ProGlo
Provincial Globalisation

Research Report Series

Research Report No. 2

Money to India

Transfer Channels for Remittances in the Guntur Region, Andhra Pradesh

Wanda van Kampen

April 2012

National Institute of Advanced Studies
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This research report is a slightly revised version of the author's Master's thesis in Contemporary Asian Studies, submitted to the Graduate School of Social Science, University of Amsterdam, in June 2011.

Published by:

National Institute of Advanced Studies (NIAS), Bangalore, and

Amsterdam Institute for Social Science Research (AISSR)

Bibliographic information:

Van Kampen, Wanda. 2012. Money to India: Transfer Channels for Remittances in the Guntur Region, Andhra Pradesh. Provincial Globalisation Research Report No.2. Bangalore: National Institute of Advanced Studies and Amsterdam Institute for Social Science Research.

ABSTRACT

Most studies on remittances in India focus on the national level, and there is a dearth of scholarship on the nature and impact of remittances in smaller urban and rural regions which witness a significant amount of international migration. This research report is based a study in one such provincial town, Guntur in Andhra Pradesh. Guntur has seen significant migration of highly skilled professionals to North America, who send back substantial remittances. The research project studied the transfer of remittances to the Guntur region by evaluating the available modes of transfer and the tie-ups between various institutional facilitators, and analysed the different roles of senders and receivers in the transfer system. The report shows the contradictions in the ideas of banking organisations and Non-Resident Indians (NRIs) in making decisions about which mode of transfer to employ. An interrogation of advertisements used by banks regarding their remittance facilities shows that banks assume a far greater role of the receiver of remittances in the decision-making process than is actually the case. Instead, the study revealed that it is usually the sender who decides on the mode of transfer to be used, and that the influence of family members in India is rather limited. As a result, through their advertising (aimed at the local families, the receivers of remittances) banks do not reach the right actors in the transfer network, and senders take decisions about the mode of transfer without being well informed about the total scope of services available.

PREFACE

This research report is written in the light of the research programme *Provincial Globalisation: The Impact of Reverse Transnational Flows in India's Regional Towns* (ProGlo) coordinated by Prof. Carol Upadhya,National Institute of Advanced Studies (NIAS), Bangalore, and Prof. Mario Rutten, Amsterdam Institute for Social Science Research (AISSR), University of Amsterdam.

Before introducing the subject of this research report, I would like to take this opportunity to thank the people who have supported me during the process of research, field research, writing, rewriting, and even more rewriting. Working on this report has given me the opportunity to become acquainted with a process called 'research' which has been a very challenging and instructive lesson.

I would like to thank my supervisor, Prof. Mario Rutten for his time, involvement, and enthusiasm. His support during my fieldwork and his critical feedback and perfectionism, have raised the quality of this research report to what it is now.

Secondly, I would like to thank everybody affiliated with ProGlo who supported me during my fieldwork in India. Especially Prof. Carol Upadhya and Dr. Puja Guha for giving me the opportunity to discuss my research proposal and the findings from my fieldwork extensively, and for helping me to get started with my field research in Bangalore and Guntur. I also want to thank them for bringing me in contact with Dr. Bhaskar Teegela, who has helped me a lot by introducing me to some key informants in Guntur.

And finally I would like to thank Maudi Heerink. Her companionship in India and her support during the writing of my report have made this research a very fruitful experience.

Wanda van Kampen
Amsterdam, June 2011

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1. Introduction

In 2010, the global flow of remittances to developing countries was estimated to be US $325 billion, which represented the second largest source of external funding for developing countries (World Bank 2010). Since 2001 India has been the largest receiver of remittances in the world. The inflow of remittances reached US $29 billion in 2006-2007, which was more than 10 per cent of the world's total amount of remittances (RBI 2008: 278).

Over the past decade, there has been much debate about the flow of remittances to India and its impact on the Indian economy, both in the academic literature and within policy circles. Some emphasise the positive consequences on household income and economic development, while others are more critical towards the effects of remittances, pointing to the rise in conspicuous consumption.

These discussions on the size and importance of remittances for developing countries like India are often based on insufficient empirical data and an incomplete understanding of the financial transfers involved. One of the challenges in the discussion on remittances is the measurement issue, which is largely the result of the way remittances are defined. It is quite unclear which components get into accounting remittance flows and data compilation differs from country to country (Reinke 2007: 13). As a result of these measurement problems, there are only very limited and unreliable data available on remittances on the basis of which statements are made about the size and relevance of the phenomenon and possible policy impact of remittances on the society and economy concerned.

A second challenge in the discussion on remittances is the complexity of the transfer system as a result of which it is difficult to capture the exact flow of remittances. The literature on remittances often assumes that remittances consist of a flow of money between two countries which can be measured accordingly. A closer look, however, reveals that there exist various transfer channels simultaneously, each of them offering several modes of transfer. Along with the problems related to definition and measurement, it is this complex nature of the transfer system which hinders a proper understanding of remittances.

Senders and receivers of remittances are the most important actors in the transfer system for remittances, since they are the ones to decide upon the amount of remittances sent and the mode of transfer used. Therefore, the transfer system for remittances is built around these actors. Although some studies provide insight into the motivations of migrants as senders of remittances, and about the impact of these remittances on those who receive them, there is hardly any knowledge available on the preferences of the senders and receivers regarding the type of transfer channel for the remittances. A further understanding of the complexity of the transfer system requires not only insight into the nature of the system itself, but also into the position and preferences of the actors at the sending and receiving end of the remittances.

Available knowledge on remittances in India is mainly restricted to the national level. Much less is known about the size, nature and impact of remittances at the region level, especially in those smaller urban centres and rural areas that have experienced substantial international migration (Rutten and Upadhya 2009: 5). One such centre is Guntur, a middle town in coastal Andhra Pradesh, India, which has a recent history of large-scale migration, mainly of high skilled professionals to the USA and Canada.

This report, based on research in Guntur, sheds light on the complex transfer system for remittances, by evaluating the available modes of transfer and the tie-ups between various institutional facilitators. It also analyses the role of senders and receivers in relation to the transfer system for remittances. Through a study of the advertisement strategy of banks regarding the remittance facilities they offer, it shows the contradictions between the idea of banks and views of Non-Resident Indians (NRIs) and their families regarding the decision process of using a certain mode of transfer. Banks assume a far greater role of the receiver of remittances in the decision process.

The set-up of this research report is as follows: In the next chapter, chapter 2, I discuss the existing literature on the size and measurement of remittances and show that there are not only problems with the way remittances are defined and measured, but there is also a lack of knowledge on the transfer system itself, i.e. on the way remittances are transferred and the role of the various actors involved in this process. The third chapter addresses the research setting and methodology. In chapters 4 and 5, I present my empirical findings. Chapter 4 illustrates the complexity of the transfer system by visualising the wide range of available channels and modes of transfer. Chapter 5 follows with an overview of the partnerships among institutional facilitators and discusses the role of senders and receivers in the transfer system for remittances. It shows the perceptions of different actors and facilitators about the process of choosing a certain mode of transfer. Chapter 6 critically links the empirical findings to the literature and ends with a conclusion about the essence of a good overview of the transfer system for remittances in order to make solid statements about the size and impact of remittances.

2. A LITERATURE REVIEW ON REMITTANCES

This literature review gives an insight to the literature concerning economic remittances sent to India. The first section discusses measurement problems regarding remittances. More specifically, it will deal with the definition and the estimated size of remittances and show how information about the transfer system for remittances is very limited. The second section gives an insight into the transfer channels available. In the third section, there will be a discussion about the private actors involved; the remittances behaviour of senders and receivers. These actors are the ones who decide on the mode of transfer used. In order to understand how the transfer system for remittances operates, their role should be taken into account.

2.1 Measurement

2.1.1 Definition of remittances

The literature often distinguishes two flows of remittances: money that is sent through the formal transfer system for remittances, and money that is sent through the informal transfer system. Both forms of remittances encounter measurement problems. Together, these flows of money are important to take into account when discussing remittances. This section on measurement issues regarding remittances will focus on the formal flow of money. It is estimated that the major share of remittances arriving in India is transferred trough the formal network. According to Wilson and Maimbo (2003) the proportion of remittances sent to India through the informal transfer system for remittances has declined from an estimated 50 per cent in the 1980s to an average of 20 per cent in the late 1990s. Therefore, a clarification of the formal transfer system for remittances will give a good overview of how a large part of remittances is being transferred.

The main problem regarding the definition of remittances is the variety of interpretations among countries, which results in different practices of measuring remittances. Comparison of numbers and figures becomes very difficult because of the ambiguity of the data available. In general, research and debates regarding remittances define remittances as 'certain transactions that are initiated by individuals living or working outside their country of birth or origin and related to their migration' (Reinke 2007: 2). This definition shows that remittances can be interpreted and applied in multiple ways.

The IMF defines remittances as the sum of *compensation of employees, workers' remittances,* and *migrants' transfers* and uses the following definitions for these terms: *Compensation of employees* comprise any kind of benefits, in the form of wage or salary, earned by individuals in an economy that is not their residency. The benefits should be paid by the residents of this host economy, and these individuals should have lived in the host economy for less than one year. *Workers' remittances* are referring to transfers by migrants who are employed and settled in new economies. This does not include the transfers made by self-employed migrants. *Migrants' transfers* are '(…) contra-entries to the flow of goods and changes in financial items that arise from the migration of individuals from one economy to another' (ibid 12). Only persons who come to a new economy and are expected to stay there for at least a year are considered as migrants.

It is important to notice that these terms imply different accounting standards. The Balance of Payments (BoP) is the accounting sheet that registers all monetary transactions of a country with the rest of the world. *Migrants' transfers* are a component of the capital account of the BoP. This capital account is the sum of all international investments. C*ompensation of employees* and *workers' remittances* both are a component of the current account on the BoP. The current account on the BoP is the nation's net income, which is the sum of all trade in goods and services, transfer payments like foreign aid, and factor income like interest and dividend (ibid 12).

'Depending on the nature and use of the resource, transfers are recorded as current transfers in the current account or as capital transfers in the capital account component of the capital and financial account' (ibid 12). Where the current account registers the total amount of trade of a country, the capital account registers the private and public international investments flowing in and out of the country. Different types of remittances influence different parts of the BoP, either through the capital account, or through the current account. In economic terms, they are either seen as contributing to the income of a country, or as an investment in a country. Researchers can decide which of these components to use when they analyze data on remittances, since there is no clear guideline about which transfer belongs to what type of remittances (ibid 13). This results in ambiguous data and often frustrates data users, 'who find that they cannot easily identify relevant data in official statistics. Compilers are sometimes forced to ignore conceptual complexities, (…)' (ibid 10).

The definition of *workers' remittances* makes a distinction between money transferred that is earned from being employed and money transferred that is earned out of self-employment. This distinction is not very practical or analytical desirable. Since households often earn part of their income out of payroll and part of it out of entrepreneurial activities, it is impossible to distinguish whether the money that is sent to the home country consists of wage or other income.

Another problem regarding the definition set by the IMF is the distinction between non-migrant residents, whose transfers entitle for *compensation of employees*, and migrant residents, whose transfers are entitled to be *worker's remittances*. Non-migrant residents are people who enter the host country on a temporary basis, e.g. for temporary work or study purpose. However, it is often unclear whether the person who is living abroad is seen as a migrant or a non-migrant, since the IMF does not have a clear definition of migrants. A person might enter a country on a temporary basis, but extends his stay repeatedly and in the end becomes a permanent resident.

Also, concepts and methodologies regarding remittances are not uniformly applied across countries. Countries adjust the definition in order to develop their own accounting framework for remittances. Subsequently, data regarding remittances differ from country to country and a discrepancy between remittance data reported by the government agents of individual countries, and data cited by the IMF has emerged. This makes it difficult to identify which data is relevant in official statistics, and accordingly which statistics should used to get a clear overview of the size of remittances and their impact (Guha 2010: 1).

The principle source of data on remittances is the IMF's BoP. This BoP provides an overview of the amount of remittances sent and received by each country for a given year. However, a lot of data is missing or unreported. Some countries report no data to the IMF, or not on all items. In most cases, data weaknesses and omissions are due to the difficulties in obtaining all necessary data (Reinke 2007: 13). In 2000-2001, 34 per cent of countries on the IMF's BoP had no data on the inflows of remittances, and 45 per cent had no data on the outflows (Kapur 2003: 3-4).

The IMF Committee on Balance of Payments Statistics is working on the adoption of a new conceptual definition in order to 'substantially improve accessibility and clarity of data on remittances in the balance of payments, national accounts and international trade in services frameworks' (Reinke 2007: 16). This new concept is still being finalised and countries have not yet adopted this definition. However, this illustrates that data and definitions on remittances are still fuzzy and that it is important to clarify this picture.

The Reserve Bank of India (RBI) applies a slightly different definition to account for remittances than the practice of the IMF. The current account on the BoP contains an 'invisible account'. This account has three general headers: services, transfers, and income. The component 'transfers' includes official and private transfers. The private transfers ' (…) represent one-sided transactions, i.e., transactions that do not have any quid pro quo, such as grants, gifts, and migrants' transfers by way of remittances for family maintenance, repatriation of savings and transfer of financial and real resources linked to change in resident status of migrants. Thus, for the purpose of BoP compilation, private transfers include (i) remittances for family maintenance, (ii) local withdrawals from Non-Resident Rupee Accounts, (iii) gold and silver brought through passenger baggage; and (iv) personal gifts/donations to charitable/religious institutions' (RBI 2010b: 2485).

This means that remittances sent to India are located under 'invisible private transfers' on the Indian BoP. These invisible private transfers are similar to the definition of *workers' remittances* by the IMF. Contrary to the definition used by the IMF, the RBI does not include *compensation of employees* when measuring remittances, but puts these transfers under the header *income* on the invisible account.

Non-Resident Indians (NRIs) can open special bank accounts at Indian banks, which are called NRI deposits. These NRI deposits are schemes created by Indian banks to attract foreign capital, with an option to hold deposits in foreign currency denominations or in Indian rupees. When the deposit is repatriated in foreign currency, it is treated as a debt and placed on the capital account of the BoP. But when the funds are locally withdrawn from rupee-denominated deposits, it is measured as remittances and becomes visible on the current account (RBI 2010b: 2486).

Since the RBI does not include *compensation of employees* in its measurement of remittances, while the IMF does, figures of the RBI can give an underestimated view of the amount of remittances that India receives. The different ways of measuring should be taken into account when discussing the size of remittances.

2.1.2 Size

There is a large amount of literature available on the size and growth of remittances. The measurement problems regarding remittances, which were discussed in the previous section, should be taken into account when discussing these estimations, which are nevertheless useful to create an idea about the scope of remittances.

Most information available on the scope of remittances is on the national level. In 2010, the global flow of remittances was estimated to be about US $150-200 billion, which represented the second largest source of external funding for developing countries. Remittances to South Asia alone were about US $40 to 50 billion, of which US $25 billion was transferred through the formal transfer system. The remaining amount was estimated to be informal, which means that it is transferred through systems that are unregulated and uncontrolled.[1]

In 2002, India alone received US $11.5 billion formal remittances, which contained about three to four per cent of GDP. Generally the number of transaction executed by migrants is twelve times a year and the amount hardly exceeds US $2,500 per transaction (Panda 2009: 167-173). Table 1 contains information about the composition of remittances sent to India. This table shows that total remittances received by India in 2001-2002 was almost US $16 billion according to figures of the RBI. This contradicts the amount of US $11.5 billion mentioned before, which shows the ambiguity of data on the size of remittances.

Table 1 also shows that inward remittances for family maintenance and local withdrawals from NRI accounts form the major source of remittances. They both experienced a large increase over the last decade. Inward remittances almost doubled from US $7.423 million in 1999 to US $13.561 million in 2006. Withdrawals from NRI deposits increased from US $4.120 million in 1999 to US $13.208 million in 2006. This shows that local withdrawals from NRI accounts have seen an even larger rise than inward remittances, since it more than tripled within six years.

[1] For more details about the informal transfer system: see section 2.2

Table 1: Trend and composition of private transfers to India[2]

(US $ million)

Year	Inward remittances for family maintenance	Local withdrawals/ redemptions from NRI Deposits	Gold and silver brought through passenger baggage	Personal gifts/donations to charitable/ religious institutions in India	Total
1	2	3	4	5	6
1999-00	7.423	4.120	13	734	12.290
2000-01	7.747	4.727	10	581	13.065
2001-02	6.578	8.546	13	623	15.760
2002-03	9.914	6.644	18	613	17.189
2003-04	10.379	10.585	19	1.199	22.182
2004-05	9.973	8.907	27	2.168	21.075
2005-06	10.455	12.454	16	2.026	24.951
2006-07	13.561	13.208	27	2.155	28.951
2007-08 (April-Sep)	9.434	8.300	17	1.241	18.992
2006-07 (April-Sep)	6.607	5.123	11	992	12.733

The sharp rise of total remittances sent to India, from US $12.290 million in 1999 to US $28.951 million in 2006, can partly be explained by the financial reforms that have been implemented since the 1990s. As Finance Minister from 1991 to 1996, Manmohan Singh played a prominent role in the liberalisation of India's financial markets by carrying out the economic liberalisation in 1991.[3] These reforms decreased the amount of regulation and control and included administering a market-based exchange and current account convertibility, which made it easier and cheaper to transfer money from abroad (Kapur 2004: 374). Formal transfer channels started offering remittance facilities that are more competitive in price and quality. The formal transfer system for remittances has gained popularity and a larger share of remittances is being sent through this network instead of the informal transfer system for remittances.

Another reason for the increase in remittances received by India is the shift in the labour market migration pattern from unskilled and semi-skilled workers who mainly migrated to the Gulf states, towards highly skilled labour (RBI 2008: 266). From the mid-1990s onwards, a sharp increase in high-skilled migration to the USA and Canada has appeared, as a result of the information technology revolution. Since wages of high skilled workers in the USA are much higher compared to wages for unskilled work in the Gulf states, the amount of remittances sent back to India has also sharply increased.

According to the RBI, remittances consist of two flows: *inward remittances*, and *local withdrawals*. *Inward remittances* are direct transfers of funds from one person abroad to another person in India, generally to provide family support (typically through a bank or wire transfer agency). *Local withdrawals* are withdrawals from NRI deposit accounts, which are generally for investment purposes. The relationship between these two flows is important: Inward remittances only increased by 30 per cent from 2000 to

[2] Source: RBI (2008), Table 15: 279
[3] He became India's Prime Minister in 2004

2007, while total remittances increased by 88 per cent. This means that the increase in remittances is largely attributable to an increase in local withdrawals from NRI accounts (Chishti 2007: 4).

Inward remittances are generally used for family maintenance, while *local withdrawals* are often used for investments. This implies that the amount of remittances sent to India for investment purposes has grown relatively faster than remittances sent for consumption purposes. From this development, it can also be concluded that not all modes of transfer have gained similar importance. Remittances sent for investments are often transferred through NRI accounts. Therefore this mode of transfer has seen a large increase since the financial reforms in the 1990s and is now one of the most important modes of transfer (RBI 2008: 279).

Another factor that should be taken into account when evaluating the data regarding remittances is the changing value of the rupee. According to Rajaram Panda (2009: 178), the World Bank estimated that remittances in India increased by 44 per cent in nominal dollars in 2007 relative to 2004. After accounting for appreciation of the rupee, the rise was 32 per cent, and after also accounting for inflation only 13 per cent.

To conclude, the amount of remittances sent to India has sharply increased. This is mainly the result of the improved conditions to send and invest money. The financial reforms led to diminution of regulation and control which made it more attractive to send money through the formal transfer system instead of using informal transfer channels. Other explanations for this increase are the rise of relatively high skilled IT-migration to the USA and Canada from the 1990s onwards and the attractive deposit schemes in India that have been developed for NRIs.

2.1.3 Source

A large part of the remittances arriving in India comes from Indian professionals who are based in the United States. About 40 per cent of the remittances received in India come from the United States and Canada, 20 to 35 per cent from the Middle East, and the remaining part largely from Europe. The major share of remittances originating in the USA can be explained by the fact that a large proportion of NRIs in the USA are high skilled IT-workers, who have relatively higher average earnings compared to migrants in the Gulf states (RBI 2010: 787). The remittances received from the USA are increasingly being invested in real estate or stock markets and less often used for family maintenance (Panda 2009: 180).

According to a study of the RBI (2010a), remittances from the USA are, however, declining. In 2008, about 44 per cent of the remittances sent to India originated in the USA. This has decreased to 38 per cent in 2009. Remittances from the Gulf states have significantly risen to 27 per cent in 2009. This shift in origin of remittances can partly be explained by the economic crisis that had its impact in the USA and negatively affected the amount of remittances sent. At the same time, the increase of high-skilled migration to the Gulf states had a positive effect on the remittances sent from that region. As a result, remittances from the USA have relatively declined.

2.1.4 Impact

A major share of the literature on remittances focuses on the impact of these large sums of money flowing into developing countries. It is important to get a clear idea about the size of remittances received by India, and thus about the transfer system, in order to make a solid statement regarding the impact of remittances. In order to clarify the importance of this research, it is essential to shortly discuss the impact of remittances.

Remittances can have positive effects on development in countries of emigration. One of the positive impacts of remittances is the huge potential for poverty reduction and local investment. This is a result of the stable amount of money flowing into the country, especially since remittances very often are resistant or even counter-cyclic to economic recessions (Faist 2008: 21).

A second advantage often mentioned is the significant proportion of remittances used for productive investments. It should be noted though, that the impact of these investments is difficult to measure. Oberai and Singh (1980) conclude that remittances have a positive impact in rural areas. This is based on the evaluation of direct, microeconomic effects of remittances (Oberai and Singh 1980: 240).

Remittances can be either used for consumption or for investments. When remittances are used for investment purposes, one should think of investing in agriculture, manufacturing, education, healthcare, or community development projects. These investments have positive economic effects. It is debated whether the use of remittances to satisfy basic consumption needs in productive, since the money does not have a long-term goal. But these expenses can have a number of positive effects on the local economy when they are spend on, for example, consumption during local festivals, buying medicines, or building a house for retirement. The money is also often used to pay off debts which are incurred in going abroad (Panda 2009: 174).

It can be concluded that remittances generally seem to have a positive impact on the economy of the receiving country, since they provide a stable flow of money used for investment and consumption purposes. The exact impact however is very difficult to measure.

2.2 Transfer Channels

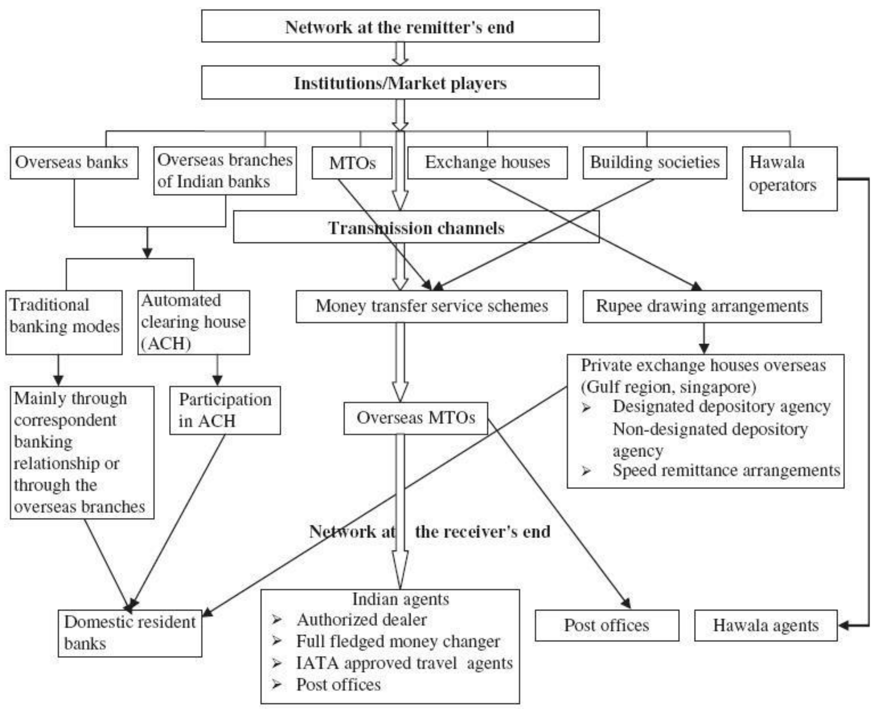
From the previous section, it has become clear that it is difficult to measure remittances due to multiple definitions which are used interchangeably and because countries have difficulties to keep track of all the flows of money. The large range of available channels and modes of transfer make it even more difficult to measure the amount of remittances that India receives. This section gives an overview of the different channels and modes of transfer in the market for remittances in India. It discusses the formal transfer system as well as the informal transfer system, since the performance of the informal transfer system influences the use of formal transfer channels and the other way around.

The formal transfer system consists of the formal banking system, money transfer operators (MTOs), and post offices. The informal system consists of remittances transferred through systems that are unregulated and uncontrolled. The most well-known informal transfer system in India is the Hawala system.

2.2.1 Formal funds transfer system

In India, only public-owned financial institutions, commercial banks who are referred to as Authorised Dealers (AD), Post Offices, and Exchange Houses are allowed to undertake cross-border remittance transfers. Figure 1 gives an overview of the anatomy of the major entities engaged in these transfers. It gives an impression of the complexity of the network, the various facilitators involved, and the collaborations between these facilitators. It shows that at the sending end, remittances can be transferred through foreign banks, Indian banks, MTOs, Exchange Houses, or building societies. These formal facilitators offer a wide variety of services and combine their strengths in order to transfer the money to the receiver.

Figure 1: An anatomy of remittance transfer network[4]



[4] Singh, B. (2010). Workers' remittances to India: 69

The transfer system infrastructure has transformed significantly since the 1990s. Indian banks have developed new products and set up partnership with international banks.

Arrangements between financial institutions abroad and the domestic financial institutions have played an important role in enhancing time and cost efficiency. For example, the Indian bank ICICI started a partnership with Bank of Montreal, in order to quickly transfer money from Canada to India. Another example is the large range of partnerships between Indian banks and Exchange Houses in the Middle East that have arisen in order to transfer remittances more easily (Singh 2010: 69). Nowadays, the largest part of the transactions of remittances to India takes place through the banking channel. Only ten per cent is being transferred through the MTO channel (ibid 82).

Money Transfer Operators, like for example Western Union, are regulated by schemes for money transfer services. MTOs mainly focus on the transfer of small amounts of money across borders, mostly used for family maintenance. The network generally used to transfer money through this type of system is a tie-up between an MTO abroad and an agent located in India who disburses the money to the family of the migrant. This partnership requires the approval of the Central Bank. The agent should be an authorised dealer, or registered as a non-bank finance company, money changer, or travel agent (ibid 70). Generally, in India, these agents are bank branches who act as conduit for domestic delivery, or post offices who provide a disbursement point rural areas (ibid 81). Often, the agent has a special rupee account at an Indian bank, through which the reimbursement is paid. In general, the agent receives the reimbursed amount, including a commission, within two days after assigning the money to the family of the migrant. When the money is transferred from the Indian agent to the end-user, there is no need for any citizenship papers, or membership, neither does the client need to have a bank account. The dominant MTO servicing India is Western Union, which has arrangements with over 10,000 agents (ibid 70). Transactions through MTOs are generally of low value. As a result, the amount of remittances sent through the MTO channel contains only 10 per cent of total remittances sent to India (ibid 82).

Among the modes of transfer through the banking channel are electronic wires/SWIFT, drafts, cheques, debit/credit cards, money orders, and direct transfers to bank accounts (RBI 2010: 781). A number of banks have also started to provide online services to transfer remittances. This mode of transfer is cost- and time effective. Banks like State Bank of India (SBI) and ICICI Bank provide these services. Electronic wires/SWIFT are the dominant mode to transfer remittances to India. This is the result of a wide network of Indian banks overseas, and due to the limited competition of MTOs (ibid 781).

The banking channel also offers another way to transfer money back to India; by depositing money on an NRI account. There are several types of NRI accounts, of which the Non-Resident External Rupee (NRE) account and the Non-Resident Ordinary (NRO) account are the most common ones. When money is being withdrawn from this account in India, either by the NRI or a family member, these transfers are measured as *workers' remittances*. The holders of NRI accounts can be classified into two categories, either the NRI plans to move back to India in the future, or the NRI has acquired permanent residence abroad. For the category of NRIs who plan to move back to India, the local withdrawal component is more intensively used. Other motivations for using NRI accounts to send remittances are safety and costs (ibid 281).

Since 2003-2004 the use of NRI accounts to transfer remittances has increased significantly. About 85 per cent of the money deposited on NRI accounts is being withdrawn locally and thus measured as remittances, what makes that 45 per cent of the total amount of remittances received is transferred through NRI accounts. This increase can be explained by the rising income levels of migrants, which has a positive effect on the amount of remittances sent, and especially on remittances sent for investment purposes. Another reason for the increased use of NRI accounts are the rising investment opportunities and high interest rates in India. An NRI account is a popular mode to transfer remittances with investment purposes since it offers NRIs good facilities to make the investment without being dependent on a family member in India (ibid 281).

We have discussed services offered by MTOs and services offered by banks, but these different institutional facilitators can also tie-up and provide services to send remittances together. There exist several tie-ups between Indian banks and overseas banks, especially in the USA, and with Private Exchange Houses (PEHs) in the Gulf States since banks are very few in this region (ibid 782).

Indian banks have introduced so called Rupee Drawing Arrangements (RDAs) with Exchange Houses in the Gulf States. Under these RDAs, the Exchange House opens an account in Indian Rupees at an Indian bank. The migrant can buy a Rupee draft at the Exchange House is the Gulf which is directly send to the beneficiary. The next working day, the Exchange House deposits the collection of drafts in the Indian bank account and the receiver can collect the money in India. As a result of these tie-ups, migrants can deposit money into Indian bank accounts without the need to have a bank account themselves. In 2010, about 35 banks had entered into tie-ups for RDAs with 200 Exchange Houses.

One of the criteria to measure efficiency of these modes of transfer is transfer time. It is generally more time efficient to transfer the fund through a MTO rather than through the banking system. Table 2 shows that banks have a transaction cycle of three to five days because they mostly use electronic cash transfers or transfers to bank accounts which is not very time efficient. This is because it mainly concerns a transaction between two different facilitators. The sending bank collects the payments and transfers the money to the receiving bank, where the solvency of the sender has to be checked. After that, the money has to be forwarded to the right bank account. As a result of the time difference, these transactions generally take a few days. If there is no direct tie-up between these two banks, an additional bank has to serve as an intermediary which increases transfer time even further. When using traditional banking instruments to remit funds, like cheques, transfer time can even take up to 18 days. MTOs on the other hand, operate through online formats which limits transfer time to less than 24 hours. Banks also use electronic modes of transfer, when conducting SWIFT transfers. The average transfer time in that case takes up one or two days (Singh 2010: 71).

Not only do MTOs have the advantage to operate more time efficient, they also have an advantage in terms of identification requirements. A migrant has to hand over much more personal documents when opening a bank account compared to sending remittances through an MTO where only a proof of identification is required (ibid 71).

Table 2: An anatomy of remittance transfer network[5]

Transaction Cycle (days)	Method Used	Sending Country	Bank/MTO
Instant	Online, account based, debit/credit card, web-based transfer to account	Gulf countries, US, UK, Canada, Australia, Europe	ICICI Bank, WUMT, Remit2India
2 hours	Online, offline	UK, Canada	ICICI bank
3–24 hours	Online to bank account	US, UK, Europe, Canada, Singapore	Indian banks
1	Online to bank account, debit card	US, Gulf countries	Well Fargo, HDFC Bank
1–2	Online, ACH	US	ICICI Bank
1–4	Wire	US, UK, Europe, Canada, Gulf countries	Indian banks
1–7	Cheque transfer to bank account	US, UK, Europe, Canada, Singapore	Indian banks
2	Web-based wire	US, UK, Europe, Canada, Singapore	ICICI Bank
2	Internet-based cash transfer	US	Travelex
2–3	Online	US, UK, Singapore	HDFC Bank
3–5	Cash transfer to bank account	US	Bank of America, Bank of the West, Cathay Bank, HSBC, Pacific Western Bank
3–7	Cash transfer electronically	US	Bank of America, Bank of the West, Cathay Bank, Pacific Western Bank, State Bank of India, Wells Fargo
3–14	Wire	US	State Bank of India
4	Online through exchange house	US, Gulf countries	Bank of India
5–7	ACH	US	State Bank of India
7	Online wire	US, UK	Remit2India

Source: Compiled on the basis of the information obtained from the websites of various banks and MTOs.

Another criterion to measure efficiency of the mode of transfer are the costs involved in the transaction. The transaction costs can be divided into three elements: the explicit fee charged by the service provider in the host country; the fee paid by the receiver in the home country; and the hidden costs of transfer which are embedded at the end of the transaction in the form of currency conversion rates (Singh 2010: 73).

Service providers in the formal transfer sector charge fees of 10 to 15 per cent on average to transfer a small amount of money. Transfer cost for remitting money from the USA, the UK, or the Gulf countries through the banking channel range from 4.9 to 40.0 per cent. Since the banking channel generally charges flat rates for wire transfers, costs decline sharply when the amount of money remitted increases (Singh 2010: 74). As presented in table 3, the fee structure for remitting small amounts of money is steep, which is partly the result of fixed overhead costs.

[5] Singh, B. (2010). Workers' remittances to India: 72

Table 3: Fee structure of money transfer to India [6]

		Charges (% of Funds)		
Mode of Delivery	Origin Country	Minimum	Maximum	Bank/MTO
(i) Banks				
Draft	US	15.0	-	State Bank of India
Cheque transfer	UK, US	0.4	10.0	Bank of India
Wire/cash transfer to bank account	US	-	30.0–40.0	State Bank of India, Bank of America, HSBC, Citibank
Wire	US	5.0	15.0	Bank of Baroda
Wire	Canada	0.4	25.0	ICICI Bank
Wire	US	1.2	30.0	State Bank of India
Bank deposit	US, UK	0.3	8.0	Bank of India
Bank deposit	UK	2.5	-	ICICI Bank
Card transfer	US	3.1	13.0	ICICI Bank
(ii) MTOs				
Online/ACH	Europe	0.4	4.0	Remit2India
Online/ACH	US	3.6	9.0	Remit2India
Online/ACH	UK	4.7	14.0	Remit2India
Bank account/card transfer/cash transfer	US	0.3	12.0	Well Fargo
Cash/bank account	US	0.8	11.0	Cash2India
Bank account to cheque		8.0	-	Xoom
Cash	Canada, US	2.0	15.0	WUMT
Cash	UK	2.5	14.0	WUMT
Cash	US	2.8	14.0	Money Gram
Card transfer	US/UK/ Europe/UAE	3.3	8.0	iKobo

Note: 1. Cost is computed for US$ 100 wherever minimum amount was not specified.
2. The maximum transaction size considered is US$ 2,500, as this is the ceiling for funds transfers by MTO.
Source: Compiled on the basis of the information obtained from the websites of various banks and MTOs.

MTOs have a comparative advantage in transferring small value remittances, especially in the range of US $100 to 500. This advantage largely disappears when remitting funds of US $600 to 1000, because MTOs offer flexible rates that increase when the transfer sum increases, while banks offer flat rates that become more competitive for high value transactions.

2.2.2 Informal funds transfer system

The previous section has showed that there is not just one formal transfer channel, but rather a wide range of services offered by a large number of institutional facilitators. This indicates that the formal transfer system for remittances is more complex than often assumed in debates about the size of remittances. In discussions about the size of remittances, people generally refer to remittances sent through the formal transfer system. However, it is estimated that about 35 to 75 per cent of the official amount of remittances sent worldwide is transferred through the informal transfer channel (Freund and Spatafora, 2005). Including the informal transfer network makes the transfer system for remittances even more complex. Since these flows are not registered, they are difficult to estimate. Nonetheless they are

[6] Singh B. (2010). Workers' remittances to India: 75

important to take into account, since the performance of the informal transfer system also influences the use of formal transfer channels. A long as the informal transfer system offers services that can compete with the formal modes of transfer, migrants will use these services. Whenever these informal modes of transfer become less favourable, for example as a result of stricter regulation, a shift will occur towards the use of the formal transfer system.

Since the terroristic attacks of 9/11, fear that informal and unofficial transfers of funds may be linked to illegal activities like money laundering, trade in narcotics, or even terroristic activities, has increased. Many sending countries feel the need to impose regulations and controls on such informal flow of funds and to promote the use of formal money systems (Panda 2009: 172).

It is not always easy to distinguish between the formal and the informal transfer system. The line between formal and informal can be vague since the networks are often interlinked. The transfer of the money could start at an official channel but then pass several informal channels before reaching the end-user, or the other way around (Freund and Spatafora 2007; Pieke et al 2005).

Estimations of the size of the informal transfer system vary drastically as a result of the measurement problem of unregistered flows of money. Freund and Spatafora estimate that the amount of remittances transferred through the worldwide informal transfer system is 35 to 75 per cent of the official remittances to developing countries. However, there is significant variation across regions. 'Informal remittances to Sub-Saharan Africa and Eastern Europe and Central Asia are relatively high, while those to East Asia and the Pacific are relatively low' (Freund and Spatafora 2005: 1).

The size of the Informal Funds Transfer (IFT) system is negatively correlated with development of a formal financial system. Often, when financial institutions are inefficient or restrictive, informal systems are popular. In the case IFT systems are used for illegal or criminal activities, the level of financial sector development does not play a role (El Qorchi, Maimbo and Wilson 2003: 1).

The use of informal systems has important implications for designing and implementing monetary and fiscal policies. El Qorchi, Maimbo and Wilson examine the informal transfers of funds by studying the Hawala system, which is an informal system used to transfer remittances from one country to another. Their study found that the use of informal transfer systems reduces reliability of statistical information and economic data. It also influences exchange rate operations since the informal transactions affect the supply and demand of foreign currency, but are not taken into account when designing exchange rate policies. On top of that, it has negative implications for fiscal policy in both the sending and receiving country. This is because the transactions are conducted outside of the formal banking activities and therefore not subject to taxes, which results in a loss of potential government income (ibid 1-2).

Speed, lower transaction costs, flexibility, and potential anonymity are characteristics of the informal system that contribute to widespread use of it. Low transaction costs is the foremost reason for actors to prefer sending remittances through the informal transfer system over the formal system. Another reason is the lack of a well-working formal transfer system in the sending country, which forces migrants to use the informal network to transfer remittances. The informal system consists of several agents, which include friends, returning migrants, trading and transport companies, and Hawala dealers (Singh 2010: 68).

Hawala transfers between major cities take on average 6 to 12 hours. With transfers between countries in different time zones or to locations with less reliable communications, speed of transfer is about 24 hours. For transfers to rural regions or villages, slightly more time is required (El Qorchi, Maimbo and Wilson 2003: 7).

The direct costs of transferring money via the Hawala system is about 2 to 5 per cent, depending on the volume and destination of the fund, but also on the financial relationship between de remitter and the Hawala dealer (Hawaladar) and the negotiating skills of both parties. Generally, the direct costs are much lower compared to the formal banking sector to transfer money, which is a major motivation for migrants to use the Hawala system. Hawaladars can operate very cost effective as a result of limited overhead costs and the lack of regulation and taxation. They have very low operation costs since business is often run from shops that already cover existing businesses or they run the business from their private home (ibid 8).

Another important characteristic of the Hawala system is the cultural convenience. From the point of view of the sender, there often exists trust among community members and solidarity among migrants who understand each others' situation. The absence of language barriers also plays a role. Migrants who are not well educated and cope with illiteracy, may not feel comfortable dealing with formal banks. These migrants do not want to fill out several forms in order to open a bank account (ibid 8).

These cultural considerations are also applicable to the receivers of the remittances. In Hawala transactions, privacy and confidentiality are well considered. Mostly men tend to emigrate and in Indian communities, conservative family traditions often prevail. Women are supposed to minimise their activities in the 'outside world' and therefore it is often not accepted to establish relationships with official institutions like banks. A trusted Hawaldar can in this case act as an intermediate (ibid 8).

2.3 Actors

After the discussion of the different institutional facilitators on the market for remittances, it is important to take role of the senders and receivers in this transfer system into account. The role of these two important actors on the market for remittances influences the behaviour of institutional facilitators. The actors are the ones who in the end decide upon the mode of transfer used to send remittances. This implies that the transfer system resolves around these actors. This section discusses the available literature on remittance behaviour. It first discusses the reason for migrants to remit money. Secondly, it addresses a discussion on why migrants would choose a certain transfer channel in order to send these remittances.

2.3.1 Remittance behaviour

The literature considers several reasons for migrants to remit money to their home country. Among those explanations influencing remittance behaviour is *altruism*, which suggests that the flow of funds increases when economic conditions of the family back home deteriorate. Second is the notion of *exchange*, which assumes that migrants remit money in order to pay back their family for investing in their education and travel expenses. A third factor that influences remittance behaviour is the idea of *co-insurance,* where remittances flow both ways to insure each other against temporary shocks (Black 2003: 1).

According to Panda (2009: 174) there are not only individual incentives that influence remittance behaviour, but it is also the social situation of the migrant that influences the remitting behaviour. Remittances tend to be higher when the reason for migration is of an economic nature rather than political or social. Second, the amount of money sent tends to be higher when the migrant is young but married at the time of migration and thus leaves a family behind. And third, the amount of remittances sent is higher when the wage of the migrant is high (Black 2003: 1). It should be noted though that low paid casual workers generally send a larger share of their income back home. In absolute number however, the amount is less than the funds sent by high paid migrants (Panda 2009: 174).

Another factor that tends to influence remittance behaviour is the legal status of the migrant (Panda 2009: 174). Since temporary migrants intend to return to their home country, their commitment with family and friends left behind is higher. The bulk of remittances sent to India is from temporary migrant workers and not from settled migrants. Not only do temporary migrants transfer higher percentage of income, they also circulate ideas and knowledge (Faist 2008).

The type of remittances sent seems to also differ among different types of migration. Temporary migrants often send remittances in the form of money to family and relatives, while permanent migrants, who get integrated in their host country, send remittances as a symbolic way of maintaining ties with their homeland. The remittances they send take the form of donations or gifts, or investments in joint ventures with relatives of friends (Panda: 2009: 174). It is interesting to keep in mind that remittances have different purposes among different types of migrants, as this might influence the mode of transfer. A certain mode of transfer might not be attractive when sending money for family maintenance, while it could be preferred for remittances sent for investment purposes. For example, an NRI who wants to send money for family maintenance would prefer to transfer the money through an online banking facility directly to the bank account of the family member. However, when this NRI wants to invest some money in India, he would transfer the remittances to his NRI account and control the investment himself. The transfer channel used thus partly depends on the purpose of the remittances sent.

2.3.2 Choice of transfer channel

Not much research has been done on the motivation of migrants or their families to choose a certain mode of transfer. Different channels have different advantages and disadvantages. MTOs are fast but expensive, while banks are usually less time efficient but cheaper. It remains unclear however which characteristics are considered among the migrants and the receivers of remittances to be of major importance. Costs, time-efficiency, and cultural convenience all influence the choice of transfer channel, but it is unclear how preferences are ordered.

Suro et al. (2002) conducted a study to explore the view of migrants on the transfer system for remittances. This study focused on migrants from Latin America residing in the USA. The authors found that migrants prefer familiarity and convenience over costs, and that they therefore put little effort in exploring alternative modes of transfer. Following this argument, they found that remitters are often unaware of the full costs they pay for remitting money.

The study by Suro et al. also found that migrants take the convenience, reliability, and security at the receiving end into high consideration. They do not only care about their own preferences, but also take the preferences of the receiver into account (Suro et al. 2002: 3). It should be noticed that this study focused on money transfers between the USA and Latin America, where migrants are generally low-skilled and do not use the banking channel intensively. It is interesting to find out whether these preferences are similar among migrants in other regions like South Asia.

It should be noted that this study by Suro et al. (2002) only focused on the perception of the sender of remittances and did not take into account the role of the receiver in the process of sending remittances. Since the quality of the financial service structure in the host country is generally much higher than the quality in the home country, it is important to also take the financial structure of the receiving country into account when analyzing the choice of transfer system to remit money.

2.4 Conclusion

Remittances have a large socio-economic impact on the receiving countries. A major share of the literature on remittances focuses on the impact of these large sums of money flowing into developing countries. It is very difficult however to define and measure remittances, which makes it unclear how large this amount of money is. In order to make a solid statement regarding the impact of remittances, it is important to first know more about its size.

Much remains unknown regarding the financial service system for remittances: the different channels of transfer, their relative performance, the network of tie-ups between different facilitators, and the preferences of people using certain channels. These gaps in the literature make it difficult to give a clear estimate about the exact scope of remittances. As a result, there is no clear overview of the entire transfer system for remittances to India, while it is important to evaluate the role of the actors and the institutional facilitators in the transfer system for remittances in order draw conclusions about the size and impact of remittances.

The quality of the financial service structure for remittances in the sending country is generally much higher than that in the receiving country. When analysing the transfer system, it is important to not only look at the facilitators and actors at the sending end of the remittances. The financial structure of the country that receives the remittances should also be taken into account in order get a complete understanding of the transfer network.

Another issue that stands out is the choice of transfer channel. Senders and receivers of remittances are important actors in the transfer system for remittances. It is unclear why people choose a certain channel of transaction, what the key factors are in this decision, and whether the sender or the receiver is making this choice. Both the preferences of the sender (Suro et al. 2002) as well as the preferences of the receiver should be taken into account when analyzing the choice of transfer system to remit money.

This research report will try to shed light on these discussions and issues by answering the following research question:

What is the relevance of the transfer system in measuring remittances?

I will answer this research question by analysing how the transfer system for remittances operates with regard to the migrants from the Guntur region, India. The regional city Guntur, located in Coastal Andhra Pradesh, is characterised by a history of mainly high skilled IT-migration. I will give an overview of the available channels to transfer remittances in chapter four and address the role of the actors involved in sending remittances in chapter five.

3. RESEARCH SETTING AND METHODOLOGY

In this chapter, I discuss the research setting and research population. This is followed by an overview of the methods I have used to gather information during my research and the methodological issues that I came across. For privacy reasons, I have changed the names of the people I interviewed in random English names.

3.1 Research Setting

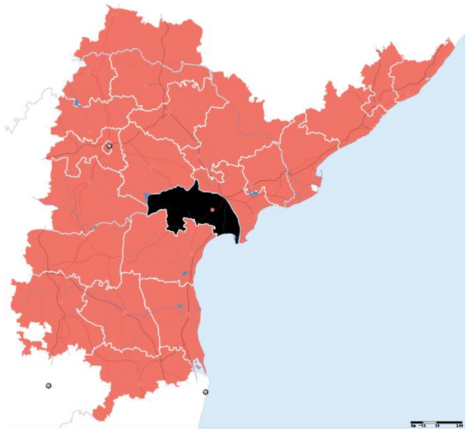
India is the largest receiver of remittances in the world (Panda 2009: 167). It has a large group of migrants located all over the world, which maintains a strong connection with its homeland. The relatively large sums of money sent back to India can be seen as a result of this (Chishti 2007: 1).

As mentioned in the Introduction, most studies on remittances have focussed on the national level. The direct impact is felt however at the local level. The transnational flows of people and money have not only an impact in large cities but are also felt at the regional level (Chimhowu, Piesse and Pinder 2003: 96). In this report, we move down from studying globalisation at the national level, to study its impact at the regional and local level, by focussing on Guntur district, Andhra Pradesh.

Large transnational networks that connect Indian migrants with their places of origin have evolved, which link regions in India with the global economy. Migrants have been channeling economic and cultural resources through this network back to their region of origin, which has resulted in significant transformations of these regions. These transformations have both positive and negative impact (ibid).

Since the impact of globalisation might be specifically felt in smaller urban centres or rural areas which have experienced patterns of migration, this research has a regional approach. It is partly based on secondary data, and partly on field research that was carried out in an Indian middle town called Guntur. In order to get a complete overview of the transfer system for remittances and its facilitators and actors, both NRIs, families of NRIs living in Guntur, and people working for institutions that transfer remittances were interviewed.

Figure 2: Map of India and map of Andhra Pradesh (Guntur district in black)[7]



Guntur town has a population of 800,000 and is located in Coastal Andhra Pradesh. It has a recent a history of large scale out-migration. As a result of the green revolution, prosperous families started to invest in higher education for their children which has induced a pattern of migration. This migration started in the 1960s, when highly skilled male migrants moved mainly to the United States and Canada (Bhat and Bhaskar 2007: 95). In the 1980s, a second wave of migration occurred, mainly consisting of software engineers. Not only did this result in the migration of a large number of highly skilled people, it also attracted private investments in engineering and medical colleges. These investments were partly funded by donations from Indians living abroad (ibid 95).

3.1 Research Population

The research population for this fieldwork consists of all actors involved in the process of sending and receiving remittances. This chain starts with the sender of the remittances, the migrant, it includes institutional facilitators in the transfer system through which the money is sent, and ends with the receiver of the remittances, generally a family member of the migrant. It should be kept in mind that households in this region who have no migrant family members, are also influenced by the process of remitting money.

From a historical perspective, it can be concluded that the largest part of the remittances sent to the Guntur region comes from high-skilled IT-migrants, of which most of them are professionally trained and English educated, often settled in the USA or Canada. Most of them are urban middle class people from upper castes (Bhat and Bhaskar 2007: 95). This IT-migration mainly consists of young graduates from leading institutes. These software professionals often operate across different nation-states, and are therefore seen as very transnational (ibid 92).

The migrants from Andhra Pradesh who are located in the USA can be categorised as follows:

[7] http://www.cpacks.com/contactus.htm and http://commons.wikimedia.org/wiki/File:Andhra_Pradesh_district_location_map_Guntur.svg

they are either people who have entered the USA as professionals, or students who pursue higher education in the USA; or they are family members of an Indian migrant already living in the USA. These migrants often maintain consistent links with their country of origin, both economically and culturally (ibid 102-103).

Viewing the characteristics of the migrant, his family in India generally belongs to the middle class and to one of the higher castes. Since the majority of people living in Guntur is Hindu, and the migration stream from Guntur mainly consists of high-skilled labour, I have only selected households from a wealthy Hindu community, Kamma[8], for my interviews with family members of NRIs. This group is my main research population.

There is also migration from the Guntur region to the Gulf states. The major part of migration to the Gulf consists of low-skilled, so-called ABCD (*aaya,* butler, cleaner, driver), migration (Maringanti, A., 2010). As this group of migrants is considerably smaller than the group of people migrating from the Guntur region to the USA and Canada, I decided not to select this group and their families for my interviews, due to time constraints. In order to be able to also get insight into the flow of remittances originating in the Gulf States, I did study the transfer system from this region to Guntur, by interviewing people working at MTO counters and banks about their activities in the Gulf states.

It should be noted however that migration in the Guntur region is mainly high skilled IT-migration to the USA. Therefore, the results cannot just be generalised to other regional areas in India. In areas that mainly have experienced low-skilled migration, the transfer network system for remittances might differ in the way it operates and how households make use of this system.

3.3 Methodology

In order to gather the information I needed, I have used several methods. I used secondary data, conducted interviews with people working at banks and MTOs, and I interviewed families of migrants and NRIs. The sections in this section discuss and validate each of these methods used.

This research report is part of a larger research programme titled 'Provincial Globalisation: The Impact of Reverse Transnational Flows in India's Regional Towns' (ProGlo), coordinated by my supervisor, Mario Rutten, Professor at the Amsterdam Institute for Social Science Research (AISSR), University of Amsterdam, and Carol Upadhya, Professor at the National Institute of Advanced Studies (NIAS), Bangalore, who was my local supervisor. Participation in this research programme affected the choice of research location. Guntur District is one of the three regions of focus of ProGlo and was therefore very suitable to conduct my research. At the same time, it was relatively easy to get access to the field, since I

[8] Over the past fifty years, Kammas have strongly influenced social, economic, and political life of Andhra Pradesh. A large number of educated Kammas have migrated to the USA and Canada (Srinivasulu 2002).

was introduced to some valuable contacts related to the ProGlo programme.

I have conducted field research in India for three months, from January until March 2011. For six weeks I lived in Guntur, and three weeks before and after that I stayed at the campus of NIAS in Bangalore.

3.3.1 Secondary Data

I used secondary data, gathered from several databases and websites. This data can be devided into two parts. First, existing literature on remittances and on India-specific issues. And second, datasets from large institutions like RBI and the World Bank, and information from other transfer channels like the Post Office and MTOs.

Banks only provide very limited information on the amount, costs, and transfer time of sending remittances trough the different modes of transfer they offer. I therefore used data I found on the website of the RBI and the World Bank. I found detailed overviews of costs and time involved in sending remittances and I was able to locate annual reports of the RBI that give an indication of the amount of remittances sent. These data give an overview of remittances on the national level. Therefore, when I discuss secondary data on cost and time involved in transferring remittances, it should be kept in mind that I am referring to numbers that are very general. In order to get an idea of the exact costs and time involved in sending remittances to an Indian middle town like Guntur, I had to gather additional information through interviews at local offices of banks and MTOs.

3.3.2 Interviews with institutional facilitators

Key informants working within financial institutions and other agents involved in the transfer system for remittances were interviewed during my stay in Guntur. These employees of banks, Post Offices, and MTOs were able to provide additional information regarding the different transfer channels for remittances. In the empirical chapters of this report, I use these interviews as a comparison to secondary data, and to fill gaps in the datasets and existing literature.

Table 4 provides an overview of the interviews conducted with institutional facilitators. I conducted 20 interviews with 14 branch managers and assistant managers in which I asked questions regarding the method of measuring remittances for a certain mode of transfer and the prominence of these transfer channels within the transfer system for remittances. Informants also provided information regarding new technologies to remit money and thereby gave a clear overview of the trends that are emerging regarding the different transfer channels. Names of informants throughout this report are fictitious for privacy reasons.

Table 4: Overview interviews conducted with institutional facilitators

Company	Fin.Institution	Function interviewee	No. of interviews
HDFC	Bank	Branch Manager	3
ICICI	Bank	Senoir Officer NRI Services	3
SBI, main branch	Bank	Asst. Manager (Forex)	2
SBI, main branch	Bank	Chief manager	1
Axis Bank	Bank	Manager-Forex	1
Andhra Bank, Guntur	Bank	Manager-Forex	2
Andhra Bank, Head Office	Bank	Deputy General Manager	1
Andhra Bank, Head Office	Bank	Senior Manager NRI Cell	1
ING Vysya	Bank	Branch Manager	1
Western Union (at SBI, Brodipet)	MTO	Relationship Manager SBI	1
Western Union (at SBI, Arundalpet)	MTO	Relationship Manager SBI	1
Western Unions (at Punjab National Bank)	MTO	Chief manager PNB	1
Western Union (at Muthood Fincorp)	MTO	Asst. Manager	1
Western Union (at Post Office)	MTO	Branch Manager	1

Emphasis on certain types of interview questions depended on the position of the interviewee. When local branch managers were interviewed, the focus was more on the type of clients, since they have extensive knowledge in this field. In the case of an interview with higher management, major focus was on trends and policies, since that was more in their field of knowledge.

Banks

The part of my research that focused on the banking sector has encountered few obstacles. Dr. Bhaskar Teegela introduced me to Mr. Smith, working at ICICI, and Mr. Johnson, working at HDFC. These bank employees were valuable contacts with whom I conducted several interviews. Bank managers were often happy to receive me, were interested in my research, and overall found it interesting to talk with a foreigner since Guntur does not get a lot of visits from Westerners. I was able to talk to people working at both private and public banks. Because it was easy to get in contact with bank managers, these interviews were a good method to double-check statements made by other bank officials. Their views are generally supporting each other. Unfortunately, banks were reluctant to share data on the number of remittances transferred on a monthly or yearly basis or on the number of NRI accounts outstanding.

To conclude, people working at financial institutions were willing to explain about certain processes, but only provided estimates about transactions. From the interviews I conducted, I obtained a clear idea of the role of banks in the transfer network for remittances, about partnerships between different facilitators, and about the most popular modes of transfer.

MTOs

One of the issues I had to overcome was the absence of branch offices of MTOs in Guntur. I expected Western Union to have several offices where I could gather information regarding the remittances transferred through this system. However, these MTOs do not have their own branches in Guntur, but have counters at banks or exchange houses. The persons working at these counters were willing to provide information about the tasks they perform in the process of sending remittances through MTOs, but could not tell much about the sender's end, since their only task is to disburse the money to the receiver. I visited five Western Union counters at four different financial institutions in different areas of the town in order to get a general overview of the characteristics of the receivers and the frequency of remittances sent trough MTOs.

Persons working at MTO counters were generally less educated than the managers of the banks I talked to. Their knowledge of the English language was often rather basic and therefore communication without an interpreter was not always easy. As a result, interviews took some more time when employees only spoke very basic English, but in the end I was able to collect the information I needed.

3.3.3 Interviews with private actors

In order to get an idea about the role of senders and receivers in relation to the transfer system for remittances, I conducted interviews with senders (NRIs) and receivers (family members of NRIs) of remittances. I conducted five in-depth interviews with families of NRIs. In order to reach NRIs, I designed a small online questionnaire.

Families of NRIs

The main objective of the in-depth interviews with families of migrants was to find out more about their role in the process of sending remittances and their familiarity with different modes of transfer. I conducted five interviews with families within the Hindu community. The selection of the interviewees was based on migration in the family. The head of the household (man or woman) was only interviewed when he or she had at least one close family member living abroad. A close family member was defined as a brother, sister, father, mother, son, or daughter.

Table 5: Overview in-depth interviews with families of migrants

Interviewee in Guntur	Migrant family member	Host country
Mr. Williams	1 son	USA
Mr. Jones	2 sons	USA
Mr. Brown	1 son	USA
Mr. Davis	9 children	USA
Mr. Miller	2 brothers	USA

Table 5 gives an overview of the family members of migrants I interviewed. These families were introduced to me by Mr. Williams at the Hindu temple. Most of these people are wealthy retirees. Since the Guntur region is characterized by high-skilled migration, this Hindu community forms a representative group to find out more about the experiences that families of migrants have regarding remittances. The interviews gave me insight into the relations between families and their relatives living abroad. It showed my their views regarding remittances, and their experience with receiving remittances, especially in contrast to the interviews I conducted with bank and MTO officials.

Online questionnaire

In order to substantiate my findings regarding the decision to use certain transfer channels from the interviews previously discussed, I conducted an online questionnaire among NRIs regarding this issue. The survey contained seven short questions. The questions focused on the characteristics of the migrant, and on the role of the actors in the process of choosing a mode of transfer. The questionnaire can be found in appendix 2. Six NRIs responded to this questionnaire. Three respondents live in the USA, one in Canada, and two in Ghana.

To conclude this section, I focused especially on the views of bank officials regarding the available modes of transfer and their ideas about preferences of their clientele. Despite various problems with the household survey, I was able to conduct interviews with several families of migrants. Moreover, I included a small online survey to find out how NRIs choose a certain transfer channel and how their decision was influenced. This gave me insights in the ambiguity surrounding the decision process. Banks turned out to have different ideas about this than NRIs experienced, as will be clear from the results in the following chapters.

4. Complexity of Transfer Channels

This chapter discusses the complexity of the transfer system for remittances. It first gives an overview of the available channels of transfer and the characteristics of the different services offered by each channel. Secondly, it illustrates the flow of remittances and analyses how these flows are registered. Together, these findings show the complexity of the system to transfer remittances.

4.1 Available channels and modes of transfer

4.1.1 Banking transfers

Banks play a major role in the transfer system of remittances to India. The most important services offered by banks are online transfers, SWIFT transfers, and NRI accounts. Based on number of customers and volume of business, the banks that can be considered as key players in the market for remittances to Guntur district are the private banks ICICI Bank, HDFC Bank, and Axis Bank, and the public banks State Bank of India (SBI) and Andhra Bank. Citibank also plays a key role in India, but this bank only has bank branches in larger cities, and therefore is no competitor in Guntur district.

ICICI and HDFC are leading banks regarding the services offered to NRIs. They are both private banks and key players because they are demand driven: the services they offer to NRIs are according to their demand and similar to the facilities that they are familiar with in the USA or Europe. These banks have good online facilities, so that the NRI can arrange the entire payment from his home.

ICICI Bank has 14 international branches. Among the cities they are located are New York, Singapore, and Kuala Lumpur. ICICI is leading in offering innovative services to its customers. It was the first bank in India to introduce online banking facilities to send remittances in 2002. Mr. T. Taylor, Senior Manager NRI Cell at Andhra Bank Head Office in Hyderabad, states that ICICI is an important player on the market for remittances:

> ICICI is the largest player when it comes to remittances. They used to cover about 90 per cent of all remittances sent from the US. This is mainly because they were the first to offer online services with Money2India. However, competition regarding online remittances has increased and ICICI offers a bad exchange rate, so the share of online remittances send through Money2India has relatively decreased.

HDFC has four overseas branches, and offers services that are similar to ICICI. According to branch manager Mr. Johnson, HDFC is ‘one of the few banks that has entered the financial market in the Gulf States’. This does not mean that other banks do not offer services to transfer remittances from the

Gulf, but they put more emphasis on remittances from the USA.

SBI is the largest public bank in India and has a large number of overseas branches. It has about 8500 branches in India and another 82 foreign offices in 32 countries world wide. 'It offers the largest banking network to the Indian customer' (State Bank of India, 2011). Indian banks cannot open an unlimited number of branches overseas due to regulation. This regulation is less strict for SBI since it is state-owned which has resulted in a relatively large international coverage. According to Mr. Anderson, assistant Forex Manager at SBI main branch, SBI is popular among Indian customers because it is a government owned bank and therefore seen as a reliable bank.

With 79 branches in Guntur district, Andhra Bank (AB) is the largest bank in the region based on number of branches (Jackson, 2009, 13.8). Andhra Bank offers similar services to send remittances compared to other banks and is an interesting player because of its large coverage of the region.

Table 6: Overview bank branches Guntur District [9]

Bank	Number of Branches
Andhra Bank	79
State Banks of India	75
Axis Bank	5
ING Vysya Bank	13
ICICI Bank	1
HDFC Bank	1

Available modes of transfer

According to a study of the RBI (2010a: 780) in India, the most commonly used modes of transfer for the inflow of remittances are SWIFT/Electronic wires (63 per cent), followed by cheques (12 per cent), drafts (10 per cent), and direct transfers to bank accounts (9 per cent). The remaining services are negligible. The RBI mentions online transfers as a new phenomenon which was not yet included in their sample survey.

Table 7 gives an overview of the modes of transfer offered by Andhra Bank. These services are offered by all large banks in the market for remittances, but with a slightly different name used by each bank. The modes of transfer offered to NRIs vary among their place of residence. Services offered to NRIs in the USA differ significantly from those offered to NRIs in the Gulf States. Remittances from the USA are transferred through the banking channel, while remittances from the Gulf States start at Exchange Houses or MTOs. This table shows these various modes of transfer. Andhra Bank cooperates

[9] District Hand Book of Statistics. Compiled and published by Chief Planning Officer K.N. Kumar (2009)

with other institutional players. An example is the partnership with UAE Exchange in the Gulf States to offer Rupee Drawing Arrangements, or the cooperation with Bank of America in the USA regarding the AB Lock Box Facility, which is a facility to deposit cheques which get credited on an Indian bank account at Andhra Bank.

Table 7: Modes of transfer for remittances offered by Andhra Bank [10]

Service	**Characteristics**
Wire transfer by SWIFT	Offline service. Sender has to give wire transfer descriptions to local bank and remit money to any Andhra Bank (AB) in India. AB maintains accounts with 20 banks in 12 countries in 12 currencies. Senders can transfer the money to any of these accounts.
Remittance facility for NRIs in the Gulf	Rupee Drawing Arrangement with UAE Exchange Centre LLC, Abu Dhabi, for payment of Rupee Drafts drawn on all branches of Andhra Bank.
AB Speedway - for NRIs in the Gulf	Web based, completely online, cost-effective, transparent, online tracking available. It enables NRIs residing anywhere in the USA to remit money from their accounts in any Bank in the USA to account holders of Andhra Bank.
AB Lock Box Facility	NRIs can deposit their personal cheques in a local Post Box of Bank of America in the USA and get proceeds credited in Indian Rupees in an Andhra Bank Account in India.
Western Union Money Transfer	Tie-up of AB with Western Union. Only personal remittances towards family maintenance and remittances favouring foreign tourists visiting India are permitted. Only 12 Remittances shall be permitted in a year by a single recipient. Single remittances should not exceed US$ 2500. Must show ID to receive money. Nearly 50 per cent of the branches of Andhra Bank are designated centres to receive money under Western Union Money transfer.

[10] Information taken from official website Andhra Bank: http://andhrabank.in/english/NriRemittances.aspx (22-01-2011)

Cheques and drafts

Cheques or drafts are hardly ever used at private banks such as ICICI and HDFC, since the transfer time is very long. The transfer time can take up to 30 days. Mr. Johnson, branch manager at HDFC, states that:

> Only very old fashioned clients use cheques to transfer remittances, or people who want the transaction to take very long. If they have to transfer money which they would like to keep to themselves as long as possible, they use a cheque since it can take up a long time before the money is being deducted from their account.

This preference for modes of transfer with a long transaction time applies to NRIs who feel social pressure to transfer remittances to their family members, but who would rather keep the money themselves. For example, on occasion of traditional religious celebrations, migrants are expected to send their families in India some money. The NRI could in this case choose to transfer the money through cheques.

SWIFT

In order to make SWIFT transfers, an Indian bank needs to have a NOSTRO account at a bank in the sending country. Citibank is a large player in both the USA and India, so most Indian banks hold a NOSTRO account at Citibank. SWIFT transactions generally take op two days since the money needs to be cleared through these NOSTRO accounts at another bank before it can reach the bank of the receiver. A NOSTRO account held by an Indian bank means that this Indian bank has a bank account with its own money deposited at another bank. If the sender of the money wants to make a SWIFT transfer from the USA to India, he or she goes to Citibank and transfers the money. Citibank puts the money into the NOSTRO account of the Indian bank, which they hold. The Indian Bank can than transfer the money into the account of the receiver in India.

SWIFT transfers are relatively expensive since both banks want to earn money out of it. For example, if a migrant transfers money from the USA to India through Citibank, than both Citibank and the Indian bank charge a fee. Transfer fees are irrespective of the sum of money transferred. The fee charged at the sending end is US $15 to 20. If there is no partnership between the foreign bank and the Indian bank, the money needs to be transferred to a corresponding foreign bank who again charges US $15 to 20. At the receiving end, costs are lower. Either no fee, or a fee of US $1 to 5 is charged (RBI 2006: 36-37). These fees are fixed, so irrespective of the amount of money transferred. Therefore, it is not advisable to use SWIFT to transfer small amounts of money.

Online banking

According to a study of the RBI on the available modes of transfer for remittances to India, published in 2010, SWIFT is the main instrument used by migrants to transfer remittances. In this report, it is also mentioned that some leading banks started to implement online services to transfer remittances. 'Few banks recently provide online remittance transfer facilities which are both cost effective and less time consuming' (RBI 2010a: 780-781). All bank officials I talked to during my field research however, confirm that online banking, together with SWIFT transfers, are indeed quickly gaining popularity as mode of transfer used to remit money. Mr. Thomas, senior manager at Andhra Bank, states that:

> The mode of transfer that is mostly used at Andhra Bank to transfer remittances is SWIFT. This accounts for about 80 per cent of the transactions. However, online transfers are quickly gaining popularity. This mode of transfer is preferred by most NRIs, but it is a relatively new service for Andhra Bank since it was only introduced one year ago.

The six banks that I have included in my interviews are all offering online facilities to transfer remittances. Mr. Thomas also states that:

> All large banks are now offering online facilities to transfer remittances, and it is already becoming the most popular mode of transfer. It is cheaper than using SWIFT, more user friendly, and transfer time is only slightly longer.

ICICI was the first bank to offer an online banking service to NRIs in the USA. This service is called Money2India. Anyone with a bank account, either at ICICI or any other bank in 15 affiliated countries, can open an account at Money2India free of costs and can use this facility to transfer money from one account to another. This does not have to be a transfer within the same bank and neither has to include ICICI. Money2India serves as an intermediary. According to Mr. Smith, senior officer NRI services at ICICI, a shift from SWIFT transfers to online banking has already taken place.

> Their definitely has occurred a shift from using SWIFT transfers to using Money2India. Both transactions can be arranged online, but with SWIFT, the sender uses the online banking facility of his own bank to transfer money to another bank in India. He needs several special codes for this. Using Money2India is more user friendly and can be used with any random bank account, so customers prefer this mode of transfer.

It takes about three to five days to send remittances through Money2India. Transfer time for online transfer systems provided by other banks is similar. Since these online systems work as an intermediary between the banks abroad and the banks in India, the bank acting as an intermediary does not have access to information about the account of the sender, and therefore cannot transfer the money directly to the receiver. The sender might not have sufficient credit on his account, and therefore his credibility needs to be verified before transferring the money to the sender. There is a so called *cooling period* of three days in order to check this before transferring the money to the receiver. After three days the money is put in the NOSTRO account of the receiving bank and manually transferred to the bank branch of the sender and then to his account.

After the introduction of Money2India in 2002, other private banks like HDFC and Citibank followed with the introduction of similar services. In 2004, HDFC introduced QuickRemit, which nowadays is the service that is most often used by NRI customers of this bank for transfers that do not exceed 1000 US$. The service works in the same manner as Money2India. Recently, also public banks have introduced online banking facilities. In 2010, Andhra Bank has introduced AB Speedway to transfer remittances online from the USA to India. Citibank, which is an important partner of Andhra Bank, developed this system for them.

From these findings it can be concluded that online banking is becoming very popular. Banks who have introduced this mode of transfer several years ago already experienced a large shift from SWIFT transfers to online banking. Bank who only recently introduced online banking will most likely experience a similar shift but SWIFT transfers are still the main mode of transfer with these facilitators.

NRI Accounts

Another way of sending remittances is by transferring money to a NRI account. A migrant can transfer foreign money to this NRI account, in order to spend or invest the money in India. Banks provide a mandate facility for a family member in India, so this family member can withdraw the money in Rupees. Once the money is being withdrawn in India, these transactions are counted as remittances.

Four different types of NRI accounts can be distinguished: Non-Resident External (NRE) accounts are Rupee accounts with repatriation benefits; Non-Resident Ordinary (NRO) accounts can be used to deposit local funds; Foreign Currency Non-Resident (FCNR) accounts are foreign currency deposits for local funds; and Resident Foreign Currency (RFC) accounts are foreign currency bank accounts in India that can be maintained by an NRI who has returned home for permanent settle. NRE and NRO accounts are dominating. NRE accounts can be used to deposit overseas income for investment purposes, since India has high interest rates. NRO accounts can be used to deposit and manage money earned in India, for example through rent, dividend, or pension. Mr. Smith, senior officer NRI service at ICICI explains why these two types of accounts are preferred:

> NRE accounts are popular because it allows for repatriation of money in foreign currency. Since interest is high in India, this account can be used for investment purposes. Another advantage of an NRE account is the mandate facility for local Indians. The NRI can make a family member or friend in India co-holder of his account which makes it easier to locally withdraw money. NRO accounts are preferred in case the NRI receives income in Indian Rupees which he does not want to repatriate, for example because he plans to return to

India in the future.

NRI accounts are an important mode of transfer. About 50 per cent of the total remittances received in India are inward remittances for family maintenance. Another 50 per cent are withdrawals from NRI deposits (RBI 2008: 279). A report of Dr. Bhaskar Teegela on interviews conducted with bank officials from ICICI and HDFC in Guntur, shows that NRI accounts have seen a continued yearly growth of 20 per cent over the past years. These deposits are held by NRIs from the USA (approximately 40 per cent), the UK (30 per cent) and the Gulf States (20 per cent) (Bhaskar, 2010).

NRIs working for large companies overseas can use these NRI accounts to directly deposit their salary. These NRIs live in expat communities where housing and living expenses are covered by the employers, so their entire salaries can be deposited in an Indian NRE account. The money in the NRI account can be used for investment purposes, since it yields high interest, but also for family maintenance because of the mandate facility for family members. According to Mr. Anderson, Foreign exchange manager of SBI main branch, there are several reasons to prefer remitting money through NRI accounts:

> One reason to use this system is its convenience, since family members in India can easily access the money. Another reason is safety. NRIs prefer to put their money in a bank account in India instead of depositing it in an African or West-Asian bank account. They trust the financial system in India more and therefore find it more reliable to put it in an Indian savings account.

The development of these NRI facilities has created a shift in the role of families regarding remittances. Mr. Anderson states that, as a result of these NRI accounts, the migrant has gained more autonomy in sending money back to his home country. By putting his or her money on an NRI account, the migrant can manage the investment independently.

> It used to be the case that the NRI was dependent on his family when he wanted to invest money in India. He would send money to his family and his family would invest this money in for example property. In some cases conflicts of interest did arise because the family in India would have different ideas about investing this money than the NRI.

4.1.2 MTO transfers

Money Transfer Operators (MTOs) are generally used in two cases, that is when the money needs to reach the sender at a very short notice, or when the money is being send from the Gulf States. According to Mr. Smith, senior manager NRI services at ICICI, 'migrants in the USA only use MTOs when money has to be received at a very short notice. Transfer costs are high, but money reaches within an hour.'

MTOs only cover ten per cent of the market for inward remittances in India (Singh 2010: 82). However, in Guntur you can find an MTO counter like Western Union or Money Gram on virtually every corner of the street. Western Union has over 50,000 agent locations in India. Guntur counts 50 locations (Western Union, 2011). This suggests that, even though the size of the transactions is small, the number of transactions is comprehensive.

Migrants in the Gulf states mainly transfer remittances through MTOs and Exchange Houses, since banks have not yet penetrated the market in that area. Because competition among MTOs is high in this region, prices are much lower than in the USA or Europe. It is therefore more difficult for banks to enter this market.

Besides time efficiency, another advantage of using an MTO is its easy accessibility for clients. When opening a bank account, the NRI has to hand over several papers with personal information and fill in all kinds of forms. In order to transfer remittances through an MTO, the sender does not need to open any account which makes it a seemingly more anonymous option to transfer money. According to Mr. Jackson, branch manager at SBI Brodipet, it is very easy for the receiver to withdraw a Western Union transfer:

> In order to cash a Western Union transfer, the recipient needs a MTCN number. When he gives this number, we can view the details of the sender and the transaction. In order to double-check, we also ask the receiver for the details about the transaction (the amount and the name of the sender) and an ID-proof.

About 75 per cent of the money transferred to the Western Union counter under supervision of Mr. Jackson, arrives from the Gulf states.

> This off course will differ among different branches and counters, but generally the largest part of money transferred through MTOs comes from the Gulf. This is mainly the result of a less developed financial market in that region.

4.1.3 Transfer costs and transfer time

One of my findings regarding the channels and modes to transfer remittances is the lack of transparency regarding the costs involved in using them. Hardly any website of the banks or MTOs that offer remittance services provide information regarding the costs of using the channel. They do, however, have a lot of advertisement on their website regarding the different options to transfer remittances, and provide instructions for senders regarding the process and the time it takes to transfer the money.

The limited information that can be found online regarding the time and costs involved is of a very general nature. For example, on the website of ICICI, there is a tool to calculate transaction costs. Here information can be found on the costs to send money from the United States to India. However, only the service charge is given and no information about the exchange rate fee can be found (ICICI 2011). Besides, since both the sending location and the receiving countries are very large, time and costs can differ among locations. If the money has to be transferred to a large city in India with many bank and MTO branches, transaction costs and –time is less as compared to a destination in a small village in a rural area where there are no bank or MTO branches. Therefore, when I discuss cost and time involved in transferring remittances, it should be kept in mind that I am referring to numbers of a very general nature.

Most information I found regarding the costs of transfer comes from World Bank sources. These data were collected in the third quarter of 2010. As discussed before, these data were collected with a focus on the costs for the sender of the remittances. It therefore does not provide information regarding the exact amount of additional costs in cases where receivers also have to pay a fee. It also does not give information about tie-ups between banks and/or MTOs.

The tables in appendix 1 give an overview regarding the services provided by a number of remittance operators in India and the accompanied costs and time taken to send the remittances. Certain information could not be found through the database of the World Bank. In those cases, I used information on the websites of the bank or MTO and calculated the costs myself.

Table 8 below shows a summary of the main findings from this analysis. It indicates the average costs for a transfer of US $200 through the banking channel and through MTOs for three different regions. The cost structure for the USA and the UK are comparable, but the cost structure for the United Arab Emirates (UAE) differs significantly. The average costs for the banking channel are composed of costs charged for different modes of transfer. The average is taken for costs of transferring US $200 through online banking or through SWIFT.

From this table, the overall conclusion that can be drawn about the formal transfer system is that for migrants in the USA or UK who want to send remittances to India, it is much cheaper to use the banking system. When transferring 200US$ through a MTO, on average, total costs are 35 per cent higher. For migrants in the UAE it is much cheaper to use an MTO. In this region, costs of transferring remittances through banks are almost five times higher than using MTOs. However, it should be taken into account that in order to use the banking channel, often both the sender and the receiver should have a bank account.

Table 8: Costs of transferring US $200 to India

	USA	**UK**	**UAE**
MTOs			

Fee	9.90	7.30	4.12
Exchange rate fee	2.17	3.50	1.70
Total costs	12.07	10.80	5.83
Banks			
Fee	7.45	6.25	23.81
Exchange rate fee	1.46	1.77	3.30
Total costs	8.91	8.02	27.11
Total cost MTO as percentage of total cost banks	135%	135%	21.5%

This table also shows that the transfer costs can be divided into two parts. The sender of remittances is charged a user fee, which is US $2 for sums of money less than US $1000 for transfers through Money2India. These fees are charged when the sender makes the transaction and therefore become visible when the remittances are sent. Next to this user fee, an exchange rate fee is charged. This fee is less visible. The sender has to pay a higher exchange rate to the bank than the official market exchange rate.

ICICI used to be the only bank offering an online transfer service to send remittances to India, and because of a lack of competition, exchange rates were high. Since other banks offer similar services now, exchange rates have become more competitive. According to Mr. Anderson, assistant Forex manager at SBI main branch, 'SBI offers the most favorable exchange rate'. Table 9 shows these exchange rates levied by four different Indian banks who offer online remittance services. This table shows that the family of a migrant who transfers US $1000 to India, receives Indian rupees 4437 when the money is transferred through SBI, while this family only receives Indian rupees 4430 when the money is transferred through HDFC. 'These exchange rates used to be disseminated more when fewer institutions were offering online remittance facilities and competition was less evolved' according to the branch manager of HDFC.

Table 9: exchange rates charged by online remittance facilitators[11]

Remit2India		SBI Express Remit		ICICI Money2India		HDFC Quick Remit	
Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
50 - 1250	44.17	50 - 2000	44.37	0 - 1099	44.31	11 - 1000	44.3
1251 - 7500	44.29	2001 - 4000	44.41	1100 - 2999	44.34	1001 - 3500	44.37
7501 - 15000	44.37	4001 - 7000	44.45	3000 - 4999	44.38	3501 - 5000	44.39
15001 - 25000	44.40	7001 - 10000	44.47	5000 - 9999	44.41		
25001 - 99999	44.43	10001 - 25000	44.52	10000 - 99999	44.45		

[11] Based on calculation on http://www.dollar2rupee.net/ (14/06/2011)

4.2 Flow of remittances

Money often crosses many operators before it reaches the receiver, which makes the flow of remittances complex. It is important to analyse the flow of these remittances in order to clarify the amount of remittances transferred. This section shows how flows of remittances are registered and it discusses the size and frequency of remittances sent.

4.2.1 Registration of transfers

Banks need to register all their foreign transactions and transfer these data to the RBI every fortnight. Therefore, each bank branch offering foreign transactions, operates a software system in which each transaction is given a certain header, like *realization export bills, compensation employees, inward remittances,* or *personal gift.* In that way, banks have a good overview of the different types of foreign transactions. Banks have data on remittances available, but were reluctant to share this data for academic research purposes.

Banks also register the origin of the foreign transactions. Remittances from the USA are dominant. However, it should be taken into account that when transactions from, for example, the Gulf are made in US dollars, because wages are paid in US dollars, the transaction will always go through the USA. Banks register this as a flow of remittances originating from the USA, which creates an overestimated figure. SBI assistant Forex manager Mr. Anderson explains how this process works:

> Since the salaries that these people earn are generally in US$, the transfer of this money always goes through the USA. So, the money is sent from the employer to the USA, and from there to India. These transactions are done through SWIFT. For example, if a NRI is working in Nigeria, for a company that is based in Canada, and his salary is paid in US$, than the money will be transferred from the bank account of the company in Canada, to its corresponding bank in the USA. From there the money will be transferred to SBI.

NRIs working at large international oil companies in the Gulf states, often earn their salaries in US$. As a result, the transfer of this money into an Indian bank account, for example at SBI, will always go through the USA, regardless in which country the company is based. In those cases the money is send from the employer to the USA, and from there to India. Since the transaction has to pass several financial institutions, it takes two or three working days before the money is deposited in the Indian bank account. Only when the dollars arrive at the Indian bank, the transaction to Indian Rupee (INR) will be done. The transaction rate of that day will apply.

4.2.2 *Size and frequency*

From my interviews with both bank managers and foreign exchange employees, I conclude that size and frequency of remittances sent vary a lot and therefore it is difficult to make assumptions about averages. ICICI's senior manager NRI services states that 'migrants approximately send remittances once every two months, so about six times a year. The average size of a transaction is about 100,000 rupees'. This is about US $2000. Mr. Anderson, assistant Forex manager at SBI claims that the size of transactions varies a lot. 'It depends on the salaries of the NRI. (...) The frequency is generally monthly for remittances send for family maintenance'.

According to Mr. Taylor, Senior Manager NRI Cell of Andhra Banks head office in Hyderabad, high skilled NRIs usually send remittances once a month until they get married. The amount of remittances sent can be as high as US $1000.

> After marriage, the flow of remittances generally changes. The NRI than has his own responsibilities to take care of his family which is costly. Generally, the family or parents of the NRI are self-sufficient by that time since the flow of remittances before marriage is very high for Indian standards, or it might be the case that a younger brother or sister who also migrated takes over the responsibility to send remittances. The flow of remittances that arises after marriage is less frequent and often for investment purposes. The NRI can for example send money to India that he saved for investment in housing or land.

This picture is being confirmed by the families of NRIs which I interviewed in Guntur. As mentioned before, all these families are wealthy retirees from the Hindu community. Mr. Jones, who has two sons living in the USA, states:

> My eldest son migrated to the USA in 1985. He started working there as a software engineer. He used to send remittances in the past, but started a family 15 years ago and we think it is important that he saves enough money to provide his children good education. We have a good pension and do not need any additional money. Whenever our son visits us, he brings us expensive gifts from the USA.

All children of the families I have interviewed have started families and have permanently settled in their host country. They do not send remittances (in the form of money) anymore. The parents of these NRIs explained that they do not need the money since they are self-sufficient, and that their children could better use the money themselves in order to maintain their own family in the expensive Western countries where they are living. To conclude, it is not that straightforward that families receive remittances to cover their living expenses. Especially higher-class families are self-supportive and do not receive remittances for family maintenance.

Another important finding about this group is that although they do not receive remittances for family maintenance (anymore), they do receive remittances in the form of gifts. In the statement above, Mr. Jones explained to me that, when his children visit India, they bring or buy expensive gifts for their family in India or invite them for a short holiday in India. These types of remittances are not registered but form a large part of the remittances sent to this group. When we discuss the amount of remittances received, it should be taken into account that this is a flow of remittances that is not registered as such.

When talking about the size and frequency of remittances from NRIs in the Gulf countries, a different picture occurs. The frequency is also once every two months, but the amount is less, because they are generally semi-skilled of low-skilled and have lower wages. These NRIs send Indian rupees from about 1000 to 10.000 a month (US $20 to 200), depending on their earnings. Mr. Jackson, branch manager of SBI Brodipet argues that 'The size of the transaction is around 6000 or 7000 rupees, and often used for family maintenance. When the money is send for investment purposes, the amount is generally higher.' According to the manager of the main Post Office in Guntur:

> The size of transactions varies a lot. It depends on the characteristics of the sender and I cannot say much about that since I only act at the receivers end. Sometimes amounts are only 2.000 or 3.000 rupees, but often it is about 10.000 rupees for transactions from the Gulf, and even 30.000 rupees for transactions from the USA. In certain months, transactions are even higher. For remittances from the USA or UK, this is in December, because of Christmas, and for transactions from the Gulf, this is generally around the Islamic Holiday Ramadan.

Next to transferring remittances from the Gulf states through MTOs, migrants often save some money which they bring back with them when they return to India. NRIs in the Gulf are often temporary migrants and therefore this is a cheap option to transfer remittances.

4.3 Conclusion

This chapter shows that there is a large number of transfer channels and modes of transfer available to send remittances. Different institutional facilitators such as banks, MTOs, and Exchange Houses, offer a large variety of products.

There is much debate about the amount and growth of remittances received and its rising economic importance in developing countries (Kapur 2003; Chishti 2007; and Panda 2009). However, this literature assumes certain simplicity when discussing the transfer channel for remittances. Often, the only distinction that is made among transfer channels is one between remittances sent through the formal or informal channel (Gammeltoft 2002; and Freund and Spatafora 2005). This chapter has shown that there is not just one formal transfer system for remittances. There are a large number of institutional facilitators who offer a wide range of facilities to transfer remittances.

Although it is difficult to measure the amount of remittances sent to India, it may be concluded that due to the development of the financial sector and the introduction of easier and cheaper modes of transfer, remittances sent through the formal transfer channel have increased significantly. This rise is attributable to two specific modes of transfer. One of the most important developments has been the introduction of online banking which has made it cheaper to send remittances through the formal transfer system and induced a shift from SWIFT transfers to online products like Money2India for ICICI and QuickRemit from HDFC.

Another important development is the introduction of NRI accounts. NRIs are now able to invest in their home country without being dependent on a friend or family member in India to take care of the investment. They can manage their own investments and at the same time make a family member in India co-holder of their NRE account and send remittances for family maintenance through this mode of transfer.

The findings presented in this chapter show that the transfer system for remittances is complex. There is not just one transfer channel for people to choose when they decide to use the formal transfer system for remittances. Moreover, money can take several routes before it reaches the receiver. This should be taken into account when discussing the size of remittances sent.

Available data on remittances are limited and unreliable. This basis should be carefully used to make statements about on the impact or policy implications for remittances. Only when the measurement is precise and correct, statements can be made about how these sums of money impact India's economic development. A consistent analysis of the transfer network is a pre-condition on the basis of which statements about the size and relevance of remittances can be made.

5. Variety of Facilitators and Actors

The large number of transfer channels available makes the transfer system for remittances complex which further complicates measurement problems. Several institutional facilitators have arranged partnerships to transfer remittances, which makes the system even more complex. In order to get a clear overview of the amount of remittances sent through each transfer channel, this chapter will analyse the tie-ups between the institutional facilitators and discusses how this influences the transfer network for remittances.

An important gap in the literature is the limited information available on the senders and receivers of remittances, while these are the most important actors in the transfer system for remittances. It is important to have an idea about the role of these actors in relation to the institutional facilitators, because they are the ones who decide upon the mode of transfer used and thus play a leading role in the transfer network. In this chapter I therefore also focus on the decision and preferences of the actors using this transfer channels. It covers the discussion why migrants choose a certain channel of transaction and analyses the key factors influencing this decision, and the role of the sender and the receiver in this process.

5.1 Tie-ups

Many providers of transfer services for remittances do not have global coverage, since it is not profitable to have a branch in every remote area of the world. Therefore, there are a lot of tie-ups between banks and/or MTOs, but also with other service providers like Post Offices. These partnerships vary among regions since each area has different dominant facilitators. For example, SBI has a tie-up with UAE Exchange in the Gulf states since this is a dominant player in that area, but prefers a tie-up with Money Gram in the USA, which is a larger player there. The main reason for these tie-ups ups concerns access. Providers want to use each other's acquaintance and reach in certain regions.

Every large Indian bank has tie-ups with overseas banks as well as with MTOs or Exchange Houses. These tie-ups make remitting money easier for customers, since it requires less administrative handlings. Also, transfer costs are lower, because banks act as partners and both want to offer a competitive product to their client. When there is no tie-up, and a transaction takes place between two banks, there is less commitment to the client and both banks will try to earn the highest profit possible, which results in higher prices charged to the customer.

Another reason why these tie-ups are important, is that Indian citizens often have several bank accounts at different banks in India. HDFC branch manager Mr. Johnson explains how this has influenced the transfer network for remittances:

> We have tie-ups with several banks. These tie-ups are important since Indian citizens often have several bank accounts at different banks. If the NRI wants to transfer money from his bank in the USA, and this bank does not have a tie-up with HDFC but has one with ICICI, than the NRI will remit the money to the bank account of his family at ICICI instead of at HDFC, since this will be more convenient and more quickly. Of course, the sender can send the money to HDFC when there is no tie-up, he can use a SWIFT/Wire transfer for this, but this is a less favorable option since it is more expensive.

Foreign banks are willing to establish these partnerships since they will also earn a profit out of it. Indian banks need to hold an account at the foreign bank. In this account, they hold a minimum balance in order to cover the transfers. This money can be used by the foreign bank for all kinds of investments. More importantly, the money that is being remitted is held by the foreign bank for some time before it gets cleared. This can be some hours, due to office hours and the time difference, but can also be days as a result of different holidays abroad and in India. This is called float money and the foreign bank earns interest on this money since they invest it or put it in savings accounts.

These tie-ups add to the complexity of the transfer system for remittances. The network loses transparency and flows of money become difficult to recalculate. If a NRI in the USA wants to send money to India through the banking channel, it generally involves at least two banks to make this transfer. The money enters several accounts before it reaches the receiver, which makes the flow of money complex and not always easy to measure.

Remittances from the USA

The USA and the Gulf states are the most important sending countries for remittances to India. Forty four per cent of all remittances originate in the USA and 27 per cent in the Gulf States (RBI 2010a). The transfer system for remittances from the USA differs significantly from that of the Gulf region. Both India and the USA have a well established financial system. Therefore, remittances from the USA are mainly transferred through banks.

As a result, the majority of remittances received by Indian private banks have originated in the United Stated. High skilled NRIs, who generally live in the USA, use the banking channels to transfer remittances. They have access to these services in their host country, and their families here in India are often (semi-) high skilled and literate and therefore also have access to banking services.

Mr. Taylor, senior manager NRI cell at Andhra Banks' head office in Hyderabad, states that there are more tie-ups with banks in the USA and Canada than with European Banks. This is partly because there are more NRIs in the USA then there are in Europe, but another reason is that it is more difficult to set up lucrative partnerships with European banks:

> European Banks are much more difficult to approach. This could be because they are less exposed to competition than American Banks. Or it is the result of the focus of European banks on Europe, which makes banks less interested in doing business banks in other regions.

In order to keep transfer costs and transfer time low, banks in the USA tie-up with banks in India. Indian banks keep NOSTRO accounts at American banks from which they transfer the money to their bank branches in India where it can be deposited into the account of the receiver. Transfers can be made directly from the foreign bank that has a tie-up with the Indian bank, or the foreign bank can act as an intermediary when the money is transferred from another foreign bank that has no tie-up with the Indian bank.

Mr. Smith, Senior officer NRI services at ICICI, argues that MTOs play a minor role in transferring remittances from the USA to India.

> Migrants in the USA only use MTOs when money has to be received on a very short notice. Transfer costs are very high, but money reaches within an hour. These transfers only cover a minor part of the remittances market in the USA.

Remittances from the Gulf

Temporary migrants send a larger share of their income back home. This is the result of stronger connections with the home country because these migrants intend to return to their families in India (Yujuico, 2009, p. 64). Migration to the Gulf states is characterised by its temporary nature. Temporary Gulf migrants send a larger share of their salaries back to their families in India than the NRIs in the USA. HDFC's branch manager argues that 'besides the small amount of money they need for consumption, they send all their earnings back home'.

Since the financial system in the Gulf is less developed compared to the USA and India, banks play a minor role at the sending end of the transfer system for remittances to India. According to Mr. Johnson, who works at SBI's main branch 'only about 10 per cent of the remittances sent from the Gulf countries is sent through the banking channel'. He also argues that another explanation for the minor role of banks in this region is that NRIs living in the Gulf States are generally low skilled. 'Often their families in Guntur are (semi-) illiterate and do not have easy access to a bank account. Therefore MTOs are used to send remittances'.

MTOs and Exchange Houses are dominating in the Gulf States. Indian banks have responded to this by entering the market for remittances from the Gulf in several ways. There are two types of tie-ups that can be distinguished. Either MTOs use their own transfer system but tie-up with banks in India so that they can open MTO counters at these bank branches. In these cases, remittances will be paid out in cash or cheques or receivers have the option to deposit this money in their bank account at the Indian bank. In this way the receivers of remittances have to visit the bank branches and can be persuaded to deposit the money on a bank account at that specific bank. As a result, remittances sent from the Gulf States can end up at the banks anyway.

Besides this advantage, banks view this tie-up as an extra service to offer to the customers of the bank in case they need quick cash. Mr. Johnson, branch manager of HDFC states:

> We do not see this as a profitable business, since most people using transfers through MTOs prefer to go to the Post Office to collect the payment, because Post Offices are more specialised in these transactions and therefore can help customers more quickly. However, we want to offer a broad range of facilities to our customers and therefore operate these MTO counters.

The second type of tie-up that can be distinguished are partnerships between Exchange Houses and Indian banks. The Exchange Houses offer their clients the possibility to use the transfer system of the bank to transfer the money directly into the Indian bank account of the receiver, or to use Rupee Drawing Arrangements (RDAs) to transfer the money. As a result of these partnerships, Indian banks do not have to open bank branches in the Gulf states and convince NRIs to open a bank account at an Indian bank. At present, around 35 banks have tie-ups in the form of RDAs with Exchange Houses in the Gulf region (RBI 2010a: 782).

Andhra Bank has an important tie-up with two Exchange Houses of UAE Exchange in the Gulf for Rupee Drawing Arrangements. Mr. Taylor, senior manager NRI cell at Andhra Banks' head office in Hyderabad explains how this RDA works in practice. He explains how the migrant goes to an Exchange House in the Gulf, and hands over the Dirham's he wants to remit.

> The Exchange House exchanges these Dirham's to Indian Rupees and next to the exchange rate commission, the Exchange House charges an extra fee to the NRI. Andhra Bank does not have influence or information about these fees charged to the sender. These Exchange Houses send files with transactions several times a day to Andhra Banks' Foreign Exchange office in Bombay from which the money will be transferred to the bank account of the receiver. The Exchange House has to open a deposit at the Indian partner bank where it holds an amount of money to cover the transfers, so that this bank does not bear the risk in case of a failing transaction. This mode of transfer differs from other modes of transfer discussed earlier in that the foreign exchange is done abroad, instead of in India, and rupees are sent to India.

It is difficult to arrange this kind of tie-ups, since each tie-up needs to get approval of the Reserve Bank of India (RBI). In order to get this approval, the Exchange House needs to send several official files to the RBI such as their balance sheet, financial statements of the last three years, a licence from the Central Bank of the country were the Exchange House is located, and an official certificate of anti-money laundering.

Complexity of the networks

The main difference between the transfer system for remittances from the USA and the system in the Gulf States lies in role of the institutional facilitators. Banks fulfil an important role at the sender's end in the USA, while MTOs and Exchange Houses fulfil this role in the Gulf states. Suro et al. (2002) state that the financial service structure of both the sending and the receiving country should be taken into account when looking at the choice of transfer channel. This partly explains the large difference in transfer network for remittances originating in the USA compared to those originating in the Gulf states. The banking sector in both the USA and India are well established. India's financial sector has grown and improved significantly over the last 20 years due to financial reforms (Chishti 2007: 7). For remittances from the USA to India, both the sending and the receiving country have a well established financial service structure and therefore NRIs mainly use the banking channel to send remittances. However, banks are not well established in the Gulf states. For remittances from the Gulf to India, the financial service structure in the receiving country is well established, but in the sending countries, banks are not yet very common. Therefore, the money is sent through MTOs in the Gulf states to banks at the receivers' end. A lot of MTOs use the good coverage of banks in India to reach the receivers of remittances.[12]

To conclude this section; it is important to notice that there is not one transfer network for remittances. Tie-ups with agents in the USA take a very different form than tie-ups with agents in the Gulf States. Indian banks have set up partnerships with foreign banks in the USA in order to improve the transfer system for remittances to India, while in the Gulf States partnerships are mainly set up with MTOs and Exchange Houses due to the lack of a well developed financial system in that region.

As a result of the large number of institutional facilitators involved in the transfer of remittances from the sender to the receiver, and the various partnerships between these players, it is difficult to get a clear overview about the amount of remittances send through each channel, since money changes ownership multiple times. This makes it difficult to precisely estimate the amount of remittances sent and the role of each actor in this transfer system.

[12] It is interesting to elaborate why banks seem to be reluctant to enter the market for remittances from the Gulf at the sender´s end, while this market has a lot of potential. Banks in the Guntur region recognise the growing importance of remittances from the Gulf states, but continue to focus mainly on remittances from the USA.

5.2 Senders and Receivers

After the discussion about the different modes of transfer and the partnerships among institutional facilitators, a key step to take is linking these findings to the most important actors in the transfer network for remittances: the senders and receivers of remittances. They are the ones who decide upon the mode of transfer and therefore all institutional facilitators adjust their services to the preferences of these actors. It is important to explore the role of the senders and receivers in relation to the remittance service providers in order to understand their behaviour and the network accomplished around this.

Independent of the numerous modes of transfer offered by institutional facilitators, in the end it is the sender who decides upon the mode of transfer. It is interesting to have a closer look at the role of both the sender and the receiver of remittances in the process of choosing a certain mode of transfer and then compare these findings to the perceptions that banks have about this process.

When gathering information from both the NRIs and families of NRIs, the decision to use a certain mode or channel of transfer did not seem to be influenced much by the receiver's end of the remittances.[13] Five out of six of the respondents of the NRI questionnaire stated that they do not gather any advice from family members regarding the use of certain modes or channels. These respondents are all (semi) high-skilled migrants living either in the USA or Canada. Only one NRI, living in Ghana, who transfers remittances on a monthly basis, states that his family operates his NRI account and has given him advice about this.

From the interviews I conducted with families of the NRIs it seemed that generally they were not very well-informed about the available modes to transfer remittances. Mr. Davis, who has nine children who all live abroad, states that four of his children work at IT companies and 'are much more aware of the newest technologies available to transfer remittances'. Families of migrants do not keep up with the development of new modes of transfer, they do not decide upon the mode of transfer, nor give their family members overseas advice about it. This could be the result of the financial independence of these families. They are wealthy and have their own pensions, and receive remittances only occasionally. Since it is not one of their main concerns, they will not spend much time to inform themselves about different options available.

Mr. Brown, one of the NRI parents that I interviewed, explains that he does give his son advice about certain money matters, but not about the options to transfer remittances:

> Sitting comfortably in his luxurious living room, Mr. Brown explains me about his role in relation to the remittances he receives from his son, a software engineer who migrated to the

[13] Due to limitations of the interviews and online questionnaire, this cannot be generalised, but it should be taken into account that it is not that straightforward that families (partially) decide upon mode of transfer used, and are aware of the modes of transfer available.

> USA ten years ago. Mr. Brown receives remittances in the form of money on a yearly basis and gifts. However, he does not know much about the transfer channels used. His son sends him money through the banking channel but he is not aware of the exact mode of transfer. He does not interfere in this process since his son is more aware of the newest technologies.
>
> He states that reliability is the most important reason to use the banking channel, convenience, costs or time efficiency are of lesser concern. However, he also indicates that since he does not decide or give advice upon the mode of transfer, he might not be aware of the exact motivation to use a certain transfer channel. He does give his son advice on other manners, like to which Indian (local) institutions he could make donations.

Mr. Brown states that migrants value reliability as a very important characteristic of remittances facilities. According to him, NRIs are less concerned about transfer cost or transfer time. Mr. Davis, who has nine children living in the USA, states that a very important characteristic of the transfer channel is convenience. He explains that, although transfer time is very long, he still prefers to use cheques to transfer money abroad because he is familiar with that method of transfer.

> My children always use online banking to transfer remittances. This is the most convenient mode of transfer for them. It is an additional advantage that costs of transfer are low for online transactions, but this is not the main reason for them to prefer online banking.

According to the respondents of the online NRI questionnaire, transaction costs, reliability and transfer time are highly valued by NRIs. Again, reliability appears to be one of the most important characteristics of the transfer channel. None of the respondents states to take into account the preferences at the receiving end.

5.3 Perceptions of institutional facilitators

From the advertisement on billboards in India, in local newspapers, at bank branches in India, and on websites, it seems that banks have a different idea about how senders and receivers of remittances choose a certain mode of transfer. This large amount of commercial advertising seems to imply that they focus their advertisement strategy (partly) on families of NRIs or NRIs visiting India.

> When I arrived in India, I took a taxi from Bangalore airport into town. One of the first things I noticed during this journey was the large amount of billboards along the highway. These billboards included advertisements from banks about the NRI facilities they offer. I was surprised to find this type of advertisement in India while the services are intended for NRIs living abroad. I wondered which target group banks tried to reach with this advertisement.

> The first time I entered a bank branch in Guntur, I immediately noticed the clearly exposed advertisement for NRI services. The number of NRIs visiting this specific bank branch however, would be far less than the number of NRIs passing the billboards along the airport highway. I realised that maybe this advertisement did not only target NRIs. It might try to reach NRIs indirectly by targeting their families.

When I asked bank officials about their ideas about this, it appeared that they indeed assume that the choice of using a certain mode of transfer is made in India. Mr. T. Taylor, Senior Manager NRI Cell of Andhra Bank's Head Office in Hyderabad, endorses this impression:

> Local advertisement is mainly aimed at families of NRIs. It also helps reaching NRIs who visit India frequently. In addition, we advertise overseas to target NRIs directly. This is done through our Representative Offices. Chief Representatives visit the local NRI associations and advertise our products. But their range is very limited.

Bank officials state that families, to a certain extent, influence the decision process of which channel to use to transfer remittances. An important part of their advertisement for NRI facilities is therefore focused on the families of the NRI in India, in order to indirectly reach the NRI abroad. Their advertisement in India also partly focuses on NRIs visiting India, since they state that that is the time to convince them about the NRI services they offer, as they will bother less about it once back home in the USA or UK. This is also because it is difficult to open an NRI account from abroad. When NRIs want to open an NRI account, they will most likely do this when they come back to India for a visit.

According to Mr. Smith, senior officer NRI services at ICICI, NRI services are promoted at the receiving end, here in India. This advertisement is mainly focused on the NRI who visits his home town and opens an NRI account here.

> The NRI comes here to open the account and then goes back to his host country and does not much bother looking at his account. When he returns for a visit to India after for example 2 years, he comes back to ICICI to see what happened to his bank account. Contact is thus not very frequent, although the NRI can use telephone information services from abroad. This is not often used since NRI do not pay much attention to their NRI account when they are not in India.

However, other banks state that their advertisement strategy mainly focuses on the families of the NRIs, in order to indirectly reach the NRI. Especially since the rise in using online facilities to transfer remittances, it has become difficult to advertise at the sending end, since the customer is unknown. Online facilities such as Money2India and QuickRemit serve as an intermediary, and therefore it is unclear where the money arriving at Indian bank accounts through this service originates.

Banks state that although the NRI is the one who chooses the mode of transfer and the bank he wants to use, the family can influence this decision. In India, family is very important, and advise is always been valued high, especially from parents. If the parent advises the NRI to open and NRI account at a certain bank, the NRI will most likely follow this advice. HDFC Branch Manager Mr. Johnson states that:

> When deciding about opening an NRE of NRO account here in India, it is different. The NRI will take advice from family or friends who have experience with a certain Indian bank.

Figure 3 shows a commercial advertisement in an Indian news paper. This advertisement clearly targets the family of the NRI in India. It suggests that as a mother, you should not only give your NRI children advice about how to run a house and about how to cook, but you should also advice your children in making the right decision on money transfers.

Figure 3: News paper advertisement Online remittances facility *Remit2India*[14]

It can be concluded that the idea that banks have regarding the process of choosing a certain mode of transfer differs from my findings from NRIs and their families about this process. Banks also seem to have clear ideas about the preferences of the users of these transfer channels. They state that convenience is valued as the most important characteristic to NRIs. According to them, for that reason, online

[14] Bangalore Mirror, p. 26, Tuesday January 25, 2011.

facilities have gained popularity and for that same reason, NRIs in the Gulf are reluctant to switch from using MTOs to using the banking channel. They are most familiar with MTOs and therefore view is as convenient to continue using this channel. The importance of transfer costs remains unclear. It is valued as more important than transfer time, but less important than convenience. Reliability of the channel has become more important since the recession. This suits with the statements of NRIs and their families in India. Mr. Anderson, assistant Forex manager of SBI main branch explains why reliability is such an important characteristic of transfer channels:

> As a result of the recession, people are more focused on the reliability and reputation of the banks they put their money with. Therefore SBI has gained popularity, since it is a government bank and thus has minor change of failing. During the last 2 years, SBI has seen a large increase in deposits and thus also in NR accounts.

MTOs seem to have a different idea about the preferences of NRIs. According to them, one of the main reasons to use MTOs to send remittances is time efficiency. NRIs using this channel of transfer seem to find it very important that their money reaches the receiver as quick as possible. Mr. Robinson, assistant manager at Muthood Fincorp, where a Western Union counter is operational, states that:

> NRIs in the USA use Western Union transfers instead of the banking channels because it is faster. The extra costs are not very important, since they want the money to reach their families as quick as possible.

Also, MTOs mention convenience in the sense of not needing to have to a bank account or filling in all kinds of formalities in order to send money. Costs are not important according to the people I talked to at MTO counters. Branch manager of the main Post Office in Guntur illustrates this:

> Only an ID-proof and address-proof is needed to send money, while opening a bank account takes much more paperwork. (…) People in India come to the Post Office to cash their WU transfer because it is convenient. Post Offices handle a large number of WU transfers and are therefore specialised in handling the administration quickly.

From the literature it can be concluded that not much research has been done on the motivation of migrants or their families to choose a certain mode of transfer. According to Suro et al. (2002) costs, time-efficiency, and cultural convenience all play important roles, but it remains unclear how preferences of senders and receivers of remittances are ordered. An important conclusion from this study of Suro at al. is that senders of remittances prefer familiarity over convenience and costs. Therefore, they put little effort in exploring alternative methods. Since costs are not seen as the most important characteristic, often migrants are not even aware of the full costs they pay to remit money. Also, migrants take preferences of the receiver into account.

To summarise, banks focus an important part of their advertisement of NRI facilities on the families of NRIs. Partly because it is more difficult to reach the NRI directly and partly because, in their opinion, the family plays an important role in the decision process and thus can influence the choice of transfer channel. Banks assume a more prominent role for the families of NRIs while the families of high-skilled migrants state that their influence is rather limited, since their high-skilled children living in Western countries are more aware of the newest technologies in foreign exchange. They do give them advice about certain investments, but not about modes of transfer for remittances. Therefore, advertisement strategies of banks in India might mainly have effect on NRIs who visit India and not on their families.

5.4 Conclusion

In order to grasp the transfer system for remittances and the role of institutional facilitators, the role of senders and receivers in relation to these facilitators should be understood. This chapter has shown that institutional facilitators have different ideas about the role of these actors than the senders and receivers imply.

As discussed in chapter 4, the transfer system for remittances is more complex than the literature seems to suggest, due to the large number of services offered to transfer remittances. A large number of partnerships between institutional facilitators in the market for remittances has emerged which makes the network even more advanced. Indian banks tie-up with foreign banks and MTOs or Exchange Houses in order to get better access to the senders of remittances. As a result, money passes several institutions before it reaches the sender and it becomes more difficult to measure the flow of remittances.

Also, there is not just one transfer network for remittances. The network for remittances from the USA differs significantly from the network for remittances from the Gulf states. In the USA, the major facilitators on the market for remittances are banks, while in the Gulf states, MTOs and Exchange Houses fulfil this role. Due to the complexity of this network, it is difficult to get a clear overview of the total amount of remittances send.

The transfer system for remittances is build around the senders and receivers of remittances. When looking at the role of the main actors in relation to the institutional facilitators in the transfer system, it becomes clear that there are some contradictions about the perceptions of the behaviour of these actors. Institutional facilitators have a different idea than the actors about the role of the senders and receivers in the process of choosing a certain mode of transfer, and about the preferences of NRIs over the different modes of transfer. Banks seem to assume a prominent role for families of NRIs in choosing a certain mode of transfer, and therefore partially focus their advertisement strategy on this group. However, from my field research, it appeared that the influence of families of NRIs on the choice of transfer channel is only limited. Their NRI children are high-skilled and live in Western countries. They are therefore often very much aware of the available modes of transfer and new developments in the transfer system and don't need advice of their families in India about this. It can be concluded that advertisement of banks in India mainly has effect on NRIs who visit India and not on their families.

Next to the ideas about the decision process, banks seem to have clear ideas about preferences of their (potential) customer. They state that convenience is valued as most important characteristic to NRIs, and that transaction time is not very important. SWIFT transfers are faster than regular online transfers, but nevertheless NRIs prefer online banking. It seems not to be very important whether transactions take up two or three working days. MTOs have a different idea about the preferences of NRIs. According to them, one of the main reasons to use MTOs to send remittances is time efficiency. They state that transfer costs are not important.

6. CONCLUSION

In this chapter, I link my empirical findings to relevant debates in the literature. My empirical findings mainly concern the following two issues: First, the various modes of transfer available, and the partnerships between different institutional facilitators, make the transfer system for remittances complex and the flow of remittances difficult to track. Second, in order to understand the functioning of the transfer network for remittances, it is essential to analyse the role of the main actors, the senders and receivers of remittances, in relation to this transfer system. It is important to clarify these two issues in order to gain a reliable insight in how the transfer system for remittances operates. This, in turn, provides a basis to analyse the flow of remittances and measure the exact size of remittances. Only when the amount of remittances is measured correctly, firm conclusion can be drawn about the impact of remittances.

Literature on remittances is often too short-sighted, and does not seem to acknowledge the complexity of the transfer system for remittances with its various institutional facilitators who all have different interests, and the important role of the actors involved. There is a lot of debate in the literature about the size of remittances and its accompanied measurement problems. These discussions seem to assume that a distinction can be made between two transfer systems; the formal, and the informal transfer system for remittances. With this categorisation, no further distinction is made between different transfer channels within the formal system. This implies that all formal transfers can be measured in the same manner, while this research shows that this is not the case.

The two key institutional facilitators in the market for remittances are banks and Money Transfer Operators (MTOs). The most popular modes of transfer offered by banks are SWIFT transfers, online facilities, and NRI accounts. Online transfers have been recently introduced and have quickly gained popularity. The RBI stated in 2010 that SWIFT is still the most popular mode of transfer (RBI 2010a: 780), while my findings confirm that online banking is already the most popular mode of transfer at private progressive banks and that more conservative banks predict that they will soon experience the same shift.

The RBI accounts for the formal flow of remittances on the Balance of Payments (BoP). However, since there is not just one formal transfer channel, and with that one flow of money, it is complicated to measure all transfers precisely. For each transfer channel, the money passes a different route. Different modes of transfer imply different accounting standards. Remittances that are sent through SWIFT are measured differently than remittances that are transferred to an NRI account.

It becomes even more difficult to measure remittances when different institutional facilitators start to cooperate. For example; money can be send from the Gulf states through an Exchange House to an Indian bank. In case of a Rupee Drawing Arrangement (RDA), the foreign transaction already takes place at the Exchange House, thus at the sending end, and the remittances enter India in Indian Rupees. When another mode of transfer is used, which transfers the money directly to the bank account of the receiver, the foreign exchange takes place when the money arrives at the Indian bank.

This research report provides a good overview of the transfer network for remittances and gives a clear idea of the different flows of money that have to be analyzed in order to give a reliable estimate of the amount of remittances sent. These flows cannot all be found on the RBIs Balance of Payments. It is important to have a good estimate of the amount of remittances, in order to provide a good basis for debates on the impact of remittances.

The literature on remittances analyses the effect of remittances on economic, cultural, or social development (Oberai and Singh 1980; Kapur 2004; Faist 2008; and Panda 2009). However, without knowing the size of these remittances, no firm conclusions should be drawn about its impact. One of the positive effects of remittances is said to be its potential for poverty reduction and local investment (Faist 2008: 21). However, as long as it is unclear how much remittances India receives, no statements can be made about the poverty reduction that this money induces.

Also, it is interesting to know more about the transfer channels since this is related to the end-use of the money sent. It is likely that remittances that are sent through NRI accounts are sent with a different purpose than remittances that are sent in cash through an MTO like Western Union. Money sent through MTOs is more likely to be sent for family maintenance, while money sent to an NRI account is more likely to have an investment purpose. In order to make firmer statements about the end-use of remittances and subsequently its impact, it is necessary to have a good insight in the channels and modes of transfer used. This research has not focused on the relation between the mode of transfer and the end-use of the remittances, but this would be an interesting extension, in order to get a firmer basis to analyse the impact of remittances.

In order to understand how the large number of institutional facilitators on the market for remittances act, it is important the grasp the role of senders and receivers in relation to these facilitators. These actors are the ones who in the end choose a certain mode of transfer. Institutional facilitators in this system therefore have to take into account the preferences of the senders and receivers and respond their process of decision making. Research on the role of the private actors in the transfer system for remittances is lacking. Suro et al. (2002) describe the preferences of senders of remittances and their role in choosing a certain mode of transfer, but the role of the receivers in relation to the transfer system is not taken into account. They state however, that the receiving end of the transfer system should be taken into high consideration since it influences the transfer network for remittances. Moreover, other literature on the role of actors in the transfer system for remittances only focuses on the sending end (Jones 2006; and Yujuico 2009).

This report shows that both the sender and the receiver influence the transfer system for remittances. Banks assume an important role of the receivers in choosing the mode of transfer and focus their advertisement on these actors. My research shows that it is mainly the sender who decides upon the mode of transfer used and that the influence of family members in India is rather limited. As a result, banks do not reach the right actors in this transfer network for remittances and that therefore senders take decisions to use a certain mode of transfer without being well informed about the total scope of services available.

In order to draw conclusions about the impact and policy implications of remittances, we should have a clear idea of the flow of money that should be measured. This requires an extensive overview of the transfer system for remittances, which includes the role of the main actors involved in relation to the various institutional facilitators.

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APPENDIX 1

Transfer Costs USA - India

USA-India	Remitting USD 200	Third quarter 2010			
	Fee	**Exchange rate margin***	**% total costs****	**total costs**	**time*****
WU					
Online service	17	1.84	10.34	20.67	<1 hour
Cash to cash	10	1.84	6.84	13.67	<1 hour
Money Gram					
Online service (econ)	9	0.68	5.18	10.36	3-5 days
Online service	9.99	0.68	5.67	11.35	<1 day
Cash to cash	11	0.68	6.18	12.36	<1 hour
UAE Exchange	?****	?****	?****	?****	?****
Remit2India*****					
Online service	3	1.26	2.76	5.52	3-5 days
Rupee Express	1 + 1.5% of money sent	1.26	3.26	6.52	3 days
HSBC					
account to account (other bank)	30	0******	15	30	3-5 days
ICICI					
Online service	5	0******	2.50	5	3-5 days
Cash to account (same bank)	2	0******	1	2	3-5 days
CitiBank					
Online service	1	0.98	1.48	2.97	<1 day
SBI					
Express Remit	2.17	1.20	2.28	4.56	1 day
MTO avarage	9.90	1.09	6.03	12.07	
Bank avarage	7.45	0.73	4.45	8.91	
Total avarage	8.89	0.94	5.38	10.77	

* ERM = current interbank exchange rate - exchange rate applied the remittance transfer

** Total costs = fee charged + exchange rate margin

*** days refer to working days in India

**** Information N.A.

***** Source: www.timesofmoney.com-official website Remit2india. Exchange rate calculator and information on transfer fees

****** Conversion from USD to INR happens at point of collection. Recipient may incure additional costs.

Transfer Costs UK - India

UK-India	Remitting USD 200	Third quarter 2010			
	Fee	**Exchange rate margin***	**% total costs****	**total costs**	**time*****
WU					
Cash to cash	11.50	2.11	7.86	15.72	1 day
Online service	14.83	2.11	9.53	19.05	<1 hour
Money Gram					
Online service	16.65	1.62	9.95	19.90	<1 hour
UAE Exchange	?****	?****	?****	?****	?****
Remit2India*****					
Online service	4.78	0.417	2.81	5.614	<5 days
Rupee Express******	NA	NA	NA	NA	NA
HSBC*******					
Account to account	27	2.6	16.45	32.20	1-4 days
ICICI					
Account to account (same bank)	0	1.26	1.26	2.53	2 days
Account to account (same bank)	3.33	1.26	2.93	5.86	<1 hour
Account to account (other bank)	6.67	1.26	4.60	9.19	2 days
Account to account (other bank)	8.33	1.26	5.43	10.86	<1 hour
Online service	1.67	1.26	2.10	4.19	<1 hour
CitiBank *******					
Account to account (same bank)	23,91	?****	?****	?****	1-5 days
Account to account (other bank)	39,85	?****	?****	?****	1-5 days
SBI					
Account to account (same bank)	8.33	0.25	4.42	8.83	1 day
Account to account (other bank)	8.33	0.25	4.42	8.83	2 days
Cash to account	13.33	0.25	6.92	13.83	2 days
MTO avarage	7.30	1.75	5.40	10.80	
Bank avarage	6.25	0.88	4.01	8.02	
Total avarage	6.84	1.36	4.78	9.56	

* ERM = current interbank exchange rate - exchange rate applied the remittance transfer
** Total costs = fee charged + exchange rate margin
*** days refer to working days in India
**** Information N.A.
***** Source: www.timesofmoney.com - official website of remit2india. Exchange rate calculator and information on transfer fees
****** Service only available in USA
******* Source: www.fxcompared.com
******** Source: www.citibank.co.uk

Transfer Costs UAE - India

UAE-India	Remitting USD 200	Third quarter 2010			
	Fee	**Exchange rate margin***	**% total costs****	**total costs**	**time*****
WU					
Cash to cash	4.08	1.49	3.53	7.07	<1 hour
Money Gram					
Cash to cash	4.35	0.55	2.73	5.45	<1 hour
UAE Exchange					
Cash to account	4.08	0.79	2.83	5.65	2 days
Cash to cash	4.08	1.26	3.30	6.60	<1 hour
Remit2India*****					
Online service	4.08	1.94	3.98	7.96	<5 days
Rupee Express*****	NA	NA	NA	NA	NA
HSBC					
Account to account (other bank)	20.41	1.65	11.86	23.71	2 days
Account to account (same bank)	27.21	1.65	15.26	30.51	< 1 day
ICICI					
Power transfer	?******	?******	?******	?******	?******
CitiBank					
Telex transfer	?******	?******	?******	?******	?******
SBI					
SBI Express Rupee	?******	?******	?******	?******	?******
MTO avarage	4.12	0.85	2.91	5.83	
Bank avarage	23.81	1.65	13.56	27.11	
Total avarage	6.75	0.96	4.33	8.67	

* ERM = current interbank exchange rate - exchange rate applied the remittance transfer
** Total costs = fee charged + exchange rate margin
*** days refer to working days in India
**** Source: www.timesofmoney.com - official website of remit2india. Exchange rate calculator and information on transfer fees
***** Service only available in USA
****** Information N.A.

APPENDIX 2

Nri online questionnaire

Screen 1

Tranfer Channels for remittances

Dear NRI,

This questionnaire contains 7 short questions about the transfer channels used to send money to India.

I am a graduate student from the Netherlands and I'm currently conducting research in India, AP, regarding the different channels that are used to transfer remittances to families in India.

This research is not about the amount of money that is send, but only regarding the transfer channels. The questionnaire is anonymous and this research is only for academic purposes.

I would very much appreciate it if you could spend 2 minutes answering the 7 questions. It will help my research a lot.

Kind regards,

Wanda van Kampen

Start

www.thesistools.com

Tranfer Channels for remittances

1.

What is your country of residence?

PDFmyURL.com

Screen2

2.

Do you send any form of remittances to family members in India? (more answers possible)

- ☐ No
- ☐ Yes, money for family maintance
- ☐ Yes, money for investments
- ☐ Yes, gifts
- ☐ Yes, others; namely

3.

If you send any money back to India, is this on a regular basis?

- ○ No
- ○ Yes, monthly
- ○ Yes, yearly
- ○ Yes, other; namely

4.

What is (are) the channel(s) used to send these remittances?

- ☐ Bank, namely
- ☐ Money Transfer Operator (like Western Union), namely
- ☐ Exchange House, namely
- ☐ Informal agent, namely
- ☐ Other, namely

Screen 3

5.

Why did you choose this mode of transfer?

6.

Does your family in India give you any advise regarding the transfer channels you should use? If so, what kind of advise do they give you? (regarding the use of a certain bank, or regarding NRI accounts in India?)

7.

Are you confronted with a large amount of advertisement regarding channels to send remittances? In what way?

Submit

Screen 4

Dear NRI,

Thank you very much for completing this questionnaire. It will be of high importance for my graduation research.

www.thesistools.com

ABOUT THE PROVINCIAL GLOBALISATION PROGRAMME

The Provincial Globalisation research programme ('ProGlo') explores transnational connections between Overseas Indians and their home regions, especially the effects of 'reverse flows' of resources, including remittances, philanthropy, investments, and knowledge.

The programme consists of five independent but interlinked research projects (three PhD and two postdoctoral) located in three states of India – Andhra Pradesh, Karnataka, and Gujarat. The research documents a broad range of resource transfers by migrants, including economic resources (such as household remittances, investments in land), social remittances (including flows of ideas, support for NGOs), and cultural flows (such as religious donations), and their influence at the regional level.

The PhD projects are intensive studies of three selected regions – Anand District in Gujarat, Guntur District in Andhra Pradesh, and Dakshina Kannada District in Karnataka – focusing on the effects of resource transfers by migrants in the key provincial towns and their rural hinterlands. The two post-doctoral projects provide macro- and meso-level mappings of transnational linkages and flows at the regional, state, and national levels. By tracing these transnational networks and the modalities and destinations of resource transfers comparatively across three regions, the research programme provides insights into the economic, social, political, and cultural consequences of Overseas Indians' engagements with India.

'ProGlo' is a five-year collaborative research programme of the Amsterdam Institute for Social Science Research (AISSR), University of Amsterdam, the Netherlands, and the National Institute of Advanced Studies (NIAS), Bangalore, India, funded by the WOTRO Science for Global Development programme of the Netherlands Organisation for Scientific Research (NWO), the Netherlands, initiated in 2010.

www.provglo.org

Programme directors:

Prof. Mario Rutten (AISSR)
Prof. Carol Upadhya (NIAS)

Provincial Globalisation is an international collaborative research programme of

University of Amsterdam

Amsterdam Institute for Social Science Research (AISSR)
University of Amsterdam
Amsterdam, The Netherlands
www.aissr.uva.nl

and

National Institute of Advanced Studies

National Institute of Advanced Studies (NIAS)
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