VVGNLI
POLICY PERSPECTIVES
February 2019

Enhancing the Developmental Payoffs of Remittance Flows: A Migrant Centric Approach

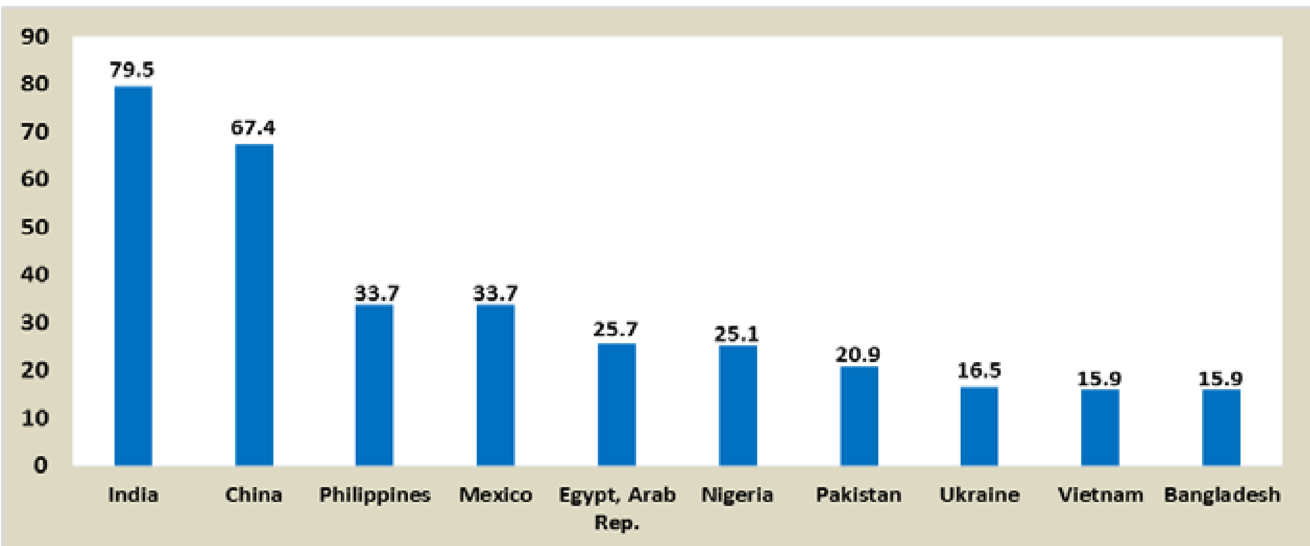
S.K. Sasikumar*

India is currently the largest recipient of remittances in the world. According to data recently released by the World Bank, India received US $ 79.5 billion remittance flows in 2018, accounting for nearly 12 per cent of the total global remittance flows and 15 per cent of the flows to developing countries. What is striking is that the quantum of remittance inflows to India has more than tripled over the last decade.

One of the most important dimensions of remittance flows is their remarkable stability. While foreign direct investment, portfolio investment and other capital flows rise and fall cyclically, remittance flows show stability over time and have increased even during economic slowdowns. At the micro level, remittances have had a stabilising effect on household income and contributed significantly to raising consumption expenditure, thus bringing down the poverty level. At the individual level, the quality of life, as manifested in education and health indicators, has markedly improved as a result of such flows (Sasikumar, 2014).

A notable recent development related to remittance flows has been the attempt to decipher the cost of sending remittances. This was a hitherto extremely neglected area, resulting in minimal policy initiatives to reduce such costs. What is heartening is that the costs of sending remittances in almost every region of the world, including India, have registered a decline in recent years. The latest estimates, based on World Bank's Remittance Prices Worldwide Database, indicate that the average cost of sending US $ 200 is lowest in the case of the South Asian region, estimated to be around 5.4 per cent in 2018.

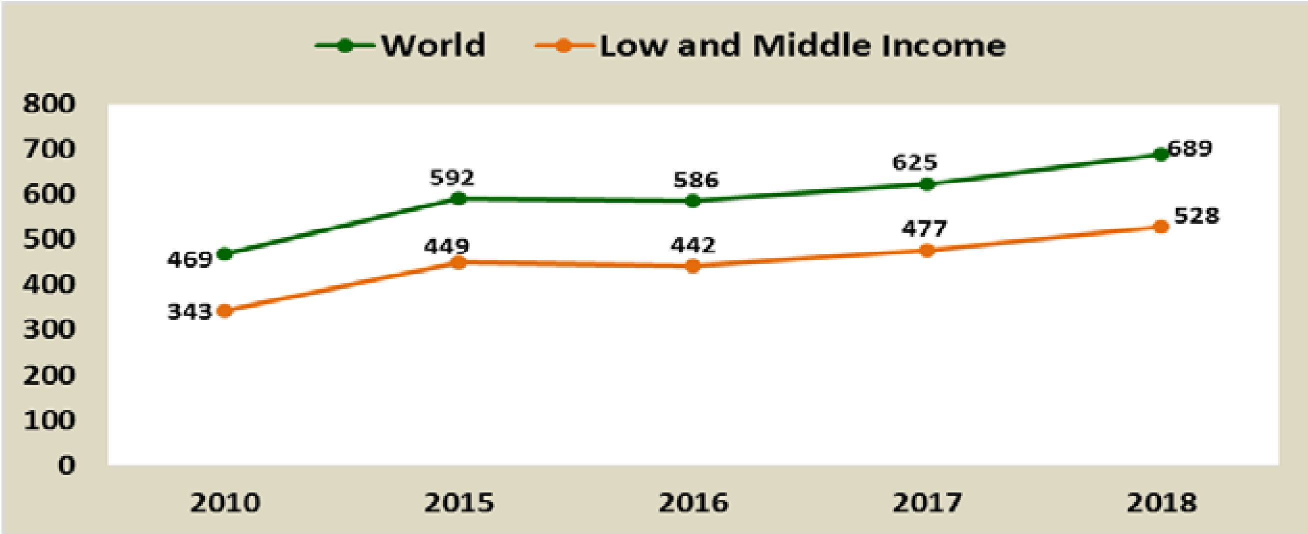
Figure 1: Top Remittances Receiving Countries, 2018 (in US $ billion)



Source: World Bank (2018).

* Senior Fellow, V.V. Giri National Labour Institute; E-mail: sasikumarsk2@gmail.com

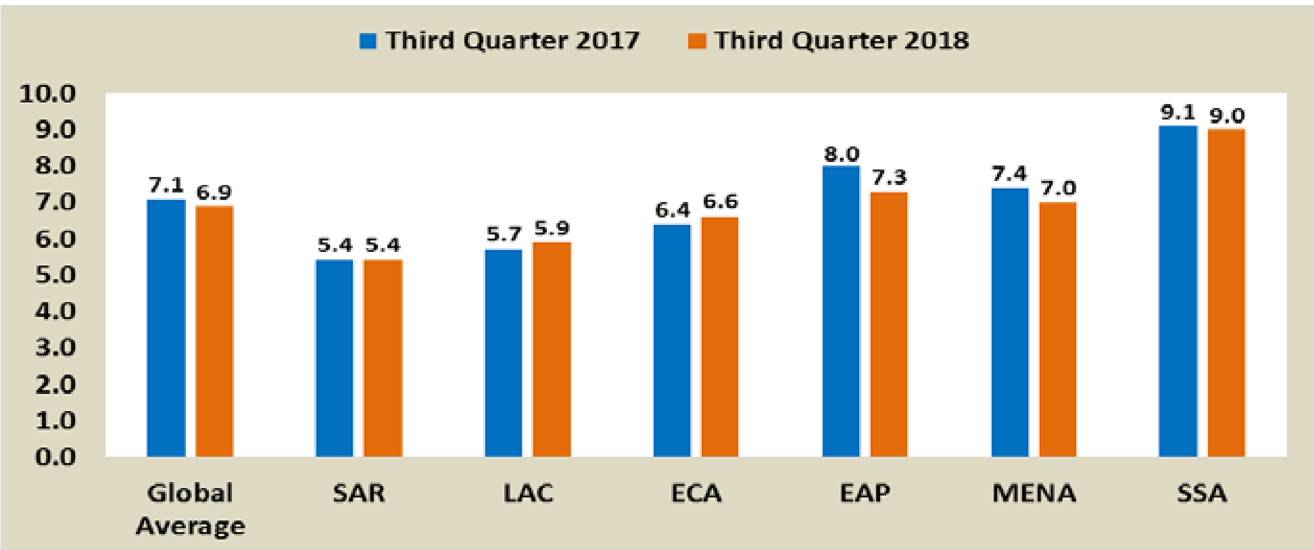
Figure 2: Global Remittance Flows, 2010-2018 (in US $ billion)



Source: World Bank (2018).

Since 2006, the Reserve Bank of India has been conducting surveys of authorised dealers which act as intermediaries for remittances received by the residents. The latest survey, the fourth in the series, has expanded its ambit to obtain information, for the first time, of the cost of sending remittances (RBI, 2018). As per the results of this survey, nearly 50 per cent of remittances received in 2016-17 by Indian migrant households originated from the Gulf Cooperation Council (GCC) countries, where a large number of Indians are engaged as semi-skilled or low-skilled workers. The survey reveals that around three-fourth of the total remittances in India are routed through private sector banks. It is significant that in the context of GCC countries, the banks have forged tie-ups with exchange houses and this has lowered the remittance cost to the range of 2-4 per cent, which is lower than for non-GCC countries. The reduction in transfer costs in recent years could also be attributed to factors like the entry of new players in the remittance market and the resultant competition, and the use of advanced technologies and financial products supporting digital payments.

Figure 3: Global Average Cost of Sending $200, 2017-2018 (in per cent)



Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

Source: World Bank (2018).

Even today, a substantial amount of remittances reaching India are transferred through informal means; this puts the migrants at risk as they can be found guilty under the new and stringent money-laundering regulations. Expanding the outreach of remittance service providers (RSPs) to backward and rural areas, reducing the costs of transfer through formal systems, and making formal transfers faster are the surest means to encourage a switch to formal modes of transferring remittances.

Financial literacy programmes targeted at migrants and remittance-receiving households have not received the requisite attention in migration and remittance management in India. Provision of basic skills to manage finances can have a considerable impact on the choice of modes of remittance transfers, expenditure preferences, savings behaviour and options for converting remittances into assets (IFAD and World Bank, 2015). Playing the role of facilitators, concerned government authorities can encourage banks/financial institutions, employers' associations, local business leaders and migrant associations to form networks at the local level to impart the necessary skills to the migrants and their households.

Women account for a significant and growing number of migrants, making it vital to understand the gender impacts of migration. It is essential to develop customised financial literacy programmes for both women migrants and women who are recipients of remittances. Knowledge about how to send and manage remittances can provide women improved financial access and thus be a significant factor in contributing to gender equality in a broader context. Research studies show that financial literacy programmes for women migrants and their households result in higher levels of savings and more efficient financial management.

New models are being evolved to promote micro and small business enterprises among migrants. For instance, in some countries remittance-receiving households are being offered access to microfinance to start or expand a business, using remittance income streams as collateral. Reportedly, such initiatives are contributing significantly to household income, generating employment and helping local development. Participating families are being provided entrepreneurship training and capacity building to improve their ability to run micro and small businesses. Such innovative and development-oriented programmes must be initiated in the various regions in India which report high migration density.

A lacuna in the migration policies of most labour-sending countries like India is the inadequate attention given to the reintegration of returnee migrants, given that return and reintegration are integral parts of the migration cycle. Proper reintegration plans can be a key catalyst to channelise remittances into productive savings and investment. The nature of reintegration and the role that different stakeholders—such as state agencies, migrant associations, trade unions and employers' associations—can play in the process is largely a function of the nature, forms and characteristics of returnee migrants. Sustainable reintegration plans call for reliable information, particularly on financial resources, skills, entrepreneurial capabilities, investment plans and motivation. Efficient reintegration schemes being implemented in many countries suggest that counselling is the backbone of reintegration; it is only through effective counselling that the requisite technical/financial assistance can be provided to returnees. Skill assessment of the workers in both the pre-departure and return migration phases can also be an effective tool to ensure successful reintegration with optimum use of newly acquired skills. There is also a need to raise awareness regarding the existing reintegration programmes. It is seen that even in instances where reintegration schemes are in operation, migrants become aware of them only after their return, and are therefore less prepared to respond to the available options. Reintegration should be viewed as a dynamic entity and existing programmes need to be evaluated from time to time for their ability to respond to changing situations. This can be effectively done by developing indicators to monitor the success of reintegration measures.

Recent surveys on migration costs undertaken by the World Bank's Global Knowledge Partnership on Migration and Development (KNOMAD) and the International Labour Organization (ILO) in different migration corridors, including India–Qatar and India– Saudi Arabia, report that the low-skilled migrant workers incur substantial migration costs (mainly agents' fees) which are much higher than the legally stipulated fees. Considering that these relatively poor migrants cover such high migration costs through loans obtained from informal sources at high rates of interests, a sizeable portion of their remittances is used for debt servicing. These migration costs, particularly the fees paid to agents and sub-agents, can be brought down through measures such as stricter monitoring of the recruiting system and facilitating direct employment through well-established overseas employers. A reduction in migration costs can substantially enhance the benefits from the remittances flowing to these migrant households.

Such strategies, which are premised on the need to situate the migrant and the migrant household—including her/his experience and economic decisions—at the centre, can ensure the maximisation of developmental benefits of remittance flows.

References

International Fund for Agricultural Development (IFAD) and World Bank (2015), *The Use of Remittances and Financial Inclusion*, IFAD.

Reserve Bank of India (2018), 'Globalising People: India's Inward Remittances', *RBI Bulletin*, November.

Sasikumar, S.K. (2014), 'Maximising Developmental Outcomes of International Labour Migration and Remittances', *Labour &Development*, Vol.21, N0.2.

World Bank (2018), *Migration and Development Brief 30*, December, World Bank.

V.V. Giri National Labour Institute (VVGNLI) is a premier institution involved in research, training, education, publication and consultancy on labour and related issues. Set up in 1974, the Institute is an autonomous body of the Ministry of Labour and Employment, Government of India. It is committed to establishing labour and labour relations as a central feature in the development agenda through:

- Addressing issues of transformations in the world of work;
- Disseminating knowledge, skills and attitudes to major social partners and stakeholders concerned with labour and employment;
- Undertaking research studies and training interventions of world class standards; and
- Building understanding and partnerships with globally respected institutions involved with labour.

Website: www.vvgnli.gov.in

For further information about the publications please contact:
Email: publications.vvgnli@gov.in