

## **Remittance Debate Revisited: New Evidence from Indian Migrant Labor in Lebanon**

### **Extended Abstract**

Uses of remittances from overseas and their implications for development have become a focal point of ongoing debate concerning costs and benefits of international migration. This is because regardless of the country, empirical evidence overwhelmingly indicates that bulk of remittances is spent on consumption, debt repayment, and housing and consumer durables with little being devoted towards productive investment. However, the scholars debate whether these uses are productive or wasteful with two divergent schools of thought on the subject. Negative school of thought holds that as little is devoted to productive investment, developmental value of remittances is highly questionable. Positive school of thought holds that remittances do contribute to local and national development. Thus, the relationship between remittances and development remains complex, poorly understood and hotly debated.

The present paper revisits the debate and attempts to reach some consensus on the use of remittances from overseas by origin communities. Supporting evidences are gathered from the primary data collected from a sample of 402 (201 each from the States of Punjab and Tamil Nadu in India) semiskilled and unskilled migrant laborers, working in Lebanon. The country is undergoing an ambitious reconstruction programme after a protracted period of war and civil strife that lasted from 1975 to 1991. The importance of the present study is two fold: 1) No study on Indian migrant workers has been undertaken in Lebanon in the past to the best of knowledge of researchers, 2) The study provides a comparison of remittance utilization patterns of Punjab and Tamil Nadu households, the two states located in extreme northern and southern parts of India, with a contrast in their socio-economic and cultural backgrounds. The study utilizes a multivariate regression model to estimate the factors affecting remittance utilization by family recipients at the origin using an Index of

Remittance Use constructed giving suitable weights for different uses of remittances, as dependent variable.

Although the results on remittance use patterns broadly tallied with those found all over the world, there was little evidence of remittances being frittered away on wasteful consumption. Remittances were mainly utilized for living expenses, debt repayment, marriage expenses, and improvement in housing /purchase of land for house or buying a new house and furthering emigration of other family members. In a few cases, however, part of remittances was invested in agricultural land and equipments as well as small business ventures to augment the family income. The remittance use pattern was mainly dependent upon three factors, namely; i) Socio-economic background of the migrants; ii) mode of financing the emigration; and iii) duration of stay in host country.

It should, however, be mentioned that most of the migrants of the present study came to Lebanon from rural areas and had a poor economic background in terms of income and asset base. Prior to emigration, they were working in traditional agriculture and petty rural occupations with meager and unstable income. To finance their emigration trip, the majority had raised resources through selling off whatever little assets they possessed and by raising loans. In Lebanon they were working in various sectors of the economy including manufacturing, construction and service sector such as hotels, petrol stations, etc, and in farm sector. Their monthly average income was US \$275. The majority of migrants remitted on average US \$ 140 per month. This is such a meager amount that a poor family back at home can hardly afford to spend it wastefully with pressures of meeting living expenses and repaying the debt.

It was found that economic status and living standards of migrants families at the origin had positive impact on remittance utilization patterns as better status implied greater availability of resources from elsewhere to meet living expenses, leaving remittances to be utilized for investments. Further, better economic status

implies greater capacity to raise resources for emigration without significant recourse to incurring debt and, thus, reducing liability of debt repayment on family. Thus, study demonstrates the importance of examining initial economic status of migrant household for any implications about remittances uses.

In case of emigration having been financed through debt, family members of these migrants living in India utilized the remittances for 3-4 years just to repay the debt after meeting their essential living expenses. Thus, indebtedness at the time of emigration has negative effect on remittance uses, as debt becomes first charge on resources, leaving less scope for other uses, given the meager remittances sent by the migrants in our study.

We examined the remittance use patterns by three durations of stay in Lebanon namely, stay less than 3 yrs., 3 to 5 yrs., and more than 5 yrs. Longer duration of stay implies greater flow of total remittances to the migrant households. Interestingly, the use patterns are found significantly different by duration of stay in host country. During first three years of stay, the remittances were predominantly used for living expenses and debt repayment. The use pattern recorded a gradual change thereafter- a part of money was for purchase of land/house/gold and/or on renovation of house, furthering migration, expenditure on marriage of their close family member(s) and making physical/financial investments in few cases. These findings cut across the states.

The studies on remittances use world over have mostly considered the pattern at a point of time and, thus, missed the time dimension. The present study brings out the importance of examining the remittance use patterns over time rather than studying it in a static sense to assess their developmental potential. The study brings out that there may be an order in remittance utilization patterns. As remittance stream matures, initial predominance of living expenses and debt repayment gradually changes to housing and consumer durables to investments in agriculture, business etc.

The authors argue that all consumption is not unproductive. For migrant families from poor economic background, first and foremost priority is to raise their consumption standards rather than make productive investments. In a poor country like India, with Government spending millions every year on various poverty alleviation and employment generation programmes, apart from huge amounts on nutrition, health, education etc, consumption expenditures by families may be viewed as investments in human capital raising productive efficiency not only at micro level but from even from national point of view. Further, it is argued that repayment of debt taken for financing emigration trip to Lebanon is actually part of family's investment strategy for future income generation for the family. Similarly, remittance utilization for furthering migration of close family members is also a strategy by migrant families for future income generation, especially when employment prospects and earning potential at home are bleak.

Interestingly, we found that migrants' families in Punjab focused more on improvements in living standards rather than savings and investments compared to the families of migrants from Tamil Nadu. Contrary to expectations, more investment in agriculture was done by families of migrants from Tamil Nadu compared to those from Punjab, in spite of Punjab being predominantly an agrarian state. Agriculture in Punjab has become very capital intensive with small and marginal holdings becoming uneconomic which is one of the reasons for such farmers selling their holdings and migrating abroad in search of income opportunities. Since families of migrants of our study didn't have capacity to buy big chunks of land and with small /marginal land holdings having become uneconomic, they didn't invest in agriculture and in the absence of alternative investment opportunities also, focused rather on betterment of their modest living standards. It is argued that this demonstrates the crucial role of prevailing macro economic conditions in origin communities for productive utilization of remittances as macroeconomic conditions causing migration also limit the potential for productive investment.

The above findings indicate that the remittance uses which are taken, as consumption by scholars may actually be investment from family's point of view. Further, we argue that there must be some threshold level of living standards below which the capacity to save and invest out of remittance money cannot be acquired. This threshold might consist of basic consumption needs of family including nutritious food, health, and education and housing with some basic minimum comforts. Therefore, it is not surprising to find that only a small proportion of migrants' families could have savings and investments, given low marginal propensity to save at low-income levels of families with poor economic background. Our findings strengthen the view that remittance uses contribute to increased welfare over time and are positive even from national point of view and, therefore, pessimistic view regarding remittances uses should not be applied across the board but should be restricted to specific circumstances and situations.