in banking environment. The low volume of remittance, household needs, lack of financial inclusion, and lack of financial literacy and knowledge of financial services have been identified as major constraints that limits the effects of remittances.

## **Conclusion**

It is hard to generalise the experience of domestic remittances in India. Governments continue to be negatively disposed towards internal migration and remain unaware of its development potential. With financial inclusion now as an integral part of the overall strategy of achieving inclusive growth, a more holistic approach is needed to meet the needs of the migrants and their households. Appropriate steps need to be taken to bring these excluded sections into the ambit of the formal financial system. There is a need to develop more flexible, technologically aided platforms that can be effectively leveraged to increase the reach of the formal financial system. Complementary policies and institutional mechanisms are needed to support migrants' efforts to improve the lives of their families through remittances.

## **Gaps and Recommendations**

### Gaps

- The NSS data does not have detailed questions on remittances (a single question is unlikely to capture quantum of migration).
- Currently, it is not feasible to provide further information about the type of households where domestic flows are directed as the present data set is not disaggregated into remittances from internal and international migrants.
- Following the 64th NSS rounds, the subsequent rounds have not collected data either on migration or remittances, although migrants constitute a large proportion in the labour force.
- Social remittances are other benefits which are intangible and not easy to measure. For example, skill development of the workforce through migration. Many unskilled migrants become skilled in the company of co-migrants. Knowledge, information, innovations are other elements of social remittances that goes unrecognized in assessing the benefits of internal migration.
- It is difficult to estimate the aggregate volumes from bank transfers though the average sum of remittance may be obtained from them. Remittances in-kind and lump-sum transfers when migrants return home are excluded from current estimates which primarily refer to regular periodic remittances.

### Recommendations

- Set up a Migration Resource Centre/ Desk at the Panchayat office that could a) provide relevant information and orientation to the migrant workers (including potential migrants); b) compile information on the number of migrant workers in the village; c) compile information on the inflow of domestic remittances; d) strengthen social network of the migrant workers; e) include migrant workers as a stakeholder in local planning processes; and f) provide information, orientation, and technical inputs to the families left behind, particularly female members of migrant households.
- Link up such a Migration Resource Centre/ Desk with the self-help groups or cooperatives in the locality to increase their outreach.

- It is recommended that NSS rounds collect and publish data on internal migration and remittances in every survey on Employment and Unemployment.
- The NSS provides data on use of remittances received by households; provide this data separately for internal and international migrants.

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