



# Remittance Needs and Opportunities in India

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**giz**



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# Remittance Needs and Opportunities in India

Synthesis report, June 2011 is based on four migration corridor studies and analysis of the payment system with respect to small remittances

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## Abbreviations

AP	Andhra Pradesh
ASP	Application Service Provider
ATM	Automated Teller Machine
BC	Business Correspondent
BoB	Bank of Baroda
BPL	Below Poverty Line
BPSS	Board for Regulation and Supervision of Payment and Settlement Systems
CBS	Core Banking System
CCIL	Clearing Corporation of India Limited
CCS	Cooperative Credit Structure
CSR	Corporate Social Responsibility
CTS	Cheque Truncation System
DCCCB	District Central Cooperative Bank
DP	Destination Point
DPSS	The Department of Payment and Settlement Systems
EBT	Electronic Benefit Transfer
ECS	Electronic Clearing Service
eMO	Electronic Money Order
FINO	Financial Information Network and Operations Limited
GDP	Gross Domestic Product
GoI	Government of India
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
HRD	Human Resource Development
ICT	Information and Communication Technology
IIBF	Indian Institute of Banking and Finance
iMO	Instant Money Order
IMPS	Interbank Mobile Payment Service
IT	Information Technology
KYC	Know Your Customer
MACS	Mutually Aided Cooperative Societies
MFI	Microfinance Institution
MO	Money Order
MP	Madhya Pradesh
MR	Migrant Respondent
NABARD	National Bank for Agriculture and Rural Development
NCAER	National Council of Applied Economic Research

NCOSMW	National Coalition of Organisations for Security of Migrant Workers
NECS	National Electronic Clearing Service
NEFT	National Electronic Funds Transfer
NFS	National Financial Switch
NGO	Non-Governmental Organisation
NPCI	National Payments Corporation of India
NSS	National Sample Survey
OBC	Other Backward Class
OP	Origin Point
PACS	Primary Agricultural Credit Society
PLP	Potential Linked Credit Plan
PO	Post Office
PoS	Point of Sale
RBI	Reserve Bank of India
RFIP	Rural Financial Institutions Programme
RRB	Regional Rural Bank
RR	Remittance Recipient
RTGS	Real Time Gross Settlement
SBI	State Bank of India
SC	Scheduled Caste
SHG	Self-Help Group
SKS	Swayam Krishi Sangam
SRN	Sant Ravidas Nagar
ST	Scheduled Tribe
UID	Unique Identification Number
UBI	Union Bank of India
UP	Uttar Pradesh

## Foreword

Financial exclusion is a persistent and continuous challenge, especially with regard to disadvantaged and low-income groups. Indo-German development cooperation in the area of financial systems development, therefore, focuses on the promotion of a stable, efficient and inclusive financial system in India. On behalf of the German Government, the *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) has been partnering with the National Bank for Agriculture and Rural Development (NABARD) to support the financial inclusion efforts of the Indian Government. Starting from the promotion of the SHG-Bank Linkage Programme, the NABARD-GIZ Rural Financial Institutions Programme (RFIP) is currently focusing on the reform of the cooperative credit structure (CCS), the promotion, regulation and supervision of microfinance organisations (MFOs), and the improvement of domestic remittance services.

The remittance and payment system component of the RFIP aims at increasing the number of small value transfer providers in the banking system as well as the number of users. Central to this objective, and to substantial financial inclusion in general, are a) the quality of the services, which are mainly but not exclusively addressing the poor and mobile strata of the society, and b) the financial literacy and capability of the users of these services.

The RFIP works towards this objective by:

- *Research activities*, both on the demand and the supply side of the domestic remittance market;
- *Learning from and sharing of good practices*, both in India and internationally.
- *Elaborating inter-institutional money transfer concepts*, which can be translated into practice by banks and business correspondents.
- *Advocacy and awareness-building*, for disseminating research results and recommendations and achieving broad participation of relevant stakeholders.
- *Developing capabilities*, which are required both on the demand and supply side to offer and use remittance services effectively.
- *Piloting inter-institutional money transfer models*, which are scalable and were agreed upon with the stakeholders.

This synthesis report of six remittance and payment system studies, which were commissioned by the NABARD-GIZ Rural Financial Institutions Programme, provide valuable insights, conclusions and recommendations, which can be used by policy-makers, the banking industry and other stakeholders for striving at financial inclusion, in general, and the financial inclusion of domestic migrant workers, in particular.

**Dr. Detlev Holloh**  
Rural Financial Institutions Programme, June 2011

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**Dr. Priya Deshingkar, Dr. Anushree Sinha, Mr. KA Siddiqui:**

*Migration, Remittances, Poverty and Development in India:  
Comparing Data Sources and Key Messages.*

**Mr. R.B. Barman, Mr. Ashish Das, Mr. Markus Tacke, Mr. N. Srinivasan:**

*Assessment of the Payments System with Respect to  
Inclusiveness towards Small Remittances.*

**Dr. Howard Jones, Dr. Marilyn Williams, Mr. Mahendra Prasad Joshi:**

*Gujarat - Rajasthan Migration Corridor Study.*

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*Uttar Pradesh - Mumbai Migration Corridor Study.*

**Mr. Biswa Bandhu Mohanty, Mr. R. Balasubramanian, Mr. Ajay Rai, Ms. Zaineb Ali:**

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**Dr. Srinivasan Santhanam, Mr. N.V. Ramana, Ms. Ankita Sriram, Dr. Sohan Premi:**

*Intra-State Maharashtra Migration Corridor Study.*

## Executive Summary

Financial Inclusion is an integral part of India's inclusive growth strategy. Despite significant efforts, however, progress at the operational level has been slower than hoped for. A large part of India's population remains without access to formal financial services. This is also true for up-to 100 million circular domestic migrant workers, who mostly come from low-income households, leaving their home searching for income opportunities elsewhere, and who are confronted by the problem: how to send the hard-earned income – often over long distances – back home to their families where the money is needed. Bringing remittances into the mainstream of the financial system can act as an important gateway for the financial inclusion of domestic migrants.

This report synthesises a national study on domestic migration and remittance flows, four migration corridor studies, and an analysis of the Indian payment system with respect to small money transfers. Their findings add knowledge about the needs of migrants and their relatives back home as well as about the advantages and disadvantages of different money transfer methods. This synthesis report offers conclusions and recommendations for improving and expanding the existing formal remittance channels, for designing innovative financial linkages, and for developing new delivery models offering remittances services in rural and remote areas to low-income clients.

### Key Findings

Deshingkar et al. (2010) estimate that there are up to 100 million circular migrant workers, who contribute as much as 10% to the national Gross Domestic Product (GDP). Circular migration has become a much needed livelihood strategy, e.g. remittances make up 80% of the cash income of the sample households in Uttar Pradesh.

The average annual remittance amount is about Rs 20,000, and even the poorest of the migrants are sending money home. Informal remittance channels are pervasive, and attractive due to the multiple functions they can serve. Within Maharashtra and from Gujarat to Rajasthan around 90% of the respondents carry cash themselves or send it through others. Although access to banking services in urban areas is generally good, most migrants do not have a bank account at the urban destination point where they are working.

The migrants value the security and speed of money transfers highest. They see these attributes best met by banks, but they continue to mainly use informal transfer methods. This may be due to factors such as inconveniences related to banking services (e.g., travelling and waiting time), Know-Your-Customer principles and other banking requirements, and a low degree of financial literacy and capability.

The studies clearly indicate that measures for improving financial literacy and capabilities as well as consumer protection are central to successful financial inclusion strategies. Many migrant workers do not have adequate information about formal financial services, and many of those who have accounts with banks do not use them effectively. While 35% of the respondents have a life insurance, many of them do not understand the product and regard it as a savings rather than insurance instrument.

While commercial banks have the necessary technical infrastructure, they can lack convenient delivery channels. Regional rural banks and cooperatives usually do not meet the technical requirements, while they have the advantage of proximity and large service networks reaching out to

rural households. The India Post has the largest office network, but its services take a relatively long time and are sometimes not perceived as customer-friendly.

Most service providers have not made remittances a business proposition, but there is considerable potential for remittances to be linked to other financial services. Migrants need a secure place to deposit and remit small amounts of money. Many of them live at their work sites and get paid on a daily basis, and remittance recipients wish to receive relatively small amounts frequently. In all migration corridors many migrants have outstanding loans at their origin points, mainly from informal sources, and remittances are the major source of loan repayment. Furthermore, only a few migrants and their families are insured against the risks they face every day.

## Key Recommendations

To make significant steps towards the financial inclusion of domestic migrant workers and their families this report recommends a holistic approach and strategy. This needs to build upon existing models and institutions with large outreach and products that are in line with the existing regulatory framework.

The approach and strategy recommended includes:

- A strong and effective steering structure, which includes all relevant stakeholders and follows a clear vision, mission and mandate. The establishment of a Steering Committee, which is chaired by the RBI, and with NABARD as a nodal agency to champion the remittance movement and support capacity development is recommended.
- Following the principle "First the system then the technology", the development and piloting of models of inter-institutional money transfer for two sets of financial institutions: Regional Rural Banks and their sponsor banks, and the Cooperative Credit Structure.
- Related to this, driving the Business Correspondent Model by adapting it to the opportunities and nature of individual banks, whose services it extends, and by bringing Primary Agricultural Cooperative Societies, Self-help Groups, and Microfinance Institutions, which are in the position to serve the clientele responsibly and sustainably, into the mainstream of the model.
- The development of demand-oriented remittance products, which are well suited to migrants, and linking them with other financial services. This should also include a rebranding of financial institutions through offering the entire range of financial services needed by low-income households, in general, and migrant workers, in particular.
- A large-scale programme to increase financial literacy on the demand side, and capacity building of bank staff and business correspondents, to ensure socially responsible business behaviour and consumer protection.

# 1 Introduction

Across the world, internal migrants outnumber international migrants by four to one, yet the attention paid to international flows of people and the money they send home often overshadows the scale and importance of internal migration and domestic remittances. This report, which synthesises six studies relating to domestic migration and remittances in India, all commissioned under the Technical Cooperation Programme of the Republic of India and the Federal Republic of Germany, helps to redress this imbalance.

The topic of domestic migration and remittances is particularly pertinent to India, a country which has more domestic migrants than the total population of the largest western European country. Internal migration within India is not new and has a long history. Mobility is the norm and has become integral to the work cycle of many rural workers. Moreover, the up-to 100 million circular migrants in India are estimated to contribute as much as 10% to the national Gross Domestic Product (GDP). Such migrants are frequently from Scheduled Caste (SC) and Scheduled Tribe (ST) populations, historically disadvantaged communities in the country. Particularly in semi-arid and drought-prone areas, the inability of agriculture to fully guarantee livelihood security means that migration becomes a much needed livelihood option, with consequent remittances being used for several purposes.

India's National Bank for Agriculture and Rural Development (NABARD) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)<sup>1</sup> have a long history of collaboration in the cooperative and rural finance sectors. Their Rural Financial Institutions Programme (RFIP) currently supports the cooperative credit structure in the country, and the promotion, supervision and regulation of microfinance institutions (MFI). Within the framework of this technical cooperation, the RFIP developed a new project with a view to improving domestic remittance facilities in the country. Preliminary investigation<sup>2</sup> had indicated that a large number of domestic migrants come from the poorest income groups and from relatively unbanked areas, and that, for many of these migrants, formal money transfer is costly, slow or simply not accessible, while informal money transfer can be expensive, unregulated and prone to risk. The project seeks to address these concerns through four main objectives: (1) improving financial services for domestic migrants; (2) improving delivery channels, particularly with respect to the business correspondent (BC) model; (3) improving the payment system for small value money transfers and (4) strengthening financial institutions in providing adequate remittance services as well as other financial services (savings, insurance, credit), accompanied by appropriate financial education, to India's mobile population.

The project commenced in 2010 with the commissioning of studies to more accurately assess the nature and degree of domestic migration and remittances, and the potential for improvement in small value money transfers. These studies covered three main areas of enquiry: first, a nation-wide study of domestic migration and remittances<sup>3</sup>; second, four specific remittance corridor studies, varying, for example, in terms of location, distances, routes taken, migrants involved, work undertaken and money transfer systems used: (i) Gujarat/Southern Rajasthan<sup>4</sup>, (ii) Eastern Uttar Pradesh

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<sup>1</sup> German International Cooperation.

<sup>2</sup> Thorat et al. (2009).

<sup>3</sup> Deshingkar et al. (2010).

<sup>4</sup> Jones et al. (2010).

(UP)-Mumbai<sup>5</sup>, (iii) Odisha-Hyderabad, Andhra Pradesh (AP)<sup>6</sup>, and (iv) intra-state migration and remittances within Maharashtra<sup>7</sup>; third, a review of the payment and clearing systems in the country<sup>8</sup>.



<sup>5</sup> Hiemann et al. (2010).

<sup>6</sup> Mohanty et al. (2010).

<sup>7</sup> Santhanam et al. (2010).

<sup>8</sup> Barman et al. (2011).

## Structure of this Report

Following this introductory chapter, chapter 2 summarises the approach and findings of the nation-wide survey of domestic migration and remittances undertaken by Deshingkar et al. (2010). Their survey was based on background literature and data from two national surveys, the 2001 Census<sup>9</sup> and the latest (2007/08) round of the National Sample Survey (NSS)<sup>10</sup>, supplemented by data from numerous micro-level studies. The micro-level studies refer to socio-economic variables and particular forms of migration, which are often omitted from the national surveys, thereby adding significant insights regarding the dimensions and patterns of domestic migration and remittances.

Chapters 3, 4 and 5 then bring together the objectives, approaches and findings of the four remittance corridor studies:

Chapter 3 outlines the objectives, locations and research approaches of the three inter-state and the one intra-state (Maharashtra) corridor studies. All four studies had the objective of identifying and analysing the main features of selected migration streams and related remittance practices. In terms of objectives there were two main differences between the corridor studies. The Gujarat-South Rajasthan corridor study, the first corridor study to be undertaken, gave equal weight to the study of migration and remittance sending, in order to have an initial field-level understanding of migration. The remaining three corridor studies had a rather greater emphasis on remittances and transfer channels. Moreover, these three studies also included interviews with a range of financial service providers, something not undertaken in the first corridor study.

Chapter 4 brings together the findings of the four corridor studies with respect to the migrants and their remittance sending practices. To examine the many factors that can influence the amounts of money migrants send home and the ways in which they do so, chapter 4 outlines the characteristics of the migrant population: their family details at destination and origin points; their employment at destination points; their earnings, expenses and savings at destination points; the financial inclusion/exclusion of migrants; remittances and money transfer methods used; money transfer preferences and trends. The chapter shows that a minority of migrants are using banking channels to send money home, that they are instead using a range of alternative methods to do so, sometimes in combination, but that they nonetheless express positive views of the banking system in terms of desired features of money transfer channels.

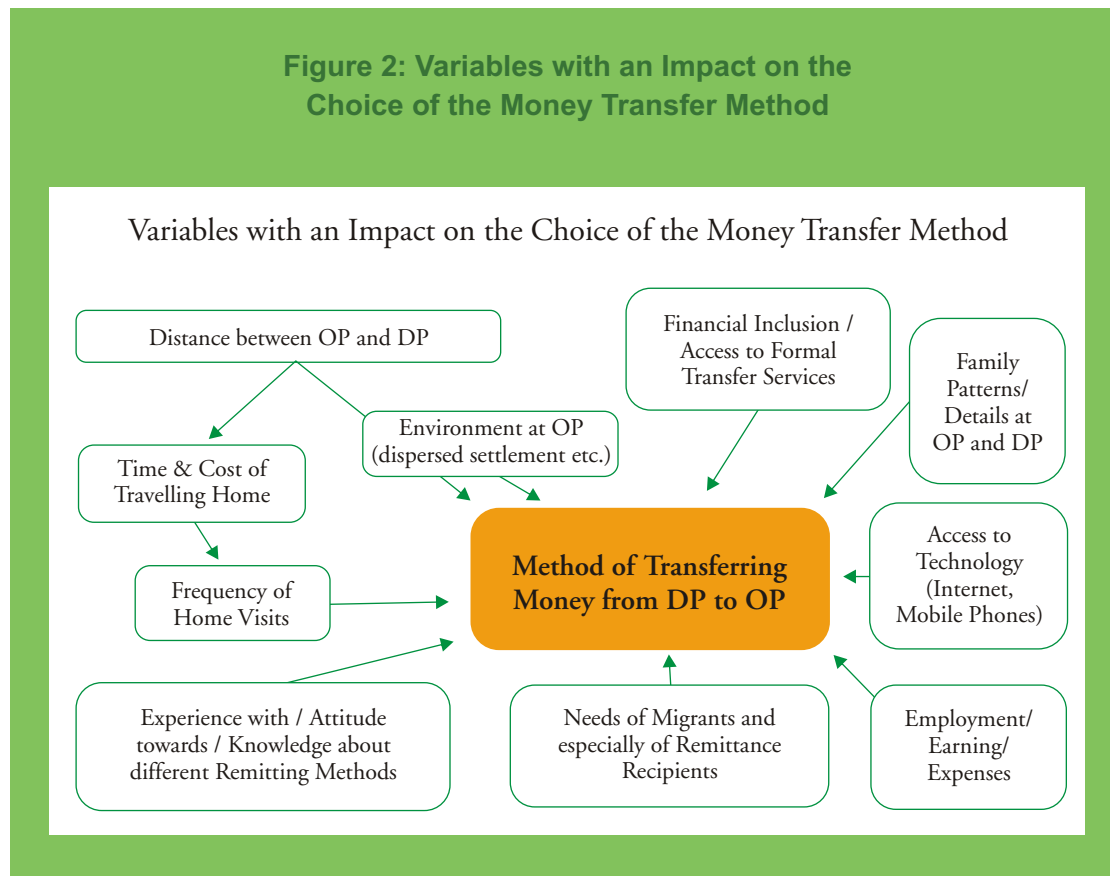
To explore these issues in greater details, chapter 5 examines the supply-side findings of the corridor studies with respect to Banks, the India Post Office (PO), MFIs, Courier Services, Cash Carriers and finally developments with respect to the Business Correspondent Model. This is done by reference to the three corridor studies (UP-Mumbai, Odisha-AP and intrastate Maharashtra) that included discussions with formal and informal financial service providers at destination and origin points, in addition to their interviews with migrants and remittance recipients (RR). Where relevant, some points from the Gujarat-Rajasthan corridor study are also mentioned.

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<sup>9</sup> <http://www.censusindia.net>

<sup>10</sup> [http://mospi.nic.in/Mospi\\_New/upload/533\\_final.pdf](http://mospi.nic.in/Mospi_New/upload/533_final.pdf) (Report No. 533, Migration in India, 2007-08)

**Figure 2: Variables with an Impact on the Choice of the Money Transfer Method**



This supply-side analysis then leads into the examination of the payments system in chapter 6. Against the background of over half the adult population in the country not having a bank account, and over 90% of retail transactions being made on a cash basis<sup>11</sup>, the objectives of the payments system study were twofold. First, it was necessary to gain a good understanding of the present state of the payment systems prevalent in the country, the legal and institutional framework governing their operation, and the infrastructure and instruments available for money transfer. Second, it was hoped to gauge the state of inclusiveness of these services towards small remittances with a view to suggesting measures for improving the reach of the payment system for meeting the needs of the poor. The depth and richness of the payment system is an important determinant of the socio-economic development of a country. From this perspective, the study argues that the development of the payment system is not only a plank for financial inclusion but is also crucial for economic growth.

All the six studies commissioned under the RFIP included recommendations for further action. In the final chapter of this report, chapter 7, the recommendations from the nation-wide survey of domestic migration and remittances, from the four remittance corridor studies, and from the payments system study are brought together.

<sup>11</sup> As per estimates of the National Council of Applied Economic Research (NCAER): N R Narayanamurthy, Chief Mentor, INFOSYS in his inaugural address at the International Conference on Payment and Settlement Systems at Hyderabad in 2006.

## 2 Migration and Remittances in India: Comparing Data Sources and Key Messages

This chapter of the report provides an all-India overview of migration and remittance patterns in the country. The analysis is based on background literature<sup>12</sup>, and data from two national surveys, the 2001 Census<sup>13</sup> and the latest (2007/08) round of the National Sample Survey<sup>14</sup>, supplemented by data from 83 micro-level studies. The micro-level studies refer to socio-economic variables and particular forms of migration, often omitted from the national surveys, thereby adding important insights regarding the dimensions and patterns of domestic migration and remittances.

The overview notes the considerable interest in the global development impacts of migrant remittances. Since the beginning of this century international remittance flows have received considerable attention, which has led to improved data collection and a better understanding of the importance of these flows for the receiving economies, while, at the same time, data and research about the impact of domestic remittances remains scarce.

The large number of studies concerning international remittances demonstrates the variety of factors which affect the impact of these flows on the receiving economies, both at the micro- and the macro-levels; the complex processes of migration and remittances are not easily detected at the macro-level. The role of remittances cannot be fully understood without taking the socio-economic effects of the migration process into account. The results of studies at the micro-level suggest that international remittances can be of great importance in terms of poverty reduction<sup>15</sup> and human capital formation<sup>16</sup>, even if remittances are only rarely used for productive investments, or saved. Here, improvements in living conditions – and hence productivity – and in human capabilities<sup>17</sup> - can pave the way for long-term (indirect) macro-economic development.

Even little is known about the magnitude and impact of internal remittances and no global estimates or reliable data at the individual country level is available, these short notes about international migration and remittances may provide an indication on how internal remittances might affect the socio-economic development.

This overview presents analysis of data from the National Sample Survey which enables us to examine the role played by internal remittances in India. Data from this survey and from the micro-studies show that internal remittances are substantial. However, for these remittances to translate into poverty reduction, a number of contextual and household preconditions are necessary.

A major policy issue concerns the high fees charged by money transfer agents. Large numbers of migrants avoid the banking system because of inaccessibility and send money through private agencies. These are more expensive than banks and post offices, but more user-friendly for the poor.

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<sup>12</sup> This chapter is based on the report of the same title submitted to GTZ by Deshingkar et al. (2010).

<sup>13</sup> [www.censusindia.net](http://www.censusindia.net)

<sup>14</sup> [http://mospi.nic.in/Mospi\\_New/upload/533\\_final.pdf](http://mospi.nic.in/Mospi_New/upload/533_final.pdf) (Report No. 533, Migration in India, 2007-08)

<sup>15</sup> See for example: Adams and Page (2005).

<sup>16</sup> See for example: Acosta et al. (2008), Hildebrandt and McKenzie (2005), and Yang (2005).

<sup>17</sup> See Sen (2000).

To examine this and other issues, and to provide an overview of migration and remittances, the rest of this chapter is divided into the following sections: national migration patterns, characteristics and numbers; remittances; migration corridors; summary.

## 2.1 Migration Patterns, Characteristics and Numbers

Although separated by time, together, the 2001 Census and the 2007/08 National Sample Survey provide a broad overview of migration within the country. After presenting the main findings from these two data sources, particular socio-economic aspects of migration (gender, education, poverty, caste), along with duration and prevalence of migration, are then examined by reference to the national surveys and the micro-studies.

### 2.1.1 Findings from the 2001 Census and from the 64th Round of the NSS (2007/08)

The 2001 Census demonstrates the considerable number of migrants (just over 30% of the population - 307 million people), and the often long duration of migration (nearly one third of migrants had migrated in the previous decade). Moreover, while intrastate and intra-district migration still dominate, a situation also reported in the more recent NSS, interstate migration grew by nearly 54%. While a majority of interstate migrants moved to neighbouring states (for those living near state borders, inter-state migration may be more accessible than intra-state migration), a large number of migrants travelled long distances e.g. 32% of migrants from Uttar Pradesh migrated to Maharashtra. High proportions of long distance travel are similarly reported for migrants from Odisha, Tamil Nadu, Bihar and Rajasthan.

For the previous decade, the Census showed that rural to rural migration dominated, followed by rural to urban, urban to urban migration, and urban to rural migration. The NSS also demonstrates how both urban and rural areas are important migrant destination points, with 35% of the population in the former, and 26% of the population in the latter being migrants.

For the previous decade the census also showed there were more female migrants than male (65 million compared to 33 million), though the great majority of females cited marriage as the main reason for change in residence. Work/employment was the most important reason for migration given by male migrants. These observations are confirmed by the findings of the NSS, as part of a broader range of reasons for migration (in search of employment/social and political problems, displacement by development projects, business, acquisition of own house/flat, housing problems, transfer of service, health care, proximity to place of work, post-retirement, studies, marriage, natural disaster, migration of parent/earning member of the family, etc.).

Early models of migration, which emphasise individual profit maximising behaviour, have given way to models which look at migration as a family decision where the profits and losses of migration are shared by all members. Remittances are part of the benefits of migration for the entire family. Moreover, migration has continued across Asia and Africa despite the growth of urban slums and increasing urban poverty.

### 2.1.2 Who Migrates: Evidence from National Data and from Micro-Studies

The contrasts between the findings of the national surveys and the village studies is first examined with respect to gender, and then with respect to education, poverty and caste.

**Gender** - It was noted above how the national surveys show a predominance of female migrants. This

is because marriage movements are counted in such calculations. However, as village studies demonstrate, findings related to gender are culture/context and occupation specific with some migration streams being dominated by men (e.g. rickshaw pulling) and others by women (e.g. domestic work).

Both men and women can migrate for the same industry (e.g. construction) but often for different segments in the market. Mobility among women in the north is relatively restricted compared to that in the southern states. Moreover, the issue of gender and migration is also influenced by social grouping, e.g. women from lower caste and poorer backgrounds are more mobile because they have little choice but to earn.

Men and women's remittance behaviour is also different. The little evidence that does exist suggests that remittance amounts are positively related to wages and income, and depend on other factors like length of stay at destination point, intention or not to return, familial obligations at destination and home. Thus, there are huge variations, but as a rule, single men and women who migrate to relatively well paid jobs on a short term basis, migrate for substantial sums of money.

**Education/Poverty/Caste** - With respect to these three variables, the findings of the national surveys and the village surveys are strikingly different. This is largely because these surveys do not include the poorest and least educated migrants, due to the fact they are involved in short-term migration, and in occupations that are difficult to monitor.

Thus, according to the census and NSS data, the bulk of India's migrants are middle class and middle-educated. The migrants belong to higher educational categories compared to their non-migrant counterparts, indicating that those with higher education levels find it easier to establish linkages necessary for migration, and benefit from the opportunities offered by migration. The census data show 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 move. A similar picture is presented by the NSS data.

However, the micro-studies show a completely different world where the poor (not necessarily the poorest) and scheduled tribals and scheduled castes are highly mobile. Virtually half the 83 micro-studies indicated that SCs and STs formed a significant proportion of the migration flows from the area. In some cases this may simply represent the social composition of particular origin villages, but in other contexts, SC and tribal migration may be proportionally larger because of the multiple deprivations and discrimination they can suffer. Overall, the micro-studies show two broad types of migration among the wider category of the poor.

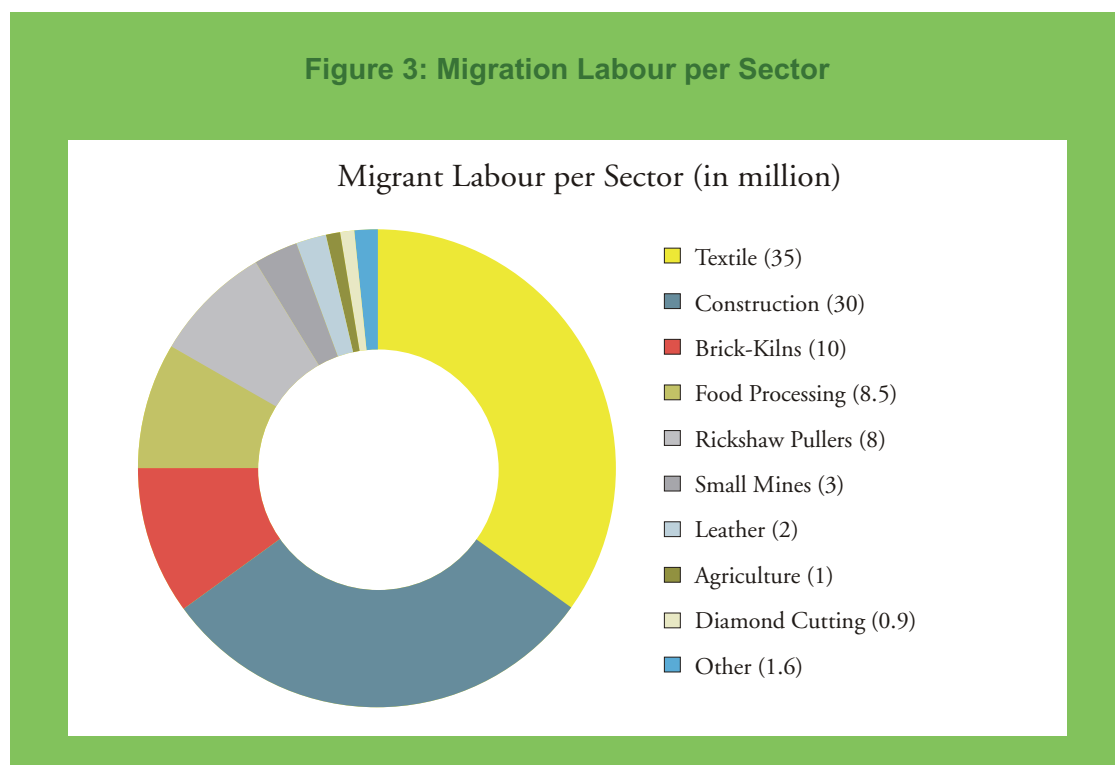
First, migration undertaken by the poorer, least educated, and most disadvantaged social groups (mainly SCs, STs, and Extremely Backward Castes) typically to work in brick-kilns, unskilled construction, loading and unloading of trucks, and agriculture, where living and working conditions leave much to be desired. Such migration may allow only slow asset accumulation, but it does prevent a downward slide into poverty. Second, migration is undertaken by slightly better off groups, with more education and skills, more assets, and a higher social standing. Backward Castes are heavily represented in such migration, typically working in small industrial units, in security services, as drivers, in the hospitality industry, and in plumbing and carpentry. Though many such jobs are in the informal sector, this second type of migration often leads to substantial remittances, asset accumulation, and investment which can lead to an exit from poverty.

### 2.1.3 Duration of Migration and Numbers of Migrants

**Duration** - The latest NSS show that the proportion of short-term migrants in the population was 1.7% in rural areas and almost negligible in urban areas, a gross underestimate as the data do not properly count part-time occupations and short-term migrations. As with the socio-economic variables noted above, the micro-studies show a very different story. Fifty-six of the 83 studies document various forms of seasonal, short term/temporary and circular migration as the main type of migration, and not permanent migration. Such migration has become a routine livelihood strategy that allows people to continue living in the village while accessing remunerative employment outside the village. The evidence all across India suggests that short term and circular migration is growing, most likely due to improvements in roads, transport networks and communications, and to maturing social networks which help migrants manage the risks involved in migration.

**Migrant numbers** - This is a central question for migration scholars and policy makers in India. Micro-studies, due to the fact that they capture data on short-term migrants, show that the numbers of migrants are higher than indicated in national statistics. Although this suggests there is a need to revise national estimates of migration, we cannot use micro-studies to do this. The best way of calculating numbers of seasonal and circular workers is to do it by proxy using industry estimates for industries which employ migrants. Adding up the figures indicates there are at least 100 million people on the move in India, not surprising given growing population densities, land fragmentation, booming industries, and construction activities in cities and coastal areas.

**Figure 3: Migration Labour per Sector**



## 2.2 Remittances

This chapter is based on nationwide studies and summarises much of the official data available. While the chapter forms a basis for orientation, the empirical remittance data collected during the four corridor studies are analysed in chapters three, four and five.

The 64th Round of the NSS collected data on internal remittances and provided more information on these compared to previous surveys. Using the NSS data, supplemented where appropriate by data from the micro-studies, this section of the chapter outlines the broad characteristics of internal remittances, examines their importance within household budgets, looks at remittances in relation to household expenditures and poverty reduction, and then analyses the investment and multiplier effects of domestic remittances.

### 2.2.1 Broad Characteristics of Domestic Remittances in India

According to the latest NSS, 58% of internal migrants remit money home, with an average annual value of Rs13,000, male migrants remitting more money than female migrants. The remittances improve the spending capacity of rural households.

Of these, those who work in semi-skilled occupations remit the most (Rs2,000 and Rs3,000 monthly), as many are single and migrate with the intention of remitting money home. They make large personal sacrifices to be able to remit by subsisting on as little as they can. There is some evidence to suggest that internal circular or seasonal migrants (those that do not intend to settle at destination, and leave their families behind in the source areas) have a greater propensity to remit than permanent migrants who have obligations at their destinations.

State-wise, Uttar Pradesh is the top recipient of domestic remittances, followed by Kerala, Rajasthan, Bihar, and Tamil Nadu. Although the NSS data show the percentage share of domestic remittances in Gross State Domestic Product as negligible, the NSS figures, for reasons outlined earlier, are likely to be gross underestimates. Moreover, the remittances are flowing mainly to agricultural households. Bihar is top in this respect, followed by Uttar Pradesh and Chattisgarh. As the agricultural sector has the largest share of poor people, domestic remittances can be regarded as pro-poor.

### 2.2.2 Remittances in Household Budgets

The NSS data show that households reporting migration have higher per capita incomes than households with no migrant. This holds true for Uttar Pradesh, Gujarat, Bihar, Maharashtra, Andhra Pradesh, Tamil Nadu, Kerala, West Bengal, Karnataka, Madhya Pradesh, Haryana, Bihar, and Odisha. For example, Uttar Pradesh is ranked number one, and has a yearly per capita income of “migrant households” of Rs20,000, higher than the average per capita income of all households in the state.

Micro-studies also emphasise the importance of remittances in rural household budgets. For example, in Udaipur district in Rajasthan, an area with large numbers of tribal migrants, remittances accounted for between 42-48% of total annual household earnings. A study of six villages, across three diverse regions in Madhya Pradesh, showed that remittances accounted for 30% of total household earnings. In Jhabua district, Southern Madhya Pradesh, households in the three poorest quintiles were shown to earn between 65-70% of wage income from seasonal migration. Data collected under the Western India Rainfed Farming Project showed that in the tribal areas of Madhya Pradesh, even higher proportions of household cash income were coming from migration. Other micro-studies demonstrate the importance of remittances in household budgets, in Bihar, Odisha and Jharkhand.

### 2.2.3 Expenditure and Poverty Reduction

At the all India-level, the per capita consumption expenditures of migrant households is nearly Rs16,000, higher than the average per capita consumption expenditure of all households. Thus

migrant households have higher per capita consumption expenditures compared to other categories of households. Although migrants themselves are thrifty and have high savings rates, remittance receivers are not and do not. Remittances received by poorer sections of society can have a substantial impact on the standard of living of the receiving households. Remittances enable higher spending on education, health, household consumption, human capital formation, and small enterprises.

#### **2.2.4 Investment and Multiplier Effects**

Where opportunities exist and where consumption goals have been satisfied, then remittances are used for investment purposes. Moreover, the literature argues that remittances support economic growth and poverty reduction, if they are properly harnessed. Even if remittances are not reducing poverty, they may help the household to maintain its standard of living.

Remittances can also lead to accumulation and an exit from poverty. One study in Uttar Pradesh showed a large proportion of people in a village becoming upwardly mobile through migration: some gained low-level jobs, some developed their own businesses, and saving bit by bit, they invested in agriculture back home. Other pathways to mobility in villages without commercial agriculture included higher education and government jobs. Much depends on the institutional context and the prospects for developing businesses or improving agriculture, these, in turn, depending on market linkages and access to know-how.

The evidence, by and large, indicates positive impacts on income and employment, and on consumption and savings, and a comparative improvement of economic status of those who migrate compared to those who do not. However, direct comparison of migrants and non-migrants is not possible, due to the selective nature of migration. Moreover, it is also difficult to attribute positive changes to migration alone, though there is little doubt that it is contributing to coping and accumulative trajectories for a large number of poor people in the country.

### **2.3 Migration Corridors**

This part of the chapter identifies and examines the main migration corridors in India, so as to be able to gauge where large numbers of migrants are going to, where remittances are flowing from, and which areas are receiving them. First, data from the 2001 Census and two rounds (1999/2000 and 2007/08) of the NSS are used to establish broad parameters. Second, three specific corridors are examined using the 2007/08 NSS data, adjusted by estimates of total population from the Central Statistical Organisation. Third, using examples from the micro-studies, five interstate corridors and one intrastate corridor are examined in depth.

#### **2.3.1 Corridors according to the 2001 Census and NSS Surveys**

According to the 2001 Census, the states of Uttar Pradesh and Bihar together account for nearly 70% of total migrants in India, with Uttar Pradesh having the largest number of out migrants, 2.7 million people. Maharashtra emerged as the most favoured destination for migrants, accounting for half of all interstate migrants, with a further 30% of migrants moving to Gujarat and Haryana. These three states together accounted for 80% of all interstate migrants over the period 1991/2001. The same Census Report notes that within states, Mumbai (migrants from UP, Bihar, Karnataka, Rajasthan and MP) and Delhi (migrants from UP and Bihar and other states), are major destinations, with Gujarat (migrants from UP, Rajasthan, Bihar and Odisha) being the next most important destination.

The main labour exporting states (Bihar, MP, Rajasthan and UP) are states that suffer multiple disadvantages regarding poor industrial development, poor infrastructure, and adverse environmental conditions. The 1999/2000 NSS survey also shows high-out migration rates for UP and Bihar, states with unfavourable resource allocation and employment prospects for the poor. Maharashtra is also shown to be the most important destination state for migrants, due to its rapidly developing industrial and urban sectors.

The latest round (2007/08) NSS survey showed that the five states attracting more than half (54%) of migrants are UP, Gujarat, Bihar, Maharashtra and Andhra Pradesh. In terms of long-term migration, the main destination states are UP, Maharashtra, West Bengal, Andhra Pradesh, Rajasthan, eastern UP, Madhya Pradesh, Gujarat, Bihar and Tamil Nadu. Thus, this survey shows that states that were thought of as mainly migrant exporting states (e.g. UP/Bihar) are also high migrant receiving areas. The data also show increased movement within Eastern India and also within states. The results are rather different for short-term migration: Jammu and Kashmir, Himachal Pradesh, Punjab, Chandigarh, Uttaranchal, Haryana, Delhi, Rajasthan and UP are the states that contain the largest numbers of such migrants. The reasons for this are diverse.

### 2.3.2 Specific Corridors according to the 2007/08 NSS

Two interstate corridors (UP to Mumbai and Odisha to Hyderabad) and one intrastate corridor (Maharashtra) are examined by reference to the 64th Round of the NSS, adjusted by estimates of total population from the Central Statistical Organisation.

**UP to Mumbai** - There are 3.4 million migrants in Mumbai from UP, many from Eastern UP, a poverty stricken area where migration has emerged as an important livelihood strategy. After Delhi, Mumbai attracts the largest number of migrants from UP. In Mumbai these migrants mainly work in trade, hotels, transport and communication (39%) and in manufacturing (34%).

**Odisha to Hyderabad** - Migrants from Odisha go mainly to Chhattisgarh, West Bengal and Andhra Pradesh. The total number of migrants from Orissa in Hyderabad is 0.6 million. In the case of those migrants going to Hyderabad, 71% of them are occupied in construction.

**Intrastate migration within Maharashtra** - Intrastate migration within Maharashtra accounts for as many as 32.8 million migrants, of whom around 16% migrate to Mumbai. Of total domestic migration in Maharashtra, 88% is intra-state and only 12% interstate. Of non-Mumbai based intrastate migrants, nearly 68% are employed in agriculture and allied industries, while for those intrastate migrants in Mumbai, just 20% work in agriculture and allied industries, 23% in trade, hotel and transport, and 18% in manufacturing.

### 2.3.3 In-Depth Analysis of Migration and Remittance Corridors using the Micro-Studies

Using data from a number of the micro-studies, five interstate corridors and one intrastate corridor are examined below. Larger numbers do not necessarily translate into a larger quantum of Rupees, as amounts earned, saved and remitted depend on the job, skill level and cost of living.

**Uttar Pradesh to Delhi and Mumbai** - The micro-studies confirm that Uttar Pradesh, especially the Eastern part of the state, is a high out-migration area. One study shows that the majority of migrants are illiterate, 57% are below the poverty line (BPL), the majority migrated for nine months or more, most belonged to landless households, and migrated to metropolises and large cities. Remittances

accounted for 33% of total income in households with short-term migrants, and 45% for households with long-term migrants, these proportions being higher for households in rain fed villages: 56% and 50% respectively.

The village studies also document intra-state migration, with SC migrants strongly represented. Migrant links to Delhi are shown by a number of studies since the 1970s. One study showed that such migrants worked mostly on short term contractual work, that they were mainly unmarried men, and largely from Other Backward Classes (OBC) and SC communities. However, the proportion of SCs appears to have grown over time. Earnings have also increased and at a rate far exceeding inflation.

One study of households in Delhi slums found that half the men in the sample had no education and 71% of the women migrants were illiterate. Women may follow and also work at destination. One study found the majority of domestic women servants in Delhi were from UP and Bihar, in another study the women servants were mainly low caste with little or no land and low levels of education, while a further study showed that 80% sample women were SC. Migrant SCs can earn relatively good wages and live without the caste oppression they face in their home villages.

There are fewer studies of links to Mumbai, but those that there are indicate that this is probably the fastest growing migrant stream, especially for young men.

**Bihar to Mumbai** - Poverty is predominantly rural in the state, and micro-studies illustrate the importance of migration for the rural poor. SCs and STs are likely to be three times poorer than in other castes, also three times more likely to be landless, and deprived in multiple ways. Muslims do not fare well either: 50% of rural Muslims are BPL, as are 45% of urban Muslims. Historically migration is higher among the lower castes, tribes and Muslims. One study in Bihar found that poor and marginal farmers migrated seasonally or commuted, and the rich migrated permanently. Young people are now exploring other areas to migrate, and in the case of lower castes, moving to escape caste oppression within their villages.

**Migrant working at the construction site in Mumbai**



A study of six districts in the state found a large and growing number of youths from Muslim, OBC and SC households migrating to Mumbai through social networks, and finding work in numerous small industries.

Bihari migrants remitted Rs450 crore in 2006 through post offices, with an equal amount being sent by electronic transfers. Most migrants prefer to send money through informal agents as they are more reliable and faster. The poorer migrants still hand-carry their savings. In Sitamarhi 75-80% of migrants visit their families every four to six months and hand-carry up to Rs3,000-Rs5,000. Another study interviewing wives of migrants reported remittances of around Rs4,000 a month. One study found that higher castes and Muslims remitted more, with these monies most commonly being used to cover consumption needs and medical expenditures. The study, in six districts, showed remittances were helping a small but growing number of households to invest in assets.

**Southern Madhya Pradesh to Gujarat** - The southern part of the state is predominantly tribal, with high levels of poverty and out-migration. The poorest migrate for nearby low-return farm work, the slightly better connected/experienced migrate to Maharashtra and Gujarat. In general, poor migrants from this region do not send remittances, rather they hand-carry money on the way home or send money through friends and relatives. They are outside the formal financial system and do not seem to

use informal agents either. Migration among the poor tribals is helping households to maintain standards of living rather than to break away from poverty.

**Western Odisha to Andhra Pradesh** - Migration from Western Odisha has a long history (from the 1800s), a large proportion of migrants being displaced tribals. Recent studies show that distinct migration streams have emerged. The high levels of migration are due to unequal land distribution, high levels of poverty among landless and marginal farmers, and low levels of human capital and industrialisation, urbanisation and livelihood diversification.

A 2000/01 survey of 2,368 villages showed that migrants were predominantly from the general castes (45.5%), followed by SC (19.5%), ST (19%) and OBC (16%). More than 62% of the migrants were male, 62% were illiterate, and their size of land holdings mostly less than 2.5 acres. More recent studies show much higher migration rates among SCs, STs and women in the region, with the migration process having been compared to bonded labour.

Action Aid estimates that nearly 2 million people migrate from Western Odisha to work in brick kilns in Andhra Pradesh, with others working as labourers, in weaving units and as rickshaw pullers.<sup>18</sup> The SC and ST migrant workers are usually recruited by an agent/contractor known as a Sardar or Khatadar. The agents give advances to the migrants, wages are then adjusted with workers often cheated. Each stage of the migration process is fraught with difficulties, dangers and risk. Women and children are particularly vulnerable to overwork and exploitation, and vulnerable to sexual abuse. These migrants also do not send remittances as such, they migrate against advances, earning before working.

**Eastern Odisha to Gujarat** - Micro-studies show large-scale migration from Ganjam and Puri districts to Surat and other places in Gujarat. Many of the migrants work in the textile, and diamond cutting and polishing industries. A recent informal estimate suggests there are around 900,000 Oriya migrant workers in Surat, of whom 600,000 are from Ganjam district alone (UNDP, 2007).

One Non-Governmental Organisation (NGO) estimates that Oriya migrants remitted as much as Rs2,000 crore in 2007.<sup>19</sup> A 2009 study of Oriya migrants in Surat shows a monthly average of Rs1,427 being remitted, with wage earners remitting relatively less and self-employed or private sector employers remitting up to Rs1,655 monthly (Sahu and Das, 2009). The same study notes how amounts remitted also depend on the number of dependents, with single migrants remitting nearly half their earnings. The use of banks to remit money has fallen, while the use of private operators has expanded, and many remitted through family members.

**Intra-State Migration in Andhra Pradesh** - The origins of rural labour migration also have a long history in this state, in the pre-independence era, when mobilisation of labour for major public works took place. Long term research in six villages of Andhra Pradesh shows a clear trend of growing migration and commuting, with migration earnings providing a significant share of total household income: circular migration accounted for 74% net annual income for ST households, 13% for SC households, 28% for OBC households and 3% for other caste households. Commuting accounts for 38% of income for SC households, 26% of income for OC households and 22% of income for OBC households, but only 18% of income for ST households – suggesting jobs in nearby towns are less accessible to STs.

<sup>18</sup> ActionAid (2005).

<sup>19</sup> <http://www.adhikarindia.org/index.php>

## 2.4 Summary

The States of UP and Bihar continue to be major sending states, and Delhi and Mumbai important receiving areas. The latest data show UP and Bihar to also be important migrant receiving areas. In addition, the developed parts of Gujarat and Maharashtra absorb large numbers of migrants.

National statistics provide a broad overview of migration and remittances and allow regional comparisons to be made. However, they severely underestimate short-term, circular and seasonal migration by poorer social strata, as these surveys mainly cover permanent migration which has a higher representation of those from more affluent and better educated backgrounds. Of the 83 micro studies, 60 covered seasonal and circular migration and many document high proportions of SC, ST and OBC migrants. In many of these micro-studies seasonal and circular migration is the dominant form of migration, and, in aggregate, industry estimates suggest these to be around 100 million persons.

Moreover, micro-studies provide insights about migration experience, the caste composition of migrants and remittance patterns. These studies demonstrate the importance of migration for those with few assets and belonging to socially excluded groups. They also show remittances are substantial among those who are relatively better off among the poor and able to access relatively well paid jobs. Migrants in this category can remit at least Rs2,000 a month as they migrate to earn and save as much as possible. Remittances from this kind of migration can result in upward mobility.

The poorest migrants, those who migrate for survival, usually on a seasonal basis, when work is in short supply in their village, may not save much and hand carry money home. Many take advances from agents. Such migration may not reduce poverty immediately, but prevents downward slides into deeper poverty and indebtedness, and may, over time, improve standards of living.

Deshingkar et al. finally argue that it is mainly the first tier i.e. the remitters, who are outside the formal banking system, that NABARD needs to link with. Banks are not used because their procedures are cumbersome and migrants lack identity papers. An NGO working specifically with migrants has shown a need and appetite for efficient and safe remittance mechanisms. Through understanding remittance preferences and behaviour, NABARD can develop ways of including migrants in remittance programmes. The high levels of migration and remittances need to be recognised at the policy level, and efforts must be made to reduce the costs and risks of migration. Migrants' access to formal banking and remittance channels needs to be facilitated.

The following chapters three, four and five, present primary data that have been collected and analysed by four teams in the corridors (i) Gujarat-Southern Rajasthan<sup>20</sup>, (ii) Eastern Uttar Pradesh (UP)-Mumbai<sup>21</sup>, (iii) Odisha-Hyderabad, Andhra Pradesh (AP)<sup>22</sup>, and (iv) intra-state migration and remittances within Maharashtra<sup>23</sup>. The following zooms in on certain areas in the migration corridors, which have been identified as out- or in-migration areas and have different characteristics. For instance, the corridors differ in the volume or frequency of remittances sent, bankability of migrants, sector of work at the destination, density of financial institutions and reasons for migration. The diversity in migration and remittance practices allows for a wider range of financial systems solutions for India's mobile population.

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<sup>20</sup> Jones et al. (2010).

<sup>21</sup> Hiemann et al. (2010).

<sup>22</sup> Mohanty et al. (2010).

<sup>23</sup> Santhanam et al. (2010).

### 3 The Migration and Remittance Corridor Studies: Objectives, Locations, and Research Approaches

This chapter outlines the objectives of the three interstate studies and the one intrastate corridor study, examines the locations of their respective origin point and destination point surveys, and then provides information on the research approach and data collection tools and methods utilised.

All four corridor studies had the aim of identifying and analysing the main features of selected migration streams and related remittance practices.

Based upon the field research, all four corridor studies had the objective of providing recommendations which would lead towards the design of new remittance products and services, as well as innovative financial linkages and delivery models to offer the full range of adequate financial services for India's low-income and mobile population.

The choice of the four remittance corridors was informed by prior knowledge of the migration routes concerned (especially for the Gujarat-Southern Rajasthan study), the all-India level study discussed in the previous chapter, national-level data and statistics, and other studies related to domestic migration in the country. The choice of specific origin and destination points within the corridors was similarly informed by previous research and the literature on migration, and in the case of the UP-Mumbai, Odisha-AP and the intrastate Maharashtra corridors, also by extensive discussions with a wide range of local stakeholders. For these three studies, the presence of potential partners to collaborate in the survey work was another important consideration. The four corridors have been chosen in such a way that the diverse migration and remittance behaviours of the country could be captured adequately.

#### 3.1 Objectives of the Corridor Studies

Whilst the first corridor study, the Gujarat/Southern Rajasthan study, put rather more emphasis on establishing individual migration histories and attitudes towards migration and remittances, the three other corridor studies also sought to provide substantial information on the socio-economic background of migrants and remittance receiving families. Further common objectives were to establish the degree of migrant and remittance receivers' financial inclusion and exclusion, to identify remittance channels used, and to ascertain the views of senders and receivers towards these and towards possible alternative money transfer mechanisms. All four studies also aimed to establish the extent of respondents' access to mobile phone technology. The three later corridor studies had the additional objectives of exploring the views of financial service providers towards providing financial services to migrants and their potential to do so. They also contain a comparative cost analysis of different remittance delivery channels.

The Gujarat-Southern Rajasthan Corridor Study was the first to be implemented and had aims slightly different from those of the subsequent three corridor studies. This first study gave equal weight to the study of migration and remittance sending, in order to have an initial field-level understanding of migration. Furthermore, this first corridor study built upon pre-existing research contacts with migrants and households at both ends of the corridor i.e. contacts at the destination points and contacts in the origin villages. This facilitated the building up of detailed migration and remittance histories.

Accordingly, the objectives of the Gujarat-Rajasthan study were to achieve an overview of migrants' lives and remittance sending practices, their attitudes towards these, and to explore the potential for improvement with respect to ways of sending money home.

It had been agreed that the study would focus exclusively on tribal Bhil migrants, from Southern Rajasthan, working in the construction and service sectors in the neighbouring state of Gujarat, and would provide an example of a remittance corridor in which largely informal mechanisms were used for money transfer.

Similarly, the next three remittance corridor studies, shared the objectives of examining particular migration streams and remittance patterns, identifying migrants' financial service needs, scrutinising the range of money transfer mechanisms and delivery channels used (both formal and informal), and understanding the experiences, views and perspectives of remittance senders and receivers towards these channels, and towards possible alternatives. Other aims common to the studies were to examine the potential for remittances to promote savings and to explore migrants' and remittance receivers' access to technology – including mobile phones. The three later studies had the further objectives of examining the perspectives of financial institutions towards providing financial services to migrants and remittance receivers, and of conducting a viability and cost analysis of remittance delivery channels. Thereby also examining the connectivity between remittances and other financial services like savings, loans, insurance products and financial literacy, provided through one channel.

## 3.2 Identification of Origin and Destination Points

Having identified the objectives of the corridor studies this section examines the identification of origin points and destinations points for the four corridors in turn. For the Gujarat-Southern Rajasthan Corridor, the choice of origin points was determined through previous research in the area, backed up with information from the literature, and the destination points were chosen through links with existing migrants, and information from the migration literature. For the other three corridor studies, the choice of origin and destination points was determined through the migration literature, extensive discussions with a wide range of officials from the Government and NGO sectors, and the comparative socio-economic characteristics of the districts and areas concerned. For these three studies, the presence of potential NGO collaborating partners was also an important consideration.

### 3.2.1 Gujarat - Southern Rajasthan Corridor

**Origin Points** - With respect to the Gujarat-Southern Rajasthan study, the choice of the main origin area (Dungarpur District) was based on the team members' research and professional work experience in this district and the migrant contacts this would facilitate. Moreover, the literature documents the long history and prevalence of tribal migration from this part of Southern Rajasthan to Gujarat. A study focussing on tribal migrants from this area would therefore provide an example of relatively underprivileged migrants and remittance receivers, who as a ST community have traditionally faced problems of poverty and financial exclusion. In the event, a few migrants, from the neighbouring districts of Banswara and Udaipur, belonging to the same tribe (Bhil) and speaking the same local language (Wagri) were also interviewed in Gujarat.

The great majority of people living in Dungarpur and Banswara districts live in rural areas (93% of persons in both districts) and the great majority of the two Districts' population are ST (65% and 72% respectively). Literacy rates for men are 66% and 60%, and even lower for women in the two

districts: 32% and 28%. The issue of low education levels and low literacy levels often cropped up in the survey with respect to reluctance to deal with formal financial institutions.

The great majority of tribal migrants from this area are reported to be male, and while migration is noted for all social groups, tribal migrants have been found to usually secure only low-value and vulnerable employment, with remittances largely used for household consumption purposes.

In Dungarpur, Banswara, and Udaipur districts, the tribal villages are dispersed settlements, often spread out over many square miles of undulating and inaccessible terrain. As the crow flies, a bank may be only a few kilometres away from a tribal settlement, but the walking time may be substantial. Appreciating this is important in understanding the valued attached to existing informal money transfer systems which offer a doorstep-service, and in understanding a major obstacle that would lie in the path of developing new remittance products.

**Destination Points** - The destination areas chosen for this study were Surat, Ahmedabad and Himatnagar in Gujarat. All three, especially Surat and Ahmedabad, constitute major growth centres and destination points for migrants from Southern Rajasthan, and from many other parts of India. The migrant interviews commenced in Surat, via an initial migrant contact, and were followed by interviews in Ahmedabad and in Himatnagar – successively closer and closer to Dungarpur district, where the remittance receiving families were subsequently interviewed.

### 3.2.2 Uttar Pradesh-Mumbai Corridor

**Origin Points** - Following discussions with a wide range of stakeholders, a shortlist of six relatively poor districts was drawn up by the UP-Mumbai team. Subsequently, three origin point districts were chosen for the study: Jaunpur, Sant Ravidas Nagar (SRN, also known as Bhadohi District) and Rae Bareli.

In all three districts very high proportions of the population are involved in agriculture (e.g. around three-quarters of the population), but high proportions of land holdings are of less than one hectare. Even though, in Rae Bareli, the population density is smaller, the family size higher, and the average farm size higher, compared to that in the other two districts, 80% of the population is still below the poverty line. Although SRN is known for its handicraft activities, local NGOs note an increase in migration with a decline in the international market for hand-made carpets.

**Migrant's family (interviewed) at Originating Point in UP**



Compared with the UP State average, the share of the State Bank of India (SBI) and Associate Banks is lower in the three districts, and the share of Regional Rural Banks (RRBs) much higher than the State average in Jaunpur and Rae Bareli Districts. About four out of five banks in the sample districts are categorised as rural or semi-urban. Overall, post offices have the highest density, followed by Primary Agricultural Credit Societies (PACS) and then banks. The credit deposit ratios indicate that banks increasingly mobilize funds in rural areas, but invest these funds outside.

**Destination Point** - It has already been noted in the previous chapter that the 2001 Census identifies Mumbai as a major migrant destination, and that the NSS data suggests as many as 3.4 million migrants in the metropolis are from Uttar Pradesh, with many of these originating from Eastern Uttar Pradesh. Accordingly, for this corridor study, Mumbai was chosen as the destination point.

### 3.2.3 Odisha-Hyderabad, Andhra Pradesh Corridor

**Origin Points** - For the origin point research, three districts were chosen in Odisha, from three different geographical regions in the State.

Kendrapara District lies in the eastern coastal region, with a substantial number of migrants, mostly young males, migrating to Kolkatta, Delhi, Mumbai, Surat and Hyderabad. The district is densely populated with 21% and 7% of the population belong to SC and ST communities respectively. Just over half the cultivated land is rain-fed. The district is served by 210 outlets of financial institutions and the SBI is the lead bank of the district. Although Kendrapara is stated to have reached 100% financial inclusion, little headway has been made by banks in technology adoption or deployment of business correspondents. The Potential Linked Credit Plan (PLP) prepared by NABARD does not discuss the magnitude, causes and implications of migration in the district, as is also the case for other districts.

Ganjam District is in the south-eastern part of the State, very close to the border with the neighbouring state of Andhra Pradesh. Again, this is an area characterised by substantial out migration, in this case, mostly of unskilled labour to Surat and Andhra Pradesh. The district was known for its intensive agriculture and high production, but excessive use of fertilizer and growing salinisation of land, has left increasing areas unproductive, one reason for the high out-migration. The SC and ST population is 19% and 3% respectively. Fifty-six per cent of households are BPL. The district has a good network of financial institutions (267 outlets) and has also been declared as 100% financially included. However, this inclusion largely remains confined to the opening of no frill accounts. The State Bank of India has appointed Zero Mass Foundation as business correspondent for providing financial services in the district. Other banks are initiating the process of appointing business correspondents.

The third district chosen, Nuapada, lies in Western Odisha - an area with great poverty and unemployment and substantial out-migration to Andhra Pradesh, mainly to work in the brick kilns in this state. Seventy-six per cent of the population are dependent on agriculture, but suffer acutely from erratic distribution of rainfall and recurrent droughts. Seventy-two per cent of families are BPL, and development indicators for the district are particularly low.

**Destination Points** - Hyderabad is the administrative capital of Andhra Pradesh, as well as being the economic and financial capital of the state. In the city and surrounding areas, migrant labour has been involved in building, road construction, loading and unloading, and a range of work in the service sector. The economy of Hyderabad is witnessing a transformation from traditional manufacturing towards a knowledge based economy. Most of the growth in population has been occurring in the surrounding

**Migrant from Odisha (Nuapada) at the brick kiln site in Andhra Pradesh**



municipalities. Unskilled workers find work as contract labour and there is keen competition and uncertainty/irregularity in such work. Skilled workers secure better opportunities through friends, labour contractors, customers and community organisations. A large part of the migrant population works at brick-kilns.

Some survey work was also conducted at a second destination point, Nizamabad, an agriculturally developed district in the State. Various endeavours towards financial inclusion have started in the area and numerous BC pilots are being conducted, yet a model that reaches out sustainably and that is replicable is not yet in place.

### 3.2.4 Intra-State Corridors in Maharashtra

Following discussions with Agencies working exclusively with migrants, and with other leading NGOs and government officials, the Maharashtra team identified eight intra-state migration corridors. Bearing in mind the categories of work and sectors to be covered (agricultural and non-agricultural), and the target number of interviews at both origin and destination points (50 in each), the team selected two origin point districts and three destination point districts for the research work.

**Origin Points** - The two origin point districts in Maharashtra, Ahmednagar and Beed, are both mainly rain-fed areas with skill sets largely in agriculture, especially in sugar-cane cutting.

Ahmednagar is not only industrially underdeveloped but is also a drought-prone district. A significant number of landless labourers and especially women have no access to institutional finance. Landholdings in the district are very small; just over 35% are less than one hectare and a further 31% are less than two hectare. With a hot, dry and semi-arid climate, the rural population look for employment opportunities outside the district. The lead bank has identified 297 villages having a population above 2,000 which are not covered by any bank branch. The State Bank of India has spearheaded the appointment of business facilitators (33 individuals) and banking correspondents (25 post offices) in the district. The ICICI Bank has appointed FINO<sup>24</sup> as its business correspondent, both in Ahmednagar and Beed districts.

Beed district has a predominantly agrarian economy with farmers pursuing animal husbandry as a supplementary activity. A large number of workers migrate to neighbouring districts for employment as sugar cane cutting labour. Like Ahmednagar, Beed is also drought prone, and similarly has large numbers of landless labourers and women with no access to institutional finance. The lead bank has identified 129 villages having a population above 2,000 which are not covered by any bank branch. Two banks have initiated a process of covering 34 and 27 villages through business correspondents and business facilitators respectively.

In order to examine the status of remittance receiving households in an industrially developed district, a few interviews were also conducted in Pune district.

**Destination Points** - The three destination point districts for the Maharashtra study, Pune, Nashik and Kolhapur, are all relatively well developed districts, both agriculturally and industrially, with large areas under sugar-cane cultivation and many sugar-cane factories.

Pune is emerging as one of the fastest developing districts in Maharashtra. It has a wide variety of industries and a vibrant Information Technology (IT) services sector. It is also a premier educational

<sup>24</sup> Financial Information Network and Operations Limited.

centre. The district has an extensive banking network, and a good network of NGOs. The banks have been given discretion to identify business correspondents.

Nashik district is known for commercial horticultural production, and shows great scope for the processing and export of grapes, pomegranates and onions. The State Bank of India has initiated steps to appoint NGOs and PACS as business correspondents. YES Bank is implementing a pilot project for mobile phone based transfer/remittance services to the unbanked and unreached.

The economy of Kolhapur District is primarily agrarian. Seven perennial rivers support the irrigation system in the district. There is also a well-developed textile industry. Even so, a sizable segment of the rural poor, remain unreached by the banking network. The lead bank has identified 213 villages having a population of over 2,000 persons which are not covered by any bank branch. Although some banks have identified business correspondents, no bank has appointed any banking correspondents for providing financial services to the unbanked low-income people in the district.

Some migrants were also interviewed in Ahmednagar district, to examine the position of migrants working in a relatively less developed and largely agricultural area.

### 3.3 Research Approaches and Sampling Methods

In the first corridor study, Gujarat-Southern Rajasthan, a “snowball” approach to respondent selection was adopted. The first migrant interviewed in Surat was known to the researchers from over 35 years ago, when he was a schoolboy in Dungarpur. He led us to other Bhil migrants from Southern Rajasthan, who in turn introduced us to their own migrant contacts. Other contacts introduced the team to a further number of migrants. Using this procedure, 42 Bhil migrants were contacted and interviewed in Gujarat: Eleven in Surat (Two of these in Daman), 19 in Ahmedabad and twelve in Himatnagar. Such links were invaluable in putting interviewees at ease, and facilitating the gaining of information on migration history and use of money transfer systems. Similar links and contacts were utilised in selecting remittance receiving households in Dungarpur district, where a total of 20 such households were interviewed. Snowballing did not blind the team to the need for diversity regarding age, occupations and gender. Endeavours were made to interview migrants from a wide range of occupations, from different age groups, and to include some women migrants. All the interviews were conducted by the two members of the research team.

The other three corridor studies supplemented their migrant and remittance receiving household interviews with focus group discussions, and also held meetings with a range of financial service providers and other stakeholders. Selected NGOs helped in the identification and interviewing of respondents.

Seventy-four remittance receivers were interviewed by the UP-Mumbai team, and 60 and 50 remittance receivers, interviewed by the Odisha-AP and the Maharashtra teams respectively. However, because of data gaps, data for four of the Odisha respondents were discarded, leaving a total of 56 remittance receivers for this corridor study, and an overall total of 200 remittance receivers interviewed by the four teams altogether.

**Focus Group Discussion in process by study team in UP**



The UP-Mumbai team interviewed a total of 57 migrants (21 at destination points, 36 at origin points when visiting their homes), the Odisha-AP study team interviewed 60 migrants (45 in AP and 15 in Odisha when visiting home), and the Maharashtra team interviewed 53. Thus a total of 212 migrants were interviewed for all four corridor studies together. For some general points on migration, the Odisha-AP team also included observations with respect to 92 migrant family members, identified by the 56 remittance receivers at the origin points.

Six focus group discussions were conducted by the UP-Mumbai team (Four in the origin villages and Two in Mumbai), and the Odisha team conducted one such set of discussions in each of the three origin districts. Both studies included a number of visits to a wide range of stakeholders (e.g. banks, MFIs, NGOs, POs, and some informal financial service providers), the Odisha team additionally held discussions with two Institutes concerned with development. The Maharashtra intrastate study team held discussions with a similarly wide range of banks, NGOs, NABARD officials, one business correspondent, and sugar factory officials.

### 3.4 Questionnaire Design and other Data Collection Methods

The interview schedules for migrants and remittance receiving households in the Gujarat-Rajasthan study were designed and implemented before the other three corridor studies commenced. During a workshop in Delhi (August 2010), in which the approaches and findings of the Gujarat-Rajasthan study were presented, the participants also discussed and agreed upon a questionnaire, to be administered by the UP-Mumbai corridor study team. Subsequently, this formed the template for the schedules for the Intra-Maharashtra and the Odisha-Hyderabad corridor studies.

As noted previously, the Gujarat-Southern Rajasthan corridor focussed exclusively on interviewing migrants and migrant receiving households. The interview schedule for the former covered family background and migration history, views on the advantages and disadvantages of migration, access to financial institutions and mobile phones, the financing of travel and other expenses, present work and employment, return journeys to the village and remittances sent home, money transfer systems used, views about these and possible alternatives, and social networks and identity. The interview schedule for the receiving households referred to family details and land resources, access to financial institutions and mobile phones, remittances received (e.g. senders, amounts, channels used, receivers, where kept, use of), savings and borrowings, membership of SHGs, visits by migrant members, and views towards existing money transfer systems and towards possible alternative channels.

In the UP-Mumbai corridor study, the questionnaires were similar for both migrants and remittance receivers. This was subsequently the case for the two remaining corridor studies. Information sought included socio-economic details about the respondent, data about migration, extent of financial inclusion, experiences of formal financial institutions, remittance sending practices and experiences, and other financial services such as loans and insurance.

**Data collection work in process by study team member in (Nashik) Maharashtra**



Where necessary, modifications were made to this questionnaire by the Odisha-AP and Maharashtra teams, to reflect particular features of their respective study areas.

The focus group discussions in the UP-Mumbai study covered migration characteristics (e.g. direction, distance, duration, caste/community specificity, occupations), awareness and judgement about remittance transfer methods, advantages and disadvantages of alternative remittance methods and channels, the characteristics of remittances (frequency, amounts, usage, impact) and trust mapping and matrix ranking of different sending options.

The same corridor study developed guidelines for discussions with formal and informal financial institutions.

These specified general information about the institutions (e.g. network), the population and target group served, connectivity to the Core Banking System (CBS) or National Electronic Funds Transfer (NEFT) and other technologies, business correspondents, Know Your Customer (KYC) norms, and provision of remittance services.

**Focus Group Discussion, Sandhapur village (Odisha)**



The focus group discussions and the meetings with other stakeholders in the remaining two studies followed broadly similar themes to those of the UP-Mumbai study.

### 3.5 Summary

Together, the four corridor study teams contacted, interviewed and analysed data relating to a total of 200 remittance receivers and a total of 212 migrants.

In all four studies the origin points for migrants in the corridor were typically characterised by relatively high levels of poverty, high proportions of small land holdings, static or declining employment opportunities in the agricultural sector, few local opportunities for alternative non-agricultural employment, and often a long history of migration to more prosperous agricultural areas, and to towns and cities elsewhere. In contrast, the rural destination points were characterised by large-scale commercial agricultural activities, and the urban destination points by high growth rates, a wide range of industrial and service sector activities, and buoyant employment opportunities.

For all the corridor studies the main method of investigation was the use of interviews, for both migrants and remittance receiving families. The UP-Mumbai, Odisha-AP and the intrastate Maharashtra corridor researchers, supplemented interviews with the use of focus group discussions, and also conducted meetings with a range of financial institutions (both formal and informal) to ascertain their networks and operations, and their views on the provision of financial services to migrants and their families. Other stakeholders, e.g. employer organisations, were also interviewed.

The following chapter proceeds to examine the findings.

## 4 The Migration and Remittance Corridor Studies: Senders and Receivers of Remittances

Many factors can influence the amounts of money migrants send home and the ways such money is remitted: characteristics of the migrants themselves (e.g. age, gender, education, community); the work they are undertaking at their destination points (e.g. duration, sector, type); the expenses they incur travelling to and residing at their place of employment; the degree to which they are financially included or excluded; the characteristics of the remittance receiving families (e.g. size, composition, land holdings) and the pressures they may bring to bear on migrant members to remit money; the migrants' own preferences and perceptions of different financial service providers.

Each of these areas is examined in this chapter, by reference mainly to the results of the individual interviews with migrants and remittance receivers, but also to findings from some of the focus group discussions. Money transfer trends are also discussed before looking at these in greater detail in the following chapter.

The findings presented are largely based on interviews with the migrant respondents (MR). Where appropriate, information from the interviews with remittance receivers (RR data) is used to emphasise particular points.

### 4.1 The Migrants

The migrant respondents were relatively young, mostly male and married, and often having rather low levels of formal education.

#### 4.1.1 Age, Gender, Marital Status and Education

The average age of migrants interviewed in the three interstate corridor studies was very similar: 29 years (Gujarat-Rajasthan), 32 years (UP-Mumbai) and 30 years (Odisha-AP), with a range of 18-52 years. Most migrants (76%) belonged to the group of 20 to 39 years. Few female migrants (three, zero and one) were interviewed in these interstate studies. This was not from lack of endeavour, but is indicative of the predominance of male migrants following the particular migration routes examined. A much higher proportion of female migrants was interviewed in the intrastate Maharashtra study (28%), partly due to the migration of whole families for sugarcane cutting operations. Similarly, in the Odisha-AP study a higher proportion of female migrants (26%) was indicated by the remittance receivers – but this was largely confined to one origin point district (Nuapada), and the fact that many of these migrants were working as family groups in brick kilns just across the border in AP. Moreover, it should be pointed out that where Focus Group Discussions were conducted, higher proportions of females were involved, especially at origin points, compared to those in the individual migrant interviews.

High proportions of the migrant respondents were married: 74% of the Rajasthan migrants in Gujarat, 87% of the UP migrants in Mumbai and nearly 60% of the Odisha migrants in AP.

Education levels were particularly low for the Rajasthan migrants in Gujarat. Nearly 40% of the respondents had no education, and a further 17% noted that they had attended school just up to class three. The situation for the UP migrants in Mumbai was rather better; 46% had received up to eight years of schooling and a further 48% more than 8 years of schooling. Sixty-nine per cent of the Odisha

migrants in AP had had between one and ten years of schooling. As much as 40% of the intrastate migrants in Maharashtra were described as illiterate. The contrast between non-existent and/or very low education levels, and the literacy levels needed to fill out forms at the destination and origin points, has serious implications for dealings with formal financial institutions. This is something with particular reference to the UP-Mumbai corridor study.

**Table 1: Characteristics of Migrants**

	Rajasthan- Gujarat	Odisha- AP	UP- Mumbai
Average age of migrants (years)	29	30	32
Proportion of married migrants	74%	60%	87%
Proportion of migrants living without family members at DP	45%	47%	39%
Average number of supported family members at OP	5 to 9	6.2 (average family size of the families of migrants)	6.5
Frequency of visits at OP per year	3 times	1 to 2 times	1 to 2 times

#### 4.1.2 Family Details at Destination and Origin Points

Although the majority of the migrants were married, only the majority of migrants in one of the interstate studies (Mumbai) had one or more dependents in the city. Moreover, migrants living with family members at destination points were not necessarily living with wives and husbands. Differing combinations of relatives can have implications for earnings and expenses, and therefore the ability to remit to origin points. The size of families at origin points indicates the numbers of dependents, one factor affecting the pressures to migrate and to remit.

**Destination Points** - Higher proportions of Gujarat-Rajasthan migrants (45%), and the Odisha-AP migrants (47%) were living without their family members at their destination points compared to those of the UP-Mumbai migrants (39%). In the case of the Gujarat-Rajasthan migrants this was probably due to the relative proximity of their home villages and to the type of work undertaken. Even so, 21% of these migrants were living with their wife/husband, and 33% were living with varying combinations of other family members, many of whom were also working at the destination points. In AP, 17% of the Odisha migrants were living with one dependent, and the proportions of the Odisha migrants with two and three dependents was 7% and 15% respectively. Interesting observations were made in the UP-Mumbai report in this respect. Not only did a high proportion of the UP migrants have one or more dependents in the city (61%), but nine out of ten of the UP migrants planned to remain in Mumbai for the next five years, and 93% of them had a (semi-) permanent address at this destination point.

**Origin Points** - With respect to family members left at the origin points, nearly half the Gujarat-Rajasthan migrants had families back home of between five to nine persons; one migrant's family consisted of ten persons and the remaining families between one to four persons. An average of

between six and a half origin point family members were supported by the UP migrants in Mumbai. The situation was rather different in the Maharashtra intrastate study, in that for certain types of migrant work (especially for sugarcane cutting) families moved together because of labour requirements for this work.

The Gujarat-Rajasthan study illustrates how the small land areas owned/cultivated by the origin point families of the migrants give an initial indication of the imperative to migrate. Of those migrants able to provide a measure of land area (some stated this in terms of the seed needed to sow the land), the average was 1.44 hectare with a range of 0.16 to four hectare. Moreover, most of this land is un-irrigated, with poor quality soils, and often jointly owned with siblings, thereby effectively reducing the per household land areas even further. Indeed, remittance receivers in the UP-Mumbai study cited insufficient land holdings as the main reason for migration.

#### 4.1.3 Employment at Destination Points

The migrant respondents had often worked at their destination points for some considerable time, were employed in a wide ranging set of occupations and types of employment, showed evidence of some occupational advancement and mobility, voiced similar reasons for undertaking their migration, and usually made regular visits to their home villages.

**Duration of migration** - In many cases the migrants interviewed had been working at their destination points for quite a number of years. This was particularly the case in Mumbai where just over 80% of the UP migrants had worked there for ten years or more. Indeed, 15% of the UP migrants had been in Mumbai for more than 25 years. The proportions are not quite so high for the Gujarat Rajasthan migrants but roughly a quarter of them had been working in Gujarat for between five to nine years, a further quarter for between fifteen to nineteen years, and another quarter for between twenty to twenty-four years. Just 3% of the Odisha migrants in AP had worked there for more than ten years (the figure was rather higher -14%- when the migrant details were gained from the remittance receivers), but, even so, overall, not only have many migrants been working away from their villages for some considerable time, but the money transfer systems used were therefore very familiar and long-standing.

**Types of occupation** - Not surprisingly, the migrants were undertaking a range of jobs, and the types and relative importance of each varied according to the particular destination points and migrant group. Thus in Gujarat, the majority (48%) of the tribal migrants from Rajasthan were engaged in construction work, while 19%, 14%, 12% and 5% of these migrants worked in other services (e.g. cleaners), hotels and restaurants, transport (drivers) and trade (shop assistant) respectively. Just one of the Rajasthan migrants was employed in a factory. In Himatnagar, the factory owners specifically mentioned that they preferred hiring labour from more distant parts of India, as, compared to the Dungarpur tribal migrants, they were less likely to be here one day and gone tomorrow. Only six (14%) of the 42 tribal migrants were self-employed: two running tea stalls, one running an ice-cream stall and one a pan shop; two were drivers.

In Mumbai, 33% of migrants from UP were engaged in other services (e.g. watchmen, security), higher proportions (22% and 21%) working in manufacturing and transport respectively, and just 12% in construction. A much higher proportion (26%) of the UP migrants in Mumbai were self-employed and some of these enterprises (e.g. selling food and vegetables) gave the opportunity to employ family members from back home.

Working in manufacturing, construction, and other services, were the three main sectors for

employment for the Odisha migrants in AP (RR data). Opportunity-led migration, primarily aimed at improving the material well-being of the family, was scarce amongst the migrants targeted in the study. It is important to point out that the migrants from Nuapada are mainly working in brick kilns and are paid in advance.

The intrastate Maharashtra study identified three types of migration. First, seasonal work (October to July) in the sugarcane industry<sup>25</sup>, second, coping migration in a range of industries on the part of landless labourers, and third, migration by those utilising their better education and skill sets e.g. working in computer related enterprises.

The studies emphasise the occupational differences between migrants going to urban areas and the (seasonal) migrants who have rural destinations it is important to keep in mind that the occupation determines the nature and the amount of income and therefore has an impact on financial inclusion and the method of transferring money.

**Securing employment/occupational mobility** - Two further points emerge with respect to the work of migrants. First, the migrants interviewed in Mumbai emphasised they did not face difficulties in finding employment and that most of them (57%) secured work through relatives or friends. In this respect, professional agents/brokers recruiting workers are absent. Second, the migration histories for the Rajasthan migrants in Gujarat showed that there were opportunities for mobility and advancement, most notably in the construction sector, for tribal migrants traditionally regarded as occupying the lowest rungs on the migration ladder. For example, some migrants started their work as labourers, progressed to undertaking more skilled building work, and then became labour contractors. Two migrants started work as tea stall helpers and then set up their own businesses. However difficult it may be, migration initiated as a coping mechanism does not always preclude mobility and advancement. The relative ease in securing employment (emphasised by the Rajasthan migrants as well as the UP migrants) and the potential for advancement are important reasons to migrate in the first place.

**Reasons for migration and return visits to the village** - When giving reasons for their migration, the Rajasthan migrants in Gujarat emphasised negative aspects of life and work in the village e.g. little income and work, little and poor quality agricultural land, the need to finance major events (e.g. marriage), and calamitous events in the family (e.g. deaths of both parents). They also emphasised what they thought were the more positive aspects of life and work at the destination points e.g. the ability to obtain regular work, the ability to earn cash, etc. Similarly, the movement of intrastate migrants in Maharashtra was driven by the attraction of securing higher wages which would help meet family expenses as well as leaving them with a surplus by way of saving. Overall, the improvement of the family situation in the home village can be seen as the driving force behind migration.

Although many migrants had been living and working at their destination points for many years, they nonetheless usually made regular return visits to their home villages. Sixty-two per cent of the UP migrants in Mumbai returned once a year, while 25% of them returned twice annually. Similarly, the average number of return trips for the Odisha migrants in AP was 1.4 trips a year. The tribal migrants in Gujarat were returning to Rajasthan more frequently, no doubt because of proximity to their home villages. In contrast, the brick kiln workers from Odisha, (identified from RR data) travelled just once and then returned home after the season.

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<sup>25</sup> Similarly to the migrants in AP working in brick kilns, the migrants in Maharashtra employed as sugar cane cutters are getting paid in advance.

#### 4.1.4 Earnings, Expenses and Savings at Destination Points

To secure the perceived advantages of migration, the migrants had to travel to their destination points. The costs here can be quite substantial, especially for a long-distance corridor like that of Eastern UP-Mumbai. Once at their destination points the migrants' earnings varied greatly in terms of sector and type of employment. In order to minimise expenses and maximise the potential for sending money home, migrants can lead a very frugal existence, but this strategy can be jeopardised by unexpected events like ill-health and accidents. Even so, when asked, the migrants seemed generally positive about their migration experience.

**Travel costs** - The costs of travel to and from home villages were highest for the UP-Mumbai migrants: 53% paid between Rs1,000 and Rs1,400 for a return trip and 21% paid between Rs1,600 and Rs2,200. The average cost of a trip for the Odisha migrants in AP was reported to be just over eleven hundred rupees. The Rajasthan migrants working in Gujarat had the shortest journeys to make and this was reflected in their relatively low travel costs: single bus journeys home cost just Rs200, Rs100 and Rs50 for Surat, Ahmedabad and Himatnagar respectively.

**Earnings at destination points** - Once at their destination points the migrants were earning quite a range of incomes.

The UP migrants in Mumbai earned on average just over five thousand Rupees per month. The monthly average for the Odisha migrants in AP was just over three and a half thousand Rupees (RR data). Not surprisingly there was a good deal of variation according to sector and type of employment. In Mumbai those migrants working in trade achieved the highest (Rs6,000) monthly average, whilst those working in hotels and restaurants secured the lowest average (Rs3,950), largely because their employers were providing accommodation and food. A similar situation was reported for the Odisha migrants in AP (RR data), except that migrants working in manufacturing earned less than those in the hotel/restaurant trade. The daily wages for the Rajasthan migrants working in Gujarat were around Rs150, but higher for skilled construction workers (Rs300) and higher still for a labour contractor (Rs500). The highest monthly salary reported for the Rajasthan migrants (Rs23,000) was for a driver in government service, the other migrants from Rajasthan reporting much more modest monthly earnings, similar to those reported for Mumbai and AP.

A distinctive feature of the sugarcane workers migrating within Maharashtra was that up to half of their forthcoming wages were paid in advance by Mukadams – agents who had arranged and secured their labour for the sugar cane factories. This has to be taken into account while analyzing the remittance patterns. Similarly, in Odisha, those migrants and their families engaged in brick kiln work (mainly from Nuapada) did not remit money home, but rather received a one-time advance payment and weekly food allowance.

**Expenses at destination points** - The UP-Mumbai corridor study provides useful information on the composition of migrants' expenses at destination points. Accommodation accounts for 22% of their expenses, while costs of living, 39%, other expenses, 11%, and the sending of remittances, 28%, respectively. The study team noted that these migrants do not save – they remit all the money they do not urgently need to cover their costs at destination. The same frugal existence of migrants was also evident for the Rajasthan migrants in Gujarat. This was especially the case for the tribal migrants working in the construction and hotel/restaurant sectors, where 57% of all migrants had no costs for varying combinations of “free” accommodation and food. Needless to say, much of the accommodation leaves a great deal to be desired.

Some of the Rajasthan migrants in Gujarat reported unexpected/unplanned setbacks like ill-health and accidents (especially on building sites), which reduced their ability to save and remit. Moreover, at the point of origin, nearly half of them had outstanding loans (mainly for marriage and ill health), usually from informal agents, the servicing of which was another financial burden eating into their capacity to send money home.

**Savings** - The (mainly informal) savings levels of migrants vary significantly. Factors like the migrant destination, employment, salaries, accommodation, debt-servicing, and presence or absence of family members have an impact on the opportunity to save. In general the savings propensity is positively correlated to the income level.

Furthermore, the studies clearly show that the respondents are not aware of bank accounts and remittances as a saving option. This can be explained mostly by the missing access to formal bank/savings accounts (see 4.1.5).

#### 4.1.5 Financial Inclusion/Exclusion of Migrants

Assessing present levels of financial inclusion for migrants is clearly important for any proposals to formalise domestic money transfer systems. The UP-Mumbai migrants showed the highest levels of financial inclusion for all four corridor studies, but even here, 46% of UP migrants had no bank account at all. Moreover, those migrants who had one, did not necessarily use it for remittances.

The most striking example of financial exclusion of migrants was provided by the Gujarat-Rajasthan study. Just two migrants (5%) had active bank accounts at their destination points. Another four migrants (10%) held bank accounts which were no longer used. The great majority (86%) of this migrant group held no bank accounts where they were working. At the destination points, the reasons given for this included having little money to deposit, the paper work and documentation required to open an account, and the fact that they were remitting any spare money home, and the main reason given for having no account in the village was lack of money. A number of the migrants without any schooling noted that they did not want to ask others for help in filling out the necessary forms. This was explored in some detail in the UP-Mumbai study. Here it was found that illiterate migrants have four main choices if they want to use institutional services: getting friends and relatives to fill out forms in advance, using professional services at major post offices and paying a fee, asking other clients or clerks for help in banks, “like a beggar” as the study team put it, or using a banking correspondent such as FINO where only finger prints are required.

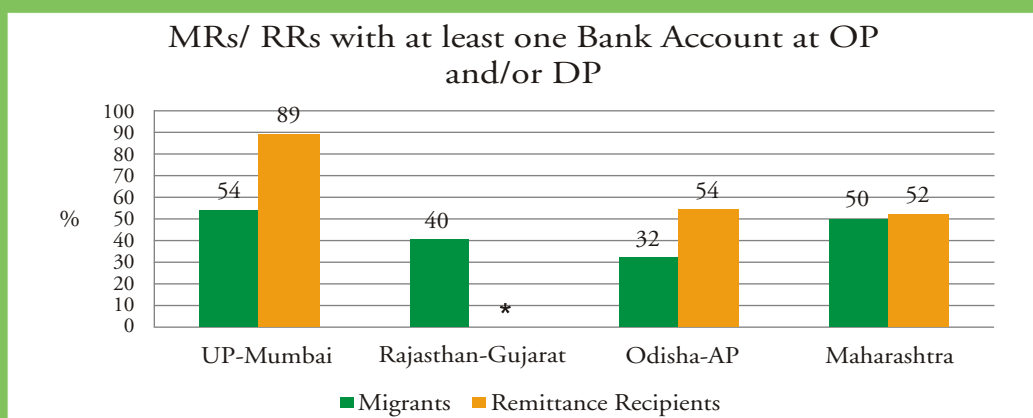
Rather higher levels of financial inclusion were reported for the Odisha AP migrants compared to the Rajasthan migrants in Gujarat. In AP, for instance, 54% of families have bank accounts at the receiving end. Furthermore, 32% of migrants have reported having a bank account at either the point of origin and/or at destination. Many of the Odisha migrants were reported to want to open bank accounts at their destination points but were unable to meet the norms required.

The highest financial inclusion levels are reported for the UP migrants in Mumbai. Nearly half of them (46%) held a bank account in Mumbai, just over one-fifth of them held bank accounts at both destination and origin points, and nearly ten percent held bank accounts just in their home areas in UP. Even so, this still leaves just over half the migrants without any bank account. Some of these noted that they used the accounts of others, some they did not need a bank account in Mumbai because they had an account in their home area, while some mentioned that the persons they sent money to preferred to receive it through other means, i.e. not through a bank. Interestingly, half the UP

migrants in Mumbai without a bank account would have liked to have opened an account but had not managed to do so. Not knowing how to open an account, not knowing anyone in a bank to assist, and trying but failing, were the main reasons given. An important point noted by the UP-Mumbai team is that migrants are easily de-motivated and will not try at a second bank. Moreover, they are not informed about no-frill accounts, and even if they do know about them, they do not know where these are provided. The Odisha-AP team also found that many migrants were unaware of what the no-frill accounts are.

In Maharashtra, the intrastate study team noted how the banking system is closely associated with the sanctioning of individual loans to the mukadams, who in turn use these funds to provide advances to migrant sugarcane workers, but these lump sums are then not captured by the banking system. Although, overall, this study found 25% of respondents held bank accounts, this did not mean they were always used, and the experience of opening bank accounts was full of hopes and disappointments. Moreover, the bank account holders were largely migrants moving individually (as opposed to the sugarcane workers moving as family groups) and having a better economic status.

**Figure 4: Respondents with at least one Bank Account at OP and/or DP**



\* Data of RRs in Rajasthan are not available

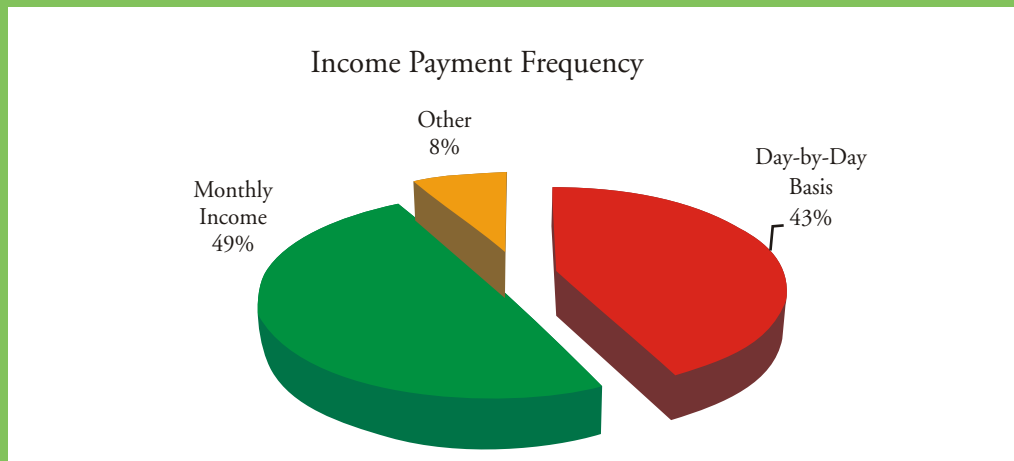
Financial inclusion should start with savings. Therefore the savings needs of migrants are an opportunity and necessity to adhere to. The possible change from using informal remittance channels to formal transfer (banking) systems most often leads directly through the access to bank accounts to some form of saving opportunities. Savings accounts help to smooth the consumption and are a safe and secure place to hold money which is especially for the migrants paid on a daily, weekly or monthly basis of enormous importance (see Figure 5).

On the recipient side the studies indicate that the remittance recipients would prefer to obtain smaller amounts of remittances more frequently; in UP 72% and in Orissa 56% of the respondents said so. The problems arising by the low frequency of receiving remittances (see 4.2.1) could be diminished by savings accounts at the DP on which remittances directly flow. This form seems to offer considerable potential and is simple.

While designing such a financial product, special attention has to be paid to the needs of both the migrant and the recipient: beside the importance of a secure saving opportunity, an easy and fast

access to the savings must be ensured. This is of particular interest to the really poor households which are using remittances to a greater extent for daily expenses.

**Figure 5: Income Payment Frequency**

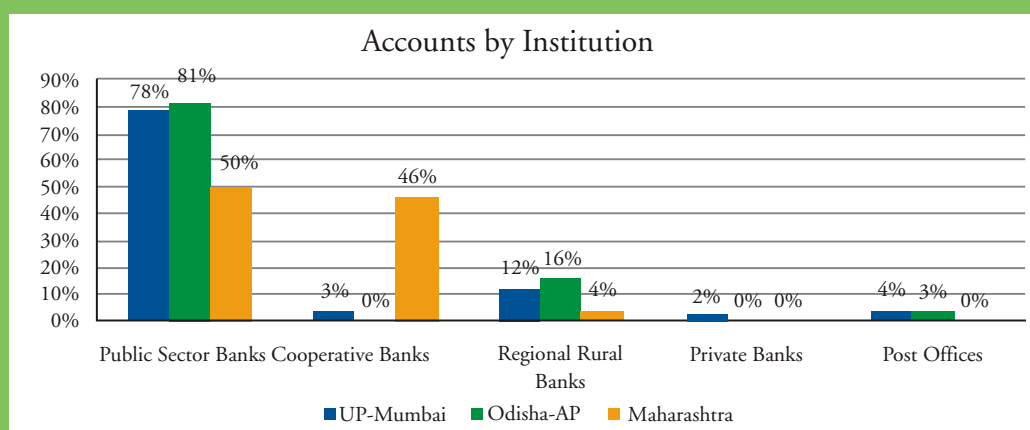


Day-by-Day Basis: 18% of all migrants as daily workers and 26% as self-employed entrepreneurs

### Characteristics of bank account holders

Are there distinctive characteristics of migrant bank account holders? The two tribal migrants in Gujarat holding such accounts were both in Ahmedabad, in more regular employment, were paid by cheque, and both working in the transport sector (drivers). Interestingly, the Mumbai study found that the UP migrants working in the transport sector were also more likely to hold bank accounts, as were those with relatively more years of schooling, higher incomes and in regular employment. However, the Odisha-AP study found no such socio-economic differences between account holders and non-account holders; the team did find that the 10% of migrants with two bank accounts were those working in better organised industries.

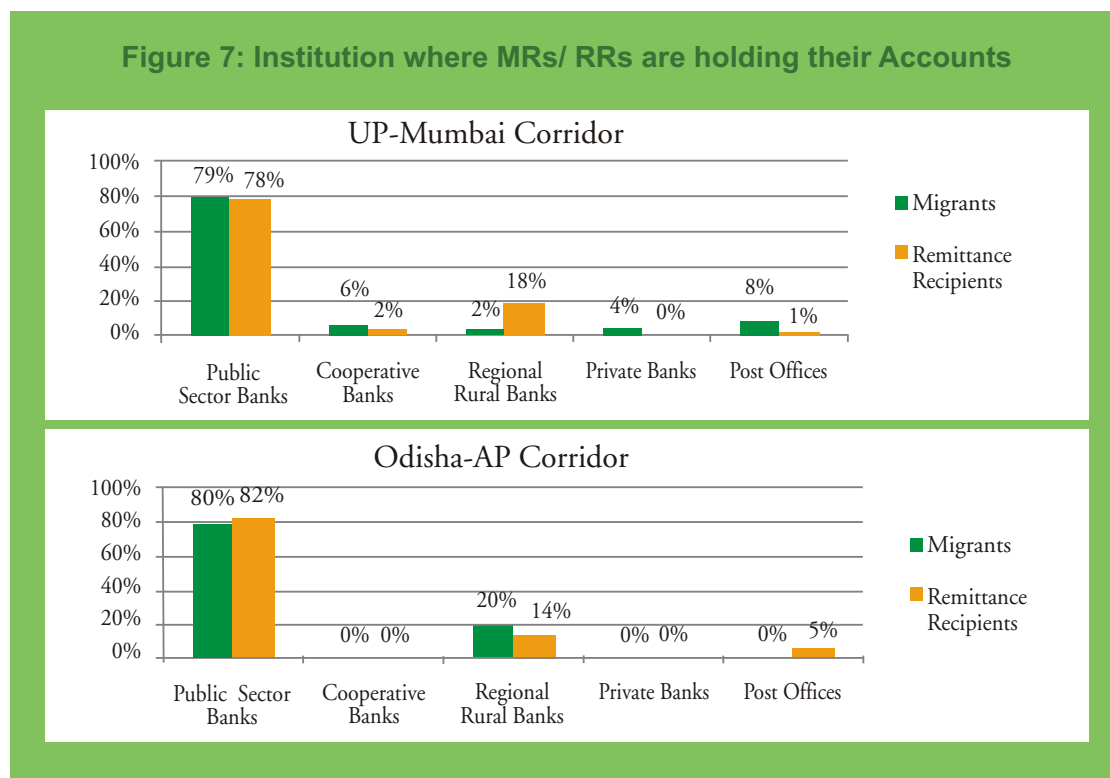
**Figure 6: Bank Accounts by Institutions**



Based on Migrant Respondents in Maharashtra and both Migrant and RR Respondents for UP-Mumbai and Odisha-AP

Most of the migrants in Mumbai having bank accounts chose to use Public Sector Banks. The main criteria for choice were proximity and speed of service. This is further described in chapter 4.2.3 “Money Transfer Preferences and Trends”. Similarly, 80 % of the accounts reported by migrants interviewed by the Odisha-AP team were in Public Sector Banks. The Mumbai team further noted that it was only possible to get a few details of loans taken from institutional lenders at this destination point, suggesting that migrants are not included in the formal financial system as borrowers. This is echoed by the Odisha-AP study where it was found that any institutional loans taken by migrants are secured at the origin points.

**Figure 7: Institution where MRs/ RRs are holding their Accounts**



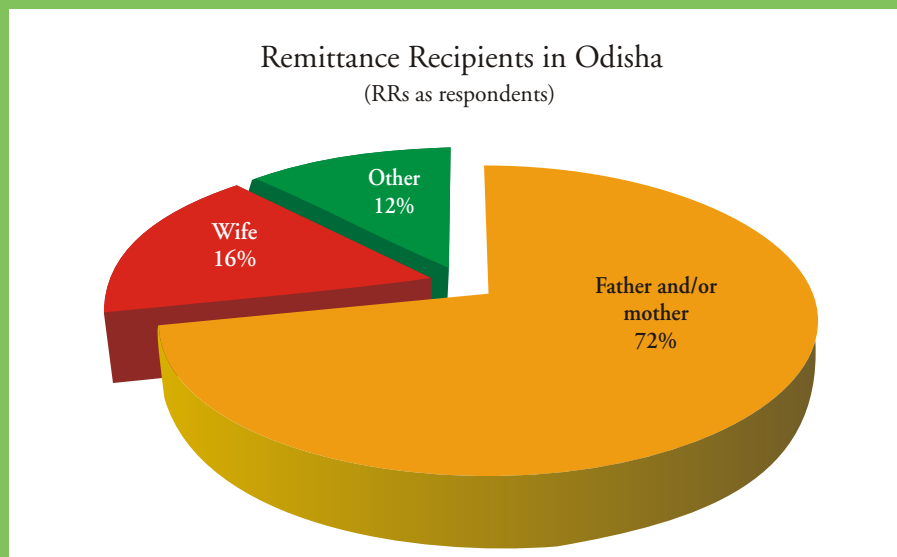
## 4.2 Remittances

Who decides when and how to send remittances, and who receives them, will influence the take-up of any proposed changes in money transfer methods, and the frequency and amounts of money remitted will influence whether this potential market is of interest or not to the financial service providers. Both are also influenced by the uses to which remittances are put by the receivers.

### 4.2.1 Remittance Characteristics

**Initiation of sending** - Just over half the Rajasthan migrants interviewed in Gujarat indicated that they themselves initiated the sending of money home. Others noted that they were asked to send money home and the decision was reached jointly. The Odisha study team noted that 60% of the migrants interviewed on this topic took the decision themselves as to the means of sending money home. Regarding the receivers of remittances, eighty-eight per cent of the UP migrants in Mumbai sent money home to one reference person: in 52% of cases these were parents, in 37% of cases these were wives. The Rajasthan migrants showed a similar pattern, sending remittances mainly to parents and wives, but in some cases other relatives, e.g. an elder brother, where both parents were deceased. Of all the Odisha migrants remit money to one reference person, 72% sent to their parents.

**Figure 8: Remittance Recipients in Odisha**



**Frequency** - The UP-Mumbai team found that the migrants tended to send money at fixed intervals (e.g. monthly, bi-monthly, quarterly) and that the frequency of sending money home varied both between and within occupations; salaried workers tended to remit on a monthly basis while the daily wage earners sent less frequently. In Gujarat, the frequency seemed to be related, amongst other things, to distance to home village – not surprising, when, as we shall see, money is largely taken back by the migrants themselves or carried for them by friends/relatives. Thus the migrants working closest (Himatnagar) to Dungarpur were mostly sending money on a monthly basis whilst the majority of those furthest from Dungarpur (Surat) were sending money two to six times a year. The Odisha migrants, excluding the brick kiln workers (who did not remit money as such) were sending money home on average nearly seven times a year.

In summary, the studies suggest that remittances are sent on average on a bi-monthly basis. Solely the study Gujarat-Southern Rajasthan deviates from this. An explanation for this can be found in the remittance channels used in this corridor (see 4.2.2).

**Amounts remitted** - The estimated average annual amounts sent by the migrants were remarkably similar in the Gujarat and Mumbai studies: both just under twenty-one thousand Rupees. The Gujarat-Dungarpur report noted some difference in terms of destination point e.g. higher amounts sent by migrants in Ahmedabad (where there was a higher concentration of migrants in more regular employment) and the UP-Mumbai study noted average amounts of money remitted varied according to where they are being sent e.g. more to remittance recipients in SRN compared to those in the district of Rae Bareli. Even so, what was particularly clear from the tribal migrants in Gujarat, was that even the poorest of them was sending money home, and nearly two-thirds of these migrants resorted to borrowing money from time to time (from destination point friends/relatives, or from employers) in order to do so, a further indication of the compulsion to send money home. The Odisha study team found that the migrants were sending on average Rs4,780 per transaction (nearly seven times a year; see 4.2.1), but that this varied according to means of money transfer i.e. highest for migrants taking money back themselves (Rs8,125), lower sending with others (Rs3,750), slightly higher when sending by courier (Rs3,917) and lowest when sending through a bank (Rs3,352). This team also noted that, as remittance amounts increase, the average frequency of sending decreases.

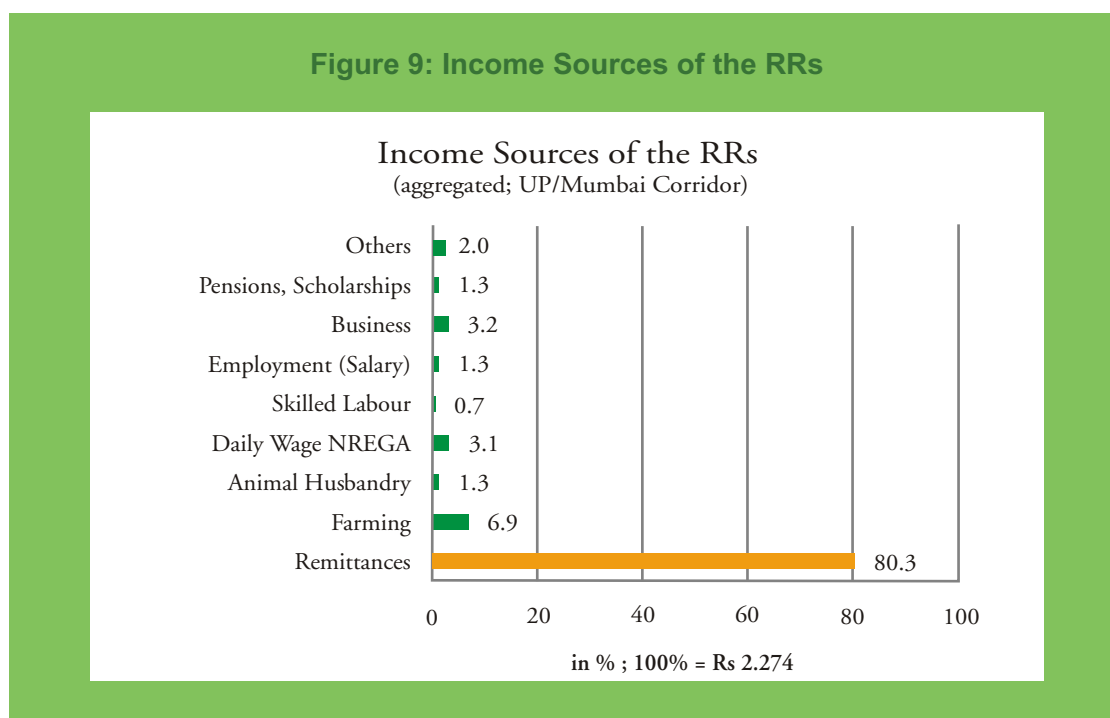
**Use of remittances** - From interviewing both migrants and remittance recipients, the UP-Mumbai study found that over ninety per cent of remittances are used exclusively or predominantly for costs of living. Similarly, the great majority of the Odisha migrants were sending money to be used for living expenses. The intrastate Maharashtra study noted that although remitting migrants wished the funds could be used to create assets, compelling consumption and debt redemption<sup>26</sup> needs meant that there was little or no interest in any form of saving through the formal financial institutions.

The Rajasthan migrants in Gujarat indicated a rather wider set of uses, some of which had important productive elements, significant when we consider that remittances for this type of migrant stream are often associated purely with consumption activities. Thus, although the largest number of migrants (23) reported that the main use of remittances was for household expenses and food (15), a number of migrants reported remittances back home being used for farming activities (13), medicine (6), education (5) and paying back informal lenders (4). Moreover, all these migrants reported that it was important/very important to send money home and many felt pride and happiness when they were able to do so.

The vital role that remittances play in the household economy was further emphasised by information from the remittance recipient households. The households in Dungarpur (Rajasthan) indicated a wide range of both production and consumption activities financed from money brought or sent by migrant members in neighbouring Gujarat. Moreover, when asked what would happen if the remittances stopped, more than half these households said they would have to borrow from local lenders. In the UP-Mumbai corridor study, it was found that remittances covered over 80% of the cash income of sample households (see Figure 9).

For just over forty per cent of these UP households, remittances constituted over 90% of cash income. For the Odisha remittance receiving households, the share of remittances in total income was nearly 65%, lower than that of the UP households, but still a very significant figure.

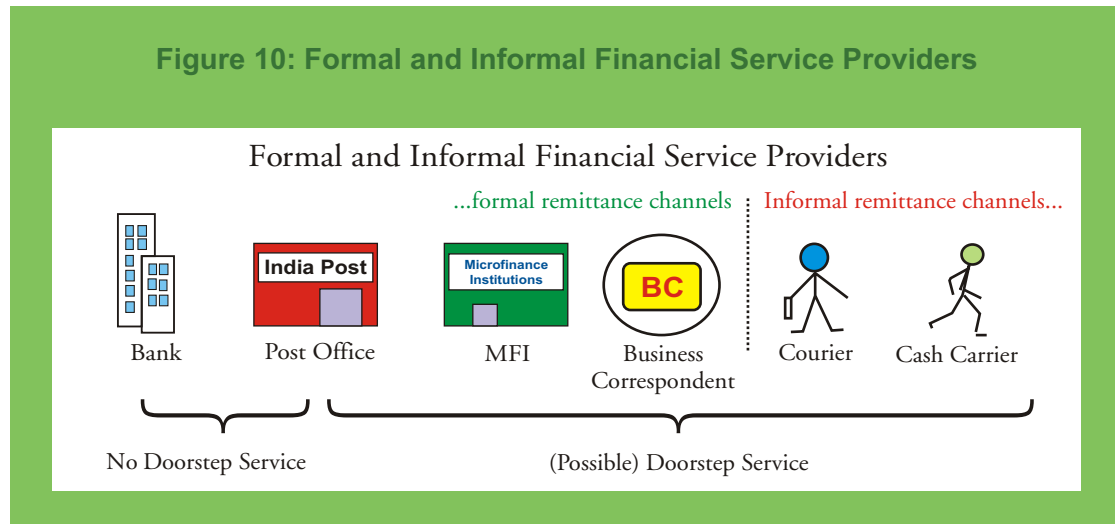
**Figure 9: Income Sources of the RRs**



<sup>26</sup> All studies found a high proportion of respondents (especially RRs) with an outstanding loan, as high as 89% of the RRs in Odisha, which could be partly explained by the costs originating from the migration of one household member.

#### 4.2.2 How Money is sent Home

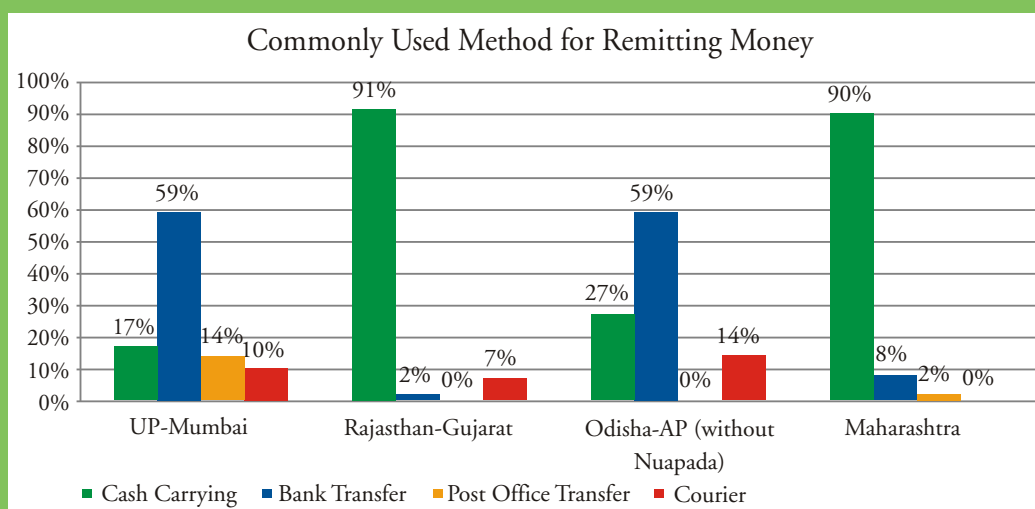
All four corridor studies identified the various ways in which migrants were sending money home. This varied quite substantially, especially when comparing the Gujarat-Rajasthan and UP-Mumbai corridors. Furthermore, ways of remitting money not only varied in terms of direct costs, but also in terms of transfer time and risk of loss.



**Money transfer methods** - Only two (5%) of the Rajasthan migrants remitting money home from Gujarat had used a bank account to do this; they were mostly carrying cash themselves or using others (e.g. fellow-villagers, family members) to do this for them. In a few cases, some of the migrants used a bus company employee (driver or conductor) to take money back to their home district. One relatively well-to-do migrant, if his parents needed money urgently, would telephone moneylenders in his village, and he would pay them later for providing such funds. Compared to those in the other interstate migrant corridors these migrants are relatively close to home and make quite frequent visits. Many of them argued that they have to go home anyway, so taking cash or sending cash with others, kills two birds with one stone. The two migrants who had used a bank to send money had a relative working in a bank near their home village – so this no doubt facilitated the use of such an institution – normally they would take money back themselves or use others to do so. Similarly, in Maharashtra, where the distances are also not very great, the non-sugarcane migrants were generally carrying cash themselves or sending it home through friends and relatives.

This contrasts substantially with the situation for the UP migrants in Mumbai. Here, in terms of awareness of different money transfer channels and the use of these channels, around 60% of migrants were using bank transfers. However, this varied between 27% and 76% according to different origin point districts e.g. the carrying of cash home is more popular in Rae Bareilly, maybe because the population density is lower. This study makes the point that migrants often use the same method of transfer as other migrants working in the same economic sector. Thus, 80% of those employed in manufacturing and 80% of self-employed migrants in the transport sector use bank transfer, while postal money orders (MO) are the choice of 63% of construction workers.

Figure 11: Commonly Used methods for Remitting Money



It is interesting to note that in the case of the UP migrants in Mumbai, 59% of them use a bank account for remittances, but in most cases it is not their bank account, but that of a relative or friend. Almost half the migrants with own bank accounts do not use their accounts for money transfers. Half of these migrants use the bank accounts of others and half use a non-bank remittance method. Reasons for the non-use of banks for money transfer included the remittance recipients having no bank account, or not a bank account at a branch of the remitter's bank, or the bank having no branch in the village. At least six of the migrants without bank accounts noted that they would use bank remittances if there were recipient accounts at the origin points, more suitable bank opening times, and if they would prefer not to entrust the money to someone travelling home. The time and trouble taken to go to a bank at the origin points was one of a number of reasons given by some remittance recipient households for not using their bank account for receiving remittances.<sup>27</sup> Some of these households also mentioned that there were plenty of opportunities for cash to be carried home by the migrant himself, or by others.

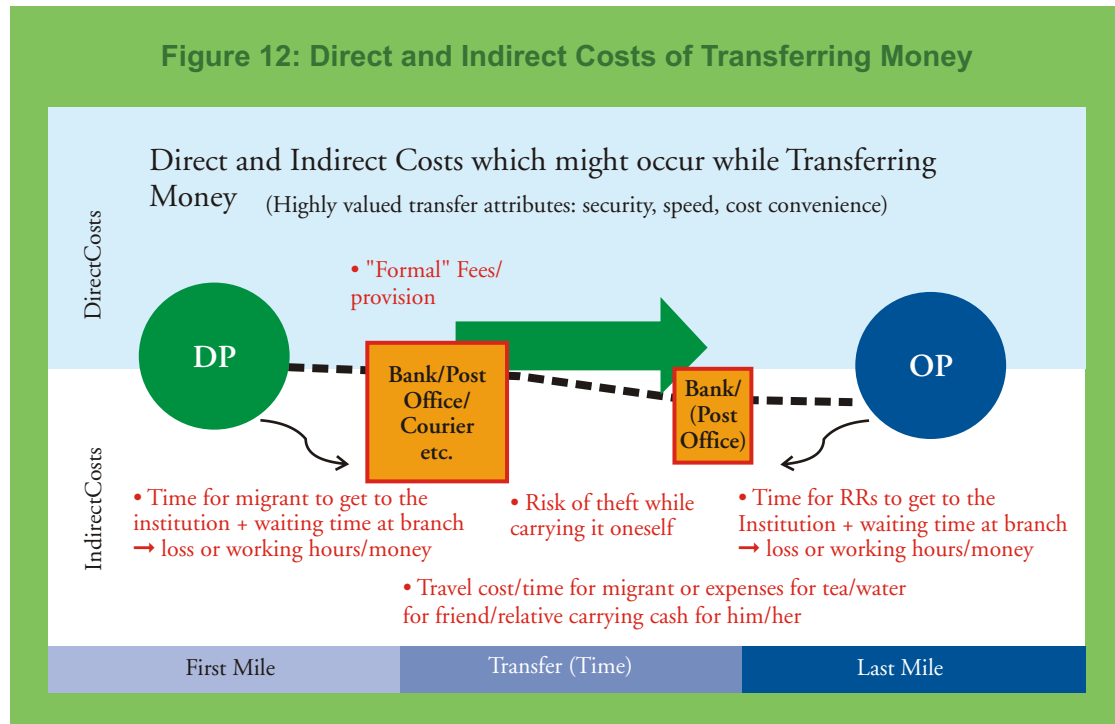
**Migrants in Mumbai lined outside SBI branch to send the remittances**



**Costs of remitting money** - Regarding the costs of remitting money home, both the Gujarat-Dungarpur and the UP-Mumbai studies found that migrants using others to carry money home for them could pay small amounts (e.g. Rs50) for tea and snacks on the journey. Taking money oneself incurs transport costs, and potential loss of work and income at the destination points.

<sup>27</sup> For further details see the upcoming paragraphs and the study of Gopinath et al. (2010).

**Figure 12: Direct and Indirect Costs of Transferring Money**



Moreover, when carrying money for others, any loss of such monies is accountable – a point we return to below. Sending by a bus driver/conductor was reported to cost Rs10 to Rs50, though one Rajasthan migrant in Gujarat paid a driver Rs100 to take Rs1,000 back home. The UP-Mumbai study found that couriers charged between 4 to 5% of money sent, while, overall, sending money by bank transfer cost less than 1% of average amount remitted. However, the Odisha study, as noted previously, suggested that migrants seeking help from others when transferring money through banks seemed to be giving something for this service. Returning to the UP-Mumbai study, it was found that sending by India post money orders cost 5% of amount remitted, and that all remittance receivers reported having to pay something (Rs20-Rs100), probably as a tip, when MOs are used.

**Transfer times** - In examining money transfer times, the UP-Mumbai team very usefully divided these into three parts: first, the first mile; second, the transfer time between destination point to origin point; and third, the last mile.

For the first mile, there are no costs if the cash is self-carried, but if taken by others, time may be spent arranging to meet and handing over the money. No time issues were reported with regard to using couriers at this stage. The average time taken travelling to a bank was just under half an hour, and another average of 30 minutes waiting for service. The FINO banking correspondents visit the migrants at their work places - factories and construction sites.

Regarding the transfer time from origin points to destination points, bank transfers (for those banks with CBS) were immediate, plus the time taken to credit beneficiaries' accounts. Couriers took one to two days to hand over the money. Sending by PO money order took an average of 8.3 days; electronic Money Order (eMO) transfers, taking one to two days, are rare. Given the travel times to UP from Mumbai, self-carried money took two days, and cash carried by others could take three to five days to be handed over to the recipient families.

With respect to the last mile, it is noted that with the exception of bank transfers, all the other methods are door-step delivery services. Regarding the former, the remittance recipients reported an average time of 39 minutes to get to the bank (RRs from Odisha reported on average 43 minutes), and an average wait of 121 minutes once at the bank (average waiting time for RRs in Odisha: 65 minutes to deposit money and 87 minutes to withdraw money); three times longer than the waiting time reported by migrants at the destination points.

**Losses/theft of remittances** - In addition to the costs of remitting money (service charges, transport charges, and work time lost through taking money oneself), there can be a very real danger of loss during the journey. Thus, 16% of the Rajasthan migrants interviewed in Gujarat had suffered at least one theft of money while taking or sending cash home. A very similar figure was reported for the UP migrants interviewed in Mumbai: 18% of these migrants had losses and theft in transit in the last year.<sup>28</sup> Often migrants carrying cash are also carrying the money of two to four relatives and or friends. If this money is lost it is accountable, and has to be replaced. Such accountability was also reported by the Rajasthan migrants. In one incident, reported by the UP-Mumbai migrants, as much as Rs 60,000 was lost. Apart from the migrants directly affected by these losses, a number of other migrants from Rajasthan reported feeling stress during the journeys home because of worry of possible loss and theft. The Odisha-AP study identified a number of migrants reporting multiple losses, and 15 of 26 migrants who had knowledge of losses, had decided to change their methods of money transfer.

Although these private cash transfers can suffer such losses, the UP-Mumbai team noted that they do have an economic justification, particularly if a doorstep service is needed and preferred. Moreover, they can also have social benefits; the family gathers round to hear firsthand about the life of a family member in a big city. This positive aspect of the informal channel was pointed out by the Rajasthan-Gujarat study. Moreover, there are important elements of reciprocity with migrants taking money for each other.

#### 4.2.3 Money Transfer Preferences and Trends

In thinking about possible improvements to money transfer methods, it was not just important to identify the channels used by the migrants and remittance receivers, but also to assess the reasons for these choices, the desired features of money transfer systems, and which methods, in the eyes of the users, were most likely to achieve these desired qualities.

**Money transfer preferences** - An equal number of Rajasthan migrants interviewed in Gujarat thought that banks and cash carrying were the ideal way to transfer money home. In the case of the former, even though virtually none of them used the banks, one group of migrants thought that by using these institutions their money would be safe, that they would only need to send what is needed, and they trusted that the money would arrive safely. In the case of the latter, taking money oneself and/or using other migrants to take money for you, had the respective advantages of affording attention to other family matters, and not losing work time. Both were a doorstep delivery service and ensured quick receipt of money in the receiving households. Moreover, when asked to identify the desired features of money transfer systems (e.g. speed, security, cost, privacy, confirmation of receipt) and the money transfer methods most likely to achieve these, it was striking how well the banks were rated, even though they were not used by the great majority of this particular set of migrants.

<sup>28</sup> The cost of losses and theft in transit amount to about 3% to 6% in the UP-Mumbai corridor.

The UP-Mumbai study found that safety and trust, convenience for both remitter and receiver, and speed and cost are the key success factors in money transfer. As such, money transfer services need to be accessible (available to users without unnecessary hassle), timely and predictable, cost-effective and affordable, and having timely confirmation of delivery. Together, migrants and remittance receivers indicated that safety and speed are the dominant criteria in choice of remittance methods, followed by convenience and cost. When views of senders and receivers are analysed separately, cost considerations are more important for the receivers (almost as important as speed) than for the senders. Based on individual interviews and focus group discussions, the UP-Mumbai study ranked the alternative remittance channels according to the five criteria (convenience, privacy, safety, cost, time) and based on the total scores, the remittance methods in order of preference were: using own bank account, migrant carrying cash, using bank accounts of others, courier, post office money orders and last of all, using others to carry cash. When asked about money transfer preferences in an emergency situation, 54% of the migrants interviewed indicated that they would use different informal sources; 65% of the remainder indicated that they would use a bank, 11% that they would use courier services, and 4% that they would use a post office. For the remittance receiving households, the use of bank transfers in an emergency situation was not quite so popular, largely because of potential delays in withdrawal (e.g. ATM may not work, bank closures on Sundays and public holidays etc.).

The results from the Odisha-AP corridor are similar. Safety, speed and cost, in that order, were the most valued aspects of money transfer methods, with banks ranked the safest and most confidential method. In fact, banks ranked highest in all respects except convenience. For those who thought the banks were not the safest method of money transfer, this was because of worries concerned the possibility of being waylaid on returning from an ATM or bank branch.

**Figure 13: Attitudes of MRs and RRs towards the different Remittance Channels**

Attitudes of MRs and RRs towards the different Remittance Channels

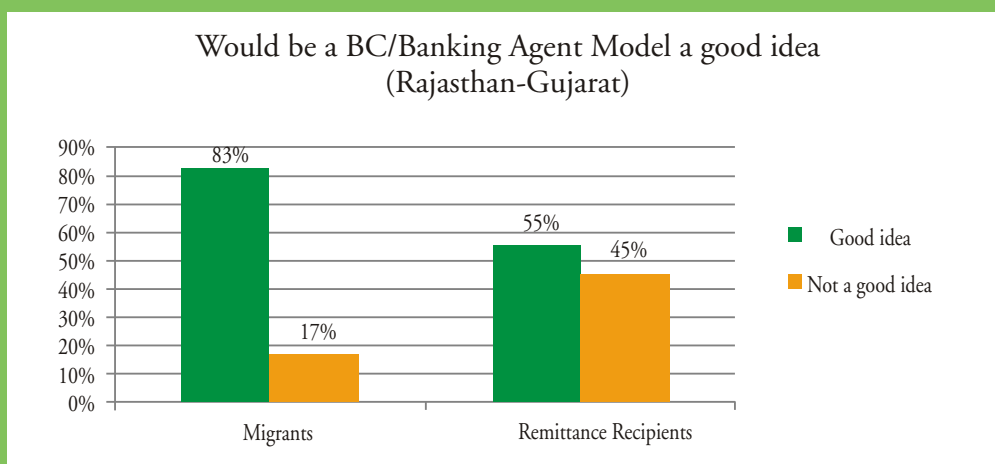
Channel \ Attribute	Bank	Post Office	Courier	Cash carried by Migrant	Cash carried by Friend/ Relative
Safety	●	●	●	●	●
Speed	●	●	●	●	●
Cost	●	●	●	●	●
Convenience (doorstep service vs. traveling to/ waiting in branch)	●	●	●	●	●

● : most applicable    
 ● : applicable    
 ● : more or less applicable    
 ● : inapplicable

**Money transfer trends** - The UP-Mumbai Corridor team, based on information from the focus group discussions, survey results, and secondary data, examined in some detail the past, present and future trends in remittance methods. From 1980 to the mid-1990s the most popular remittance methods were carrying cash by self/others, postal money orders, insured post, and demand drafts. Between 1995 and 2007 using couriers was the most popular followed by demand draft, postal money order, and then, last of all, carrying cash by self/others. From 2007 onwards the great majority of money transfers are through the bank, using one's own or someone else's account. Moreover, the amounts of money sent through friends and relatives are usually lower, often less than Rs1,000. As regards the future, respondents from the target group and from the banks (see chapter 5) expect that bank transfers will grow because it is a reliable, cheap and fast method. It is also a confidential means of sending money. It is suggested in this report that cellular/mobile phone banking or internet banking will probably be the next step in the development of services from which migrants and their families can benefit. More than 80% of the UP-Mumbai migrants and the UP remittance receiving families already own a mobile phone. We have already seen how nearly 70% of the tribal migrants interviewed in Gujarat owned their own mobile phone.

A final note regarding preferences and trends relates to the banking correspondents. The Rajasthan migrants in two of the destination points in Gujarat were asked their views on the potential for a banking correspondent model to address their remittance needs. A strikingly high proportion (83%) thought such a system sounded a good idea, but at the same time, they were quick to point out that such a system would only work with the appointment of trustworthy persons, many thinking that a bank person/government person would fulfil this criterion better than someone from the private sector. The banking correspondent model is explored more fully in the following chapter.

**Figure 14: BC/Banking Agent Model a good idea or not**



### 4.3 Summary

Two broad themes emerge very strongly from the four corridor studies: first, the continuing strength and persistence of domestic migration, along with an ever present compulsion to send money home to family members; second, that although the proportion of remittances sent through the banking system is growing, even in the corridor which showed the greatest use of formal financial sector money transfer (UP-Mumbai), more than half the migrants were still using other means to get money home. The other corridor studies showed much lower use of formal means of money transfer by the migrants concerned.

However, even where the use of bank transfer is almost non-existent (Gujarat-Rajasthan corridor study), migrants often voiced positive perceptions of banking services, and having identified the desired features of money transfer methods, indicated that banks best possess these features in comparison to other methods of sending money home. In chapter 5, we explore the range of financial institutions and services in greater detail.

## 5 The Migration and Remittance Corridor Studies: Financial Service Providers

Four themes stand out from the previous chapter regarding methods of money transfer used by migrants. First, although this varied from corridor to corridor, a minority of migrants were using banking channels to remit money home. Second, they were using a range of alternative means to send money, and sometimes a combination. Third, even in the corridor where the migrants virtually hardly used banks at all, they nonetheless expressed positive views about these institutions when discussing different ways to send money to their families. Fourth, positive views, albeit qualified, were also expressed by this same group of migrants, towards the business correspondent model.

**Table 2: Methods of Money Transfer - Important Results**

### Methods of Money Transfer – Important Results

- o a minority uses banking channels
- o a range of alternative methods used by the respondents
- o positive attitudes of the respondents towards banking channels regarding the important attributes: security, speed and costs
- o respondents with positive view towards the business correspondent model

We now explore these themes from the perspective of the financial institutions. This is done by reference to the three corridor studies (UP-Mumbai, Odisha-AP and intrastate Maharashtra) that specifically included discussions with a substantial range of formal and informal financial service providers at destination and origin points, in addition to their interviews with migrants and remittance receivers. Data from secondary sources were also used for this part of their work. Where relevant, some points from the Rajasthan-Gujarat corridor study are also mentioned.

The chapter examines, in turn, the different banks (Public Sector Undertakings, Private Banks, Regional Rural Banks and Cooperative Banks), the India post office, MFIs, courier services, cash carriers, and, finally, developments with respect to the business correspondent model.

### 5.1 Commercial Banks - Public Sector Undertakings

The UP-Mumbai study team notes that with the development of bank remittance methods, largely through IT developments and interlinked bank branches on CBS platforms, sending money through these institutions is gradually becoming more popular. Similarly, the Odisha-AP team emphasises how commercial banks are ahead of other agencies in terms of rural branch expansion (important for receipt of remittances at origin point), the share of rural credit, the diversity of financial services offered, and technology applications. In the Maharashtra intrastate study it is noted that almost all commercial banks have adopted CBS and with this there has been a reduced wish to use Demand Drafts to send money home. Even so, the service offered by the banks, in comparison to other financial service providers, seems to be a deterrent to their greater usage by migrants.

From the banks' perspective, various problems were noted with respect to dealings with migrants as clients. Thus, in one branch in Mumbai, the staff reported that migrants' forms need to be filled out by bank staff, accounts are used by more than one migrant, there is little transfer of migrants' salaries by their employers into accounts, and that migrants do not close accounts.

The relevant corridor study report also points out the challenges faced by financial service providers in rural areas: poor infrastructure (roads, reliable electricity, internet connectivity, human resources); poor availability of trained and skilled staff needed to run these facilities; low population densities, which adds to operational expenses; smaller proportions of literate customers-which negatively affects staff efficiency. Even for literate customers there may be difficulties; not all banks print promotional material in the vernacular, and in several cases, forms, posters, and brochures were only available in English, which very few customers can understand. More generally, the Maharashtra study reports how prospective customers have greater expectations than the banks want to fulfil.

The Odisha-AP study team noted how banks treat remittances as isolated transactions, rather than relating them to savings, insurance and credit requirements (a point also echoed by the Maharashtra study team). It was further noted how banks do not generate/maintain any data regarding the direction and amounts of remittance flows, and remittance services are yet to be conceived of as a business proposition. More generally, it was felt that staff in bank branches located in areas of high migration, at both destination and origin points, were not sensitive to the magnitude of and issues regarding migration, and that there is a complete lack of any discussion or institutional policy package, resulting in there being no special guidelines for migrants, as would be the case for other vulnerable sections. As we shall see, this is a point made by the Odisha-AP team with respect to all formal sector financial service providers.

From the migrants' perspective there were issues with the banks. UP migrants in Mumbai disliked what they felt to be the ad-hoc decisions made by banks regarding permitting money transfer. Moreover, they could not transfer money on a Saturday, the most convenient day for migrants not working on this day. In two of the UP origin point districts, overcrowding in one of the banks led to three to four hours being taken to complete a single transaction. In several places there was no ATM close by, or the was closed (inside the office), empty or not functioning. In Odisha, only five respondents had opened bank accounts, and this was because of mandatory requirements under Government schemes. Others reported apprehensions over hassles to do with both opening and operating bank accounts.

**Table 3: Remitting through Banks - Challenges**

Remitting through Banks - Challenges	
General Challenges at the Bank (Branch)	Challenges Reported by MRs and RRs
<ul style="list-style-type: none"> <li>• Remittances are treated isolated from other financial services</li> </ul>	<ul style="list-style-type: none"> <li>• Ad-hoc decisions made by banks regarding permitting money transfers</li> </ul>
<ul style="list-style-type: none"> <li>• Branch staff is not aware and not trained of remittance service</li> </ul>	<ul style="list-style-type: none"> <li>• No possibility to transfer remittances on Saturdays</li> </ul>
<ul style="list-style-type: none"> <li>• No effort to collect data about remittance flows/ migration corridors</li> </ul>	<ul style="list-style-type: none"> <li>• Waiting hours/ overcrowded branches → lack of convenience and good service</li> </ul>
<ul style="list-style-type: none"> <li>• No effort to integrate remittance service in their business plans</li> </ul>	<ul style="list-style-type: none"> <li>• Uncomfortable atmosphere at bank branches combined with MRs' and RRs' own illiteracy and the need to fill in forms</li> </ul>
	<ul style="list-style-type: none"> <li>• ATMs missing, closed or not functioning</li> </ul>

While nearly half the UP-Mumbai migrant respondents used the banks for money transfer, and others also valued these institutions in terms of safety, speed and cost, in this corridor study, almost all the

migrants and remittance receivers alike were of the opinion that any other remittance service offers more convenience and better service than the banks. In this respect, the study concludes that banks would be a perfect choice for sending money home if they would reduce the service time in their offices and offer a door-step service. In a similar vein, the Odisha-AP study notes that strict adherence to KYC norms deter migrants from using banks and that although banks were rated highly, migrants tended to take recourse to other modes of sending remittances. Before looking at these other modes used to send money home, let us first take a brief look at the other type of commercial bank, the private banks.

## 5.2 Commercial Banks - Private Banks

There are twenty-five private banks in India, divided into old (18) and new (7) banks. The only examples of migrants using private banks (new banks) were from the UP-Mumbai respondents, and here only two bank accounts out of 125 were with such banks. The two account holders were in regular employment and had selected these banks because of their proximity and relatively shorter queues. The study found that the private banks target the wealthier clients and endeavour to attract premium clients by providing quick service, clean and modern premises, and air conditioned offices; long queues of migrants would threaten the success of this business model. In principle, the private banks offer no-frill accounts, but in practice, according to the UP-Mumbai study, branch managers and staff find ways to discourage no-frill account applications. Having said that, the Maharashtra study suggests the new-generation private banks (e.g. ICICI Bank, HDFC) has been particularly adept at using innovative technology.

If the ambience of private banks is off-putting to the average migrant, what about those banks specifically created to include and serve the poorer sections of society: the Regional Rural Banks?

## 5.3 Regional Rural Banks (RRBs)

In all studies little evidence on remittance services provided by RRBs has been found. This is due to the fact that (1) few RRBs have already been linked to CBS/NEFT and/or have connected their branch network to it, (2) inter-connectivity with other banks is low, and (3) RRBs like their sponsor banks have been hesitant with the implementation of a business correspondent model. The study has also shown that RRBs have not been aware of migration in the areas they are active in. As with the commercial banks, there is no data collected on migrants, no special dispensations for migrants, and, no discussion of migrant issues in review and coordination meetings convened by the sponsor banks and NABARD.

In order to give RRBs a more significant role in money transfer their remittance services should not be confined to traditional money transfer instruments like demand drafts. Based on their original mandate RRBs could, in cooperation with their sponsor banks and in the presence of a full-fledged CBS implementation, be important remittance providers in the rural and semi-urban areas.

## 5.4 Cooperative Banks

Like the RRBs, the cooperative banks are also supposed to be close to the rural people, but here again, the corridor studies evinced little evidence of their use when it came to money transfer by migrants. Only five of the respondents (three at DP and two at OP) in the UP-Mumbai study held accounts with a cooperative bank, and none of them used these for sending or receiving remittances. Similarly, in the Odisha-AP study none of the respondents were using cooperative banks for money transfer.

The Maharashtra study team note that these financial institutions are ideally suited (because of their network and supposed closeness to rural people) to provide financial services, including remittance services, to intrastate migrants, but to do so, they need to integrate their systems to CBS.

For the banks which have been interviewed the remittance and migration issue has not been on their agenda. For the cooperative banks in this corridor study, remittance income is not significant and therefore not taken up as a business proposition.

Nevertheless, remittance receivers are also members of PACS or have an account at a cooperative bank. It would therefore be a benefit to migrant family if one banking institution could cover all their financial needs. The challenges to provide these services are large due to lacking connectivity and technology.

Yet the existing institutions, who could potentially serve in migration prone areas need to be integrated into the payment system, directly or indirectly in order to become more significant in the provision of financial services, including remittances.

## 5.5 India Post Office

India has the largest post office system in the world. A decade ago a majority of migrants were sending money through these institutions using money orders. As the UP-Mumbai corridor study points out, the use of MOs has declined over the years with an increase in the number of bank branches, the networking of branches through CBS and more people opening bank accounts.

Money orders do have their advantages. They are convenient and it is a doorstep delivery system. But they also have disadvantages: delivery time can exceed ten days (according to the UP-Mumbai study) and remittance receivers may need to give a tip to the postman. Recent developments, including eMOs and instant money orders (iMO), have reduced delivery time but they are not a doorstep delivery service - at present just to Block level.

Even so, according to the Odisha-AP study, eMOs accounted for 16% of all MOs traffic over 2009/10. The same study notes that although overall there has been a decline in the number of MOs, the commission earned and their average value has increased by 18% and 47% respectively from 2004 to 2008.

In the UP-Mumbai study, it is reported that respondents chose to use MOs by reason of convenience, and when they found it difficult to communicate with banks and open a bank a/c, and also because of tradition. Only one remittance receiver in the three origin point districts regularly received remittances through PO money orders. In terms of service provided, post offices were rated better than banks but worse than couriers.

The Odisha-AP study team argues that despite technological developments, the post office remittance instruments have failed to register a competitive edge, and like all the other agencies

Study team's visit to Cooperative bank in Kolhapur, Maharashtra



mentioned so far, there is no explicit recognition regarding the needs and difficulties of migrants and their families at destination and origin points.

The Maharashtra study notes how, in one district, the State Bank of India proposes to use 25 post offices as business correspondents in order to provide banking services to 47 unbanked villages, each with a population of over 2,000 persons. This has yet to be operationalised; we examine the business correspondent model later in this chapter.

## 5.6 MFIs

Numerous MFIs are reported to operate in Eastern UP and also in Mumbai, e.g. FINO, Cashpor, Swayam Krishi Sangam (SKS), Utkarsh, Sonata, Asmitha, and Spandana.

The MFI most closely associated with the remittances of Odisha migrants is Adhikar. However, although this MFI has opened branch offices at various locations in Gujarat and Mumbai, and within Odisha itself, it has no plans to expand its activities to AP. Nonetheless, the Odisha-AP team, reporting their discussions with staff of this organisation, emphasise the customer friendly aspects of Adhikar's remittance arrangements, e.g. a door to door service facilitated by Remittance Collection and Remittance Disbursement Officers. Moreover, remittances are also linked to other financial service products like savings and insurance. No instances of fraud and irregularity have been reported.

Thus, although none of the corridor studies reported respondents using MFIs for money transfer purposes, there is clearly potential in this area, and important learning points to be gained from how user friendly money transfer operations function at other migrant destination and origin points in the country.

## 5.7 Couriers

Couriers constitute an ancient system of money transfer. Both the UP-Mumbai and the Odisha-AP studies found that the provision of these services is a side activity for the individuals concerned, but that these methods of remitting money have very real advantages for the migrants using them.

They are convenient, timely (though the Odisha-AP study reports delays in 10-20% of cases), and the charges are less than for post office money orders. The courier interviewed by the Odisha-AP team charged less for long-standing customers (Rs40 for remitting Rs1,000) compared to the usual charge of Rs50. The courier services are attractive to migrants with low literacy, those without bank accounts and those whose nearby banks become very crowded. Moreover, as both study reports point out, the couriers offer short-term loans in cases of emergency, an important additional service for poor migrants. Even so, couriers were used in just a few pockets of Eastern UP, and the courier interviewed near Hyderabad, the destination point for the Odisha-AP study, reported that over the past three years business had been hit by the introduction of CBS in banks.

**Kirana store providing courier service for sending remittances (Kendra para, Odisha)**



## 5.8 Cash Carriers

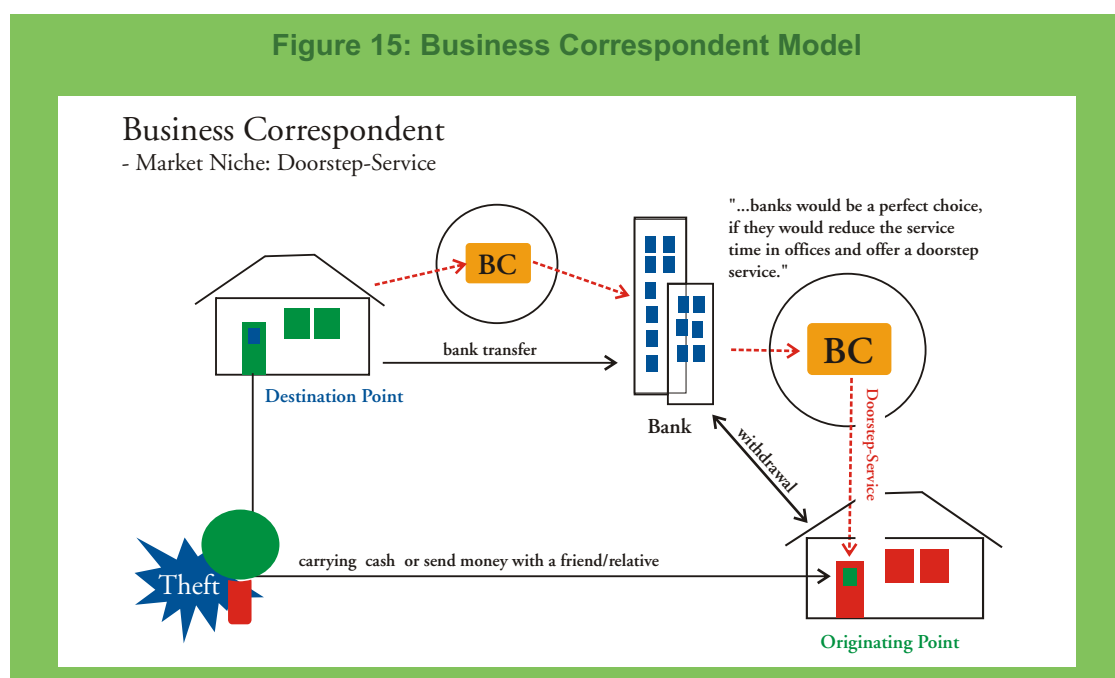
It was noted in the previous chapter how remitting money by carrying cash (by migrants themselves or through friends/relatives) was the norm for the Rajasthan migrants working in Gujarat. This had two main advantages. First, the carriers were going back to the villages anyway, and could thus combine visiting and home duties with providing money to their families. Second, it is a door to door system of money transfer which is important both at the destination points where migrants may be working, for example, on building sites some distance away from banks and post offices, and also at the origin points, where the tribal families are living in very scattered settlements spread over substantial distances. For users of these services social aspects, such as doing others a favour, and maintaining stronger connections to the families, are important. The main disadvantage in such carrying of cash was the risk of theft and loss of money during the journey home.

The situation for the UP migrants in Mumbai was quite the opposite. Just 5% of the migrant respondents were sending money home by the methods above. Even so, just over a quarter of this migrant group were carrying cash themselves, or using others to do so, once in a while. Thus, for this migrant group, carrying cash was more an addition to other, more regularly used means of sending money home.

## 5.9 Bank - Business Correspondent Partnerships

In 2006, the Reserve Bank of India (RBI) allowed banks to appoint agents termed 'business correspondents' (BC). There are now a number of entities and individuals who can be appointed to this role. At present, the banks are trying out a number of methods of reaching out to customers through such agents using a variety of innovative technology. The BCs market bank products and facilitate bank services to people in the low income bracket. The mandating of banks by the RBI to extend banking services to unbanked villages with a population of over two-thousand by March 2012, has provided a push towards establishing and expanding such partnerships. Moreover, the BC model enables banks to outsource the costly business of administering micro deposits and related cash handling. MFIs acting as BCs may provide additional, complementary financial services to their clients.

Figure 15: Business Correspondent Model



The UP-Mumbai study explores in some detail the viability and potential of the BC model. A viable model is reported to depend on: a strong bank; technology that communicates with the IT of a bank; advanced, sturdy equipment for use by the BC; human resources to cover the “last mile”; cost covering incomes for the BCs; income for mobilising savings deposits for the bank. For these financial institutions, working with BCs is regarded by the study as the most economic approach for achieving financial inclusion. From the client perspective, because all other processes apart from the account application are performed electronically, the BC service is regarded as least discriminative for those clients unable to read and write. Nobody in the office or in the queue will know whether the migrant is illiterate or not; there is no loss of self-esteem. This is an important point: we noted in the previous chapter how much the Rajasthan migrants in Gujarat disliked the prospect of asking others for help in banks and post offices.

Overall, the UP-Mumbai team notes how the BC model has the potential to mobilise new savings account applications, to reduce customer travel time, to reduce customer travel cost, and to reduce branch access restrictions (office timings and holidays). This study team examined the status of business correspondents in the three sample origin point districts, and also at the destination point – Mumbai.

In two of the districts (Jaunpur and SRN) the UBI has appointed FINO as the business correspondent. Even though their cooperation in Eastern UP started just a few months before the survey started, reportedly, the UBI had already enrolled around 150,000 clients through this BC in these two districts. FINO uses a smart card based technology, and accounts are activated when the KYC documents collected from the customer during enrolment are verified by the link branch of UBI. Such accounts are on a platform different to that of the branch-based accounts. The Bank of Baroda (BoB) has appointed Integra as the BC in the district of Rae Bareli and has so far opened around 15,000 accounts through this channel. In this case also, the account holders cannot transact in a BoB branch if they have a BC-based account and vice-versa.

In Mumbai, because FINO has been operating there for some time, it was possible for the study team to observe and examine this BC's operations in greater detail than in Eastern UP. At the time of the survey research, FINO had three branches in the city, with two more planned for the last quarter of 2010. The three branches each had about 20 mobile agents, each of whom was covering an area of about 0.5 km in radius; they could reach almost all their clients on foot. The agents visit factories for transactions at lunchtime – an important doorstep facility for migrant workers. Other service features include the acceptance of small deposits, the provision of life insurance policies, and generally quick processing time for transactions. The majority of transactions at the FINO branches are reported to be remittances. However, as FINO had only just started to operate in the origin point districts, none of the migrant respondents reported using this service. Generally, at both origin and destination point, there was low awareness of BC services and the potential of this channel for sending money home.

The Odisha-AP study team also noted the partnership between the UBI and FINO in Mumbai. This model is being replicated for migrants in the Surat (Gujarat)/Ganjam (Odisha) corridor, the team noting that this approach could usefully be replicated for Odisha migrants working in AP. The aforementioned plans for the SBI in Maharashtra to partner with 25 post offices as business correspondents is another indication of the growing momentum of the BC model, though in this case, the plans have yet to be operationalised. As in the UP-Mumbai study, the Odisha AP team noted a general lack of awareness of the BC mechanism amongst respondents during their field studies.

## 5.10 Summary

In each of the four corridor studies, the proportion of migrant respondents using the banking system to transfer money home ranges from next to zero to nearly a half. While the RRBs and the cooperative banks are reported to play little or no role in this process, remitting money through the commercial banks is becoming more popular with IT developments and interlinked banks on CBS platforms. While in previous years the majority of migrants were using PO money orders for remittance purposes, the development of eMO and iMO appears to have failed to register a competitive edge in this market. MFI remittance operations had only just started, or were not operational as yet in the migration and remittance corridors under observation. But, there are important insights to be gained from their activities elsewhere in the country, especially when it comes to the doorstep nature of their operations at both destination and origin points. Although sending money through couriers appears to be on the decline, there are also important lessons to be learned from the user-friendly nature of their operations, and the availability of other services from these agents, e.g. the provision of short-term loans. Carrying cash home is the norm for the Rajasthan migrant respondents in Gujarat, and even in the corridor study with the greatest use of banks for sending remittances (UP-Mumbai) a quarter of the migrants were carrying cash themselves or using others to do so, every now and then. There are therefore lessons to be learned from these informal methods: door step remittance systems are valued by the migrants and the remittance receivers, they combine with other important family duties requiring visits home, and there can be social as well as economic benefits to the senders and the receivers.

Providing the kind of service valued and needed by migrants seems to be the area where banks are least successful. Distance to branch offices, strict adherence to KYC norms, restricted office hours, long queues, over-crowding, form-filling and perceived ad-hoc decision making, can be off-putting for both migrants and the family members they are sending money to. At the same time, we need to be bear in mind the challenges faced by banks in providing services to these groups of customers, in both rural and urban environments.

Although a minority of migrant respondents use banks for money transfer, a majority of them score banks highly in terms of safety, speed and cost. If banks are unable or unwilling to provide services directly to migrants then the partnerships established with business correspondents provide a way of bringing together the valued qualities of the banking system and the more flexible, local-level service-oriented nature of their agents.

It is also clear from the corridor studies that lack of knowledge can be a two-way process. In order to make an informed decision as to the best way to send money home, the migrants and remittance receivers need to have an awareness and understanding of the alternatives available. At the same time, the banks and other financial institutions need to be aware of, and sensitive to, the requirements of different categories of migrants, and of their families. This will help facilitate the development of relevant remittance products and help provide real choice to the migrants and their families.

## 6 Assessment of the Payment System with Respect to Inclusiveness towards Small Remittances

Payment refers to the transfer of money from one party, called payer, to the other, called payee, for settlement arising out of any business transaction. The demand for payment services comes from the government, the commercial sector and from individuals. The larger and more organised entities are able to find solutions through the banking system. Individuals, especially in a rural area, or migrants in urban areas, whose payments are often for small amounts, find it difficult to access services from the formal financial sector. A sizeable part of their needs are met by unorganised channels, at greater risk to the customer and at high cost.

The sending of small value remittances by domestic migrants living in cities to their families left behind in villages is a regular feature of the Indian economy. We have referred to many examples of this in the corridor study chapters. Around 70% of India's population live in rural areas<sup>29</sup>, and around 60% is directly engaged in agriculture and "another 200 million landless workers are indirectly involved" (IFC and MicroSave, 2011: 1); many of these workers migrate to urban centres to supplement and smooth their incomes. Again, examples of this abound in the previous chapters. Such migrants comprise a very substantial group of people, in aggregate over 100 million, exceeding the total population of even the largest western European country. They need a cost-effective and dependable infrastructure for sending money home. However, even with the present drive for financial inclusion, over half the adult population in the country does not have a bank account, and therefore cannot take advantage of the developments in modern payment systems.

Against this background, the objectives of the payments system study were, first, to gain a clear understanding of the present state of the payment systems prevalent in the country, the legal and institutional framework governing their operation, and the infrastructure and instruments available for money transfer, and, second, to gauge the state of inclusiveness of these services towards small value remittances with a view to suggesting measures for improving the reach of the payment system to meet the needs of the poor.

Development of the payment system is considered not only to be a plank for financial inclusion but also to be crucial for inclusive growth. The depth and richness of the payment system is a key determinant of the socio-economic development of a country. With over 90% of retail transactions in the country settled through the use of cash<sup>30</sup>, the potential growth benefits of an inclusive modern payments system are thought to be particularly significant.

### 6.1 The Payment System

The payment system can be defined as the institutional infrastructure comprising institutions, instruments, rules, procedures, standards, and the technical means established to enable the transfer of money value between parties for the discharging of mutual obligations. In today's world, electronic modes of transfer are considered to be the most efficient from the point of view of cost and convenience. It is expected that widespread use of e-payment in India will bring about a major

<sup>29</sup> As in 2001. Source: Dyson and Visaria (2004).

<sup>30</sup> See footnote 11.

transformation in retail payment and small value money transfer. However, for a number of reasons this has not yet happened; the purpose of this study was to explore why not.

### 6.1.1 Legal and Regulatory Framework

The RBI, as the central bank of India, is the driving force in the development of national payment systems and has taken several initiatives towards achieving safe, secure, sound, accessible and authorised payment systems in the country. The Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), a sub-committee of the Central Board of the RBI, is the highest policy-making body concerned with payment systems in the country. The Department of Payment and Settlement Systems (DPSS) of the RBI serves as the Secretariat to the Board and executes its decisions.

### 6.1.2 Modes of Payment

With a view to improving the efficiency of the payment system, the policy has been to encourage electronic mode of payment in place of paper-based and cash-based transactions, while at the same time ensuring that the system is safe and secure for customers. Entities authorised to provide payment services are subject to regulatory discipline and supervision. There is also off-site and on-site surveillance of the payment system.

Major Paper-Based Payments include cash (over 90% of retail payments, as we have seen earlier), cheques, demand drafts and MOs. Cheques and demand drafts account for nearly 60% of the volume of total non-cash transactions – in value terms around 11%, steadily decreasing, as electronic modes gain popularity.

Major Electronic Payments initiatives taken by the RBI and Government of India (GoI) since the mid-1980s have included:

- Electronic Clearing Service (ECS) – Credit, introduced in the 1990s to handle bulk and repetitive payment requirements of corporates and other institutions. In 2008 the RBI launched a new service known as National Electronic Clearing Service (NECS) which facilitates multiple credits to beneficiary accounts;
- Electronic Clearing Service (ECS) – Debit, introduced to provide a faster method of effecting periodic and repetitive collections of utility companies;
- International Money Transfer Service, operated by the department of posts in association with Western Union Financial Services Inc. since 2001, enables customers to receive remittances from 205 countries and territories in real time;
- Real Time Gross Settlement (RTGS)<sup>31</sup>, settles all inter-bank payments and customer transactions above Rs2 lakh, on a “real time” and on “gross” basis;
- National Electronic Funds Transfer (NEFT), introduced in 2005 for facilitating the one-to-one funds transfer requirements of individuals and corporates. This system provides for batch settlements at hourly intervals, thus enabling near real-time transfer of funds;
- Instant Money Order (iMO), introduced in 2006, is a domestic money transmission service which enables the customer to receive money in minutes from any post office providing this service;
- Electronic Money Order (eMo), was launched by the department of posts in 2008 and facilitates the electronic remittance of MOs.

<sup>31</sup> The system went into operation on March 26, 2004; <http://www.banknetindia.com/banking/rtgs1.htm>

With respect to other electronic payments, the most significant gain from the increased integration of Information and Communication Technology (ICT) in banking activities, has been the networking of bank branches through CBS; virtually all banks in the country are now covered. In addition, four thousand post offices are expected to be brought under CBS in the coming years.

Debit and Credit Cards provide an electronic means of withdrawing cash at ATMs. There are over 70,000 ATMs in the country. This kind of proliferation can be replicated in small towns and villages through the introduction of Micro-ATMs. Pre-paid instruments facilitate the purchase of goods and services against a stored value e.g. telephone cards, airtime recharge vouchers etc.

The RBI brought out a set of operating guidelines on mobile banking in October 2008, according to which only banks which have a physical presence in the country, and are licensed and supervised here, are permitted to offer mobile banking. The guidelines focus on security and inter-bank transfer arrangements through RBI authorised systems. The Interbank Mobile Payment Service (IMPS) is an instant interbank electronic fund transfer service through mobile phones. IMPS facilitates the use of mobiles as a channel for accessing bank accounts and remitting funds there from. Unlike IMPS, a number of banks are providing a remittance facility through their mobile banking platforms where the interbank remittance request initiated from a mobile is processed by the beneficiary bank as an NEFT transaction.

### 6.1.3 Clearing and Settlement Systems

As the focus in the study is on small value retail payment, the systems analysed are (i) the cheque clearing system including Cheque Truncation System (CTS), (ii) NEFT, NECS, (iii) ATM, (iv) cards, (v) mobile payments. The paper-based local cheque clearing system is efficient in terms of time taken. The same cannot be said for inter-city clearing, although the introduction of speed clearing for the CBS branches has improved the situation.

The basic pillars of identification and authorisation of a person using a payment system are threefold: something a customer knows (password or PIN), something a customer has (a card or mobile), or something a person is (biometric or physical characteristics). At present the first two are widely used for transaction security, while poorer customers may feel more comfortable with biometric authentication.

In 2002 the RBI introduced KYC guidelines for all banks. The purpose of KYC is to prevent money laundering, terrorist financing, theft and so on. These guidelines stipulate that banks follow certain customer identification procedures for the opening of accounts and the monitoring of transactions of a suspicious nature. These guidelines have been revised periodically.

The Unique Identification Number (UID) or Aadhaar, which identifies individuals on the basis of their demographic information and biometrics, will give individuals the means to clearly establish their identity to public and private agencies across the country. The UID can help presently excluded potential customers to establish their identity to banks.

## 6.2 The Payment System – Players and Infrastructure

### 6.2.1 The Supply Side – the Banking Infrastructure

Banks are the main suppliers of e-payment services. There are more than ninety-thousand bank branches in the country, categorised according to type of bank: Scheduled Commercial Banks (83

banks, 69,160 branches)<sup>32</sup>; Non-Scheduled Commercial Banks (4 banks, 2,750 branches); Urban Co-operative Banks (1,674 banks, 6,884 branches)<sup>33</sup>; Regional Rural Banks (82 banks, 15,127 branches); State Cooperative Banks (31 banks, 992 branches); DCCBs (370 banks, 13,233 branches).<sup>34</sup> On an average there are about 4,000 households per bank branch.<sup>35</sup>

As part of the Financial Inclusion Programme of banks, over 50 million no-frills accounts had been opened by the end of March 2010 (RBI, 2010a: 93), and 3.5 million general credit cards issued (Barman et al., 2011: 28). The Financial Inclusion Programme has been implemented in a variety of ways:

- Increasing the network of bank branches;
- Automation and the adoption of ICT applications that cut down staff requirements, thereby saving time and costs, which make resources available for undertaking inclusion efforts;
- Taking banking to the customers through branchless banking technologies – appointing BCs, placing Point of Sale (PoS) terminals in remote locations.

Other measures have included the relaxation of KYC norms, the introduction of no-frills accounts, and directing banks to provide a point of presence in each large village with a population of 2,000 or more.

The authors of the report are of the view that it is a mistake to limit financial inclusion policy to the banking sector. They note that the post office has been able to open over 78 million accounts, that PACS have a membership of over 132 million in the rural hinterland, and that MFIs had a clientele of just over 29 million by the end of March 2010. It is argued that all available institutions that have the capability to provide financial services should be fully utilised. Similarly, they also argue that the Telecom companies, by virtue of their reach and access to customers, are well suited to be a part of the money transfer infrastructure.

### 6.2.2 The Payment System Infrastructure

The National Payments Corporation of India (NPCI) was established by the RBI as an umbrella organisation to operate various retail payment systems in India and became functional early in 2009. The NPCI seeks to consolidate and integrate the multiple systems with varying service levels into a nation-wide uniform and standard business process for all retail payment systems. A second objective is to facilitate an affordable payment mechanism across the country.

The RBI works with a mission to ensure that all payment and settlement systems are “safe, secure, sound, efficient, accessible and authorised” (RBI, 2010a: 133), and has led from the front in the development of payment systems to facilitate inter-bank money transfer, viz. the introduction of the CTS, Speed Clearing of Cheques, NEFT and NECS, RTGS, ATMs and mobile banking, all mentioned previously.

The Clearing Corporation of India Limited (CCIL) was established in 2001 by banks, financial institutions and primary dealers, to function as an industry service organisation for clearing and settlement of trade in the money market, government securities and foreign exchange markets.

<sup>32</sup> RBI (2010b: 178).

<sup>33</sup> RBI (2010b: 117).

<sup>34</sup> Barman et al. (2011: 26).

<sup>35</sup> *ibid.*: 26-27.

Banks have been to the forefront in the absorption of IT for improving delivery of payment services, with many changes after the 1980s. For anywhere, anytime banking, core banking solution and the networking of bank branches is a pre-requisite. The Public Sector Banks followed their private sector counterparts in computerization of their entire business. Today, this is more or less complete in all these banks.

The RRBs have been promoted as low cost banks for providing services in rural areas. Their adoption of technology has been relatively limited, which has not served them well. The situation has improved with the consolidation of the RRBs. Their presence in rural areas effectively extends the payment network to the rural hinterland, and linkage with their sponsor commercial banks provides them with the capability to send/receive payments nationally. The RBI has required the RRBs to complete implementation of core banking solutions software before March 2011. Implementation is under way in most of the RRBs.

Urban cooperative banks are a mixed bag. About 2,000 out of nearly seven thousand branches are already under CBS. The remaining branches are considered for CBS under the Application Service Provider (ASP) model through their apex federation, the National Federation of Urban Co-operative Banks. An issue is whether CBS itself will be enough for them to offer electronic payment services. The main problem identified is the weak financial status, and consequent settlement risk, of some of these banks.

With respect to the cooperative banking infrastructure, cooperative banks in India have a history of more than a century. Over the past four years a significant reform effort based on the recommendations of an Expert Group has been underway. The size and potential outreach of the cooperative banking network is substantial; with more than 130 million members and more than 95,000 PACS outlets (RBI, 2010b: 118; Barman et al, 2011: 36), the cooperatives are one of the largest inclusive banking channels in the country. But weaknesses exist in large parts of the network, rendering provision of quality services to customers across the country from the PACS very difficult. The primary societies are of varying quality and efficiency; it is difficult to envisage their offering own-account services in payments. Some of the issues that would require attention in utilizing the PACS network for payments and Electronic Benefit Transfer (EBT) are the low skill levels of staff, the lack of full-time staff in smaller societies, the limited working hours of smaller PACS, cash transit and safe keeping arrangements, and the very large number of staff who would need to be trained.

Postal operations at the post office encompass a few financial services, including, remittance of money through MOs and postal orders, and savings bank operations.

Having created a base of more than twelve thousand computerised post offices in the country and a pool of trained human resources, India post is in the process of implementing approved 11th plan projects for computerisation and networking of all departmental post offices and branch post offices on a single integrated and modular platform connected to a national data centre.

### **6.3 Access to the Payment System and Inclusion**

From the above, it is apparent that the payment system infrastructure available in India, in so far as the instruments and clearing and settlement system are concerned, is more or less at par with advanced systems. But there is a long way to go to match advanced countries; for example, in Scandinavian countries, the physical cheque as a payment instrument is now extinct.

More fundamentally, the biggest challenge in India is the access of customers to the payment system, and financial inclusion. The use of any electronic payment instrument for transaction purposes is not easy, in practice, for the small remitter without a bank account. Achieving financial inclusion is a difficult task:

The banking network with almost 100,000 branches does not have the reach to provide services to people living in far flung remote areas;

- With over 35% of the population living below the poverty line (Barman et al, 2011: 38), many of them do not save enough to feel the need to have a bank account. Yet poor people have the capacity to save. They do not save because they lack access to convenient and safe keeping services;
- Banks do not find a business case for opening no-frills accounts;
- The Government incentives to open such accounts are meagre to non-existent.

The idea of the business correspondent model was triggered by the difficulties in 'covering the last mile'. The BC system is also considered to be a cost-effective way of dealing with customers requiring no more than basic financial services. Recently, the RBI allowed the enrolment of for-profit companies as BCs. In the previous chapter we noted the example of FINO. BCs use a variety of technology hardware and applications such as handheld terminals, mobile phones, smart cards, biometric cards, PoS terminals and the like. In the authors' view, while the BC model represents progress towards the inclusion of small clients and those dwelling in remote areas, the viability of the model is yet to be established, the major reason being the reluctance of banks to test out scalable models, maintaining standards that can provide a solution in different parts of the country.

## **6.4 The Exclusion of Retail Customers from the Payments System**

The strength of a payments system depends not only on the infrastructure, the variety of products, the clearing and settlement system, safety, soundness and security, but also on how well spread the access is, and how knowledgeable and confident in the use of products the customers are.

In terms of infrastructure and technology, India's payment system compares favourably with well-developed payment systems. What is, however, not so 'state of the art' is the ability of customers to use electronic payments for all types of transactions. The use of cash, as a means available for payment, is deep rooted in the psyche of the people.

The current state of the banking and payment systems poses a challenge to migrant workers needing to make remittances. Poorer people are unable to make use of developments in the payment system architecture and instruments. They therefore have to resort to informal channels at much higher cost and risk for sending money home. The reasons why they are largely unable to access the formal remittance services include:

- Lack of knowledge about the availability of payment products;
- Not having a bank account, not being able to fulfil KYC norms;
- Banks' apathy towards serving these customers;
- No bank branch near the native place of the remitter;
- Having a non-standard payment product e.g. BC issued card.

Attitudinal issues on the supply side are clearly significant. Comments from a meeting of the study team with senior officials of a public sector bank illustrate the attitudes bankers can hold towards the provision of financial services to migrants:

- Migrant workers crowd bank branches;
- Branches are already under severe pressure due to staff and resource constraints;
- Attention to small customers hampers quality business;
- Infrastructure at branches cannot support such kinds of customer.

Thus, from the supply side it is clear that a combination of low business significance, possible crowding out of high net worth customers, profitability considerations, attitudinal issues regarding small customers, and network/staff limitations restricts the scope of the service that banks are willing to offer to low income groups such as migrant workers. Opening a bank account for migrants and their families is a major task, considering the different bank branches that might operate at the migrant source and destination points.

Within the existing financial system and guidelines on payments the options to improve this situation are limited. Mobile payments to transfer money from one account to another would avoid crowding at a bank branch. The authors cite M-Pesa in Kenya as a successful example of a mobile based remittance system. A Western Union-like facility for money transfer within the country could do away with the need for opening bank accounts and the attendant KYC related excuses for denial of service. Here again, the authors cite an international example: the German payment system provides e-payment facility even where the payer or payee does not have a bank account – instead the transaction is based on identification and authorisation using a national identity card.

As noted earlier the authors are of the view that total reliance on the banking network (including its BCs) will not be a complete solution to financial inclusion. They argue that PACS and the post office should be made important players in the rural remittances and payments systems.

Another option that the authors feel should be explored is the installation of PoS and micro-ATM terminals for cash deposit and withdrawal. They argue that this facility is crucial for expansion of cash in and cash out services, particularly at the last mile stage.

## 6.5 Summary

Financial inclusion has been an integral component of the objective of inclusive growth of the Indian economy. The GoI and RBI have initiated a series of policy and legal measures to ensure that financial inclusion becomes a reality. However, progress at an operational level has been slow and halting. The financial sector is faced with problems of a network, limited in terms of the population to be served, technology issues, deficient human resources, a limited capacity on the part of potential customers to understand and pay for services, and banker attitudes that favour high street banking. A major problem faced by the migrants is that of an unresponsive remittance system offered by banks that compels the migrants to use informal channels at high cost accompanied by high risks.

Remittances are a part of payments; the payments architecture should be fully in place before the remittance facilities can be rolled out across the country, for people wanting large or small transactions. The payments system should be so structured that transfers and payments can be put through faultlessly and instantaneously without high costs being entailed. The electronic systems in place within banks on CBS platforms and the national level platforms such as National Financial Switch (NFS), NEFT and RTGS systems which effect transfer and settlement across banks and geographies, are the heart of an efficient payments system. In India, while state of the art products and technologies are abundant in the payments system, they are, in practice largely confined to urban areas and have remained virtually a preserve of the elite. The electronic payments systems when

extended to small income groups and those in remote areas would greatly facilitate the achievement of the inclusion agenda, and reduce the costs and risks of availing payment services.

On the demand side, the low capacity to pay, the low level of confidence in approaching formal institutions for services, financial illiteracy and lack of identification documents to comply with banks' norms are major drawbacks in gaining access to banks' services. Other institutions, such as post offices and PACS, though ubiquitous, are not technologically enabled and have staff untrained in matters pertaining to payments. The task of improving the payments infrastructure and operations in banks and other institutions is therefore huge and likely to be time consuming.

Recommendations provided in this study concern both the supply and demand side of the payments system. These are included in the concluding chapter of this synthesis report, along with the recommendations from the national survey of migration and remittances, and from the four corridor studies.

## 7 Conclusions and Recommendations

Sending remittances could be faster, easier and more secure, if the significant problems of sending money over long distances through the formal banking system - which migrants and recipients in India currently face – were resolved. The results of the four migration corridor studies help us to understand (and to document) the overall scenario of migration and transfer of remittances: the routes migrants take, the corridors through which remittances flow, the design of financial products and services required by migrants and their relatives, the advantages and disadvantages of formal as well as informal remittance services, and how existing regulations for service provision can be improved. This report provides insights on the opportunities and the challenges of:

- enhancing and improving the access to formal financial remittance services for domestic migrants, and at the same time the delivery channels;
- creating and designing linkages between remittances and a wide range of additional financial services (offered through one channel);
- developing and harnessing new technologies.

This will help to ensure fast, safe and cost-effective delivery of remittances sent regularly by migrants to their families, relatives and friends back home, remittances which are crucial to the well-being of the migrants' families.

A holistic approach is required to meet the needs of the migrants and their relatives, and to create demand-oriented financial services. In this regard remittances have to be seen as a key element for households in managing their lives out of poverty, for educational and business investment, and to achieve wider economic development.

Furthermore, the findings show the pervasiveness of informal remittance channels, demonstrate the advantages these can offer to both senders and receivers, and the multiple functions they can serve<sup>36</sup>. It is, therefore, important to acknowledge and understand the positive and negative features of current systems – especially the value attached to informal means of transmission – when designing and marketing any alternative money transfer systems.

The results presented in this report provide valuable insights which can be used to scrutinise policy implications and provide policy recommendations. These will pave the way for developing a policy framework and the systemic implementation of these recommendations regarding remittances and the payment system.

### Holistic Approach and Strategy

There is a tremendous need for fast, convenient, and secure channels to send (small amounts of) money from the migrants' places of work back to their home villages. In order to make significant steps towards the financial inclusion of up to 100 million domestic migrant workers and their families

<sup>36</sup> A number of objectives can be accomplished simultaneously by carrying money and visiting home: maintaining links with the home villages (especially in case of migrating without family), helping with farming work etc. In addition, this hand to hand transfer method is convenient and a really important feature for both migrants who are located distant from formal financial service providers and who save travel and waiting time/costs, and receivers, given the dispersed and often inaccessible settlements where they live. This last feature (doorstep service, or: solving the problem of the "last mile") is at the same time one of the main disadvantages and challenges of banking transfer methods.

through needs-oriented and high quality remittance and other financial services, this report recommends a holistic approach and strategy. This needs to build upon existing models and institutions with large outreach and products that are in line with the existing regulatory framework.

The recommended approach and strategy includes:

- a strong and effective steering structure;
- development and piloting of viable inter-institutional money transfer models;
- driving the Business Correspondent Model;
- demand-oriented product development, and linking remittances with other financial services;
- financial literacy on the demand side, and responsible finance on the supply side.

## Steering Structure and Cooperation

The approach and strategy proposed here for significantly expanding high quality remittance services and improving the use of formal money transfer services requires a strong and effective steering structure. It should include all relevant stakeholders and follow a clear vision, mission and mandate. A Steering Committee could consist of: representatives from the cooperative credit structure, RRBs and their sponsor banks, representatives from selected public sector banks, and representatives from the India Post. It is recommended that the Steering Committee is chaired by the Reserve Bank of India while NABARD provides the secretariat. The Department for Payments and Settlements of the RBI may be requested to look at the recommendations and findings of the study report and, in the light thereof, to set up the Steering Committee for supporting the development of a universal low-value remittance service, which is interoperable.

The Steering Committee would serve as a mechanism to guide and monitor small-value money transfer endeavours across the country, develop a dialogue with other countries, and derive recommendations to be brought forward to the GoI.

In addition to the Steering Committee, a nodal agency is necessary to champion the remittance movement and support capacity development, not only in the area of remittances, but also with respect to the provision of financial services in general to the mobile population. A nodal agency to provide capacity development at the institutional level is central to a scalable remittance model. Ideally, NABARD would take up this role. This would be in line with NABARD's existing role in the rural financial sector, in particular NABARD's initiatives in providing CBS to the CCS with a link up to PACS.

## Models of Inter-institutional Money Transfer

**First the system then the technology** - When looking at innovations in the rural financial sector, the cart was often put before the horse. Mobile technology was developed without establishing the system and the procedures on which the technology could build. In order to develop adequate extension services, the core systems need to be in place and used. At the bank and bank branch levels, the CBS and NEFT as well as the RTGS, should be implemented and their compatibility with the BC and other banks ensured. Compatibility among banks and BCs make banking easier and more customer-friendly. Accompanying procedures and guidelines which ensure smooth running of the system have to be in place and enforced. Finally, the staff needs to be trained accordingly.

**Models for each set of financial institutions** - It is recommended that clear and lean models for each set of financial institutions which are sustainable and have substantial outreach be developed. A business model appropriate for each type of institution has to be in place. As not all institutions are

directly connected to CBS and NEFT, nor even computerised, an inclusive approach considers direct as well as indirect inclusion into the payment system.

This report recommends focussing on two models which involve Regional Rural Banks, the Cooperative Credit Structure, and the Business Correspondent Model.

### **Regional Rural Banks and their sponsor banks**

The study indicates that RRBs with their extensive branch networks are institutions that are trusted by the migrant families who are already their clients. The original mandate of the RRBs suggests that they are in a better position to serve the rural populations, therefore sensitisation measures for small value transactions should be developed together with their sponsor banks.

The aim would be to develop a remittance product with and without a business correspondent model for RRBs, which have already introduced CBS and NEFT. Regional Rural Banks are in the process of adapting their processes to the Core Banking System (CBS) and consequently to the National Electronic Fund Transfer (NEFT). This provides a basis for more efficient banking and easier money transfer, hence more effective remittance services. Eventually these systems should not only enable a linkage between banks, but also between banks and their branches. This is also a precondition for a well-functioning Business Correspondent Model. Yet, after CBS and NEFT technology has been set-up, systemic processes and bank extension systems need to be implemented in order to reach the clients. This process should be closely monitored.

The option of establishing remittance kiosks by RRBs should be further explored.

### **Cooperative Credit Structure**

Money transfers between SCBs and DCCBs, and also across the three tiers partially exist. Moreover, PACS with their 127 million members are important providers of financial services in the rural areas.

To leverage further on the CCS for better small-value money transfers it is important to connect PACS to the existing money transfer networks within the CCS. They should be improved, expanded and made known to their customers. Additionally, the need for innovation should be addressed in the CCS. A model for PACS to become BCs for scheduled banks as well as an implementation manual should be developed and piloted.

In states where cooperative banks and PACS have been more successful the internal money transfer system should be further explored and developed. This relates to money transfer within and between DCCBs and SCBs.

Existing schemes should be taken into account and new mechanisms built up to allow more efficient money transfer mechanisms. Eventually, the payment systems should be interlinked in such a way that small value transfers are possible between cooperative and commercial banks and also will also be offered as such. The latter assumes the usage of CBS and NEFT.

## Driving the Business Correspondent Model

As the business correspondent model is central to providing financial services, including remittances, to low-income households, the model has to be adapted to the opportunities and nature of individual banks, whose services it extends. It is important to provide information on past performance of the BC model, encourage the banking industry to follow a BC strategy and provide need-based solutions at the operational level. Furthermore, selected individuals or institutions which qualify as a BC and are in the position to serve the clientele responsibly and sustainably will need more support.

NABARD can raise awareness and clarity among banks, guide and provide needs-based support to BC partaking institutions or individuals. Support in marketing strategies, for instance, could facilitate the banks' involvement in the model. Additionally, NABARD's financial inclusion fund could be used to support the adoption of the BC model.

Together with the Indian Institute of Banking and Finance (IIBF), training needs could be reassessed and adapted if necessary.

*PACS* - To integrate cooperatives better into the payment system PACS could act as BCs for any scheduled bank. The model is being tried in Andhra Pradesh. Opportunities for PACS to act on behalf of a commercial bank should be explored.

*Self-help Groups* - The SHG model has proven to be an adequate and consumer friendly delivery model for savings and credit. Many households, due to migration, are headed by women, who seek advice and empowerment from SHGs. If SHG members are supported to become BCs, they could deliver services, especially to single woman headed households in the rural areas. This could include the delivery of remittances and other financial services. The selected SHG members would have to fulfil certain criteria, such as skills in managing cash. A concept targeting remittance receiving families, who are often linked to SHGs, should be developed in major out-migration areas. With the possibility of selected SHG members becoming BCs, remittances receivers would have a door-step facility.

*Microfinance Institutions* - NGO-MFIs, Mutually Aided Cooperative Societies (MACS) and trusts are eligible to become a BC for a bank. Some MFIs have started remittance initiatives on their own. Outside of the BC Model no role has been foreseen for MFIs in money transfer services. Nevertheless, RBI may consider whether MFIs should be allowed to be used as either BCs or agents by banks only for the purpose of providing remittance services. Under the extant dispensation this may not create any conflict of interest, as MFIs do not provide such services.

## Product Development – Linking Remittances with other Financial Services

The findings of the studies provide insights which need be taken into account when developing appropriate remittance products:

- the real advantages of informal money transfer methods;
- the connectivity between remittances and other financial services (savings, loans, insurance products, and financial literacy), provided through one channel;
- the lack of information on the side of financial institutions.

Remittance products should be clear and simple, easily applicable for migrants and familiar to all branches. They could function similarly to a standing order, always connecting the same two bank accounts or even mobile phone numbers, with the option to enter different amounts and with a flexible sending date. The remittance could be limited to Rs 10,000. These products should be widely publicised and it could be compulsory for all banks to make such a provision. The products should be available via any account. A one-time set-up of the sending and receiving account will facilitate any remittances to follow. For users of the products, KYC norms should be relaxed.

Banks applying the BC model may opt for a BC delivery channel. Learning from informal remittance channels, banks may opt for a model that allows door-step services.

While at the launch of the products a bank account will be necessary, the possibility for a remittance without a bank account could be explored at a later stage.

Migrants need easy access to simple remittance services, but they also need other financial services. Financial inclusion could be more effective and sustainable, if banks offered a variety of products as per their interests and the customers' needs. Pilots that involve design of new savings instruments, low ticket insurance products or pension schemes for vulnerable migrant worker groups, will help in the understanding of additional aspects of the financial behaviour of such groups, around which broader services can be advocated or designed.

It is important to rebrand and sensitise banks with respect to their wider responsibilities as a financial service provider. There needs to be a focus on savings and remittances, and the importance of these, away from a pure lending business model. This might be more important in some areas than in others. Financial institutions should therefore be responsive to the developments in their particular area. Therefore, information about migration numbers needs to be communicated to the financial institutions in order to better assess remittance and other financial services needs and demand.

## Capacity Development – Financial Literacy and Responsible Finance

There is an enormous need for (financial) training and education at both the bank (BC) and the end customer side. In general, a frequent and regular contact between bank (BC) staff and the customer, and hence transparency and trust, can be seen as the basis for developing financial literacy and responsible finance.

**Customer side** - Among several categories of migrant workers, there is a serious lack of understanding of financial instruments and tools, and low awareness of alternative (formal) remittance methods. There is also a lack of confidence in approaching formal financial institutions. A large scale programme that increases the financial literacy skills of informal sector workers will help to render them more demanding and informed customers of financial services, including those for remittances. It will also help migrants protect their wages from loss, fraudulent investments and under-payments.

**Bank/BC side** - Banks and BCs need to be aware of migrants and remittance recipients, and sensitive to their needs and requirements. Therefore, bank staff have to be trained, data about migration and remittance-flows collected, and customer protection has to be ensured. Training and capacity development is particularly important for the improvement and adoption/adaptation of the BC model. All this will help to provide user-friendly remittance products and product linkages. More awareness also stimulates innovation.

There is a fine line between product marketing and financial literacy. When done correctly and explained well, the former could support financial literacy. Product confusion and traps need to be addressed by the financial institutions and the regulatory authorities. A policy circular addressing financial institutions and highlighting their tasks and responsibilities with a particular focus on migrants and financial inclusion is needed.

## **Other Considerations**

### **Potential Partnership with UIDAI**

UID is to become a valid KYC for opening bank accounts regardless of location, residence and profile of customer. In Maharashtra some banks have begun to accept UID as the basis for new bank accounts but the information about this is still unclear and not widely publicised. These are early days for UID itself, but it does have the potential for addressing the requirement for establishing a portable, valid identity for the migrant worker. Having a bank account becomes the starting point of an option for the safe keeping of wages, and managing small transactions and remittances. Cooperation with UIDAI could help in casting the net for migrants wider, and ensuring that a larger number of banks buy into the KYC norm at the ground level. A monitoring/facilitation cell for this specific purpose could be conceived which, through NGOs, helps large numbers of unbanked migrant populations at destination points get UID and ensures that they are obtaining valid bank accounts.

### **Partnership with the National Coalition of Organisations for Security of Migrant Workers (NCOSMW)**

NCOSMW is a network of civil society organisations which is working to provide migration services and social security. The coalition includes organisations working across several major migration corridors and the number of such organisations is steadily growing. Within this coalition there is good scope for engagement in pilots, consultations and collaborative work. Members of the coalition have direct and intensive contact with migrant groups at source and destination points, and can therefore become partners in new initiatives for their constituencies.

### **Global Learning and study tours**

Members of the Steering Committee should be exposed to global experiences. The Business Correspondent Model in Brazil, for example, has been extensively tested. The successful application of the model in rural areas with problems of outreach and money transfer closely paralleling those in India offers a wealth of valuable experience at both practical and policy levels. Similarly, participants would learn much from close acquaintance with extension services like those in Central Asia, which are based on a predominantly cooperative system.

### **Collecting and sharing data and information on migration**

Statistics on the number of circular migrants are difficult to find. In official migration statistics many migrant workers do not appear. However, a reliable database is important in order to address the challenges that come along with circular migration adequately and on a regional level. The GoI could monitor better with a solid information base on migration within the country. A cooperation with the Unique Identification Authority of India (UIDAI) promises synergies in this matter.

Certain data could also be collected at the state-level by states that are particularly concerned with migration, such as major-outmigration states, e.g. Bihar or UP and major in-migration states such as

Maharashtra. Furthermore, corridor connected states, such as UP and Maharashtra, can cooperate better and jointly address the challenges of migration and informal remittances. Such cooperation should be formally established and institutionalised.

A section on migrants in specific districts could be included in NABARD's PLP.

Similarly, information on genuine financial inclusion is rare. A nationwide overview of the number of ATMs, and BCs, and their respective client numbers and qualitative usage, would encourage others to follow and provide a better monitoring basis for the RBI.

### **Encouraging industry/employers to facilitate financial inclusion**

Large numbers of migrant streams are outside the ambit of formal employment arrangements. Migrants are recruited through intermediaries and contractors who negotiate the terms of their wage employment with the principal employer. There is also widespread under-reporting of workers in many industries in order to avoid payment of mandatory social security benefits and adherence to labour regulations. Having said that, there are industries and markets which are easily identified as those predominantly employing migrant workers: commodity markets, light engineering and manufacturing, food processing, mining, textiles etc. Depending on the nature of employer/employee work arrangements, employers, intermediaries and labour recruiting agencies could become active participants in the drive for financial inclusion of migrant workers - their participation can range from a corporate social responsibility (CSR) type of partnership to acceptance of a financial inclusion code for industry in relation to the workers.

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