Increasing Financial Stability and Safer Migration: The Role of Debt in the Lives of Indian International Labor Migrants

Introduction

This brief presents key learnings to improve financial stability and foster safe migration of aspiring, in-service, and returning labor migrants and families from Indian source communities. Forced labor and risky migration are part of a larger cycle of exploitation that stems from consumer demands for cheap goods; private business desire for rapidly mobilized and low-cost workers; weak labor and immigration laws in source and destination countries; and the vulnerable socio-economic status of workers. This brief explores the role of debt in the lives of labor migrants from the Indian source communities of Siwan, Gopalgunj, Deoria, and Kushinagar which are districts in the states of Bihar and Uttar Pradesh that are characterized by high labor migration to the Gulf Cooperation Council (GCC) countries.[1] In particular, the brief highlights patterns of household indebtedness, costs of migration, and how debt is used to finance migration. Programs and research were funded by the Norwegian Agency for Development Cooperation (Norad) and the Global Fund to End Modern Slavery (GFEMS) from April 2020 to October 2022. The brief concludes with recommendations to various stakeholders including the national and local level government of India as well as donors and civil society organizations (CSOs) committed to reducing exploitative migration and labor practices.

Context

India has the largest emigrant population in the world with 18 million people living abroad and receiving more than USD 83 billion in remittances in 2020.[2] Twenty-eight percent of Indian international labor migrants resided in the GCC countries in 2020.[3] Migration to the GCC countries from India is typically temporary and is characterized by the predominance of unskilled laborers.[4] There are large gaps in evidence on how this indebtedness shapes migration decision-making, work-related choices and experiences, remittance-sending behavior, and experiences upon return to India.

1 ASK Training and Learning Center 2020 https://askindia.org/atl/overview/

2 United Nations International Organization for Migration (IOM) World Migration Report 2020 https://publications.iom.int/system/files/pdf/wmr_2020.pdf

3 Ministry of External Affairs, Government of India.

4 Rajan and Arokkiaraj, 2020. Citations can be found in the full report.

Research Methods

Against this background, GFEMS funded Population Council to undertake a multi-component study to better understand:

- Levels and patterns of household indebtedness among international migrant households;
- Role of debt in migration-related decisions;
- Vulnerabilities experienced by migrant workers
- Programmatic opportunities to potentially reduce financial vulnerabilities.

Population Council conducted a literature and desk review as well as descriptive and multivariate analyses of secondary data using publicly available data sets. Using puposive, convenience, and/or snowball sampling, Population Council conducted

- 12,273 Structured interviews (SIs) with returned male migrants (returned from Qatar or Saudi Arabia within two years from the time the survey was conducted) from 60 villages in Uttar Pradesh.
- 21 in-depth interviews (IDIs) with returned migrants as well as household members of 16 migrants working in GCC countries at the time of the interview;
- 19 key-informant interviews (KII) with individuals representing local government officials, formal and informal recruitment agencies, banking institutions, and civil society organizations.

Key Learnings

International migration is a costly venture and the costs of migrating to the GCC countries have fallen heavily on the migrant workers themselves rather than their GCC employers.

International migrant households have higher amounts of debt than non-international migrant households.

While indebtedness characterizes the economic condition of many Indian households, international migrant households tend to have higher amounts of debt. The household survey in Bihar and Uttar Pradesh found that 56 percent of households with international migrants had outstanding debt exceeding Rs 50,000 ($605 USD) at the time of the survey compared with 47 percent of households without international migrants. The burden of debt was also higher for rural, Hindu, and larger households.

INDEBTEDNESS AMONG INTERNATIONAL MIGRANT HOUSEHOLDS WAS HIGHER AMONG HOUSEHOLDS BELONGING TO SOCIALLY DISADVANTAGED CASTES.

High levels of debt is associated with an increase in international migration.

Analysis of secondary data showed that outstanding debt of more than Rs 50,000 (approximately $607 USD) in 2004–2005 was associated with a significant increase in international migration in 2011-2012.[6]

Drivers of debt-driven international migration include a lack of or irregular domestic employment opportunities with low levels of earnings, household-level dependency on migrants, and concerns about inability to meet expectations such as marriage-related and child education expenses. The cost of migration coupled with precarious and poorly regulated labor practices in destination countries increase vulnerability to labor exploitation, constrain their ability to repay debt, limit the potential benefits that migration brings, and create migration dependency.[7] Poorer and less-skilled migrants took longer to pay off debts and many workers remained in debt even after they returned from overseas. Vulnerability caused by debt-financed migration is further exacerbated for those who return early. Returning before their term of contract ends often leaves migrants in a debt trap, as they cannot repay their loans.[8] In the wake of the COVID-19 pandemic, thousands of returned migrants were left stranded in India with large debt burdens, non-payment of wages, and additional arrival costs incurred such as quarantine facilities.[9]

5 India Human Development Survey (IHDS) (2004–05 and 2011–the National Sample Survey Office (NSSO) Employment, Unemployment and Migration Survey (2007–08), and KNOMAD-ILO Migration and Recruitment Costs Surveys covering India-Qatar (2015) and India-Saudi Arabia (2016) migration corridors. Details of secondary sources, research methods, and limitations are available upon request.

6 Increase in international migration (RR= 1.73; CI 1.24–2.4; p≤0.001) and a decrease in internal migration in 2011–12 (RR=0.78; CI 0.68–0.9; p≤0.001). Distributed lagged regression model using IHDS data examined the temporal lagged correlation between the amount of household debt, measured in 2004–05, and household migration, measured in 2011–12, after controlling for background characteristics.

7 Buckley et al., 2016; Davidson, 2013; IOM, 2019; Moniruzzaman and Walton-Roberts, 2017.

8 Rajan, 2010.

9 Piper and Foley, 2021; Kuttappan, 2020.

Labor migration to the GCC is expensive and recruitment agent fees account for the largest share of costs.

RECRUITMENT AGENT FEES ACCOUNT FOR THE LARGEST SHARE OF COSTS INCURRED BY MIGRANTS

The study found that migration expenses could amount to several months of their earnings. Migration costs varied by the processes through which migrants secured jobs overseas. The qualitative data suggests that migrants who were able to connect directly with employers, paid significantly less.

> *I went for free the third time. There was a vacancy in the company. The company pays if the people are needed. Then they bear all the expenses. They tell their registered office here that we need these many people and the agent in the office will find people, get the interview conducted, and then they take office charge which is around Rs 3,000, and then one has to pay nothing. I just spent Rs 3,100.*
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> **Returned migrant, Construction in Saudi Arabia**

Migration costs were higher for migrants with limited overseas social networks, who used recruitment agents, and who traveled on non-work visas (e.g. tourist visas or “free visas”). Migrants knew they paid for many cost items including recruitment agent fees, visa fees, airfare, as well as medical and skills tests. While costs varied by their destination country, fees paid to recruitment agents accounted for the largest share of costs incurred by migrants. The average fee paid to the recruitment agent was 48 percent of the total cost borne by emigrants to Qatar and 65 percent of the cost borne by emigrants to Saudi Arabia.[10] The qualitative study in Bihar and Uttar Pradesh also found that many respondents were generally unaware of the itemized costs covered by recruitment agent fees.

MIGRANTS WERE OFTEN UNAWARE OF THE ITEMIZED COSTS OF RECRUITMENT AGENT FEES

> *It cost me around Rs 60,000. Rs 3,000 was spent on medical check-ups. I had to pay Rs 60,000. I didn’t know what he took or how much.*
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> **Returned migrant, Construction in UAE**

A large share of remittances are used for repaying debts.

Secondary and primary data show that a significant percentage of households receiving international remittances used it for repaying debt. Most qualitative study respondents in Bihar and Uttar Pradesh also used remittances for debt repayment.

> *He sends money directly to the moneylender’s account. Their bank details were given. The moneylenders told him to take their account details and keep sending money there directly and whenever we are sick or need money for some reason, they will give it to us. For now, all the money goes into repaying the debts. Who knows how long it will take?*
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> **Household member of current migrant, Cleaner in Qatar**

10 Rajan et al., 2017.

International migrants use multiple sources to finance overseas migration, often relying on informal sources.

International labor migration entails significant resource outflows from households, including depletion of personal and family savings, sale of assets, and borrowings from institutional and non-institutional agencies.[11] Primary data collection found that between 19–44 percent of international migrants reported that they borrowed from relatives or friends and 9–16 percent reported that they took out bank loans. Qualitative interviews further elaborated barriers to institutional credit due to bank requirements for securities and paperwork, as well other obstacles such as lengthy processing periods, and disrespectul attitudes towards loan applicants.

> *I did not take the loan from the bank, but borrowed Rs 60,000–70,000 from friends for going overseas. I took it from three friends at a rate of five percent interest because the bank told me that I don't have anything [for a guarantee]. It took me two years to repay.*
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> **Returned migrant, Mason and Electrician in UAE**

REASONS FOR RELIANCE ON INFORMAL SOURCES OF CREDIT INCLUDE[12]

- FLEXIBLE REPAYMENT PERIOD
- SIMPLER AND SPEEDIER ACCESS TO CREDIT
- NON-REQUIREMENT OF GUARANTEES
- THE LACK OF AWARENESS ABOUT THE PROCESS FOR SECURING A LOAN
- THE LACK OF TRUST AND CONFIDENCE IN BANKING INSTITUTIONS

Migrants viewed access to lower cost financial services as key to safer migration

Interviewed migrants in Bihar and Uttar Pradesh stated that low-interest or interest-free loans would be most helpful for migrant workers. Other studies have recommended that such loans may reduce irregular migration and increase flow of remittances through formal and legal channels.[13] Some participants also demonstrated interest in commitment savings product, though they noted that such products[14] would work for only those with some money to save. Some also felt that a livelihood loan or insurance scheme for injuries would be useful for those who aspire to migrate and their families.

Recommendations

These consolidated insights shed light on the role of debt in the lives of Indian migrant workers, including influence on decisions to migrate, high recruitment costs, use of remittances. Drawing on these learnings, the recommendations in this section aim to assist various stakeholders in ensuring financial stability and safer migration for Indian workers.

For Government

Define ethical recruitment, increase the number of registered recruitment agencies, and conduct regular monitoring and enforcement

- The Government of India (GOI) should clearly define ethical recruitment to include standardized and publicized migration services and costs.
- National and local government should increase registered recruitment agencies by encouraging agencies to maintain local presence and incentivizing informal sub-agents and brokers to become registered and emulate established recruitment agencies (e.g. NORKA Roots of Kerala and Overseas Manpower Corporation Ltd of Tamil Nadu). Registered recruitment agencies in India have large jurisdictions and are often overwhelmed, particularly in rural areas of major migrant-sending states.

11 Abella, 2018; Abella and Martin, 2014; Ahmad, 2019; Buckley, 2012; Goud and Sahoo, 2019; Khan, 2019; Rajan et al., 2017; Soni, 2019.

12 Committee on Household Finance, 2017.

13 Gaur, 2019; Goud and Sahoo, 2019.

14 Savings product that are designed with incentives (such as higher interest rates) to encourage individuals to save for future expenses

- The government should legislate and enforce registration, training, monitoring, auditing, and prosecution of recruitment agencies at the national and local levels. Additionally there should also be stricter monitoring and regulation of unregistered agents who operate without impunity.

Increase employer responsibility for migration costs and accountability for safe migration

- Destination country governments should encourage employers to recruit workers directly, bear the costs of recruitment and migration, and be accountable in respecting migrant workers' rights.
- The governments of India and GCC countries should strengthen joint monitoring and data sharing through MOUs and bilateral labor agreements that include monitoring and enforcement of employer-pays models of recruitment, including regulations to prevent or bear the costs of early repatriation, and effective remediation for worker grievances.
- GOI should promote collaboration among international organizations, employers, and donors to strengthen the shift towards ethical recruitment and no-fee or employer-paying migration models. Investments in improving existing recruitment structures can align with national sustainable development goals and policies such as proposed reform to the Emigration Bill of 2021.

Increase the availability of high-quality information for aspiring migrants

- Governments can better support aspiring migrants to GCC countries in making more informed decision-making by providing information on both economic and social costs for themselves and their families.
- Government should direct key initiatives such as the Strategy for Financial Education 2020–25, to aspiring, current, and returning migrants and their families. This initiative will provide basic and sector-specific financial education with a special focus on the unbanked and newly banked individuals and households.[15]
- Government should utilize existing infrastructure such as migration resource and employment centers as well as remittance providers for delivering financial literacy initiatives.

For International Organizations and Donors

Support innovations for financial institutions to support migrant households

- International Organizations such as ILO and IOM are well placed to lead multi-sector collaborations (government, financial institutions, civil society) to support experiments that test the viability of financial products for more vulnerable migrant households.
- Donors can help financial institutions meet operational expenses until the products are financially viable.
- Donors should support the inclusion of resources for financial literacy programming in conjunction with the delivery of products.
- Donors should offer a Loan Default Guarantee Program to financial institutions which will increase financial institutions risk appetite and subsequently increase the availability of financial services to segments of the population who have been traditionally excluded such as migrants and their families.

Strengthen the quality of available secondary data

- Secondary datasets explored in this study were limited in availability of indicators related to labor exploitation, particularly those indicators associated with severe exploitation.
- Additionally, the Global Knowledge Partnership on Migration and Development at the World Bank and the International Labor Organization (KNOWMAD-ILO) migration cost surveys are restricted to Indian migrants returning from only three of the six GCC countries. These surveys tend to have small sample sizes and exclude those who migrated without prior job offers, thus excluding irregular migrants who are considered vulnerable to exploitation.

15 Reserve Bank of India, 2021.

Support the capacity of GOI to build connected databases that collect information at all points along the migrant life cycle

- International organizations can work with GOI to support data collection and database management for a variety of migrant profiles including first-time migrants, seasoned migrants, migrants who do or do not require emigration clearance, migrants utilization of registered recruitment agencies, and those who emigrate through alternative channels such as unregistered agents and brokers, friends and acquaintances, and relatives. Data should include information on financial status and literacy of migrants at different stages of the migration cycle.

- Use individualized information to shed light on weaknesses in the migration system as well as migrant choices or lack of choices. International organizations can work with GOI to leverage existing infrastructure and existing data collection tools such as government recruitment agencies, pre-departure training centers, safe houses, and airport pick-up services as well as non-traditional data collection sites in order to ensure a holistic view. For example, the GOI could include questions on household indebtedness, debt-financed and/or debt-driven migration in future rounds of the Debt and Investment Survey conducted by the National Statistical Office.

For Civil Society Organizations (CSOs)

Civil society organizations play an important role in supporting the national and state governments in translating policy commitments into action. Migrant-led CSOs will improve the relevancy of services and the effectiveness of bargaining and negotiation strategies.

MIGRANT-LED CSOS WILL IMPROVE THE RELEVANCY OF SERVICES AND THE EFFECTIVENESS OF BARGAINING AND NEGOTIATION STRATEGIES.

Support effective, individualized, wrap-around services

- Support aspiring, current, and returning migrants and their families through provision of services that include pre-departure training with relevant and timely information, financial literacy education, and facilitating legal aid for worker grievances while at destination. Given the lack of trust in traditional financial institutions, CSOs play an important role in spreading financial and debt literacy among migrants and their families.

- Returning migrants, especially those who have experienced exploitation and trauma, should be provided reintegration and remediation support that includes: legal recourse, mental and physical rehabilitation, and family and community reintegration.

Monitor recruitment agencies, agents, and sub-agents

- Support monitoring of performance standards for recruitment agencies and sub-agents. CSOs can monitor labor rights violations, support migrants in reporting of labor exploitations, and facilitate processing of claims against brokers, employers, and recruitment agencies.

- Provide information to migrant networks that connect aspiring migrants, ethical employers, and registered recruitment agents.

Advocate for, build trust, and support effective outreach of protective policies, regulations, and services

- Advocate for faster enactment and effective implementation of protective legislation such as the Draft Emigration Bill 2021.

- Collaborate with government bodies and international non-governmental organizations (INGOS) to popularize protective measures for international labor migrants.

- Collaborate with government to ensure that livelihoods, social protection, and financial inclusion measures reach the most vulnerable migrants such as first-time, less educated, less socially-connected, and those who belong to marginalized groups.

For Researchers

Researchers should generate evidence to identify what works to prevent debt-driven labor migration and reduce financial vulnerabilities that are associated with labor exploitation.

- Collect representative samples from returned migrants to further explore whether migration becomes a debt trap or a wealth-creation opportunity for international labor migrants.

- Examine the differences in policy and regulatory frameworks and implementation between India and GCC countries in order to understand the large variations in many Indian worker-paid costs.

- Compile information on labor recruitment, grievance, and remediation practices of employers. Learning on effective labor protection measures implemented at source and destination can be used to advocate for better labor protection systems.

- Engage in implementation research for the entire duration of the program life-cycle (from co-creation to scaling) to enable the understanding of the entire migration journey and what works to support migrant decisions at each stage.