Cross-border workers' remittances: Transmission channels and measurement issues in India

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1. Introduction

Remittance inflows to India from overseas Indians reached US $ 20.7 billion in 2004-05 with average remittances sent by US Indians alone estimated to be higher than many other important remittance receiving countries (Orozco, 2003). Structural reforms, including a market determined exchange rate, current account convertibility, spreading capital account liberalisation as well as the information technology revolution and labour outflow from semi-skilled to increasingly the new stream of highly skilled migrants in technology sectors has enabled this phenomenon. The deposit schemes for non-resident Indians with tax incentives and positive interest rate margins have also contributed to the inflows of remittances. With remittances from overseas Indians growing in size and assuming the shape of stable financial flows, the subject has been the focus of policy makers as well as academia. At the global level, the statistics on remittances, besides drawing considerable attention as an important financial resource for developing countries in the face of receding aid flows, has led to intense debate over the conceptual clarity on the subject and more importantly the measurement issues.

In the above backdrop, this paper seeks to put in perspective the remittance statistics in India. While the remittance flows represent the corss-border financial flows between the residents and the non-residents, the comprehension of these flows in fact necessitates understanding the dynamics of how these flows emanate, the processes of transmitting such cross-border funds, the entities engaged in the remittance business, the reporting entities and the types of flows occurring. Second, how adequate is the international transaction reporting systems (ITRS) in capturing such flows? Third, is there a need for remittance statistics to seen in conjunction with migration statistics? Fourth, specific challenges in the remittance statistics in the Indian context.

2. Stylised Facts on Cross-border Remittance Flows to India

The recent expansion of dedicated fund transfer networks in the host and destination countries has significantly expanded the outreach of the formal fund transfer facilities to the hitherto inaccessible areas and has resulted in increase in the frequency and the volume of fund transfers. The development of these fund transfer networks in some developing countries along with liberalisation of external transactions has led to a distinct switch from informal to formal channels. While in the case of Latin American countries, the larger switch to formal channels occurred early due to faster expansion of financial network, this phenomenon has been in evidence in the South Asian countries in the 1990s.

As the above mentioned factors had considerably reduced the incentives for hawala transfers, the officially recorded inflows to India rose significantly. The cumulative impact of the above factors is reflected in a structural break in the inflows of workers' remittances to India which occurred after 1990-91 – broadly mirroring the new wave of migration to technology related sectors in developed countries (Figure 1).

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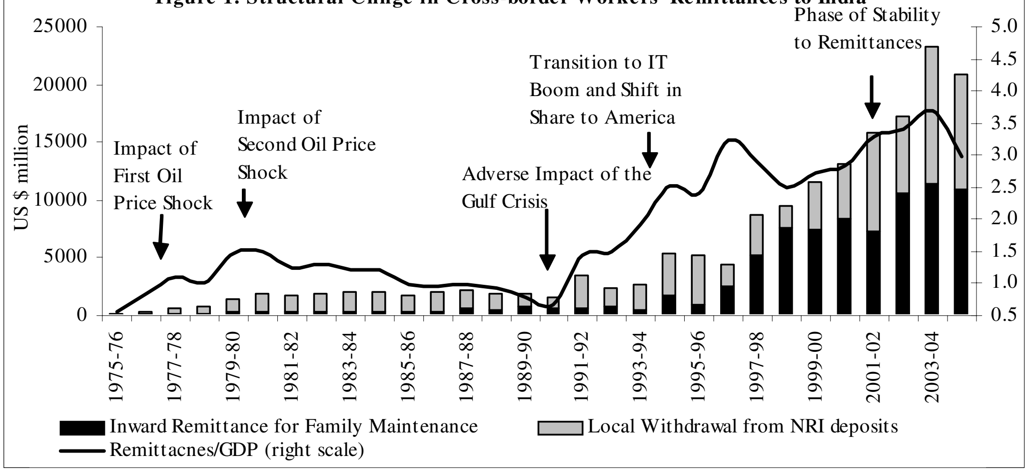
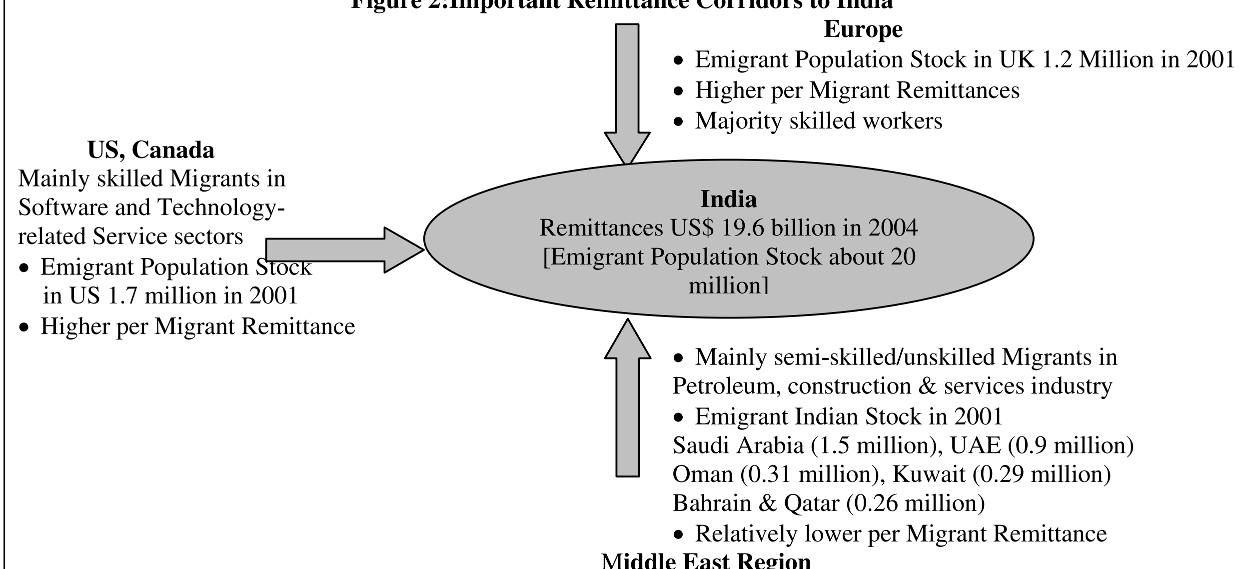
Figure 1: Structural Chnge in Cross-border Workers' Remittances to India



Source: Articles on Invisibles in India's Balance of Payments

During the last three decades, noticeable waves of international migration from India can be identified. First, in response to large demand for semi-skilled/unskilled labour from the oil exporting countries of the Middle East, labour migration began in mid-1970s and peaked in the early 1980s. This was in response to labour shortages in those countries due to economic boom associated with oil discoveries and oil price shock of the 1970s. The second important wave of migration of workers began since the mid-1990s, in response to expanding demand for highly skilled workers from the industrialized countries arising from the productivity boom in those countries. Relative to the earlier wave of migration, the current wave is dominated by the high skill content of workers particularly in information technology sectors. The broad structure of the remittance corridors to India is set out below, which provides an idea of the remittance market and the basic characterizes of the senders (Figure 2).

Figure 2:Important Remittance Corridors to India



Note: Based on the Report of the High Level Committee on the Indian Diaspora, December 2001.

A structural shift in the regional sources of remittance flows to India occurred in the 1990s, responding to the changing pattern of demand from predominantly unskilled/semi-skilled to highly skilled labour. The estimates reveal that as the oil boom in the Middle East countries slowed down, the contribution of the region came down significantly between 1997-98 and 2002-03 (Table 2). However, the slowdown in such remittance flows have not impacted on the aggregate remittance flows to India, which has been sustained by higher inflows from the America and Europe.

Table 1: Source Regions of Private Transfers (Remittances) to India

(Per cent)

Year	Africa	America	Asia	Europe	International Institutions	Total
1997-98	2.3	37.1	31.3	26.0	3.3	100.0
1998-99	1.7	36.7	37.1	23.6	0.9	100.0
1999-00	1.0	45.5	31.9	20.6	1.0	100.0
2000-01	1.3	44.9	34.3	19.0	0.5	100.0
2001-02	4.5	48.2	23.0	23.2	1.1	100.0
2002-03	0.6	51.1	22.0	25.8	0.5	100.0

Source: Report on Currency and Finance 2003-04, Reserve Bank of India.

The regional sources of remittances are difficult to estimate due to lack of availability on the current migration pattern, their skill composition, average income size, duration of stay and gaps in reporting of transaction data.

3. The Migration Statistics and Remittances

An important contextual issue is whether there is a need to link remittance statistics to migration statistics. For meaningful conclusions on remittance inflows the demand would be for data requirements on regular intervals on the stock of emigrants, workforce participation rate, duration of stay, average per capita income, country of residence etc. Such statistics are scarcely available for India. The information on the regional pattern of emigration from India is not easily available and has many limitations.

The information on estimated size of overseas Indian community is provided in the Table 2. The distribution of Indians residing abroad is highly skewed in favour of developing countries, particularly Asia and Middle East. In Asia, the concentration of Indian population is more in Myanmar, Malaysia, Fiji and Singapore. In the Middle East, the largest proportion of Indians is concentrated in Saudi Arabia followed by United Arab Emirates, Oman, Kuwait, Bahrain, Yemen and Qatar. South Africa and Mauritius comprise the bulk of Indian emigrants to Africa.

Table 2: Spatial Distribution of Overseas Indian Community

	Region/Country	Numbers in Million
I.	Industrial Countries	4.5
	United States	1.7
	Euro Area	0.5
	United Kingdom	1.2
	Others	1.1
II.	Developing Countries	12.1
	Africa	2.0
	Asia	5.5
	Middle East	3.5
	Latin America	1.1

Source: Report of the High Level Committee on the Indian Diaspora, December 2001.

In the Indian context, Nayyar (1984) and more recently Patra and Kapur (2003) reviewed the data sources on migration. The data on Indian immigration are available in the statistical publication of the US immigration And Naturalisation Service, The Canadian Employment and Immigration Centre and the Research and Statistics Department, Home Office, London. On Western Europe and Australia, no systematic database is available. Annual immigration to US from India was between 30,000-40,000 comprising mainly the high skill categories. The average per capita income of the Indian immigrants is estimated to be about US $ 60,000. The skill pattern shows that Indians are mainly engaged in occupation such as managerial and professional (43.6 per cent), technical sales and service sectors (33.2 per cent) and skilled labourers (23.3 per cent).

It is contended that the data on Indian migration flows to Canada are relatively poor. In 2001, Indians constituted about 2.8 per cent of the total population of Canada. Indians are engaged mainly in professional and managerial occupations (about 30 per cent), manufacturing activities (23 per cent) and farming and agriculture related activities. The average income level of Indians is about 20 per cent higher than the national average.

The migrant stock in UK mainly represents the Pois, with Indian migrants constituting 2.1 per cent of the population. The number of British work permits have risen to 5,600 in 2000 from 2000 in 1995, with more than half directed towards computer industry. The average per capita income of the Indians is estimated to be the highest in UK (Pound 15,680).

The Indian immigrants constitute a significant proportion of population in the Gulf region e.g., Saudi Arabia (7 per cent), Oman (32 per cent). Since the 1990s there has been an upscaling in the skill content of the Indian workers with rising share of professionals (10 per cent) and white-collar groups (20 per cent). Professionals and white colour groups prefer to remit money through foreign/local currency accounts schemes available for non-resident Indians. However, the remaining 70 per cent is categorized as semi-skilled and unskilled labourer, which is attributed to the infirmities in the data on emigration clearance. It may be noted that the statistics on emigration clearance understates the actual migrants since professionals with post-graduate degrees, graduates and even diploma holders are exempted from seeking clearance. It is said that illegal immigrants who leave India on tourist visa and succeed staying in the Gulf countries are several times than the recorded migrants.

The biggest challenges for the migration statistics emanates from the fact that the data on Indian emigrants need to be collected on the duration of stay. Within the existing database, the segregation between the Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs) has far reaching implications in terms of divergence in remittance sending capacity, with inverse relationship between the duration of stay and propensity to remit.

4. The Channels of Remittance Flows to India

A clear understanding of the country specific remittance statistics also requires that there should be clarity about the channels/methods of fund transfers used by the remitters and the recipients. In India, the institutions engaged in the business of money transfer are required to be registered in order to receive and deliver remittances. Apart from the commercial banks, a number of other non-bank players have entered in the area of money transfers with innovations in products and the recourse to new methods anchoring on the correspondent relationship and alliance products with the international banks/exchange houses.

The network at the remitter's end comprises the local banks, building societies, money transfer operators (MTOs), Postal system and the overseas branches or associate offices of the Indian banks. At the receiving end, the entities are Indian banks, branches of foreign banks, Indian Post, MTOs, non-bank finance companies, travel companies and FMMCs. Presently, there are about 87 commercial banks designated as authorized dealers, which can receive and transfer remittances. Besides, there are 53 Money Transfer agents. The informal agents include unregistered entities such as hawala dealers, returning migrants, friends, relatives and trading companies. Designated post offices can only receive remittances. Globally, post offices are involved in the cross border remittance transfer business given their wider branch network. In India postal system for cross border transfer of remittances is mainly used by the WUMT to deliver funds in wider locations.

It is interesting to note that in the case of India while the traditional banking channel (*i.e.,* wire transfer, drafts and cheques) accounts for bulk of the inward remittances, two other channels, *viz.,* Money Transfer Service Scheme (MTSS) and Rupee Drawing Arrangements (RDA) that provide benefits of easier and speedier operations have assumed significance in expanding the delivery of remittances.

Money Transfer Service Scheme

MTSS 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. Only personal remittances such as remittances towards family maintenance and remittances favouring foreign tourists visiting India are permissible. The principal should be a registered entity licensed by the Central Bank/Government or any other regulatory authority for carrying on money transfer activities or where money transfer is an unlicensed activity, the principal should be licensed/supervised by any other regulatory/supervisory body in the host country. The Indian agent who has to be an Authorised Dealer (AD), Full Fledged Money Changer (FFMC) or registered Non-Banking Financial Company, IATA approved Travel agent requires RBI approval to enter into such an arrangement. The agent is allowed to open a special rupee account with an AD through which all the remittances disbursed under the scheme, are to be routed. The Indian agent pays the beneficiaries first, on instructions from the overseas principal and is reimbursed the amount and his commission, by the overseas principal, within a day or two through normal banking channels.

a) Only personal remittances shall be allowed under this arrangement. Donations/contributions to charitable institutions/Trusts shall not be remitted through this arrangement.
b) A cap of US$ 2,500 has been placed on individual transaction under the scheme.
c) Only 12 remittances can be received by a single individual during a year.

Information/documentation requirements by agents include name and address of the overseas principal with whom the MTS will be conducted, full details of the operation of the scheme by the overseas principal, list of branches in India and their addresses where MTS will be conducted by the Agent, estimated volume of business per month/year under the scheme, balance sheet and profit and loss account for the last two financial years, if available.

Rupee Drawing Arrangements

Under RDAs Indian banks have participated with various exchange houses and banks in the Middle East countries in order to provide the money transfer products to the Indian workers employed in the Gulf region. For example, for direct credit of accounts with ICICI Bank in India or issuance of demand drafts at more than 1250 locations the arrangements are made through partner exchange houses/banks in Bahrain, Oman, Kuwait, Qatar, Saudi Arabia and UAE. HDFC bank operates through the arrangement with exchange houses in the Gulf region with Bahrain, Oman, Kuwait, United Arab Emirates, Saudi Arabia and Qatar.

Informal Channels

Informal channels of money transfer are recognized to be inexpensive and the best methods to transfer money to remote locations and are perceived to be more customary for small value transactions. These methods through, have some element of credit risk, are more popular among the illegal migrant workers who do not have easy access to the banking system due to cumbersome identification requirements for operating formal channels. It may be noted that there is a lack of firm data and information available on informal form of remittances, except for anecdotal evidences on the estimates on magnitude. In India, during the mid-1980s around 25-30 per cent of the total remittances from the middle-east countries were reported to be routed through informal channels. El Qorchi, Maimbo, and Wilson (2003) have estimated the size of unrecorded remittances to India at US $ 23 billion for the period 1981-2000, with a 16 per cent share in total private transfers (recorded and unrecorded transactions taken together). However, during the 1990s, use of informal channels appears to have significantly diminished due to the liberalization of foreign exchange regime and reforms in the payments infrastructure and competition in remittance market. Practically speaking, there is no system to capture informal remittances, if any. In a broader perspective, if the migrants visit home country frequently, there is greater possibility of cash and in-kind transfers, rather than the transfers through the formal channels.

5. Measurement of Workers' Remittances

The response to gaps in remittance statistics at the global level has been manifested in the form of discussions about the conceptual clarity and gearing up the statistical systems with the objective of providing internationally comparable statistics. The country practices in data compilation assume importance to understand as to how comparable are the statistics on remittances across countries and avoid confusion created by divergent sets of statistics released on cross-border remittance flows. Appropriately capturing workers' remittances in most developing countries is a daunting task. The BPM5 defines *workers' remittances* as current transfers by migrants who are employed in new economies and considered residents of those economies. The inflows on account of remittances can also take the form of in-kind transfers, remittance brought through persons periodically visiting the home country and funds transferred by non-residents through various other channels such as the special deposit schemes designed to attract such inflows, which are subsequently transformed into local deposits/channelised into the domestic economy effectively as unrequited transfers.

The statistics on remittances in India is compiled as per the guidelines set out in IMF's balance of payments (BoP) manual and disseminated on a quarterly basis as part of the release of the data on India's BoP. Furthermore, the disaggregated data on remittances are released on an annual basis in the article on "India's Invisibles" in the RBI Bulletin.

Data Sources and Measurement of Workers' Remittances

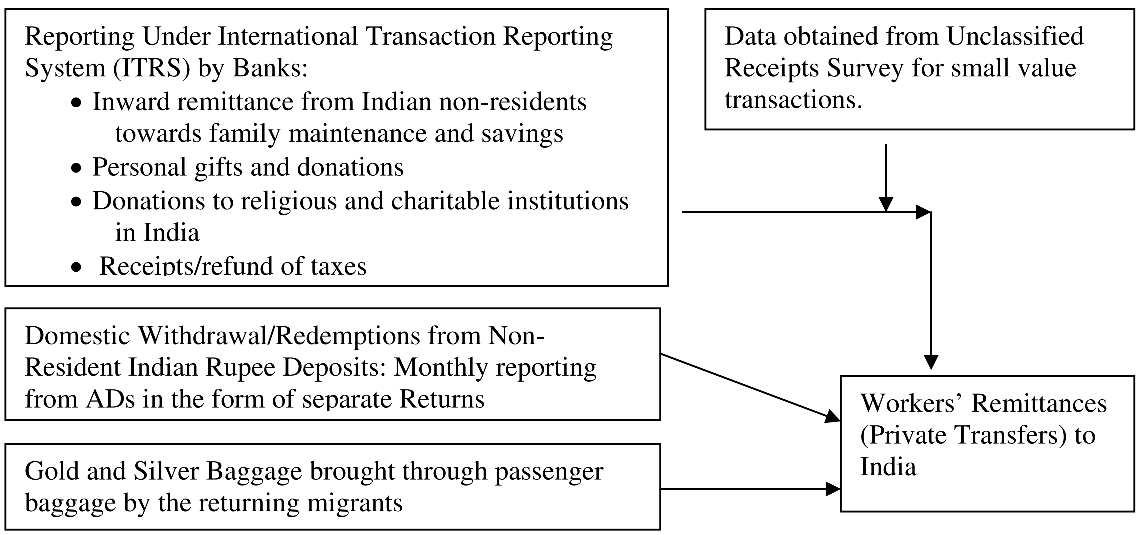
The remittance statistics of India is based on the following sources:

(i) Reporting by banks/ADs under the ITRS.
(ii) Survey of small value transactions on receipts.
(iii) Funds locally withdrawn from the rupee denominated deposits for various purposes by the person authorized by the NRI.
(iv) Information available on inflows on private foreign donations.

In case of transactions through ADs the details of inward remittances below a threshold are not reported due to liberalized guidelines for ADs to report foreign exchange transactions. For small value transactions, a Survey of Unclassified Receipts is also conducted.

In the Indian context, the workers' remittances, placed in a broader framework, are also linked to export of a number of professional and business services which entail movement of natural persons to render such services abroad (Singh, 2005). Remittances by migrant workers also include repatriation of funds for family maintenance and local withdrawals from the non-resident Indian (NRI) deposits, which have grown in significance, which currently constitute about half of the remittance flows to India. In India, during the decade of the 1980s a number of instruments were designed to mobilize inward remittances from migrants by offering attractive returns, options for denomination in domestic/foreign currency, repatriability and liquidity (Jadhav, 2004). These are channelised through NRI deposit schemes viz., Foreign Currency Non-Resident (Bank) Account and Non-Resident (External) Rupee Account. The inflows by way of NRI deposits subsequently assume the form of "local withdrawal" from these deposits denominated in Indian rupees (Figure 3). While in the ' first lag' of inflow, funds remitted form part of NRI deposits, in the 'second lag', the funds withdrawn locally get included as component of private transfers. Since the funds remitted by NRI's through this channel are characteristically not different from worker's remittances, the exclusion of such remittances from the statistics of worker's remittances masks the actual magnitude of such remittances and their economic impact. The local withdrawal of NRI deposits denominated in rupees is reported through a separate reporting system outside the ITRS, where ADs submit monthly returns on details of these transactions.

Figure 3: Inflow of Workers' Remittances to India



Migrants may be more likely to remit into savings account if they can have foreign currency denominated accounts, higher than normal interest rates, tax exemptions, better exchange rate etc. (Meyers, 1998). Under the extant system of BoP accounting, such deposits get classified as capital account transactions. It would be pertinent to examine the temporary parking of remittances under various deposit schemes and subsequently withdrawal by the residents for local use.

Compensation of Employees

Another form of BoP labour related flows to assess services delivered via Mode 4 is *compensation of employees,* which comprise wages, salaries and other benefits (in cash or kind) earned by individuals for work performed for and paid by residents of new economies. Employees in this context include seasonal or other short-term workers (employed for less than one year) who have centers of economic interest in their own economy. In India, receipts under the head 'compensation of employees' are recorded through the ITRS. These are also supplemented by a Survey of Unclassified Receipts. Payments are captured mainly through the ITRS.

Besides the conceptual issues in measurement, the low volume of compensation of employees in the Indian context could be attributed to factors such as low ratio of employees to the Middle East with duration of stay below one year (6 per cent), employees on short term contract being in the pay roll of the parent company leading to drawl of salary in India rather than in the host country.

Compensation of Employees

Receipts
- Wages received by Indians working on foreign contracts - ITRS
- Survey of small value transactions

Payments
- Payment of wages/salary to Non-residents working in India - ITRS

Emerging Issues

The compilation of data on workers' remittances and compensation of employees in India are relatively comprehensive in nature and based on sound recording systems of the formal channels, which mainly relies on information on transaction data from the banking system. There are, however, some challenges that need to be resolved in order to further enhance the data reporting systems. These are outlined below.

First, progressive liberalisation in foreign exchange transactions with easing of documentary requirements for the entities engaged in cross-border transactions has resulted in some deterioration in the quality of data reported. At the same time there is trade-off between comprehensive information and the 'reporting fatigue' of the reporting entities, translating into poor data quality.

Second, a major challenge emanates from the threshold for reporting the purpose of the transactions. While the trade and service transactions tend to be higher in value, the average size of a personal remittance transaction tend to be much smaller than the limit set for reporting the purpose of transaction. These are classified based on the survey results. Any biased reporting in the periodical surveys may affect the quality of remittance data.

Third, under the extant regulations, a returning NRI is allowed to carry without Customs declaration amounts in cash component up to US $ 5,000 (or equivalent in other foreign currencies) along with traveller's cheques with the sum total of the two aggregating US $ 10,000 or equivalent in other foreign currencies. NRIs may also bring any amount after declaring at the customs counter. Such inflows are difficult to capture properly.

Fourth, similarly the goods brought by the returning workers in passenger baggage, except gold and silver, are not captured. Furthermore, at the Custom clearance, the goods brought in passenger baggage may be difficult to classify between the returning Indian tourists and the migrants.

Fifth, capital transfers by the migrants are not distinguished separately.

Sixth, how to treat compensation of employees in country specific situations? For instance, in the Gulf region, which is one of the important sources of remittances to India through unskilled and semi-skilled workers, the workers are generally employed on contract preferably for a period of 2-3 years. Although these are essentially short-term contract workers, their compensation gets classified as remittances.

The response to some of these issues has been increased interaction with the reporting entities on the transaction data. The reporting entities are imparted training on reporting system as and when changes are effected in the reporting formats.

6. Conclusion

The debate on appropriate measurement of workers' remittances and the greater need for conceptual clarity about such statistics both for the compilers and the users raises certain important issues.

First, lack of uniformity in properly identifying and measuring remittances of migrant workers constrains the scope of international comparability. For instance, in many countries workers' remittances are repatriated in the form of deposits, which subsequently get translated in the form of transfers to residents as unrequited transfers. These country specific formats of remittance transfers and their inclusion in the remittance statistics need to be clearly recognized. Thus, the definitional issues need clarity to provide direction to the compiling counties to produce comparable statistics.

Second, the experience of developing countries suggests that the survey method has its own limitations due to poor response of participants, particularly in a more liberalized environment. Even under the ITRS, the introduction of formats seeking disaggregated information does not ensure quality of data when respondents are either not cautious in classifying the detailed transactions or lack adequate skill to handle such information. Missing incentive systems for the reporting entities may also result in inadequate data quality.

Third, is there a need for synthesizing statistics on remittances and the migration statistics? To what extent the migration statistics can keep pace with the requirements of compilation of remittances in terms of updated information, and attributes such as changing structure of migrant stocks, skill classification, average income levels, duration of stay etc. Possibility to develop an appropriate information system through coordinated efforts of migration authorities, immigration offices, the population census and the BoP compilers? The scope for sharing the host country statistics on immigration, which is presumably credible due to firm record of immigrants.

Fourth, as many countries rely on the ITRS, it becomes extremely difficult to segregate between workers' remittances and the compensation of employees by the reporting entities. The thin dividing line is conceptual rather than functional and more often the reporting entities do not have details on the period of stay.

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