NCAER

National Remote Payments Survey

MARCH 2014

NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH
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Foreword

India is a large country by any measure. For all countries, and more so for a large country with a population that is increasingly on the move, an efficient, low-cost, reliable, and universally accessible remote payments system that links all parts of the country is vital to spur economic activity, to create opportunity, and to improve well-being. Such a domestic remittances and payment system can play a significant role in poverty reduction by improving consumption decisions as well as the ability to invest in human and physical capital at lower risk. There are numerous international examples of how payments system innovations have made signal contributions to financial inclusion in the process of development. And payments systems are often the entry point to the delivery of a comprehensive suite of financial services that can enhance household welfare, particularly for poor households.

Despite the significance and importance of a national payments system to the domestic economy, research on domestic remittances in India has been severely limited by the lack of nationally representative data on such remittances. Most of the studies on domestic remittances in India tend to focus on a pair, or pairs, of states that are prominent in out-migration and in-migration. The latest round of NCAER's *National Survey of Household Income and Expenditure* (NSHIE) attempts to fill this void. The nationwide NSHIE survey covers all 32 states and union territories and both rural and urban areas. This latest round of NSHIE, completed in 2012, is a continuation of NCAER's Market Information Survey of Households (MISH) that NCAER started in *1985–86* to begin to collect systematic national data on the socioeconomic characteristics of households, along with household income and expenditure. MISH, and now NSHIE, are the only sources of such data that go back to the 1980s and that are available on a nationally representative basis.

The primary objective of this study based on the latest NSHIE and supported by the Bill & Melinda Gates Foundation, is to provide reliable data to better understand private remittances across households, rural and urban areas, and the states in India. The data allow us to explore the socioeconomic characteristics of migrant, non-resident household members making the remittances as well as that of the recipient households; the purpose, frequency, method, and costs of sending or receiving domestic remittances in India. The data will help ultimately to broaden and deepen research and our understanding of the ways in which policy and implementation can facilitate a more efficient payment system that is also inclusive.

The study provides national estimates of the size of the Indian domestic remittances market and a detailed analysis of remittance flows across states and rural and urban areas during 2010–11. Total domestic remittances received by households as estimated from

the NSHIE survey were large, some 11.5 million households receiving remittances amounting to some Rs 0.5 trillion in 2010–11.

The study finds that the larger part of this market for remittances is not within the formal financial system. At the national level, some 55 per cent of households that receive remittances reported receiving remittances through informal channels. And households tend to rely on informal channels to transfer money even in the presence of formal sector alternatives, suggesting that their payment needs are not being met due to complex documentation procedures and other factors such as costs and time in some important way by the formal financial system.

The study indicates that while remittances are common for all households across the income distribution, 41 per cent of households receiving remittances belong to the bottom 30 per cent of the income distribution. For approximately two thirds of households that receive remittances, the remittances are a major source of household income and important for household welfare and budgets.

The data provides a number of insights into who sends money and who receives it and what the money is used for. For example, analysis of the socioeconomic characteristics of non-resident family members sending remittances shows that such migrants are more educated on average than the family members they have left behind. And 97 per cent of remittances received are for the purpose of supporting immediate family members and 90 per cent of remittances are made on a monthly and quarterly basis.

The study also sheds light on economic geography and migration patterns. The data support the widely held perception that many migrants come from the lower income states of Bihar and Uttar Pradesh. These two states together account for 60 per cent of the total domestic remittances received.

There is a wealth of other information in the study, and various extensions of this work on remote payments are planned. The key conclusion running through the work is that much more can be done to improve the efficiency of and access to India's domestic remittances market. The bulk of this market remains informal, suggesting considerable scope for increasing its efficiency, transparency, and cost-effectiveness if the formal system can cater better to the needs of the market utilising improved digital technology platforms, economies of scope and scale, and improved incentives and financial regulation. And, if payments systems can improve, they can lead the way to better delivery of financial services for all, but particularly for poor people.

In ending, I'd like to thank the Gates Foundation for their generous support for this work, the entire research team lead by Dr Anil K Sharma and comprising Ishan Bakshi, Preeti Kakkar, and Amit Sharma at NCAER for undertaking this work, and the larger NSHIE survey team at NCAER for making it possible to have this important national data available for the first time in India as part of NSHIE.

New Delhi
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Director-General
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Contents

List of Tables

List of Figures

Annexure A:

List of Annexes Tables

Annexure A:

List of Annexes Figures

Executive Summary

BACKGROUND

India is home to one of the largest internal migrant populations in the world and domestic remittances (person to person) by them have a significant impact on the socioeconomic conditions of the households receiving remittances. 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.

Despite their significance and importance to the domestic economy, research on domestic remittances in India, however, has been severely limited primarily due to the lack of nationally representative data sets. Barring the exceptions of the NSSO's employment and unemployment and migration survey of 2007–08 there hasn't been any national level survey that has collected information on domestic remittances. Hence, most of the studies on domestic remittances in India tend to focus on state specific corridors.

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 attempts to fill this void. The NSHIE is a continuation of Market Information Survey of Households (MISH) through which NCAER has been collecting data on the socioeconomic characteristics of the households along with household income and expenditure. The purpose of these surveys has been two fold – (i) to provide reliable estimates of market size and penetration levels of various consumer products and (ii) to provide a detailed socioeconomic profile of households. These surveys have been one of the few consistent sources of providing comparable estimates of household income data on a regular basis.

The current survey was divided into two phases. In the first phase a listing of 500,000 households was conducted to obtain a sampling frame. This exercise covered 32 states and union territories, spanning 292 districts, 2508 villages, 363 towns and cities, and 2712 urban blocks. In the second phase 100,000 households were selected from the 500,000 listed households for collecting detailed and more comprehensive information. A three-stage stratified sample design was adopted where households formed the

primary sampling unit. Districts, villages and households formed the first, second, and third stages of sampling for selection in rural areas; while cities/towns, urban blocks, and households formed the three stages of sample selection in urban areas.

MEASURES OF REMITTANCES [1]

A separate module was dedicated to collect information on remittances, wherein three separate measures of the remittances were used to record the quantum of domestic remittance flows. First, the aggregate measure of the remittances included person to person transfer of remittances from all sources accruing to the households during the financial year 2010–11. The second measure of the remittances pertained to those received from all non-resident family members. To estimate this, households were first asked to list all non-resident family members, who were not residing with the household for a period of at least six months. And, information on remittances sent and received during the reference period was then collected for all these non-resident members from the households. The third and final measure of remittances was canvassed in a separate but detailed section designed specifically to examine various facets of the remote payment market in India. This section recorded remittances transferred 'during the past three months' when the survey was conducted.

- *According to the first measure (person to person remittances from all sources), about 1.15 crore households (11.5 million) received remittances totalling to Rupees 49,501 crore (495 billion) 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 per cent of the total remittances. The remaining 14 per cent of the households were located in urban areas and they accounted for the balance 17 per cent of the total remittance flows. A large section of the remittance recipients are less educated, involved in low paying jobs, and belong to the lower end of the income distribution. The study indicates that while remittances are common for all households across the income distribution, 41 per cent of households receiving remittances belong to the bottom 30 per cent of the income distribution. Among various states of the country the two states, Bihar and Uttar Pradesh together accounted for 60 per cent of all households receiving remittances and approximately 61 per cent of the total remittance flows.

- *The second measure of remittances is the person to person remittances received or sent to non-resident family members during the financial year 2010–11. The study shows that approximately 8.8 million households reported having received remittances from non-resident family members.* The total domestic remittances market for non-resident family members in 2010–11 was estimated to be Rupees 39,463 crore (394.63 billion). A substantial portion of this market (87 per cent) is accounted for by households living in rural areas. A comparison of our estimates with those arrived at using the NSSO data for 2007–08 shows that there has been a 34 per cent

[1] These include person to person remote payments and do not include payments by the government, utilities, and other such sources, etc.

increase in nominal terms in these remittances to rural areas in three years between 2007–08 and 2010–11. The states of Uttar Pradesh and Bihar again account for a substantial portion of the total number of households receiving remittances, a scenario similar to the one observed above. These two states taken together accounted for more than two-thirds of all households receiving remittances and a third of all households sending remittances.

- *The third measure of remittances used in the study was the person to person remittances sent or received by the households during 'the last three months' at the time of survey.* The remittances in this measure were not restricted to non-resident family members but included remittances extended other family members and friends. Thus transfers from/to extended family were covered in this section. The states accounting for the bulk of such flows remain the same with Bihar and Uttar Pradesh topping the list followed by Andhra Pradesh and Maharashtra, respectively. These rankings are somewhat similar to the ones observed in the case of the other two measures of remittances.

PURPOSE, FREQUENCY, MODE, AND COSTS OF SENDING REMITTANCES

The survey also collected information on various other facets of the remittances market. These include the purpose of sending remittances; the frequency with which transfers are made; the channels through which the transfers area executed; the costs incurred while making these transfers; and, the time involved in completing the transfers. Needless to say, a certain degree of interconnectedness was observed in these facets of the remittances market. *For example, there is a direct relationship between the channels through which the transfers are made and the costs incurred, just as there is a relationship between the frequency of the transfers and their end use.* All these in turn have a bearing on the actual potential of this market for the formal financial system.

For the transfers made during the last three months, which were both sent and received, households were asked to rank the reasons for which the transfers were made. For each particular reason they were also asked to state the frequency with which the transfers were made as well as the primary modes or channels through which the transfers were made. For the purpose of this study, the discussion was limited to only the primary reasons which the households attributed for making the transfers.

- *Of the bulk of the person to person remittances received, about 97 per cent were for the purpose of supporting immediate family members.* There was very little variation between the rural and urban estimates, with marginal differences in those households who received remittances for supporting members outside the immediate family.

- *With respect to the frequency with which these transfers are made, a little under two-thirds of the households that received remittances got transfers on a monthly basis.* About 33 per cent of the households received a transfer once in three months, while approximately 5 per cent received a transfer once in a week/fortnight. Other micro level studies

also corroborate the claim that migrants send money after fixed intervals mostly on a bi-monthly, monthly or quarterly basis. To a large extent the frequency of the transfers is also determined by the nature of employment of the migrant and the end use of the remittances. Regular salaried, for example, remit on a steadier monthly or quarterly basis, while those engaged in labour jobs may remit at irregular intervals. Remittances made for the purpose of supporting family consumption needs could be more frequent than those made for meeting education or health expenditures.

- *The information on the frequency of the transfers by their end use reveals that remittances received for the purpose of supporting immediate family members and other friends and families are mostly received on a monthly basis.* However, out of remittances that are meant for the purpose of purchasing goods and services and for business, or paying utility bills and salaries, around 47 per cent are received on a monthly basis and 50 per cent on a quarterly basis. These numbers support the claim that the frequency of remittances is determined not only by the channel through which the transfer is carried out but also by the end use of the remittances.

- *To examine the extent of financial inclusion of the remittent households, information was sought if they had bank accounts. About two-thirds of the total households receiving remittances had bank accounts.* On the question of viability of using a mobile platform for their financial transactions the data reveal that approximately 76 per cent of them owned a mobile phone. However, as the subsequent discussion shows, mere access to the formal financial system is not a necessary condition for its usage. A large number of households, who have access to the formal system, tend to favour the informal system for sending remittances. This underscores the importance of not only ensuring accessibility but also creating products and services that are tailor made to suit the requirements of such households. This is of particular interest to the really poor households which are using remittances to a greater extent for meeting their daily/monthly expenses.

- *According to the survey, 38 per cent of the total households receiving remittances at the national level got remittances via the banking system.* Intuitively, urban areas report a higher percentage of households using the banking system (54 per cent) compared to their rural counterparts (36 per cent). These estimates are well below the estimated number of households who have bank accounts. The main reason for such low levels of penetration of formal system among these households seems to be due to the two states – Uttar Pradesh and Bihar which account for the bulk of the remittances being received. The penetration of the formal financial system in these two states is less than the national average.

- *In rural areas, where the reach of the formal system is limited, the next most preferred alternative seems to be the delivery through friends and family members, followed by money delivered in person.* In urban areas, the banking system is followed by delivery through friends and family and in person with almost similar preferences for both

the channels. Money transfer services such as the ones offered by Western Union are more favoured in urban areas as opposed to post offices, with the latter more preferred in rural areas.

- *While at the aggregate level, 45 per cent of the households reported having received remittances through the formal financial system these numbers vary according to the end use of the remittances.* The numbers are the same when funds are routed to support immediate family members; however, informal systems dominate the formal system for making transfers for supporting other friends and families and the formal system is more important for transfers of activities related to business, paying bills, salaries, etc.

- *Interestingly, the use of channels for making transfers is correlated to the socioeconomic profile of the chief wage earner.* The use of the formal system increases with the increase in the education level of the chief wage earner. It is evident that more educated have higher levels of financial literacy and do not face any problems with respect to fulfilling procedural and other requirements. It is also likely that they are largely located in urban areas which have higher levels of penetration of the formal financial system.

- *The chief wage earners employed as labour (either agricultural or non-agricultural) have lower levels of education and thus rely on the informal system to a larger degree.* The opposite is the case with those engaged in regular salaried employment. The survey data clearly suggests that those with higher levels of education do tend to use the formal system, which supports the argument that in dealing with the formal financial system, the level of education and also financial literacy plays an important role.

- *This case is further strengthened when one looks at the quintile-wise use of formal and informal sources. The data suggests that households at the bottom end use informal systems while households at the top end of the distribution use the formal system.* One must also add that the size of the transfer also increases as we move from the bottom to the top end of the distribution. The more educated and better-off households place greater faith in the formal system.

- The cost incurred during the transfers can be of two types: (a) explicit cost – amount charged for remitting money and (b) hidden cost – the implicit charge incurred in the form of money paid by the recipient to access the funds, handling charges, bribes, and the opportunity cost for obtaining the funds. In the literature, there are conflicting views on the actual costs borne by the households making transfers. While some maintain that though the official charges of the formal system are low, total costs in terms of the opportunity costs of time, bribes, etc. add up to a significant amount. Additionally, those at the lower end of the income distribution are often subject to higher indirect costs.

- *The average fees paid as a percentage of the amount transacted was estimated to be 0.7 per cent for households sending remittances at the national level, while similar estimate for those receiving remittances was observed to be 0.6 per cent.* The latter estimate reflects the costs incurred by the households in accessing the remittances. There were, however, significant state level variations in costs incurred for both sending and receiving remittances. The estimates suggest higher costs incurred in sending remittances from Punjab, Bihar, Orissa, and Jharkhand. These four states also show the highest costs incurred while receiving remittances. The estimates presented here are on the lower side compared to other studies, which may be due to the fact that a large portion of the funds are transferred through the informal channels (through friends, family members, and in person transfers) as recorded in the survey.

THE WAY FORWARD

The results of this study indicate the huge potential market that currently operates through the informal system. With financial inclusion 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. Perhaps, 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.

Chapter 1

Introduction

"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

'Report of the Committee on Financial Inclusion'
C. Rangarajan, January 2008

Access to financial services is widely acknowledged, not only as a precursor for accelerating growth, but also for reducing income disparities and poverty. Research carried out over the years underscores the relationship between financial inclusion and economic development and growth, with financial inclusion as being one of the major determinants of economic growth (Rajan and Zingales 1998, 2003). Higher economic growth and infrastructure, in turn, play a crucial role in increasing financial inclusion. Thus, broadening and deepening the scope of formal finance forms an integral part of a country's inclusive growth strategy.

In addition to the well-known benefits of being included in the formal financial system – (a) access to a basic store-of-value account; (b) payment connections to peers; (c) payment connections to institutions (utility companies, enterprises, and governments); and (d) access to enhanced financial services (Radcliffe and Voorhies 2012), a growing body of research also indicates significant welfare impacts of connecting the poor to a financial system. These studies carried out in many parts of the world have demonstrated that the benefits the poor derive from being included extend far beyond those mentioned above. For example, a study in western Kenya found that access to a formal banking system led to an increase in productive investment by 45 per cent, personal expenditure levels were 27–40 per cent higher, and daily food expenditures among the poor female daily income earners were also higher (Dupas and Robinson 2010). The study also found that the women were better able to cope with health shocks. And they were additionally able to use their accounts to channel their savings into investments in their business. It is a known fact that for households living on the margin, expenses incurred on health, for which debt is usually incurred, are a negative shock that can push them back into the vicious cycle of poverty.

This body of research also indicates that the poor rely on networks to help them out in difficult times. These networks made up of friends and families serve as a safety net that households fall back on from time to time. Studies have also noted that technological platforms such as mobile phones have greatly impacted the lives of people living on the

margins by significantly expanding their networks. These networks are essential forms of the informal insurance which is widespread among the poor in developing countries. The poor regularly use these networks to mitigate negative income shocks that might arise from loss of employment, health related expenditure, crop failures, and so on.

Findings of yet another study in Kenya (Suri and Jack 2011) were similar to the ones mentioned above. M-PESA (mobile money) users were able to withstand negative income shocks on account of illness, crop failures, etc. without lowering their consumption. Interestingly, these 'connected' households received funds from a larger and more dispersed network of senders, which does lend credence to the view that the technological platforms have strengthened and significantly expanded insurance networks among the poor households and thus helped them to diversify risks.

Adoption of technology to aid developmental efforts can lead to significant 'other' gains as well. A study in Argentina (Duryea and Schargrodsky 2007) found that when the Ministry of Social Development changed the mode of transfer of their social welfare benefits from cash to electronic form, the percentage of beneficiaries reporting having paid a bribe to access their benefits dropped from 3.6 per cent to 0.3 per cent with 89 per cent of the beneficiaries finding the service easier and more efficient. Other studies focusing on the relationship between use of structured savings services and household welfare found that households in Philippines and Malawi who took up the product, had a higher level of savings, higher investments, and thus greater output (Brune, Gine, Goldberg, and Yang 2011).

However, large sections of the society in the underdeveloped and developing economies are unable to access formal sources of finance. Comprising primarily of households below the poverty line, the excluded are left with no alternative but to rely on informal sources of finance, and as a consequence they end up borrowing at extremely high rates of interest. Exorbitant interest rates ensure that borrowers get sucked into the vicious debt trap which exacerbates their inability to uplift themselves from abject poverty. This is particularly true when credit is utilised for non-productive consumption purposes and other emergency requirements such as medical expenditure and not for the purpose of enhancing the borrower's income through investments in productive and income generating assets.

Seen from the point of view of a formal system, serving the poor, especially the rural poor, is a high-risk, high-cost proposition for the following reasons. Firstly, given the irregular and often seasonal income streams of the poor, doubts about their timely repayment capabilities complicates matters for banks. This coupled with lack of collateral and difficulties in enforcing contracts creates problems in loan recovery and forces banks to adopt a cautious approach. Secondly, higher transaction costs due to small loan sizes, higher frequency of transactions, large geographical spread, heterogeneity of borrowers, and widespread illiteracy are some of the other factors that inhibit lending by formal sources.

It should, however, be pointed out that mere access to formal institutions is not a sufficient condition for ensuring inclusion as the poor may simply choose not to exercise the available options. This could be due to the inability or unwillingness of the formal system to bring out flexible products to meet the needs of the poor, which matches their irregular income and expenditure streams. Further, lack of proper documentation, lengthy and cumbersome procedures and demands for bribes also tend to act as deterrents, compelling them to hoard cash at home and avail finance from informal sources for their credit requirements.

The issue of financial inclusion in India is a much debated one, as even after sixty years of independence, a significant section of the population primarily the poor, are still excluded from the formal sources of finance. Although, over the decades, various attempts have been made and a plethora of new approaches have been experimented with. However, the ability of the formal sector to make significant inroads into the unbanked segment of the population continues to be severely limited.

Of late, in an attempt to bring the excluded into the ambit of the formal system, various new approaches have been experimented with. These include formation of Self Help Groups (SHGs), Micro Finance Institutions (MFIs), and the Banking Correspondents (BCs) model.

In a country where a significant portion of the population is still excluded from the financial system (some recent estimates place this number at 40 per cent), can such a platform akin to the ones mentioned in these studies be created to fulfil the goal of financial inclusion and yield larger welfare benefits? It is a well-known fact that over the past decade India has witnessed a communications revolution. Mobile penetration levels have increased significantly in both rural and urban areas. Can this increased penetration of mobile phones, coupled with a platform of identification such as the Unique Identification Number (UID), be utilised to accelerate the pace of financial inclusion?

One must simultaneously focus on the need to create financial products that are most suited to the needs of the excluded. A potential starting point could be the domestic remittance market, which has been successfully tapped in various countries. Some estimates suggest that domestic migrants estimated to be 100 million, remit approximately Rupees 38,000 crore every year, a figure which many believe to be an underestimate. Remote payments which include remittances from both friends and families and from other sources can serve as a unique gateway into the unbanked segment. Internationally, there are numerous instances where several providers have successfully tapped into this market by extending payment platforms deep into poor and rural communities. This could be the first step to bring the financially excluded into the ambit of the formal financial system.

The rest of this report has been organised as follows. Chapter 2 deals with the issue of migration and the importance of remittances for households. Chapter 3 provides the main results of the primary survey – a detailed analysis of domestic flows across states, the socioeconomic profile of non-resident household members as well as that of the recipient households. Chapter 4 deals with the frequency, modes and costs of sending remittances. And, Chapter 5 summarises the main conclusions that emerge from this study.

Chapter 2

Migration and the Role of Remittances

Migration is typically classified as either short-term or long-term in nature. Short-term migration which is essentially seasonal in nature, involves the movement of individuals to other districts or states in search of opportunities to enhance income. A typical example is the movement of labourers during the agriculturally lean seasons. Longer term migration typically involves a family member residing in a different location for a longer period. Migration is primarily an outcome of the differential rates of development. Various studies point out that bulk of the domestic migrants are from the poorer states/regions. This is precisely why remittances play an important role in reducing poverty. Interestingly, data also shows that these poor states also have the lowest levels of penetration of the formal financial system Dixit and Ghosh (2013).

There are various and conflicting estimates about the number of migrants and their socioeconomic profiles. The National Sample Survey and Census data, for example, point out that migration is principally from middle income households. However micro level studies of specific migration corridors show that migration is widespread among the poor as well. And, some studies show that bulk of the migration is low skilled in nature, while others argue that more recently, it is the high-skilled migration which has picked up pace.

Both domestic and international remittances, which involve substantial flows, have significant impact on the socioeconomic conditions of the household. Research over the decades reveals the positive impact of remittances on economic growth as well as poverty reduction as remittances can also lead to accumulation and ultimately an exit from poverty. Households typically use remittances to meet their consumption expenditure requirements. This may include expenditure on food, education and health. Flows may also be utilised for repaying loans and building up savings and investment. Thorat and Jones 2011, for example, argue that where opportunities exist and where consumption goals have been satisfied, remittances are used for investment purposes. Various micro level studies carried out over the years elaborate on the considerable impacts of remittances. Kannan and Hari's (2002) study on remittances in Kerala concluded that remittances accounted for 21 per cent of the state's income during the 1990s. It also reports that an increase in per capita income as a result of remittances has contributed to an increase in consumption expenditure in Kerala.

Studies show the positive impact of remittances on smoothening consumption, wealth creation, asset accumulation (Samal 2006) as well as increasing teen schooling attendance (Mueller and Shariff 2009). Increasing migration levels are also considered an 'important and stable source of external development finance' for households in the source regions (Ratha 2003). They may also aid in reducing transient poverty and at times even structural poverty (Kapur 2004).

Data from the NSSO (2007–08) also indicate that the principle use of remittances is in aiding household consumption expenditure in both rural and urban areas. Additionally, it was found that households in rural areas utilised remittances for debt repayment, while in urban areas households directed these flows for 'savings/investment' purposes. Pant (2008) argues that, whether remittances are utilised for consumption or for purchasing houses, or other investments, they produce a positive impact on the economy by stimulating demand for other goods and services. And, Rapoport and Docquier (2006) also show how household members who are left behind, use remittances to repay loans taken to finance migration, education, insurance, and other strategic motives.

Despite the large quantum of these flows, various studies have argued that a significant portion of these remittances from migrants flow not through the formal system, but through the informal system. Gopinath, *et al*. (2010) found that 57 per cent of the respondents in their study used an informal mechanism to transfer money. The study states that within the informal channel, the funds were routed mostly through hawala couriers.

Interestingly, while half of the migrants preferred to use banks for transferring money, the 'hidden' costs of obtaining documents needed to open accounts, costs incurred in travelling to the nearest branch, and other indirect costs meant that only 30 per cent of their sample used the banking system to transfer money. Thorat and Jones (2011) also come to a similar conclusion in their study.

Although, it is quite possible for the migrant to have a bank account at the place to which he has migrated, for the remittances to be transferred via a formal channel, both the sender as well as the receiver must be linked to the same channel/platform. In other words, simply including the migrant worker in the formal system is not sufficient to bring remittance flows into the formal system. The platform which can thus serve as a viable channel through which both the sender as well as the receiver can be brought into the formal financial system needs to be created. Bringing in the remittance flows into the formal system is the first step in the process of financial inclusion, as it forms the base on which other financial products and services can then be offered to them.

Chapter 3

Domestic Remittances

India is home to one of the largest internal migrant populations in the world, with some estimates placing the figure as high as 100 million (Deshingkar, et al., 2010). However, it is often pointed out that a large section of them lack access to basic financial services. This is attributed primarily to the low penetration levels of the formal financial system, lack of documents, and cumbersome and complicated procedures to operate banking facilities. Despite its significance and importance to the domestic economy, research on domestic remittances in India has been severely limited, primarily due to the lack of nationally representative data sets. Apart from the NSSO's employment and unemployment and migration survey of 2007–08 which collected information on remittances, there has not been any national level survey that has collected information on domestic remittances. Thus, barring a few studies, most of the studies on domestic remittances in India tend to focus on specific state corridors. Thus, although bringing domestic remittances into the ambit of the formal financial system forms an integral part of the campaign to increase 'financial inclusion,' limited information has restricted discussion on the same.

The present round of the 'National Survey of Household Income and Expenditure' (NSHIE) attempts to fill this void by collecting information on remittances. NSHIE 2010–11 is a continuation of a periodical survey carried out by NCAER to collect information on the socioeconomic characteristics of the households. These surveys, conducted since the mid-1980s, are one of the few to provide national level income estimates.

The current round, which collected information for the financial year 2010–11, covered 97,555 households and has information on a number of topics including household demographics, income, expenditure, savings and investment, debt and borrowing, and health.[1] There was a separate section dedicated to collecting information on remittances, wherein three separate measures of the remittance were used to record the quantum of domestic remittance flows. First, the aggregate measure of the remittances was

1. The survey was divided into two phases. In the first phase a listing of 500,000 households was carried out to obtain a sampling frame. This exercise covered 32 states and union territories, 292 districts, 2508 villages, 363 towns and cities, and 2712 urban blocks. In the second phase (the main survey) 100,000 households were selected from the listed households for a detailed and more comprehensive survey (Table C.1 in Annex C). A three-stage stratified sampling design was adopted where households formed the primary sampling units. The districts, villages and households formed the first, second and third stages of sampling in rural areas, while cities/towns, urban blocks, and households formed the three stages of sampling in urban areas.

collected in the section on household income. This includes remittances from all sources accruing to the households, during the financial year 2010–11[2]. The second measure of the remittances pertains to those received from all non-resident family members[3]. To estimate this, households were first asked to list all non-resident family members not residing with the household for a period of at least six months. Information on remittances sent and received during the reference period was then collected for all these non-resident members from the households. The third and final measure was in a separate but detailed section designed specifically to examine various facets of the remote payment market in India. This section recorded the amounts transferred 'during the past three months' at the time of the survey.

3.1 DOMESTIC REMITTANCE MARKET

The first measure is the aggregate measure, which includes remittances received from all sources accruing to the households during the financial year 2010–11.

According to our estimates, about 1.15 crore households (11.5 million) received remittances totalling Rupees 49,501 crore (495 billion) during the financial year 2010–11. Of the total households, 86 per cent were in the rural areas, and accounted for 83 per cent of the total remittances. The remaining 14 per cent of the households were located in urban areas and they accounted for the balance 17 per cent of the total remittance flows.

Table 3.1: Total Remittance Market in India (total amount received by the households)

	Total Remittance flows (in Rs '000 cr)	Percentage distribution	Number of households (in Rs lakhs)	Percentage distribution
Rural	41,066	83.0	98	86.0
Urban	8,435	17.0	16	14.0
Total	**49,501**	**100.0**	**115**	**100.0**

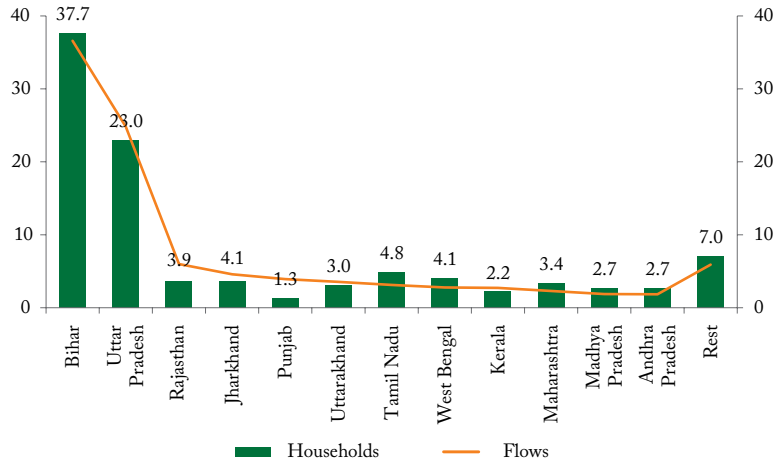
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

The chart below presents the state-wise household distribution as well as the total remittance flows during the financial year 2010-11. The estimates show that the two states of the country – Uttar Pradesh and Bihar together account for 60 per cent of all households receiving remittances and approximately 61 per cent of the total remittance flows. These estimates are similar to most other national level studies, which show that a significant portion of migrants and therefore remittance flows are concentrated in low income states of Uttar Pradesh and Bihar. The other major states that reported receiving income from migrants were Rajasthan, Jharkhand, Tamil Nadu, and West Bengal.

2. The amount sent to the household by the family members, extended family members, friends who are not residing in the household.
3. A non-resident member of a family is someone who is a part of the household, but has been away for more then six months in a year.

Interestingly, significant differences were observed in the rankings of states by the number of remittent households and the amount of flows. For example, states such as Tamil Nadu ranked higher in the list of households receiving remittances compared to the ranking based on remittance flows, which is primarily due to the variance in the amounts of transfers.

Figure 3.1: State-wise Distribution of Remittent Households and Remittance Flows (per cent)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

There are many factors which could influence the flow of funds from migrants to their households. The principal among them are surplus income in the hands of the migrant, requirements at home, channels through which funds are sent, and the periodicity of the requirements. Delving deeper into the size of transfers, Table 3.2 provides the state-wise median size of the remittance during the financial year 2010–11. The higher income state of Punjab reported the largest size of remittance, while the states of Uttar Pradesh and Bihar which account for the bulk of the remittances, reported the median sizes of Rupees 40,000 and Rupees 36,000, respectively. These translate into a monthly transfer of between Rupees 3,000 and Rupees 3,500. At the all India level also, the median size of remittance transferred was estimated to be Rupees 36,000, translating into a monthly amount of about Rupees 3,000.

Table 3.2: State-wise Median Remittance Transfer Amounts (Rupees)

States	Rural	Urban	Total
Rajasthan	48,000	72,000	60,000
Uttar Pradesh	40,000	40,000	40,000
Jharkhand	38,000	50,000	40,000
Bihar	36,000	45,000	36,000
Uttarakhand	26,000	100,000	30,000
Kerala	14,000	30,000	30,000
West Bengal	24,000	24,000	24,000

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

3.1.1 Socioeconomic Profile of Households Receiving Remittances

Data on the occupation structure of the remittance receiving households underscores the importance of remittances for these households much more starkly compared to the aggregate numbers at the state and national levels. The bulk of households receiving remittances (66 per cent) belong to the other category households, receiving income from 'other' sources, which essentially includes pension, remittances, rent, dividend, etc. and consist of housewives, students, unfit for work, unemployed or unpaid family workers. Rural areas have a slightly higher percentage of such households classified as 'others'. Given that households in the 'others' category fall in the lowest income strata one can argue that the remittances are a major source of income for these households, helping them maintain their consumption levels; and for many these remittances act as a safety net or protection against sliding into poverty.

Table 3.3: Distribution of Chief Wage Earners by Occupation (per cent)

Occupation	Rural	Urban	Total
Self-employed Agriculture and Allied	14.7	2.8	13.0
Self-employed Non-agriculture (OAW without hiring labour)	4.4	10.6	5.3
Self-employed Non-agriculture (Business with hiring labour)	0.0	0.8	0.2
Agricultural labour	3.1	1.3	2.8
Non-agricultural labour	6.8	11.0	7.4
Regular Salary	3.9	14.5	5.4
Others (receiving income from rent, interest, dividend, person, and remittances)	67.1	59.0	66.0
ALL	**100**	**100**	**100**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

These conclusions are reaffirmed when one examines data on the educational level of the chief wage earners. A cursory look at the figures in Table 3.4 is enough to conclude that households receiving remittances are not highly educated. In fact, at the national level, 47 per cent of the households receiving remittances had an illiterate chief wage earner and 24 per cent were educated only up to the primary level. And, rural areas reported a higher percentage of illiterate chief wage earners among remittance receivers as compared to urban areas.

Table 3.4: Distribution of Chief Wage Earners by level of Education (per cent)

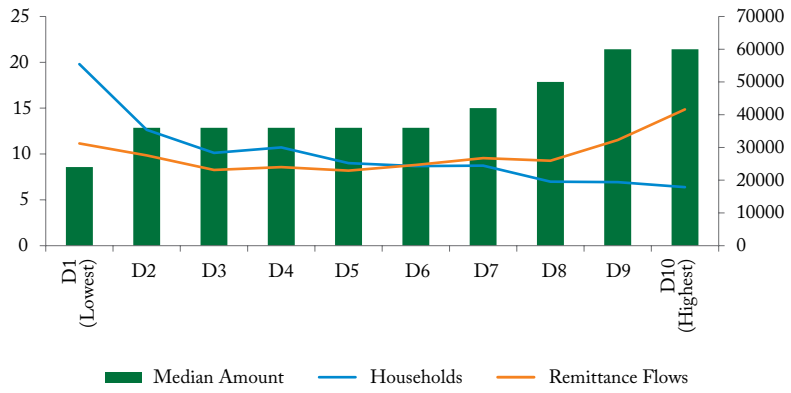
Education	Rural	Urban	Total
Illiterate	51.1	21.0	46.8
Upto Primary	24.2	24.4	24.2
Upto Matric	17.3	34.6	19.8
Higher Secondary	3.9	6.7	4.3
Graduate & Diploma	2.5	7.8	3.2
Post Graduate and above	1.0	5.5	1.6
All	**100**	**100**	**100**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure 3.2 below shows the decile-wise distribution of households receiving remittances, distribution of total remittance flows, and the median size of the remittance. The

bottom decile accounts for 20 per cent of all households receiving remittances and 11 per cent of total flows. Interestingly, the top decile also accounts for 6.5 per cent of the remittance receiving households, and they account for over 15 per cent of the total flows. This is principally on account of much higher size of the transfers, which is evident in the median size of the remittance for such households. The poorest of the poor, that is the bottom 20 per cent, account for 32 per cent of all households receiving remittances and 21 per cent of the total remittance flows. However, it is incorrect to assume that remittances are limited to only the poorest of the poor as they are received by households across the distribution though their share in income is much smaller at the higher levels of income.

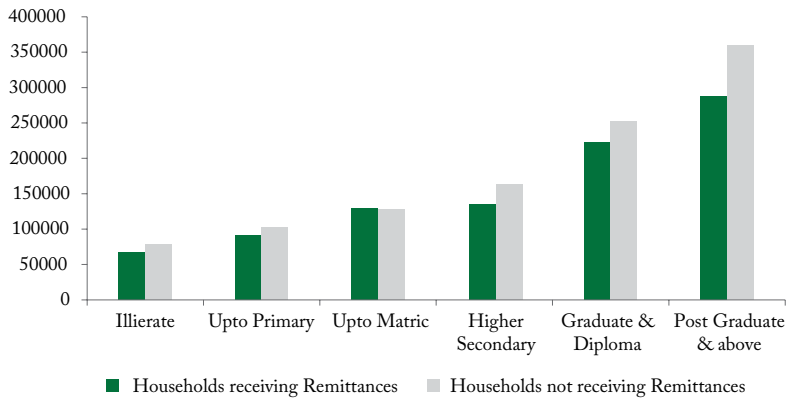
Figure 3.2: Distribution of Households and Remittance Flows by Deciles (per cent)



Deciles have been estimated on the basis of household income.

The average annual income of households receiving remittances was estimated to be Rupees 96,574 for the financial year 2010–11, which is lower than that of households not receiving remittances. If one examines household incomes for those receiving remittances and those who do not receive remittances by the levels of education of the chief wage earner, households receiving remittances have lower household incomes as compared to other households with similar socioeconomic profiles.

Figure 3.3: Average Annual Household Income of Households receiving Remittances and Households not receiving Remittances (Rupees)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

3.2 DOMESTIC NON-RESIDENT REMITTANCE MARKET

The second measure of remittances in our study is the remittances received or sent to non-resident family members during the financial year 2010–11. According to the estimates, approximately 8.8 million households reported having received remittances from non-resident family members. The total domestic remittances market for non-resident family members in 2010–11 was estimated to be Rupees 39,463 crore (394.63 billion). A substantial portion of this market is accounted for by households living in rural areas (87 per cent of the total). A comparison of our estimates with those arrived at through the NSSO (2007–08) data shows that there has been a 34 per cent increase in these remittances to rural areas in nominal terms in three years between 2007–08 and 2010–11.

Table 3.5: Domestic Remittances Market by Non-resident Family Members (Rupees crore)

Location	NSSO 2007–08		NSHIE 2010–11	
	Household remittance flows (Rs crore)	Percentage distribution	Household Remittance flows (Rs crore)	Percentage distribution
Rural	25,444	78.0	34,136	87.0
Urban	6,975	22.0	5,327	13.0
Total	**32,419**	**100.0**	**39,463**	**100.0**

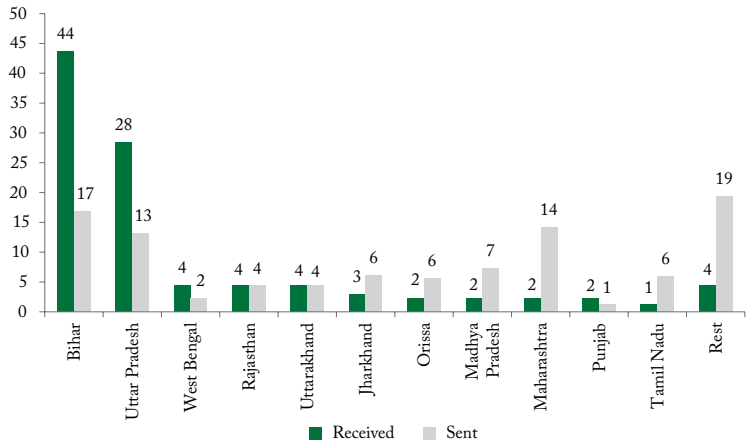
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

3.2.1 State-wise Distribution of Domestic Non-resident Remittances

Figure 3.4 provides the distribution of households who had either sent/received remittances to/from non-resident family members during the reference year 2010–11 across major states. It is evident that Uttar Pradesh and Bihar account for a substantial portion of the total number of households receiving remittances, a scenario similar to the one observed in section 3.1. These two states taken together accounted for more than two thirds of all households receiving remittances and a third of all households sending remittances. These two states are followed by Rajasthan, West Bengal, Uttarakhand, and Jharkhand. The state of Maharashtra emerges as a favoured destination for migrants. This is primarily due to its higher level of development and higher level of income compared to states where remittance receiving households are located.

These results are similar to other national level studies which indicate that while UP and Bihar are the major migrant sending states, they are also important migrant receiving states (Tumbe 2011). According to the 2001 Census as well, the states of Uttar Pradesh and Bihar together account for nearly 70 per cent of total migrants in India, with Uttar Pradesh having the largest number of out migrants, 2.7 million people. Our data does not allow us to distinguish between inter and intra state migration, hence it is conceivable that high proportions of migrants observed in Uttar Pradesh and Bihar could be on account of intra state migration from rural to urban areas, or from less developed regions to more developed regions.

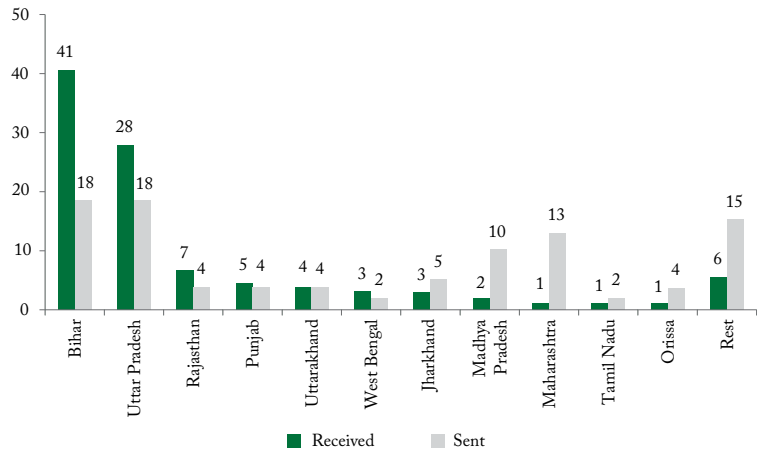
Figure 3.4: Distribution of Remittent Households across Major States during 2010–11 (per cent)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Tumbe (2011) also observed a similar pattern – Uttar Pradesh (20 per cent) and Bihar (12 per cent) were the top two domestic remittance receiving states. The two, along with Rajasthan, West Bengal and Orissa, received over half of the total domestic remittance flows. A similar scenario is observed Figure 3.5, which presents the distribution of remittance flows across major states. Bihar and Uttar Pradesh account for the bulk of remittance flows (both sent and received) with Maharashtra accounting for 12 per cent of the total remittances sent.

Figure 3.5: Distribution of Remittance Flows across Major States during 2010–11 (per cent)

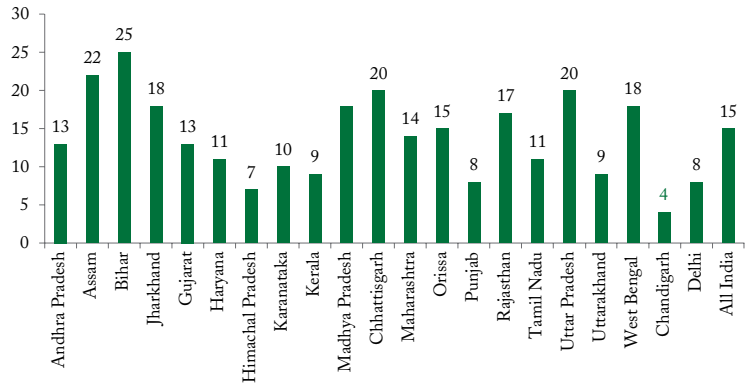


Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Interestingly, the low income states of Bihar, Uttar Pradesh, and Rajasthan which account for the bulk of the remittances received are also the ones that have the lowest penetration of the formal financial system (Figure 3.6). The data reflected show the state-wise average population served by the banks during the year. While the all India average population served per bank branch for all scheduled commercial banks stands at 15,000, for states such as Bihar, Uttar Pradesh, and Rajasthan the estimated figures were 25,000, 20,000, and 17,000, respectively.

A similar pattern is observed when one estimates the per capita number of bank accounts. Uttar Pradesh, Bihar and Rajasthan have much lower per capita bank accounts as compared to the all India average. The lower banking penetration which translates into lower number of bank accounts implies that a large section of the migrant households is outside the purview of the formal system. A creation of a platform that can make inroads into the rural hinterlands of states such as Bihar, Uttar Pradesh, and Rajasthan to tap these remittance flows and bring both the senders and the receivers under the ambit of the formal system, seems to be the first step in the long road to achieving financial inclusion.

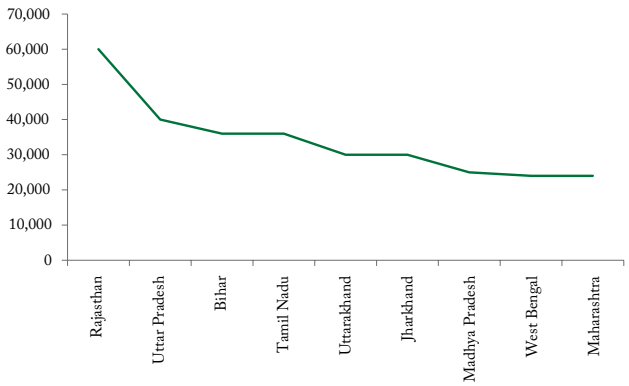
Figure 3.6: Penetration of the Banking System



(RBI data base.)

Figure 3.7 provides the median amount of remittances received per remittance receiving household from the non-resident family members during 2010–11. The all India median remittance amount estimated to be Rupees 36,000 translates into a monthly amount of Rupees 3,000. No significant differences were observed between the national level rural and urban estimates. The highest median amount of remittances was observed in the state of Punjab, while the main remittance receiving states (Bihar and Uttar Pradesh) reported estimates that were similar to the national level estimates. One must however bear in mind, that the size of the transfer varys across the income distribution, with households at the lower end of the distribution reporting lower sizes of transfers while those at the top reporting higher sizes of transfers.

Figure 3.7: Median amount of Remittances received per Remittance receiving Household from Non-resident Family Members (Rupees per annum)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

3.2.2 Socioeconomic Profile of Non-resident Family Members

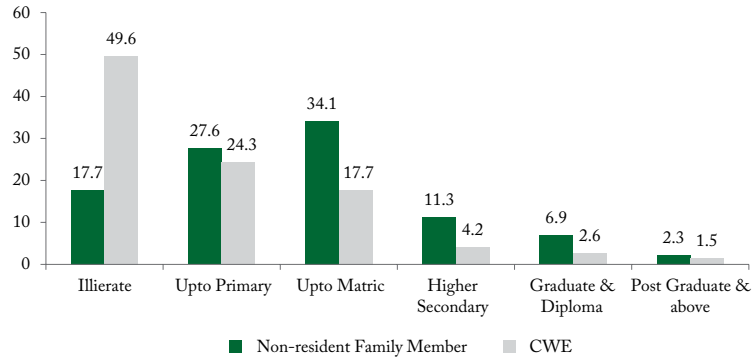
Different studies provide conflicting socioeconomic characteristics of the non-resident family members. Both the census as well as the NSS data indicate that a major part of India's migrants belong to the middle class. And, migrants belong to higher educational categories as compared to their non-migrant counterparts, which is taken to indicate that those with higher levels of education find it easier to establish the linkages necessary for migration, and thus benefit from the opportunities offered by migration. The census data also reveals that the incidence of poverty among migrants is lower compared to that of non-migrants, and that middle and higher income groups show a higher propensity to migrate.

On the contrary, micro-level studies paint a completely different picture and suggest that migration is heavily concentrated among the poor. They argue that though some migration is visible among the middle income households, migration is resorted to by the poorer, least educated, and most disadvantaged social groups. Such migration, which might be seasonal in nature, does help to prevent their slide into poverty.

Data presented here supports the narrative presented by the national level studies suggesting that the non-resident family members are on average more educated than their non-migrant counterparts. The incidence of illiteracy as recorded by our survey is much lower in the case of the migrants than what is observed in the case of households receiving remittances. While 18 per cent of the non-resident members were found to be illiterate, approximately 34 per cent had obtained education up to matric (10th standard). Furthermore, 11 per cent had education up to the level of higher secondary, while approximately 9 per cent were graduates and above. Intuitively variations do exist between the rural and urban areas, with the latter showing higher levels of education compared to the former.

If one examines the education level of the corresponding chief wage earners, the picture that emerges also supports the claim that migrants are on average more educated. For households receiving remittances from non-residents, 50 per cent reported having an illiterate chief wage earner. The educational levels attained were comparatively lower than what one observes in the case of migrants. Hence, it is possible, as has been argued elsewhere that higher education makes migration easier as individuals are able to avail the opportunities that more developed regions offer (Thorat and Jones 2011).

Figure 3.8: Distribution of Non-resident Family Members by Education (Sending Remittances) and Chief Wage Earners of Households (Receiving Remittances) (per cent)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Those Table 3.6 sheds light on the distribution of households by levels of education, who have sent or received remittances from non-resident family members and those who did not receive any remittances. Interestingly, there are marked differences among households who sent and received remittances to family members. The chief wage earners of households sending remittances had higher levels of education compared to the chief wage earners of households receiving remittances. This strengthens the widely held view that a large section of the remittance recipients are less educated, involved in low paying jobs, and belong to the lower end of the income distribution.

Table 3.6: Distribution of Chief Wage Earners by level of Education (per cent)

Education	Households sending remittances	Households receiving remittances	Rest
Illiterate	16.9	49.6	25.9
Up to Primary	24.8	24.3	27.6
Up to Matric	30.3	17.7	31
Higher Secondary	6.0	4.2	6.9
Graduate & Diploma	12.8	2.6	6.3
Post Graduate & above	9.2	1.5	2.2
All	**100**	**100**	**100**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

The distribution of non-resident family members by occupation is provided in Figure 3.9. The data confirms the widely held perception that migrant workers are primarily engaged in labour and salaried occupations, with 41 per cent of the non-resident members classified as engaged in the labour category, while 48 per cent were engaged in regular salaried employment. Significant variations were observed between the rural and urban areas. A larger portion of non-resident members in rural areas were engaged in non-agricultural labour, whereas in urban areas a higher portion was engaged in regular salaried employment. Typically engagement in a particular type of occupation is primarily a function of the level of education and employment opportunities. Therefore, it is not surprising to find more educated migrants engaged as regular salaried employees while the others are engaged as non-agricultural labour.

Figure 3.9: Distribution of Non-resident Family Members by Occupation (Sending Remittances) and Chief Wage Earners of Households (Receiving Remittances) (per cent)

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

There are also sharp differences in the occupation-wise distribution of households who sent remittances to non-resident family members and those not involved in any transfers. Among the sent category households a higher proportion was observed to be engaged in regular salaried employment and agriculture, while as mentioned earlier for a staggering number of households (70 per cent) receiving remittances, it serves as their primary source of income (Table 3.7).

Table 3.7: Distribution of Chief Wage Earners by Occupation (per cent)

Occupation	Households sending remittances	Households receiving remittances	Rest
Self-employed Agriculture and Allied	21.4	14.5	21.3
Self-employed Non-agriculture (OAW without hiring labour)	14.2	4.3	13.7
Self-employed Non-agriculture (Business with hiring labour)	2.0	0.1	1.1
Agricultural labour	3.9	2.2	11.6
Non-agricultural labour	6.9	5.8	27.5
Regular Salary	26.1	4.0	19.6
Others	25.5	69.1	5.1
ALL	**100**	**100**	**100**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

This underscores the importance of remittances for economically disadvantaged households. Micro level studies also emphasise the importance of remittances in rural household budgets. In the Udaipur district in Rajasthan for example, remittances accounted for between 42 to 48 per cent of total annual household earnings. In the Jhabua district of southern Madhya Pradesh, households in the three poorest quintiles were shown to earn between 65 to 70 per cent of wage income from seasonal migration (Thorat and Jones 2011).

The Table 3.8 shows the household incomes corresponding to the level of education of the chief wage earners. Annual incomes of households receiving remittances were lower than those not receiving remittances. This reaffirms the point made earlier that remittance receiving households are worse off than those sending remittances and the others. And that remittances are generally from much better off households to worse off households.

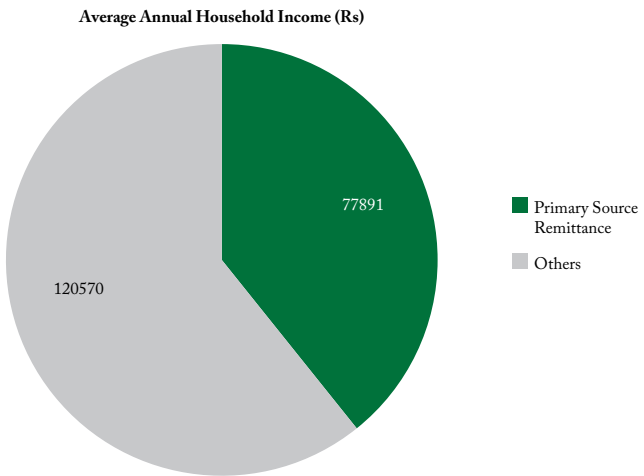
Table 3.8: Average Annual Household Income by level of Education of the Chief Wage Earner (Rupees)

Education	Receiving households	Non-receiving households	Total
Illiterate	69,318	77,670	77,703
Upto Primary	85,325	101,396	101,431
Upto Matric	125,479	127,432	127,503
Higher Secondary	127,753	162,406	162,423
Graduate & Diploma	217,970	251,553	251,590
Post Graduate and above	244,003	357,034	357,088
All	**92,109**	**122,137**	**122,174**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

The data from the survey also reveals that of the total number of households who reported receiving remittances, 48 per cent indicated that remittances were their primary source of income. Intuitively, if these households are actually dependent on remittances, then their average household income should be less than the rest of the households. This is exactly the case and is evident in Figure 3.10, which shows that average annual household income of those households for whom remittances were the main source of income was Rupees 77,686, which is roughly 40 per cent of the average annual income of households that do not receive remittances (Rupees 137,055).

Figure 3.10: Average Annual Household Income of Households receiving Remittances compared to Other Households (Rupees)

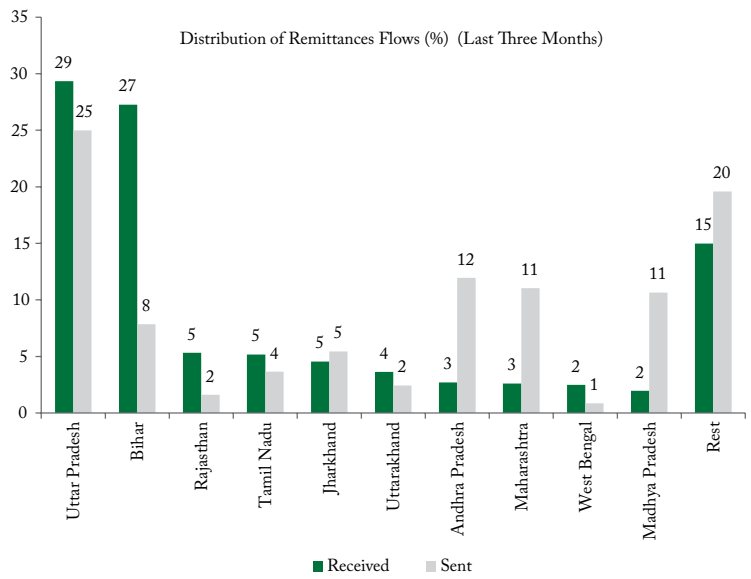


Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

3.3 REMITTANCES RECEIVED DURING THE LAST THREE MONTHS

The third measure of remittances recorded in the study was remittances sent or received by households during 'the last three months'. The remittances in this section were not restricted only to non-resident family members but included remittances from other family members as well as from different sources. Thus transfers from/to extended family were also covered in this section. The Figure 3.11 below provides the distribution of flows for major states during the last three months. The states accounting for the bulk of such flows remain the same with Bihar and Uttar Pradesh topping the list, while Andhra Pradesh and Maharashtra account for 12 and 11 per cent shares of the transfers, respectively. These numbers are similar to the ones observed in the case of other two measures of remittances.

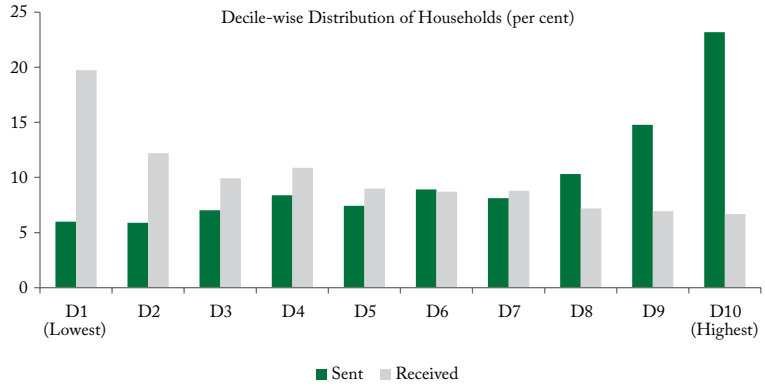
Figure 3.11: Distribution of Remittances Flows across Major States during last 3 Months (per cent)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

The Figure 3.12 below presents the relationship between remittance recipients and the distribution of income. About 20 per cent of the recipients belong to the lowest income decile, while only 6 per cent senders belong to the lowest income decile. The proportion of remittance receivers declines as one moves from the bottom to the top of the distribution. This again confirms that remittance receivers belong to the economically weaker sections of the society, for whom remittances provide the much needed resources.

Figure 3.12: Distribution of Remittent Households based on Annual Household Income by Deciles (per cent)



Deciles have been estimated on the basis of household income.

Chapter 4

Frequency, Mode, and Costs of Sending Remittances

The purpose of this chapter is to examine information on various other facets of the remittances market. These include the purpose of sending remittances, the frequency with which the transfers are made, the channels through which the transfers area executed, the costs incurred while making these transfers, and the time involved in completing the transfers. Needless to say, a certain degree of interconnectedness is observed in these facets of the remittances. For example, there is a direct relationship between the channels through which the transfers are made and the costs incurred, just as there is a relationship between the frequency of the transfers and their end use. All these in turn have a bearing on the actual potential of this market for the formal financial system.

4.1 PURPOSE AND FREQUENCY OF REMITTANCES

For the transfers made during the last three months both sent and received, households were asked to rank the reasons for which the transfers were made. They were also asked to state the frequency with which the transfers were made as well as the primary modes or channels through which the transfers were made. For the purpose of this study, the discussion is limited to the primary reasons which the households attributed for making the transfers.

Approximately 97 per cent of the remittances received were for the purpose of supporting immediate family members (Table 4.1). There was very little variation between the rural and urban households, with marginal differences in those households who received remittances for supporting members outside the immediate family, particularly in urban areas.

Table 4.1: Purpose of Remittances (per cent)

Purpose	Rural	Urban	All India
Support members of the immediate household	97.5	93.1	97.0
Support family members outside the immediate household	0.5	2.3	0.7
Support someone outside the family	0.5	2.0	0.7
Purchase goods or services for business purposes	0.1	0.8	0.2
Pay utility bills	0.1	0.2	0.1
Pay salaries	0.1	0.1	0.1
Others	1.2	1.5	1.2
All	**100.0**	**100.0**	**100.0**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

With respect to the frequency with which the transfers are made, a little under two-thirds of the households reported having receiving transfers on a monthly basis. About 33 per cent of the households reported having received a transfer once in three months while approximately 5 per cent reported having received a transfer once in a week/ fortnight. There were only slight variations between the households living in rural and urban areas, but one can easily conclude that majority of transfers are made on a monthly or quarterly basis.

Other micro level studies also corroborate the claim that migrants send money after fixed intervals mostly either on a bi-monthly, monthly or quarterly basis. To a large extent, the frequency of the transfers is also determined by the nature of employment of the migrant and the end use of the remittances. Regular salaried, for example, may remit on a steadier monthly or quarterly basis, while those engaged in labour jobs may remit at irregular intervals. Remittances made for the purpose of supporting family consumption needs could be more frequent than those made for meeting education or health expenditures.

Table 4.2: Frequency of Transfers (per cent)

Frequency	Rural	Urban	All India
Weekly	3.5	5.4	3.7
Fortnightly	1.2	1.3	1.2
Monthly	61.7	66.7	62.4
Quarterly	28.5	19.9	27.4
Half yearly	2.3	2.3	2.3
Yearly	2.8	4.5	3.0
All	**100.0**	**100.0**	**100.0**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table 4.3 sheds light on the frequency of transfers by their end use. The remittances received for the purpose of supporting immediate family members and other friends and families are mostly received on a monthly basis. However, of the remittances used for the purpose of purchasing goods and services and for business purposes, or paying utility bills and salaries, around 47 per cent are received on a monthly basis and 50 per cent on quarterly basis. These numbers explain that the frequency of remittances is also determined by the end use.

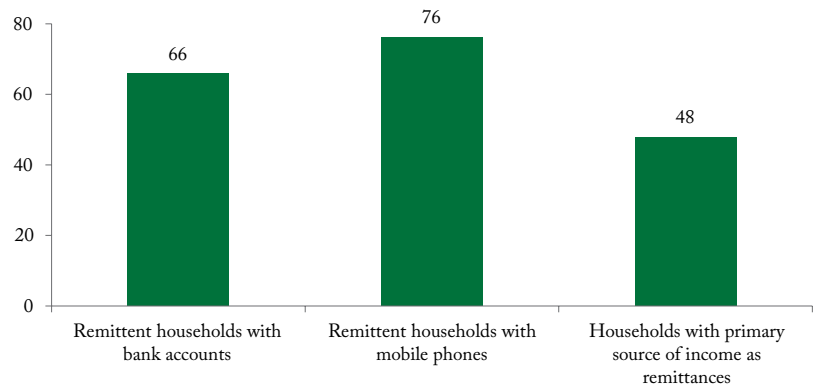
Table 4.3: Frequency of Transfers by the End Use of Remittances (per cent)

Reasons	More than once a month	Monthly	Less than once a month	Total
Support members of the immediate household	5.0	62.6	32.5	100.0
Support other friends and families	7.3	67.0	25.7	100.0
Purchase good and services for business purposes	2.2	47.4	50.4	100.0
All	**5.0**	**62.4**	**32.7**	**100.0**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

To examine the extent of financial inclusion of the remittent households, information was sought if they had bank accounts. About two thirds of the households who reported as having been involved in transferring remittances had bank accounts (Figure 4.1[2]). On the question of viability of using a mobile platform for their financial transactions, the estimates reveal that approximately 76 per cent of them owned a mobile phone. However, as the subsequent sections show, mere access to the formal financial system is not a necessary condition for its usage. A large number of households, who have access to the formal system, tend to favour the informal system for sending remittances. This underscores the importance of not only ensuring accessibility but also creating products and services that are tailor made to suit the requirements of these households. For example, in addition to the importance of a secure saving opportunity, easy and faster access to savings must be ensured. This is of particular interest to the really poor households which are using remittances to a greater extent for meeting their daily expenses.

Figure 4.1: Remittent Households with Bank Accounts, Mobile Phones, and Households Reporting Remittances as Primary Source of Income (per cent)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

4.2 MODES OF TRANSFERS

The only other comparable country of India's size with a large internal migrant population is China. A few studies estimate that the Chinese domestic remittances market is nearly three times the size of the Indian market (Cheng and Xu 2005). However, the crucial point that needs to be mentioned is that the formal sector in China accounts for 75 per cent of the total remittances market transactions as opposed to less than 30 per cent in India (Tumbe 2011). Roughly 45 per cent of the remittances are channelled through China Post, while 25 per cent are handled by the commercial banks (Cheng and Xu 2005). Various studies in India have documented that a substantial portion of

[2] There may be some overlaps in the households who have a bank account and those who own a mobile phone.

the domestic remittances flow through the informal system. The informal system which operates primarily through friends and family, couriers, bus services, hawala channels and in person transfers, is still widely preferred over the formal financial system.

Migrants prefer informal channels for a variety of reasons which among others include costs incurred in making transfers, and opportunity costs. Even access to the formal financial system is not sufficient to ensure its usage. Migrants may simply refuse to use the channel due to low levels of financial literacy, lack of penetration in the home region, and time consuming process. Intuitively, the lower a person is placed in the income distribution ladder the more likely is he/she to be excluded from the financial system or be more dependent on the informal system.

Transferring money through informal sources is more convenient and less time-consuming, although it must be pointed out that the risks associated with it are higher than the ones associated with formal sources. For example, money is transferred free of charge through friends or relatives who are travelling back to a migrant's hometown. Similarly, cash couriers operating in specific migration corridors whose livelihood is to travel and physically deliver cash for migrants, are another choice for making the transfers. Migrants may also prefer to transfer the amount themselves during trips to their own villages and towns for social occasions and between jobs. Although the formal financial system does offer security, speed, and cost effectiveness, attributes that are cherished by the migrants, but the system is not usually preferred owing primarily to the cumbersome documentation procedures, inconveniences faced, and insufficient levels of penetration.

According to the survey, 38 per cent households at the all India level reported having received remittances *via* the banking system (Table 4.4). Intuitively, urban areas report a higher percentage of households using the banking system compared to their rural counterparts with the former reporting 54 per cent while the latter reporting 36 per cent, respectively. These estimates are well below the numbers of households who have a bank account in both the regions. The main reason for the low levels of penetration of formal system among these households seems to be due to the two states – Uttar Pradesh and Bihar which account for the bulk of the remittances received. The penetration of the formal financial system in these two states is less than the national average.

In rural areas, where the reach of the formal system is limited, the next most preferred alternatives seem to be the delivery through friends and family members, followed by money delivered in person. In urban areas, the banking system is followed by delivery through friends and family and in person with almost similar preferences for both the channels. Money transfer services such as the ones offered by Western Union are more favoured in urban areas as opposed to post offices, with the latter more preferred in rural areas.

Table 4.4: Modes of Making Transfers (per cent)

Mode	Rural	Urban	All India
Friend/family member	30.8	18.8	29.2
Money transfer (Western Union)	2.2	4.4	2.5
Bank	36.0	53.8	38.3
Post office	5.2	3.3	4.9
Courier	2.4	0.2	2.1
Bus service	0.2	0.0	0.2
In person	22.8	19.2	22.4
Others	0.4	0.3	0.4
All	**100.0**	**100.0**	**100.0**

Note: Only the primary mode of transfer for each particular reason was used for this analysis.

At the aggregate level, 45 per cent of the households reported having received remittances through the formal financial system and these numbers vary according to the end use of the remittances (Table 4.5). The numbers are the same when funds are routed to support immediate family members, however, informal systems dominate the formal system for making transfers for supporting other friends and families and formal system is more important for transfers for activities related to business, paying bills, salaries, etc. However, not much variance is observed if one examines the frequency of transfers and the mode of transfers (Table 4.6).

Table 4.5: Modes of Transfers by the End Use of Remittances (per cent)

Mode	Support members of the immediate household	Support other friends and families	Purchase goods and services for business	Total
Formal	45.4	33.8	71.1	45.7
Informal	54.6	66.2	28.9	54.3
All	**100.0**	**100.0**	**100.0**	**100.0**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table 4.6: Modes of Transfers by the Frequency of Transfers (per cent)

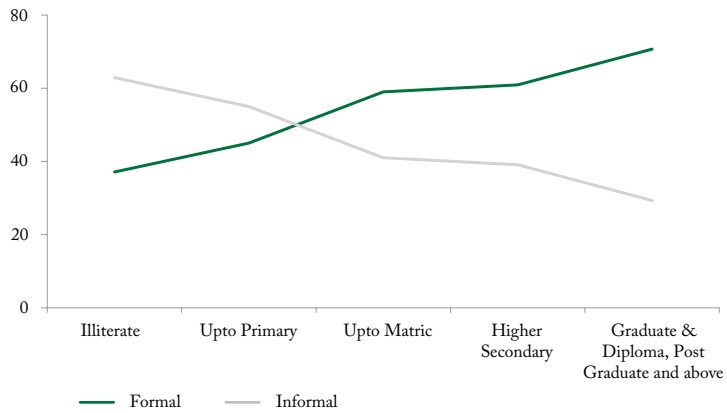
Mode	Weekly / Fortnightly	Monthly	Quarter	Total
Formal	4.9	63.5	31.6	100.0
Informal	5.0	61.5	33.5	100.0
All	**5.0**	**62.4**	**32.6**	**100.0**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Interestingly the use of channels for making transfers is correlated to the socioeconomic profile of the chief wage earner. As Figure 4.2 below shows, the use of the formal system increases with the increase in the education level of the chief wage earner. It is evident that more educated have higher levels of financial literacy and do not face

problems with respect to fulfilling procedural and know your customer requirements. It is also likely that they are largely located in urban areas which have higher levels of penetration of the formal financial system.

Figure 4.2: Modes of Transfer by the Education Level of the Chief Wage Earner (per cent)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Intuitively, the chief wage earners employed as labour (either agricultural or non-agricultural) have lower levels of education and thus rely on the informal system to a larger degree. The opposite is the case with those engaged in regular salaried employment and larger number of them receive funds through the formal system. These facts indicate that those with higher levels of education tend to use the formal system, which supports the argument that in dealing with the formal financial system, the level of education and also financial literacy plays an important role.

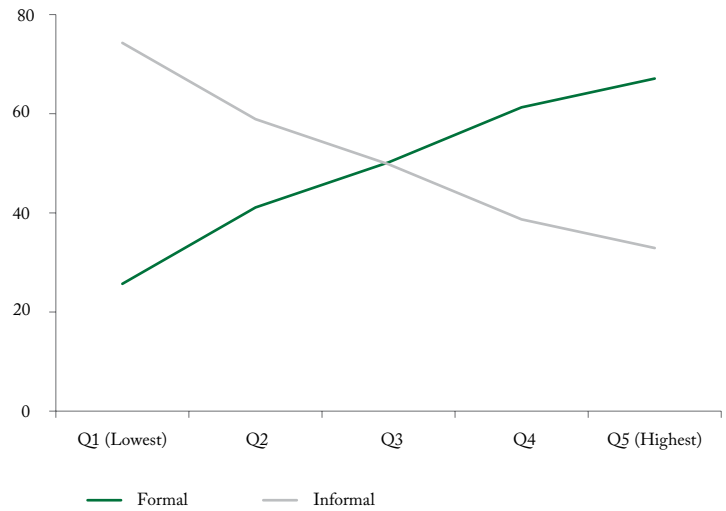
Table 4.7: Modes of Transfers by Occupational Levels of the Chief Wage Earner (per cent)

Occupation	Formal	Informal	Total
Self-employed in Agriculture and Allied	52.9	47.1	100.0
Self-employed in Non-agriculture	55.0	45.0	100.0
Labour	47.8	52.2	100.0
Regular Salary	20.5	79.5	100.0
Others	44.0	56.0	100.0
All	**66.4**	**33.6**	**100.0**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

This case is further strengthened when one looks at the quintile-wise use of formal and informal sources. Intuitively households at the top end of the distribution should be reporting higher usage of the formal financial system. The same is reflected in Figure 4.3, which shows that households at the bottom end use informal systems while households at the top end of the distribution use the formal system. One must also add that the size of the transfer also increases as we move from the bottom to the top end of the distribution. This was also discussed earlier. The more educated and better-off households place greater faith in the formal system when transferring larger amounts of funds.

Figure 4.3: Modes of Transfers by Household Income Quintiles (per cent)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

4.3 COSTS OF DOMESTIC REMITTANCES

The cost incurred for making the transfers can be of two types: (a) explicit cost – amount charged for remitting money and (b) hidden cost – the implicit charge incurred in the form of money paid by the recipient to access the funds, handling charges, bribes, and the opportunity cost of obtaining the funds. There are conflicting views on the actual costs borne by the households making transfers. While some maintain that though the official charges of the formal system are low, total costs in terms of the opportunity cost of time, bribes, etc. add up to a significant amount. Additionally, those at the lower end of the income distribution are often subject to higher indirect costs.

To estimate the costs involved in these transactions, detailed information on the last transaction undertaken was solicited from the households. The fees paid included, both the official fees paid as well as the informal charges paid by the sender or receiver and all costs mentioned above. The table below provides costs incurred as a per cent of the amount transferred by the households by major states. At the all India level, the average fees paid as a percentage of the amount transacted was estimated to be 0.7 per cent for households sending remittances, while similar estimates for those receiving remittances was 0.6 per cent[3]. The latter estimate reflects the costs incurred by the households in accessing the remittances. There are significant state level variations in costs incurred for both sending and receiving remittances as shown in Table 4.8. The estimates suggest higher costs incurred in sending remittances from Punjab, Bihar, Orissa, and Jharkhand. These states also show highest costs incurred while receiving remittances.

[3] The estimates presented here are on the lower side compared to other studies such as Gopinath, et al. (2010). This may be due to the fact that a large portion of the funds are transferred through the informal channels (through friends, family members, and in person transfers) as recorded in the survey.

Studies conducted elsewhere suggest at corridors with larger number of migrants and more competition among providers are found to exhibit lower prices for remittances (Beck and Peria 2009). Hence, there is a need to bring him more service providers to lower the costs of remittances.

Table 4.8: Fees paid (both Formal and Informal) as a percentage of the Amount Remitted by Major States

States	Sent	Received
Punjab	1.7	0.5
Rajasthan	0.2	0.3
Uttar Pradesh	0.1	0.2
Bihar	1.0	1.0
West Bengal	0.4	0.3
Jharkhand	0.8	0.5
Orissa	1.2	0.6
Madhya Pradesh	0.1	0.2
Total	**0.7**	**0.6**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Chapter 5

Concluding Remarks

Despite the significance and importance of the national remote payments to the domestic economy, research on domestic remittances in India has been severely limited, primarily due to the lack of nationally representative data sets. Hence, most of the studies on domestic remittances in India tend to focus on state specific corridors. The National Council of Applied Economic Research's (NCAER's) latest round of the 'National Survey of Household Income and Expenditure' (NSHIE) concluded in 2012–13 attempts to fill this void. The NSHIE is a continuation of Market Information Survey of Households (MISH) through which NCAER has been collecting data on the socioeconomic characteristics of the households along with household income and expenditure.

The primary objective of this particular study was to understand the importance of domestic remittances across households and states; the socioeconomic profile of non-resident household members as well as that of the recipient households; and, purpose, frequency, modes, and costs of sending remittances. By providing national level estimates of the size of the remittances market, the study presents a detailed analysis of the remittance flows across various states during the financial year 2010–11.

The study based on one of the largest surveys conducted in the country, covering approximately 100,000 households is one of few of its kind that provides an exhaustive account of various facets of the remittances market in the country. The domestic remittances market is literally large. About 1.15 crore households (11.5 million) received remittances totalling Rupees 49501 crore (495 billion) during the financial year 2010–11. The data does lend credence to the widely held perception that the bulk of migrants belong to the low income states of Bihar and Uttar Pradesh. And these two states together account for a lion's share of the total remittance market in the country.

Moving beyond an analysis of the remittance market, the study also provides a detailed picture of the socioeconomic profiles of not only those households who receive remittances but also the non-resident family members or migrants. The data indicates that while a large portion of the remittances receiving households belong to the lower end of the distribution, remittances flows however, are distributed across the entire income distribution. For approximately two-thirds of these households income from remittances is a major source of household income which indicates their impact on maintaining household consumption and in preventing the downward slide of households into poverty.

An analysis of the socioeconomic characteristics of the non-resident family members also leads us to conclude that the migrants are more educated than the chief wage earners of their households. Furthermore, data also indicate that they are mostly engaged as regular salaried employees and as labour.

The majority of the remittances received are for the purpose of supporting the immediate family members. And 90 per cent of these are made on a monthly and quarterly basis.

Various other studies have pointed out that a large section of the remittances flow through the informal system. This study points towards the same, with 45 per cent of the households indicating that their primary mode of transfer was the formal system (banks and post offices). Thus there exists a huge market of remittances which is not within the ambit of the formal financial system. Studies also indicate that access to the formal banking system alone does not appear to be a sufficient condition for ensuring its usage. The households tend to rely on informal system to transfer their money even in the presence of alternatives, which means that their needs and requirements are not being met by the formal financial system.

With financial inclusion 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. The results of this study indicate the huge potential market that currently operates through the informal system. Appropriate steps need to be taken to bring these excluded sections into the ambit of the formal financial system. Perhaps, 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.

Annexure A

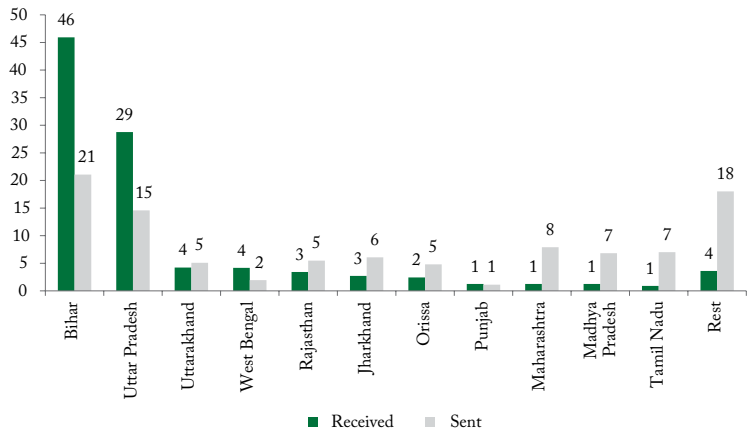
Annex Tables

Table A.1: Distribution of Remittent Households by Education of the Chief Wage Earner (per cent)

Education	Rural	Urban	Total
Illiterate	46.6	19.2	41.9
Up to Primary	22.9	22.7	22.9
Up to Matric	21.6	33.6	23.7
Higher Secondary	4.1	8.1	4.8
Graduate & Diploma	2.6	9.2	3.7
Post Graduate and Above	2.1	7.2	3.0
All	**100**	**100**	**100**

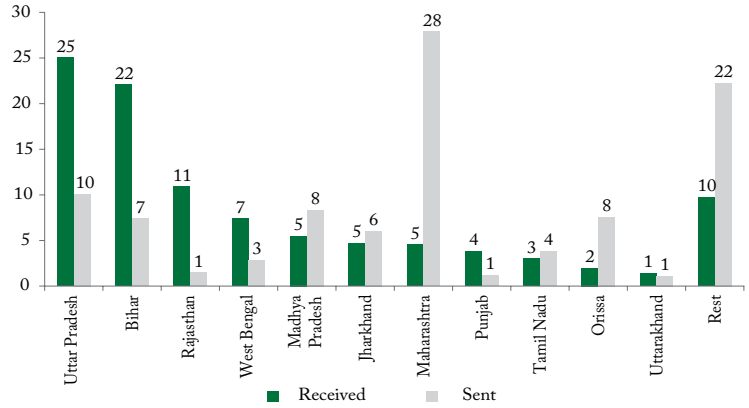
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.1: Distribution of Remittent Households across Major States during 2010–11 – Rural (per cent)



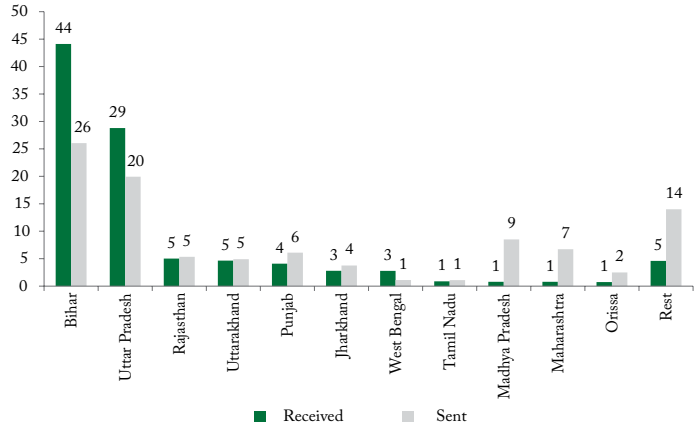
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.2: Distribution of Remittent Households across Major States during 2010–11 – Urban (per cent)



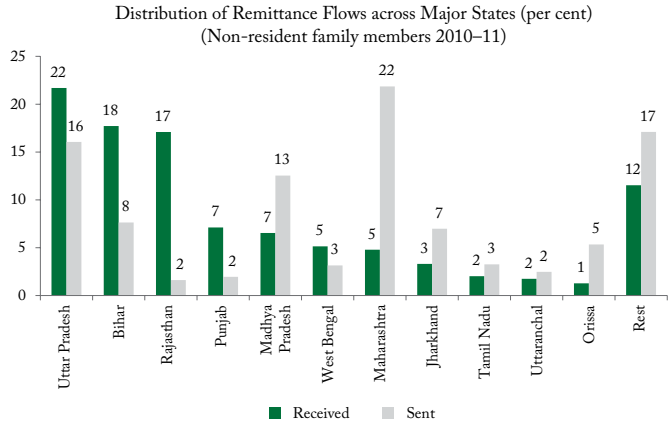
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.3: Distribution of Remittance Flows across Major States during 2010–11 – Rural (per cent)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.4: Distribution of Remittance Flows across Major States during 2010–11 – Urban (per cent)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.2: Median Amount of Remittance Received per Receiving Household by Major States – 2010–11 (from Non-residents) (Rupees per annum)

States	Rural	Urban
Rajasthan	48,000	72,000
Uttar Pradesh	40,000	45,000
Bihar	36,000	45,000
Tamil Nadu	36,000	35,000
Uttaranchal	30,000	80,000
Jharkhand	36,000	24,000
Madhya Pradesh	20,000	90,000
West Bengal	24,000	36,000
Maharashtra	20,000	24,000

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.3: Distribution of Non-resident Family Member (Sender) and Chief Wage Earner by the level of Education – Rural (per cent)

Education	Non-resident	CWE
Illiterate	18.5	52.1
Up to Primary	28.4	24.5
Up to Matric	34.4	16.5
Higher Secondary	11.1	3.9
Graduate & Diploma	5.9	2.0
Post Graduate and above	1.6	1.1
All	**100**	**100**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A4: Distribution of Non-resident Family Member (Sender) and Chief Wage Earner by the level of Education – Urban (per cent)

Education	Non Resident	CWE
Illiterate	10.2	26.0
Up to Primary	20.0	23.1
Up to Matric	31.3	29.7
Higher Secondary	13.7	7.6
Graduate & Diploma	15.8	8.4
Post Graduate and above	9.0	5.2
All	**100**	**100**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.5: Distribution of Non-resident Family Member (Sender) and Chief Wage Earner by Occupation – Rural (per cent)

Occupation	Non Resident	CWE
Self-employed Agriculture and Allied	1.0	15.6
Self-employed Non-agriculture (OAW without hiring labour)	5.2	3.9
Self-employed Non-agriculture (Business with hiring labour)	0.2	0.0
Agricultural labour	1.6	2.4
Non-Agricultural labour	43.6	5.8
Regular Salary	47.3	2.9
Others	1.0	69.3
All	**100**	**100**

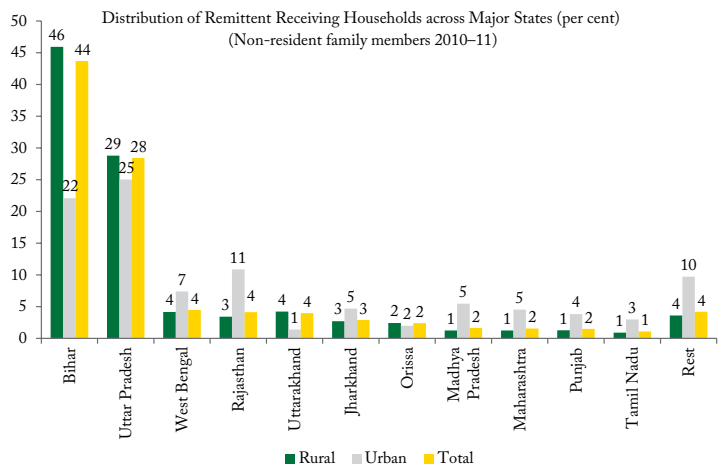
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.6: Distribution of Non-resident Family Member (Sender) and Chief Wage Earner by Occupation – Urban (per cent)

Occupation	Non Resident	CWE
Self-employed Agriculture and Allied	2.2	3.7
Self-employed Non-agriculture (OAW without hiring labour)	8.7	8.4
Self-employed Non-agriculture (Business with hiring labour)	1.9	0.8
Agricultural labour	2.0	0.2
Non-Agricultural labour	23.1	5.3
Regular Salary	59.6	14.0
Others	2.5	67.4
All	**100**	**100**

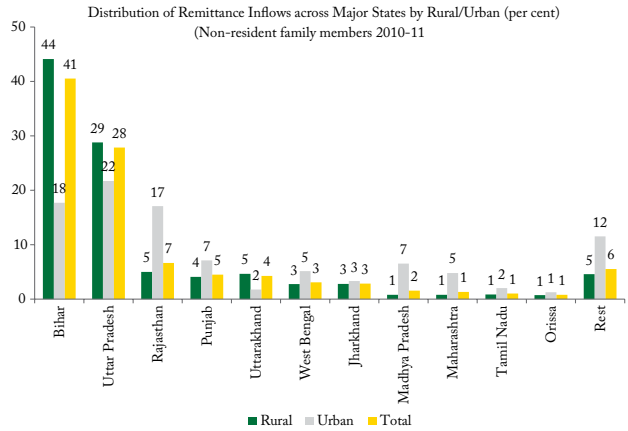
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.5: Distribution of Remittent Receiving Households across Major States by Rural/ Urban during 2010–11 (per cent)



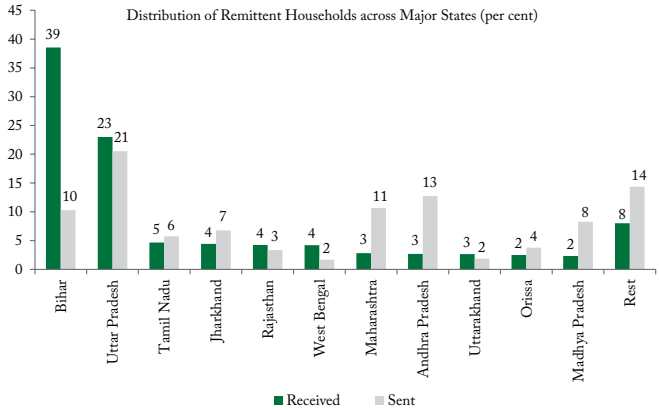
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.6: Distribution of Remittance Inflows across Major States Rural/Urban during 2010–11 (per cent)



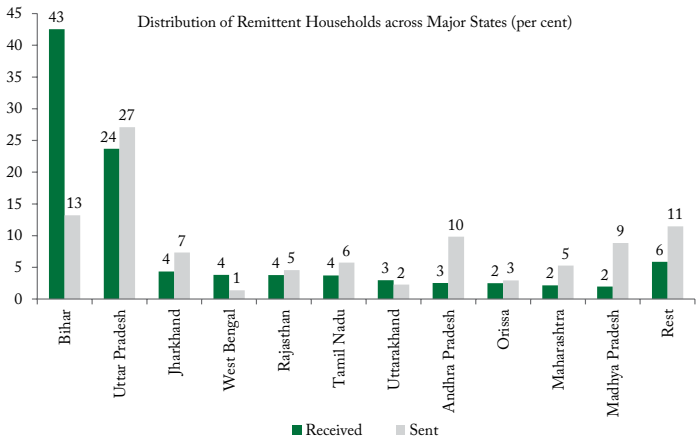
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.7: Distribution of Remittent Households across Major States during Last 3 Months – All India (per cent)



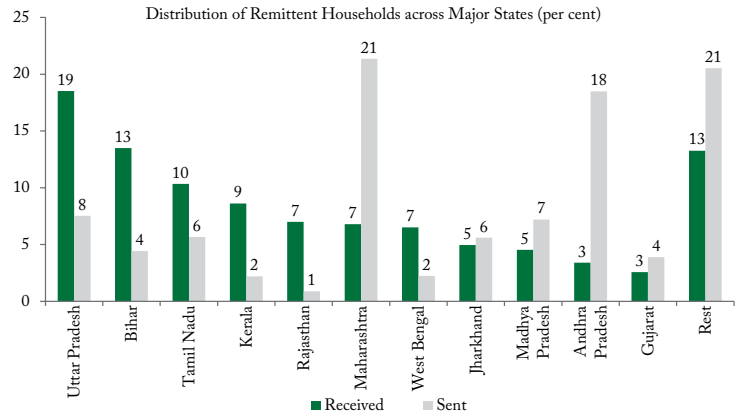
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.8: Distribution of Remittent Households across Major States during Last 3 Months – Rural (per cent)



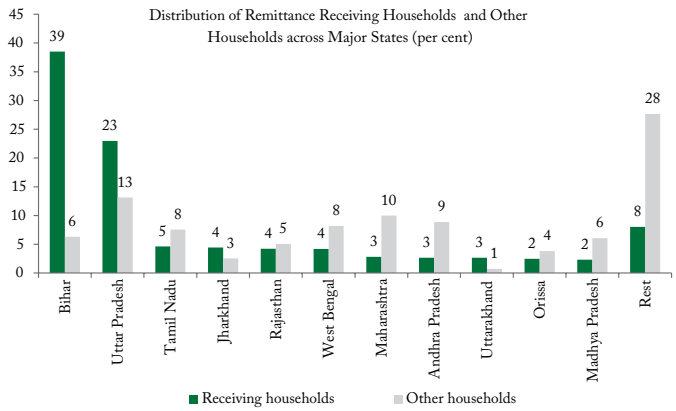
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.9: Distribution of Remittent Households across Major States during Last 3 Months – Urban (per cent)



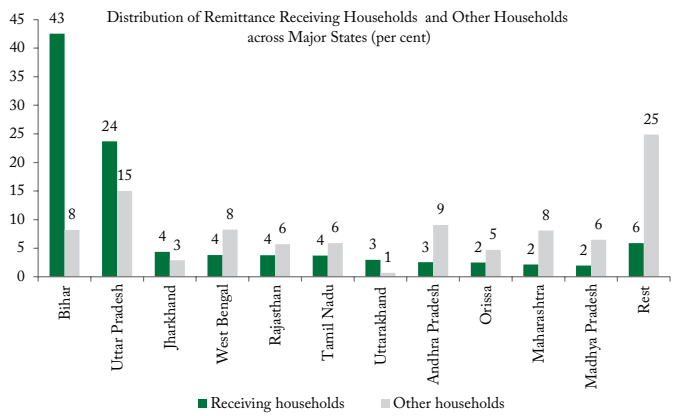
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.10: Distribution of Remittance Receiving Households and Other Households across Major States during Last 3 Months – All India (per cent)



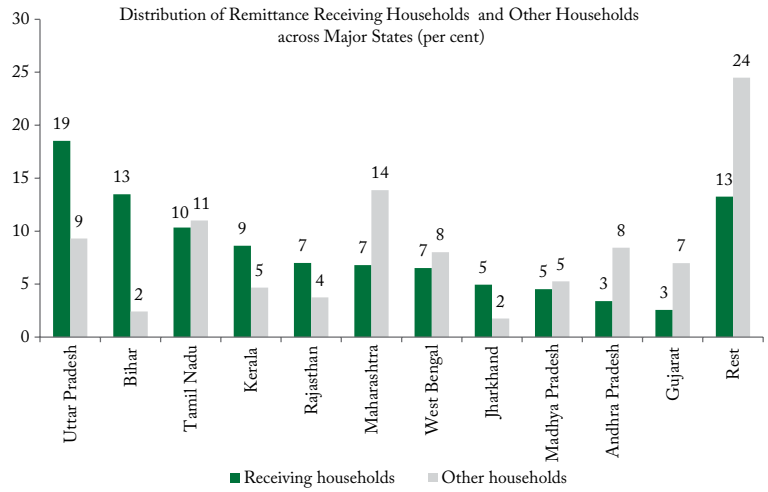
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.11: Distribution of Remittance Receiving Households and Other Households across Major States during Last 3 Months – Rural (per cent)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Figure A.12: Distribution of Remittance Receiving Households and Other Households across Major States during Last 3 Months – Urban (per cent)



Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.7: Average Number of Days taken for the Money to Reach the Recipient

States	Rural	Urban
Punjab	2	2
Uttaranchal	3	1
Rajasthan	2	2
Uttar Pradesh	2	3
Bihar	3	3
Tamil Nadu	2	2
Orissa	2	2
Maharashtra	2	2
All	**3**	**2**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.8: Average Household Total Expenditure of Remittent Households by Location (Rupees per annum)

Location	Sent	Received
Rural	142,360	71,424
Urban	189,498	109,621
All	**158,186**	**76,695**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.9: Average Household Non-food Expenditure of Remittent Households by Location (Rupees per annum)

Location	Sent	Received
Rural	101,106	38,295
Urban	145,553	69,773
All	**115,989**	**42,638**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.10: Average Household Food Expenditure of Remittent Households by Location (Rupees per annum)

Location	Sent	Received
Rural	41,247	33,128
Urban	44,007	39,840
All	**42,172**	**34,057**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.11: Average Household Total Expenditure of Remittent Households by Education of the Chief Wage Earner (Rupees per annum)

Education	Sent	Received
Illiterate	71,049	54,582
Upto Primary	111,496	73,845
Upto Matric	153,254	104,881
Higher Secondary	197,706	110,380
Graduate & Diploma	247,719	146,882
Post Graduate and above	413,160	189,209
All	**158,186**	**76,695**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.12: Average Household Non-food Expenditure of Remittent Households by Education of the Chief Wage Earner (Rupees per annum)

Education	Sent	Received
Illiterate	37,953	25,615
Upto Primary	76,354	40,342
Upto Matric	107,723	63,339
Higher Secondary	150,187	68,524
Graduate & Diploma	195,923	97,379
Post graduate and above	353,561	141,176
All	**115,989**	**42,638**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.13: Average Household Food Expenditure of Remittent Households by Education of the Chief Wage Earner (Rupees per annum)

Education	Sent	Received
Illiterate	33,086	28,967
Upto Primary	35,145	33,500
Upto Matric	45,530	41,508
Higher Secondary	47,548	41,856
Graduate & Diploma	51,790	49,498
Post graduate and above	59,601	48,032
All	**42,172**	**34,057**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.14: Average Household Total Expenditure of Remittent Households by Occupation of Chief Wage Earner (Rupees per annum)

Occupation	Sent	Received
Self-employed Agriculture and Allied	150,304	100,574
Self-employed Non-agriculture (OAW without hiring labour)	182,647	104,272
Self-employed Non-agriculture (Business with hiring labour)	241,095	186,039
Agricultural labour	71,743	58,476
Non-agricultural labour	84,703	64,651
Regular Salary	244,359	169,033
Others	99,311	64,112
All	**158,186**	**76,695**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.15: Average Household Non-food Expenditure of Remittent Households by Occupation of Chief Wage Earner (Rupees per annum)

Occupation	Sent	Received
Self-employed Agriculture and Allied	106,306	57,460
Self-employed Non-agriculture (OAW without hiring labour)	141,434	61,104
Self-employed Non-agriculture (Business with hiring labour)	181,276	132,708
Agricultural labour	44,194	30,873
Non-agricultural labour	54,307	31,670
Regular Salary	189,851	115,933
Others	64,419	33,740
All	**115,989**	**42,638**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.16: Average Household Food Expenditure of Remittent Households by Occupation of Chief Wage Earner (Rupees per annum)

Occupation	Sent	Received
Self-employed Agriculture and Allied	44,001	43,122
Self-employed Non-agriculture (OAW without hiring labour)	41,213	43,169
Self-employed Non-agriculture (Business with hiring labour)	59,818	53,330
Agricultural labour	27,549	27,595
Non-agricultural labour	30,374	32,980
Regular Salary	54,502	53,095
Others	34,887	30,372
All	**42,172**	**34,057**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.17: Distribution of Remittent Households with and without Bank Accounts (per cent)

All India Income Deciles	Remittent Households with Bank Accounts	Remittent Households without Bank Accounts
D1 (Lowest)	21.0	79.0
D2	47.1	52.9
D3	57.3	42.7
D4	68.6	31.4
D5	72.9	27.1
D6	73.4	26.6
D7	82.2	17.8
D8	90.2	9.8
D9	94.3	5.7
D10 (Highest)	98.3	1.7
All	**62.5**	**37.5**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Table A.18: Distribution of Remittent Households with and without Mobile Phones (per cent)

All India Income Deciles	Remittent Households with Mobile Phones	Remittent Households without Mobile Phones
D1 (Lowest)	39.1	60.9
D2	63.5	36.5
D3	75.6	24.4
D4	78.1	21.9
D5	83.7	16.3
D6	85.6	14.4
D7	85.4	14.6
D8	93.9	6.1
D9	96.0	4.0
D10 (Highest)	97.0	3.0
All	**73.6**	**26.4**

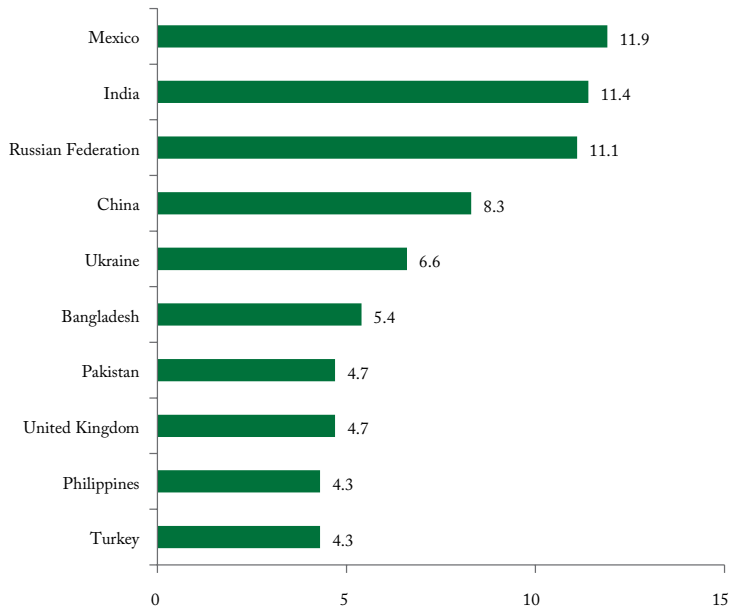
Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

Annexure B

International Remittances

India has one of the highest emigrant populations in the world, with an estimated 11 million residing in various countries around the world. International remittances play an important part in the Indian economy, more so in states such as Kerala, which are significant recipients of overseas remittances. In fact, India accounts for the second highest emigrant population in the world, next to Mexico.

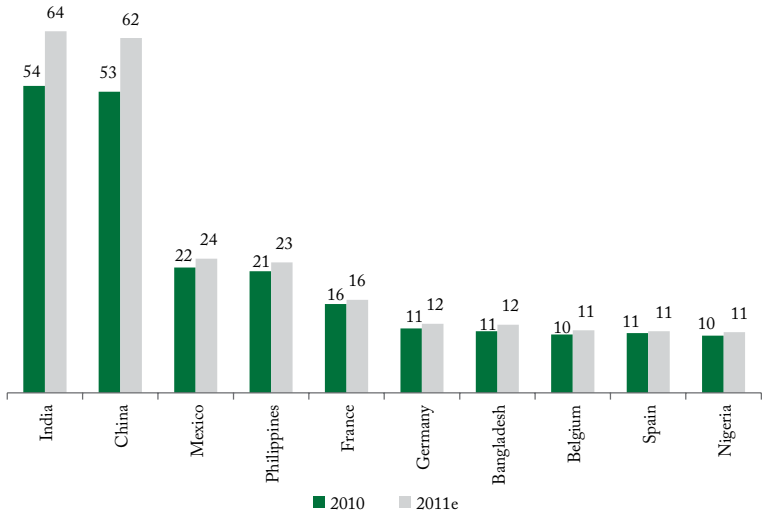
Figure B.1: Emigrant Population by Countries



Sources: Development Prospects Group, World Bank; UNPD 2009, Migration and Remittances Factbook 2011.

In terms of remittance flows, India ranks as the largest remittance receiver in the world. An estimated $54 billion of international flows were received in 2009–10 and approximately $64 billion was expected in 2010–11 (Remittances Profile: India, Migration Policy Institute, 2011). This places India at the same level, although marginally higher, than China.

Figure B.2: International Remittances to Major Countries



Source: Migration and Remittances Factbook 2011.

The value of these remittances figures gains additional significance when these are compared with the Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) flows into the country. The table below provides a comparative view of various types of capital flows over the last two decades. Remittance flows from international migrants have consistently exceeded other flows.

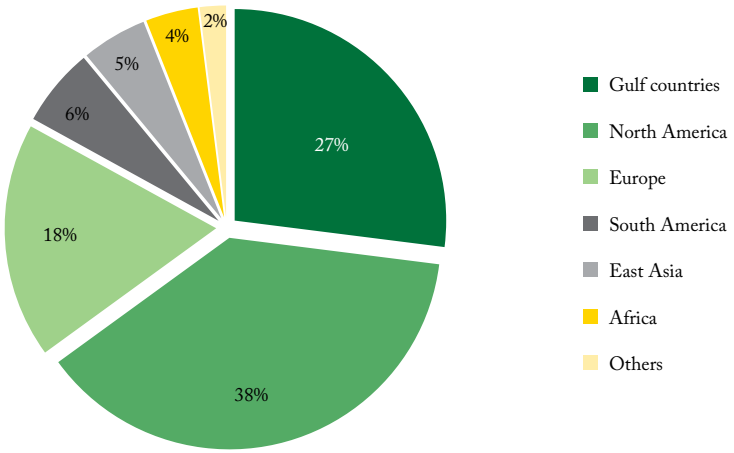
Table B.1: Major Capital Flows to Indian Economy (Rupees in crore)

Year	Net Private Transfer (Remittances)	Net NRI Deposits	FDI*	FII
1991–92	9,382	1,008	316	10
2000–01	58,811	10,561	18,406	12,609
2009–10	2,47,112	14,253	94,258	1,53,967

*Data on FDI have been revised since 2000–01 with expanded coverage to approach international best practices. Data from 2000–01 onwards are not comparable with FDI data for earlier years. We have taken them only to compare with the data of net private transfer.
Source: RBI Handbook of Statistics on the Indian Economy, 2009–10

It is estimated that roughly 27 per cent of these flows originate from North America, sent by 15 per cent of the migrant Indian population. Similar corresponding data for Europe has been estimated to be 13 per cent and 10 per cent, respectively. The remaining 72 per cent of India's overseas migrants, residing in Asia account for 58 per cent of total international remittances (Remittances Profile: India, Migration Policy Institute, 2011). Data compiled by the RBI (Figure B.3) provides a detailed region-wise distribution of the remittance flows. Although a substantial portion of the emigrants are to the Gulf countries, remittances from North America, including Canada, are greater because of different profiles and income levels of Indians in these regions (RBI 2010a).

Figure B.3: Source Region of Remittance Flows to India, 2009

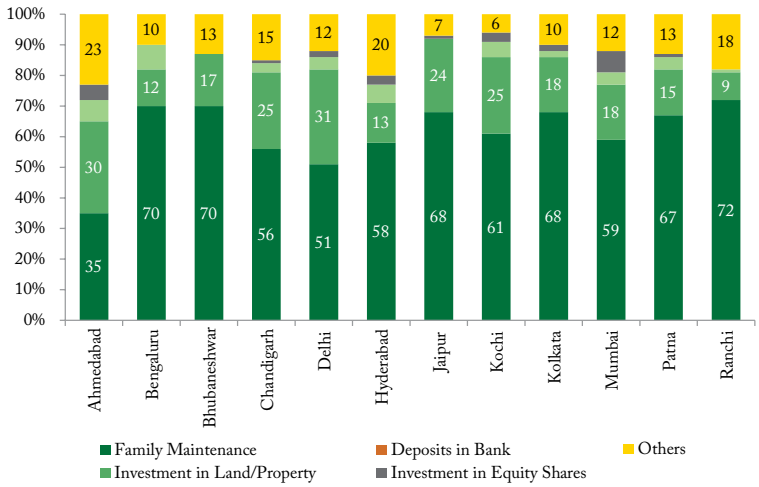


(***Source:*** RBI, 2010a)

B.1: Uses of Remittances

A study carried out by the RBI (2010a) estimated that 61 per cent of international remittances to India are used for the purpose of family maintenance. A further 20 per cent are deposited in banks, while real estate and equity investments account for 4 per cent and 3 per cent shares of these remittances, respectively. A city-wise comparison reveals that utilisation patterns vary quite significantly across the country. Remittances used principally for family maintenance, that is, spent on food, health services, and education were found to be the lowest in Ahmedabad (35 per cent) while, these were found to be the highest in Ranchi (72 per cent), Bengaluru (70 per cent) and Bhubaneshwar (70 per cent). Relatively higher proportion of remittances was put in the banks in Delhi (31 per cent), Ahmedabad (30 per cent), and Kochi (25 per cent). On the other hand, the cities of Ahmedabad (12 per cent), Mumbai (11 per cent), Hyderabad (9 per cent), and Bengaluru (8 per cent) all reported higher proportions of investment in the real estate and equities market.

Figure B.4: Utilisation Patterns of Remittances (percentage of total remittances)

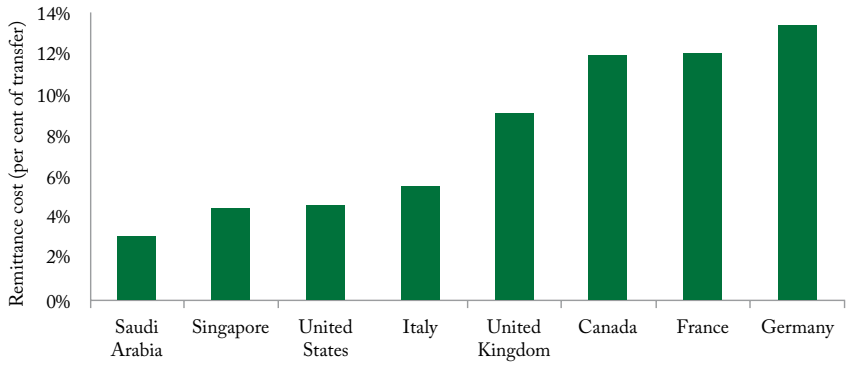


(***Source:*** RBI, 2010a.)

B.2: Costs of Sending Remittances

While sending remittances, although accessibility, reliability, and ease of the channel through which the transfer is made do impact decision making, the costs involved, both formal and informal, are also factored in the decision making process. A World Bank study based on a field survey found that costs of remitting to India have been declining (Maimbo, Adams, Aggarwal, and Passas 2005). It must be pointed out that there exists significant heterogeneity in costs. The figure below shows the costs associated with remittances received by India from 8 sending countries, which range between 3.1 per cent from Saudi Arabia and 13.3 per cent from Germany (2009).

Figure B.5: Cost of Remittances to India from 8 Sending Countries



(Beck and Peria, 2009)

While estimating costs, one needs to account for both direct as well as indirect costs. Direct costs refer to the amount charged for remitting money, that is, the formal fees levied by the intermediary. The indirect costs refer to the opportunity cost of the time for the migrant to reach the institution (bank/post office/courier), the risk of theft while carrying funds, the travel cost/time for migrant and for the receiving household, and the informal fees/commission paid by the receiver to obtain the money.

A 2009 World Bank survey of remittance service providers (RSPs) found that the cost of remittance transfers to India differs depending on three factors: the sending country, the remittance-sending scheme, and the type of RSP (Afram, World Bank. 2012). Prices were in the range of US$ 0–5 (plus a foreign exchange fee in the range of 1 to 2 per cent) for remittances from Gulf Cooperation Council[1] (GCC) countries using bank-led schemes and US$ 5–10 (plus the FX fee of 2 to 5 per cent) for remittances from most countries using money transfer operators (MTOs).

1. The GCC is composed of six countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

While the time taken in the transfer to be done is relatively less, typically between one to three days, bank charges for electronic wire transfers depend on the amount transferred. The cost of sending up to US$ 500 is 0.2–5 per cent, while that for sending amounts between US$ 500 and US$ 1,000 is between 0.2–2.5 per cent. (RBI, 2010a). Some studies have indicated a fall in the costs involved in remitting money to India, especially for lower-value transactions (RBI 2006). Interestingly, studies have also indicated that handling charges imposed domestically on rerouting funds to deliver to non-customers or remote locations were in the range of 0.1–0.6 per cent of the remitted funds. These were in addition to those charged to the sender of the funds (RBI, 2006, 2010a).

Table B.2: Formal Remittance Inflows (US$ million)

Migrant remittance Inflows (US$ million)	2000	2005	2010	2011e	Rank	Remittances as a share of GDP, 2010 (Per cent)
India	12,883	22,125	54,035	63,663	1	3.0
China	4,822	23,478	53,038	62,497	2	0.8
Mexico	7,525	22,742	22,048	23,610	3	2.1
Philippines	6,961	13,566	21,423	22,974	4	10.7
France	8,610	11,945	15,629	16,379	5	0.6
Germany	3,644	6,933	11,338	12,143	6	0.3
Bangladesh	1,968	4,315	10,850	11,997	7	9.6
Belgium	...	7,242	10,264	10,985	8	2.3
Spain	4,859	7,961	10,507	10,845	9	0.8
Nigeria	1,392	3,329	10,045	10,681	10	4.5

Source: World Bank staff calculation based on data from IMF Balance of Payments Statistics Yearbook 2011 and data releases from central banks, national statistical agencies, and World Bank country desks. *See* Migration and Development Brief 12 for the methodology for the forecasts.

Note: All numbers are in current (nominal) US $.

For a discussion of the definition of remittances, *see* Dilip Ratha, 2003, "Workers' Remittances: An Important and Stable Source of External Development Finance", Global Development Finance 2003, World Bank.

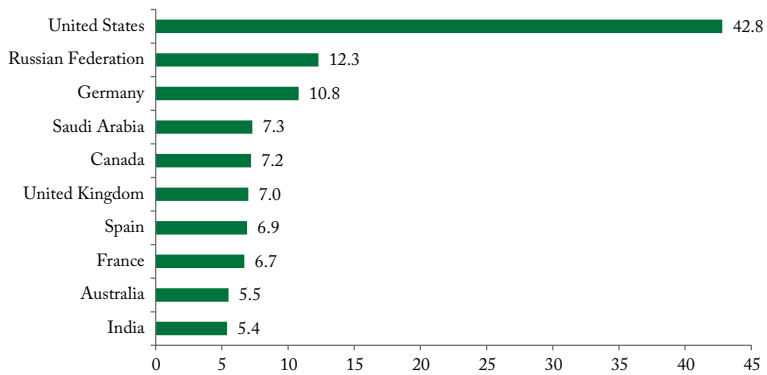
Table B.3: Instrument-wise Cost of Remitting Funds: A Select Case of Some Banks (overseas remittances) (US$)

Bank	SWIFT		Drafts		Cheques	
	<=500	<=1000	<=500	<=1000	<=500	<=1000
1	2	3	4	5	6	7
State Bank of India	1 to 25 (0.2–5.0%)		2 to 10 (0.4–2.0%)	10 (1%)	0.5 to 6 (0.1–1.2%)	1 to 6 (0.2–1.2%)
Bank of India	5 (1%)					
Punjab National Bank	3 to 7 (0.6–1%)		5 to 8 (1–2 %)	5 to 8 (<1%)	0.5 (0.1%)	1 (0.1%)
Axis Bank	1 to 20 (1 to 4 %)	(< 2%)			5 to 8 (1–1.6%)	5 to 8 (< 1%)
Oriental Bank of Commerce	5 (1%)	5 to 20 (0.5 to 2%)			5 (1%)	10 (1%)
Indian Overseas Bank	1 to 8 (0.2 to 1.6%)	2 to 8 (0.2 to 0.8%)	5 (1%)	10 (1%)	1.25 (0.25%)	2.5 (0.25%)
Canara Bank	1 (0.20%)	2 (0.10%)				
ICICI Bank	2.5 (0.50%)	2.5 (0.25%)	2 (0.40%)	2.5 (0.25%)	2.5 (0.50%)	2.5 (0.25%)
Standard Chartered Bank	1.25 (0.25%)	2.5 (0.25%)	1.25 (0.25%)	2.5 (0.25%)	1.25 (0.25%)	2.5 (0.25%)
Kotak Mahindra Bank	10 to 25 (2 to 5%)	10 to 25 (1.0-2.5%)	5 (1%)	10 (1%)	10 (2%)	10 (1%)

Note: Figures in bracket represent the cost as percentage of the funds remitted.
Source: RBI, 2010a.

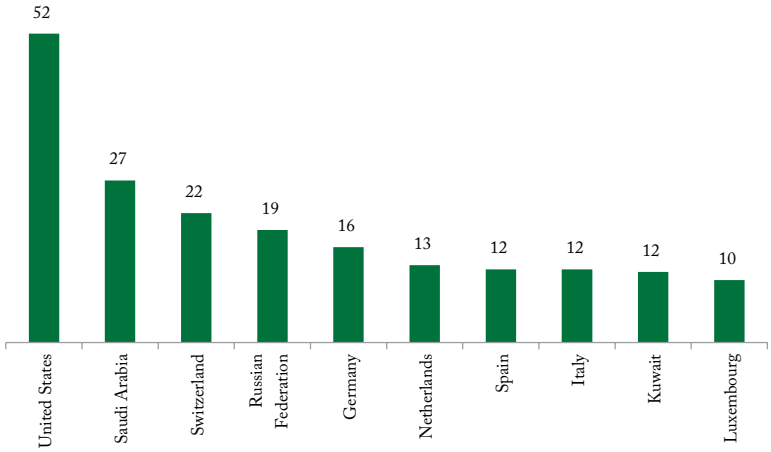
B.3 International Remittance Flows to India

Figure B.6: Top Immigration Countries, 2010 (number of immigrants, million)



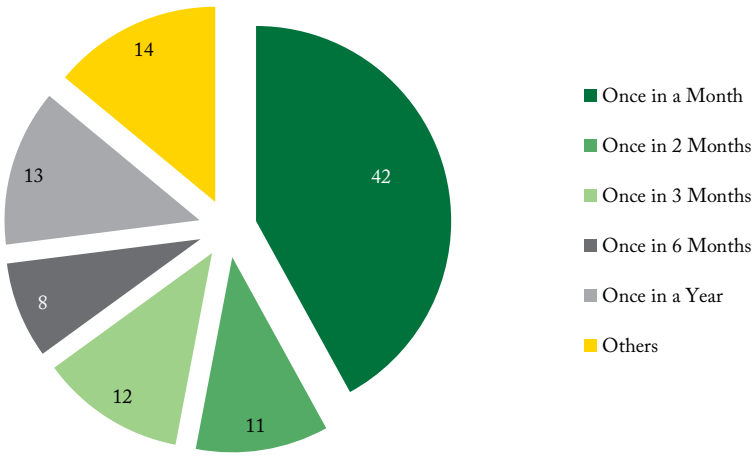
Sources: Development Prospects Group, World Bank; UNPD 2009, Migration and Remittances Factbook 2011.

Figure B.7: Top 10 Remittance Sending Countries, 2010 (US$ billion)



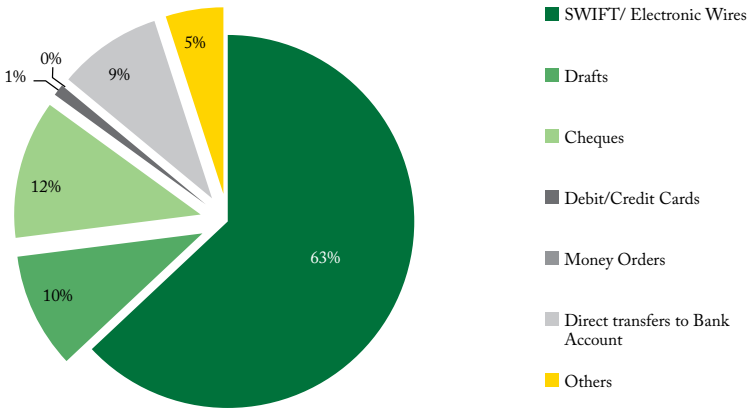
Source: Migration and Remittances Factbook 2011.

Figure B.8: Frequency of Sending Remittances by Overseas Indians



(***Source:*** RBI, 2010a)

Figure B.9: Instruments used for Sending Remittances to India



(***Source:*** RBI, 2010a)

Annexure C

Concepts and Definitions

Household: A group of individuals living together and taking their food from a common kitchen constitutes a household.

Non-resident Family Members: Those members of the family who would have been a part of the household had they been present, but have been away for more than six months.

Chief Wage Earner (CWE): The household member who has the highest individual income. The four broad occupation categories classified for this study are as follows:

a. ***Own account worker:*** Self-employed persons operating their own farm with or without hiring labour and those operating non-farm enterprises without hiring any labour are called own account workers.

b. ***Casual wage labourer:*** Casual (i.e. non-permanent) wage labourers are those who are paid on a daily basis or by piece rate.

c. ***Regular salary/wage earners:*** Regular salaried/wage labourers are those who are getting salary/wage on a regular basis.

d. ***Others:*** Any member not classified elsewhere belongs to the category d 'Others'. For example: persons reporting their earnings from pension /rent /interest/ dividend/ royalty/ remittance, housewives, students, unfit for work, unemployed unpaid family workers, and children below 5 years.

Household Income: The total income of all household members earned during the reference period (April 2010 to March 2011) from all the sources is defined as the household income. In broad terms, income refers to regular receipts, such as wages and salaries, income from self-employment; interest and dividends from invested funds, pensions or other benefits, and from social insurance and other current transfers receivable. Income represents a partial view of economic well-being and comprises regular and recurring receipts of household economic accounts. It provides a measure of resources available to the household for consumption and savings. The sources of income vary for different occupation categories.

Household Consumption Expenditure: The household consumption expenditure includes all the expenditures incurred on food items, non-food items and consumer services on daily basis and the expenditure incurred on purchasing of consumer durable goods or other non-regular/unusual large expenditure incurred during some

social events such as wedding, childbirth or death in the household. The consumption expenditure of the household is broadly classified into two broad categories.

Following the sample design detailed above, a total of 97,755 households were covered in this study. Of these 44,474 households were located in rural areas, while 53,281 households were from urban areas. The detailed state-wise sample distribution is shown in the table below:

Table C.1: Sample Distribution for Main Survey

State Code	State	Rural	Urban	Total
1.	Jammu & Kashmir	635	573	1,208
2.	Himachal Pradesh	681	160	841
3.	Punjab	1,014	1,766	2,780
4.	Chandigarh	126	160	286
5.	Uttaranchal	630	420	1,050
6.	Haryana	1,006	2,014	3,020
7.	Delhi	270	1,263	1,533
8.	Rajasthan	2,497	2,439	4,936
9.	Uttar Pradesh	5,872	7,394	13,266
10.	Bihar	4,174	1,915	6,089
11.	Sikkim	267	139	406
12.	Arunachal Pradesh	266	138	404
13.	Nagaland	270	159	429
14.	Manipur	270	200	470
15.	Mizoram	255	194	449
16.	Tripura	270	178	448
17.	Meghalaya	267	183	450
18.	Assam	1,439	476	1,915
19.	West Bengal	2,629	3,335	5,964
20.	Jharkhand	1,259	1,591	2,850
21.	Orissa	1,818	1,065	2,883
22.	Chhattisgarh	1,023	1,012	2,035
23.	Madhya Pradesh	2,824	2,779	5,603
24.	Gujarat	1,893	3,292	5,185
25.	Daman & Diu	270	160	430
26.	Maharashtra	3,366	6,411	9,777
27.	Andhra Pradesh	3,379	4,335	7,714
28.	Karnataka	2,159	3,049	5,208
29.	Goa	270	120	390
30.	Kerala	1,105	1,702	2,807
31.	Tamil Nadu	2,039	4,464	6,503
32.	Pondicherry	231	195	426
ALL INDIA		**44474**	**53281**	**97755**

Source: NCAER: NSHIE 2010–11, NCAER, New Delhi.

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