Agpaytech's Research
19th May, 2023

Remittance FDI Inflows to India

A Comprehensive Analysis of Trends and Challenges

Agpaytech

Executive Summary

India is one of the largest recipients of remittance inflows in the world, and these inflows significantly impact the country's economy. Recently, the Government has implemented several measures to attract foreign direct investment (FDI) in the remittance industry. It has resulted in a steady increase in remittance FDI inflows in India. According to the World Investment Report 2022, India received USD 81,973 million in FDI inflows in the fiscal year 2020-21, representing a 10% increase over the previous year. While most of these inflows were directed toward sectors such as information technology, telecommunications, and automobiles, the remittance industry has also attracted significant FDI. Foreign companies are increasingly investing in Indian remittance companies to tap into the country's growing demand for digital payment solutions. Moreover, the Indian Government has taken steps to promote digital payments and improve the efficiency of the remittance process. These measures have created a conducive environment for FDI inflows in the remittance industry.

Overall, remittance FDI inflows in India are poised for further growth, driven by the country's large diaspora population and the Government's focus on promoting digital payments. As India continues to emerge as a hub for remittance services, foreign investors will likely increase their investments in the sector in the coming years.

Keywords: Trends of FDI inflows in India, Routes of the FDI Remittance, Challenges of the Remittance FDI inflows in India.

Table of Contents

Introduction

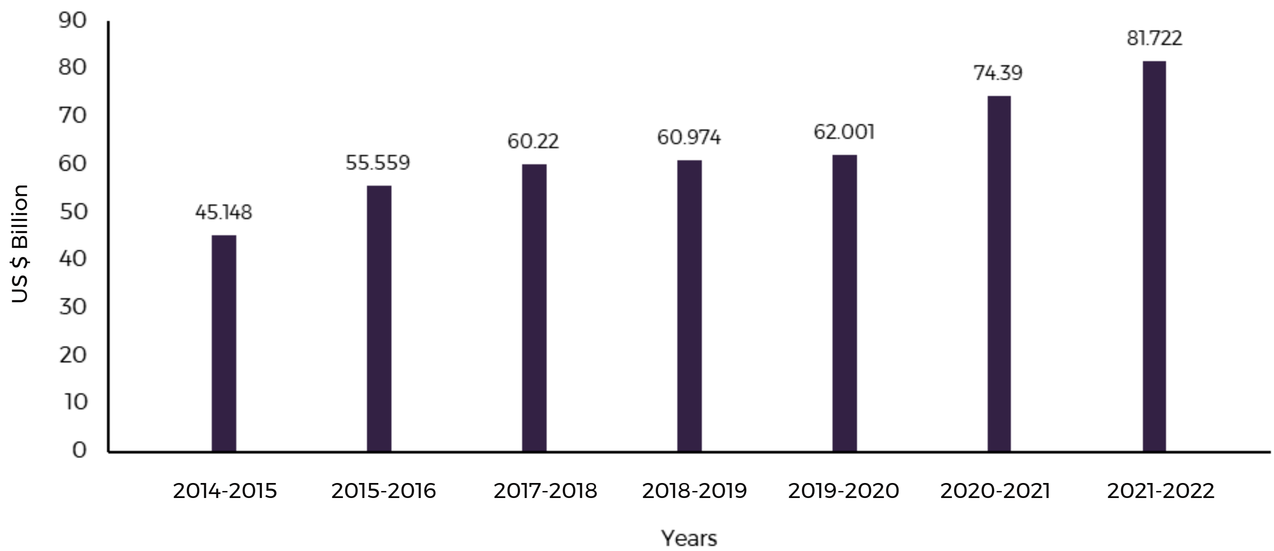
Remittance FDI inflows to India have steadily risen over the past few years, making the country one of the most significant foreign direct investment (FDI) recipients among developing countries. FDI inflows from remittances account for a significant percentage of India's total FDI and have been a primary source of funds for economic development. Remittances are money transfers from individuals or organizations in one country to individuals or organizations in another. These transfers can be for various reasons, such as family support, business purposes, or to fund overseas studies. They are usually sent electronically through banks or online money transfer services. Remittance FDI inflows to India are made up of foreign investments received through remittances. Remittances are an important source of foreign currency for India and are used to finance various investments and activities in the country. Remittance FDI inflows to India contribute to economic growth, job creation, and poverty reduction. They also provide a source of capital to small and medium-sized enterprises, which can often not access conventional forms of finance. Remittance FDI inflows to India are also an essential source of foreign exchange for the country. Remittances provide a stable source of foreign exchange earnings, which can help to reduce the country's trade deficit and strengthen its balance of payments position. In addition, remittances provide a source of funds for the Government to invest in infrastructure and social services. Remittance FDI inflows to India are expected to continue to increase in the coming years as the country develops and attracts more foreign direct investment. It will help to strengthen India's economy further and create more jobs and opportunities for its citizens.

Trends of the Remittance FDI inflows to India

FDI inflows to India have become a key source of external capital for the country. With the rise of digital payments, India offers tremendous potential. As of October 2021, India had 1.18 billion mobile connections, 700 million internet users, and 600 million smartphones. This number is only increasing each quarter. In 2020, India topped the world for the number of real-time payment transactions at 25.5 billion. This astonishing growth in digital payments has prompted more companies to invest in India, further boosting foreign direct investments.

In 2008, the Reserve Bank of India (RBI) and the Indian Banks' Association (IBA) collaborated to launch the National Payments Corporation of India (NPCI) to create a complete payment and settlement infrastructure in India. Over the last twelve years, NPCI has made great strides in achieving this goal, launching several products and services such as Aadhaar Enabled Payments System, Bharat Bill Payments System (BBPS), BHIM, and Cheque Transaction System. These products have enabled a more secure, convenient, and efficient way of making payments and settling transactions.

Figure 1: FDI Inflows in India



Source: India Brand Equity Foundation

Digitalization of Remittance Transfers

The trends of the Remittance FDI inflows in India convert into a digital banking landscape evolving rapidly with more than ten different payment methods.

- **Banking Card** – The Central Bank of India launched India's first credit card in 1980. The introduction of MasterCard in 1988 marked the start of a new era in banking and finance. Over the following five years, many state-owned banks began issuing their credit cards.

- **Unstructured Supplementary Service Data (USSD)** – In 2016, the USSD (Unstructured Supplementary Service Data) functionality was launched, providing users with an innovative mobile banking solution. This facility enables users to make financial transactions such as money transfers, check balances, and pay bills without needing a smartphone or an Internet connection. USSD has made mobile banking more accessible, allowing people to manage their finances on the go.

- **Aadhaar Enabled Payment Systems (AEPS)** –This new bank-led model enables financial inclusion transactions to occur online and interoperably at point-of-sale (PoS) locations, through any bank's business correspondent, with the use of Aadhaar authentication. This model is helping to make financial transactions more straightforward and accessible to those who may not have access to traditional banking services.

- **Unified Payments Interface (UPI) –** In 2016, the National Payments Corporation of India (NPCI) created the Unified Payments Interface (UPI) to enable instant and secure money transfers between two parties. This revolutionary technology makes it easy for people to conduct person-to-person and person-to-merchant transactions, providing an alternative to traditional banking services. UPI is the first step towards a cashless, digital India.

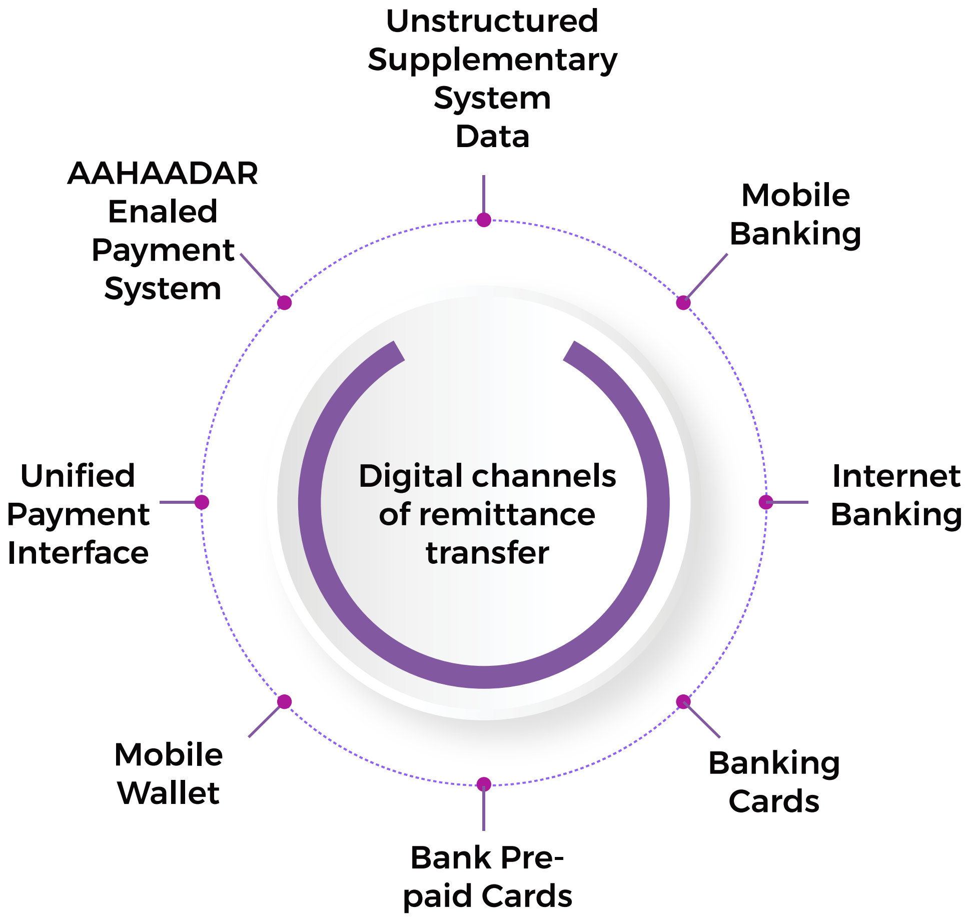
- **Mobile Wallet –** The virtual wallet allows users to store payment card information on their mobile devices for easy, secure payments. This technology offers a convenient way for customers to make purchases, manage their finances, and keep track of their spending. The virtual wallet provides added security, as the information is stored and encrypted.

- **Bank Pre-Paid Card –** Pre-paid cards offer users the convenience of "Pay Now, Use Later" - load your card with funds and make purchases without worrying about carrying cash. With a pre-paid card, you can shop online, pay bills and even withdraw cash from ATMs. Plus, you can easily track your expenses and get protection from fraud and other unauthorized transactions.

- **Internet Banking –** This revolutionary online banking system allows customers of a bank or financial institution to execute their banking activities through a secure web portal. It provides an efficient, convenient, and secure way to manage their banking needs anytime, anywhere. Customers can easily view their account balances, transfer money, pay bills, and set up direct deposits. They can also access their account statements and manage their investments without visiting a bank branch.

- **Mobile Banking –** This service, offered by banks and financial institutions, allows users to complete financial transactions on their mobile devices. Through this convenient and secure platform, individuals can quickly and easily make payments, transfer funds, and access their banking information from anywhere.

Figure 2: Digital channels of remittance transfer into India



Source: Agpaytech Research

Routes of the Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is an increasingly crucial source of non-debt financial resources for India's economic growth. It involves an overseas investment into a domestic enterprise's production or business activities. FDI has the potential to bring in capital, create jobs, and increase technology transfer, as well as improve the competitiveness of Indian companies in the global economy. It has been a significant driver of growth and development in India, particularly in the manufacturing and services sectors.

- **Automatic Route:**

FDI in most sectors is allowed under the automatic route, which means that prior approval from the Government is not required.
Under the automatic route, foreign investors are not required to seek prior approval from the Government of India or the Reserve Bank of India (RBI). They can invest in any sector except those that require prior approval from the Government of India. The major sectors under the automatic route are:

- **Pharmaceuticals**
- **Information Technology**
- **Telecommunications**
- **Banking**
- **Insurance**
- **Retail Trading**
- **Transport**
- **Power**

- **Government Route:**

FDI in specific sectors is allowed only with prior approval of the Government. The Government reviews the proposal based on economic, security and other considerations. Under the Government route, foreign investors must obtain prior approval from the Government of India and RBI. The sectors that require prior approval from the Government are:

- **Agriculture**
- **Mining**
- **Defense**
- **Broadcasting**
- **Private Security Agencies**
- **Multi-Brand Retail Trading**
- **Non-Banking Financial Companies**
- **Real Estate**
- **Print Media**

A Foreign Entity FDI Remittance Inflows to India

Remittance FDI is an essential source of income for many developing countries, providing them with needed capital to finance development projects. Remittance FDI can be divided into two main types: direct and indirect.

- Direct remittance FDI involves the foreign investor directly investing in the target country by buying shares in a local company or investing in local infrastructure.

- Indirect remittance FDI involves the investor sending money to a third party in the target country to invest in the local market. This type of FDI is often used by investors looking to diversify their portfolios and gain exposure to foreign markets without directly investing in them.

Remittance FDI can be an excellent way for investors to diversify their portfolios and gain access to foreign markets without making a significant upfront investment. It can also provide much-needed capital to developing countries, enabling them to finance development projects and create jobs. However, ensuring that the money is used for legitimate purposes is essential, as there are potential risks associated with FDI, such as corruption and money laundering. If used responsibly, remittance FDI can be a powerful tool for driving economic growth and creating jobs.

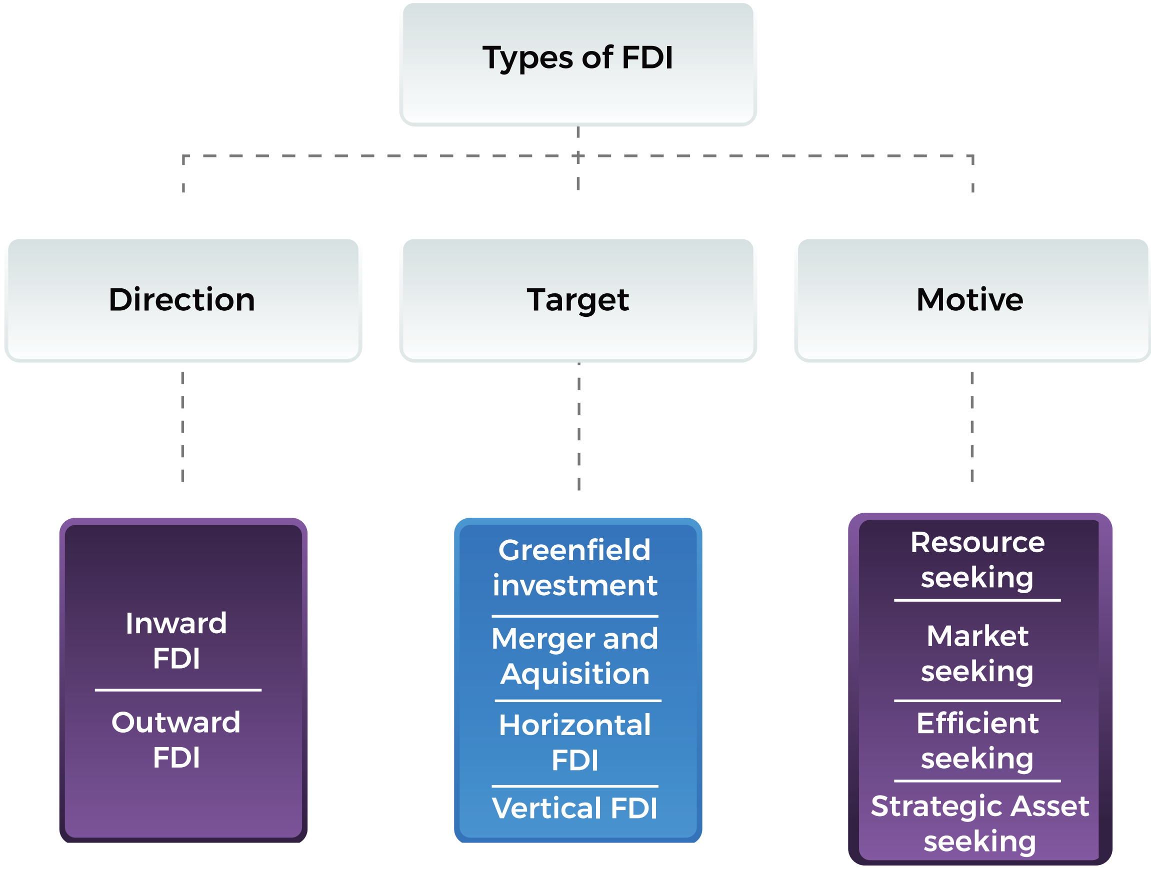
Domestic Entity FDI Remittance Inflows in India

Foreign Direct Investment (FDI) is an investment made by a company or individual in one country into business operations in another country. It is a direct investment into a company or a country. It can take several forms, such as creating new facilities, acquiring existing businesses, investing in expanding existing operations, and financing other investments.

Inward FDI is when foreign investors invest in a domestic business or economy. This type of investment can take many forms, such as acquiring shares in a local company, setting up joint ventures, and financing local businesses. This investment benefits the domestic economy by providing capital, jobs, technology, and access to new markets.

Outward FDI is when a domestic company or individual invests in a foreign business or economy. This type of investment benefits the domestic economy by allowing domestic companies to tap into new markets, gain access to new technologies, and benefit from the cost savings associated with operating in a foreign economy.

Figure 3: Types of the FDI



Source: Slideshare.com

Target of the FDI inflows

- **Greenfield FDI:** This type of FDI involves a company setting up a wholly new business in the host country. It could involve the construction of a new factory, the purchase of land, the establishment of a new subsidiary, or the acquisition of an existing business.

- **Mergers and Acquisitions (M&A):** In this type of FDI, a company acquires an existing business in the host country. It could involve the purchase of shares, the acquisition of assets, or a merger of two or more businesses.

- **Horizontal FDI:** Horizontal foreign direct investment (FDI) refers to the investment made by a foreign company in a host country, where the company engages in the same business activities as its parent company. In India, horizontal FDI has been a significant driver of economic growth and development, particularly in the manufacturing sector.

- **Vertical FDI:** Vertical foreign direct investment (FDI) refers to the investment made by a foreign company in a host country, where the company engages in different stages of the production process, from raw materials to finished products. In India, vertical FDI has been an essential driver of economic growth and development, particularly in the manufacturing sector. India has been attracting a significant amount of vertical FDI from multinational corporations, particularly in sectors such as electronics, pharmaceuticals, and automobiles.

Motive of the FDI

FDI can be motivated by various factors, including the desire to gain access to new markets and technologies, capitalizing on tax incentives, diversifying risk, and increasing operational flexibility.

- **Market Seeking:** This type of FDI is motivated by the desire to access a company's target market. Companies may establish foreign operations to serve customers in foreign markets better or gain access to new customer segments.

- **Resource Seeking:** Resource-seeking FDI is motivated by the desire to access new resources or technologies. Companies may establish foreign operations to secure access to natural resources, labour, capital, or technology unavailable in their home markets.

- **Efficiency Seeking:** Efficiency-seeking FDI is motivated by the desire to capitalize on tax incentives, take advantage of differences in labour costs, and reduce operational costs. Companies may establish foreign operations to reduce costs and increase profitability.

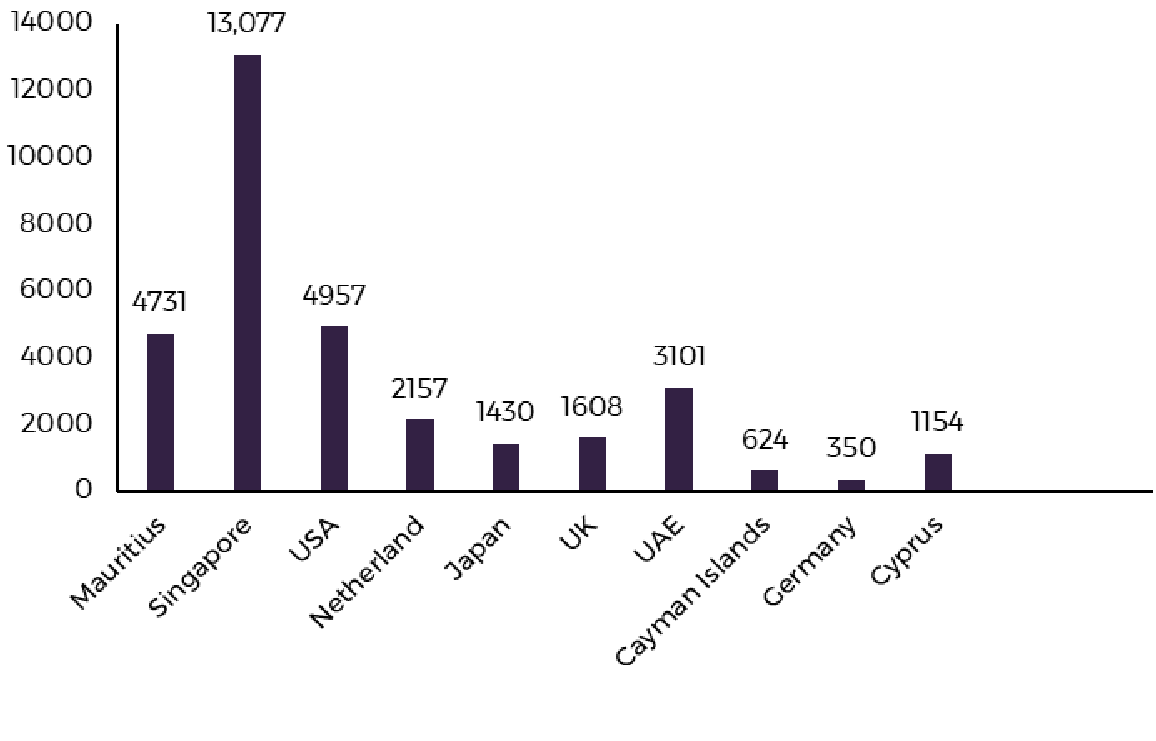
- **Strategic Asset Seeking:** Strategic asset-seeking FDI is motivated by the desire to diversify risk. Companies may establish foreign operations to spread risk across multiple markets and reduce dependence on a single market.

FDI can take many forms and can benefit both domestic and foreign economies. It is essential to understand the different types of FDI and how they can help businesses grow and succeed.

Comparing remittance and FDI inflow to India

Remittances and foreign direct investments (FDI) are two significant sources of capital inflows for India. Remittances are funds sent by individuals living abroad to their families and friends in India. At the same time, FDI is foreign investment in capital, technology, and human resources made in Indian business ventures. The number of remittances to India has multiplied in recent years, reaching an estimated $79 billion in 2020. It is a significant source of income for the country, and it helps to reduce poverty and improve the living standards of people in India. FDI, on the other hand, is a more stable source of capital inflows for India. FDI provides access to new technologies, capital, and business opportunities. It also helps to create jobs and boost economic growth in India. Both remittances and FDI are essential for the Indian economy. Remittances help to reduce poverty and improve the living standards of individuals and families in India, while FDI helps to create jobs and spur economic growth. However, FDI is more likely to be a long-term source of capital inflows, while remittances may be more short-term. Therefore, it is essential to ensure that both sources of capital are utilized to their fullest potential to maximize their benefits for the Indian economy.

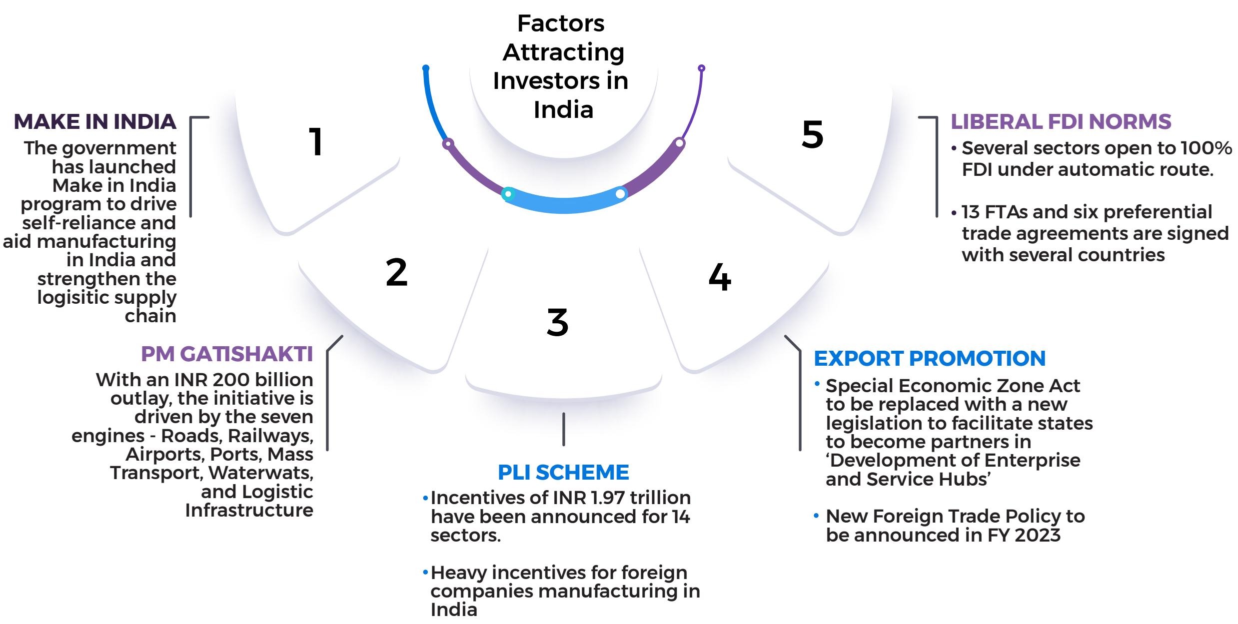
Figure 4: FDI Inflows in India FY23(April-December) (US$ million)



Source: India Briefing

In 2022, India's impressive economic growth rate of 5.5 % and its large population of 1.4 billion positioned it to become a leader in the current decade. Despite the Indian Government's restrictions on FDI from countries like China, India still achieved a record FDI inflow of US$84.8 billion in the fiscal year 2022. However, the FDI inflow in FY 2023 declined due to many factors, including the ongoing Russia-Ukraine conflict, changes in US monetary policy, and other global uncertainties. Nevertheless, the 2023 Economic Survey predicted a rebound in incoming FDI, owing to the sectoral production-linked incentive (PLI) schemes, growth prospects in tier-2 and tier-3 cities, and new investment facilitation measures like the National Single-Window System (NSWS).

Figure 5: Factors of the new Investment

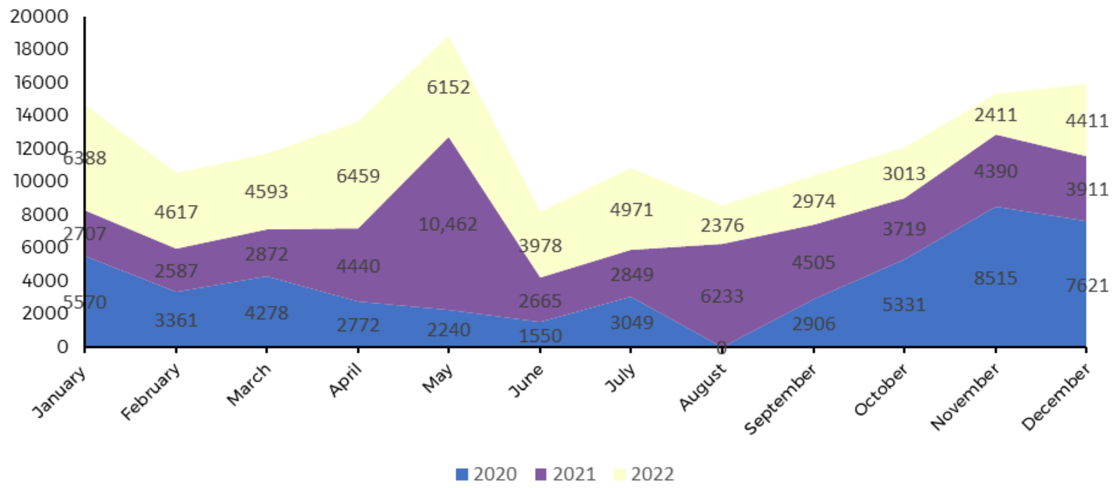


Source: India Briefing

FY 2022 India's FDI equity inflows reached US$52.34 billion in 2022, marking an increase from the US$51.34 billion recorded in 2021, however, falling short of the US$64.68 billion recorded in 2020.

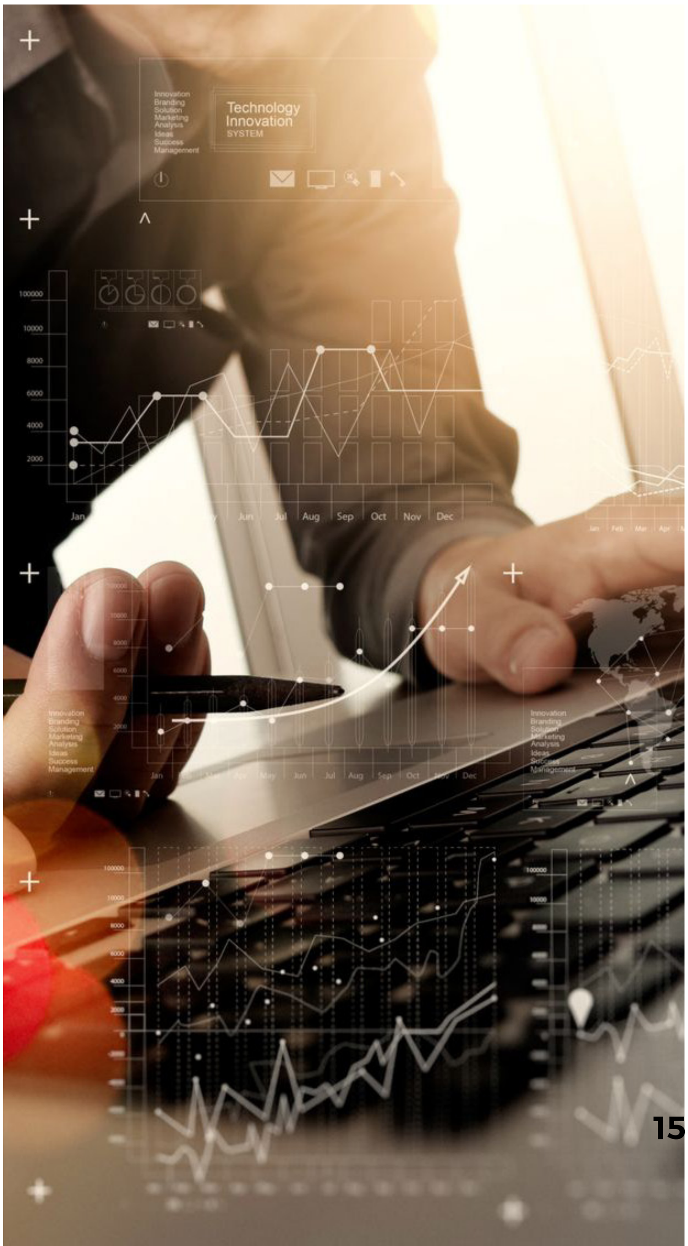
During the first three quarters of FY 2023 (April 2022 – December 2022), India's total FDI inflow, comprising equity inflows, reinvested earnings, and other capital, amounted to US$55.27 billion. This figure 6 represents a decrease from the US$60.33 billion recorded during FY 2022 (April 2021 – December 2021).

Figure 6: FDI Equity Inflows in India 2020-2022 (US$ Million)



Source: India Briefing

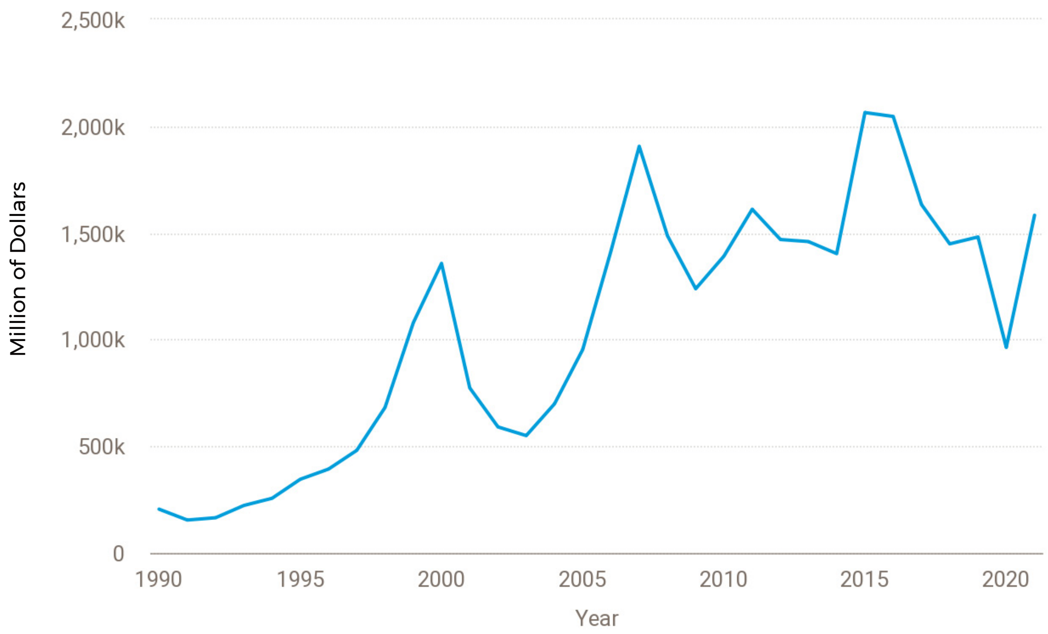
Furthermore, among some top investors between April and December 2022, Singapore was the leading investor in India in terms of FDI, with the value of its investments totalling US$13.07 billion. The US followed close behind with US$4.95 billion, while Mauritius, UAE, and the Netherlands invested US$4.73 billion, US$3.10 billion, and US$2.15 billion, respectively. In the first three quarters of FY 2023, the UK, Japan, Cyprus, the Cayman Islands, and Germany were primary sources of FDI equity inflow into India.



Global FDI flows

Foreign direct investment (FDI) is an essential source of capital for emerging markets and economies in transition. It provides capital for development projects and helps to create jobs, increase productivity, and promote economic growth and stability. With increasing globalization, FDI flows have become an increasingly important part of the global economy. In recent years, global FDI flows have been on the rise. According to the World Investment Report by the United Nations Conference on Trade and Development (UNCTAD) projects that world economic growth will slow to 2.5% in 2022 and drop to 2.2% in 2023. Developed economies continue to account for the majority of FDI flows, but the share of developing economies has increased significantly in recent years. Remittances have also been an essential source of capital for many economies. Remittances are money individuals living abroad send to their family and friends in their home countries.

Figure 7: Global foreign direct investment flows



Source: United Nations Conference on Trade and Development Report,2022

Furthermore, remittances are a low-cost alternative to other international payments, making them an attractive option for individuals who want to send money to their home countries. Despite similarities in providing capital to developing countries, FDI and remittances have some fundamental differences. FDI involves the direct investment of capital into a country's economy, while remittances are sent by individuals living abroad. Additionally, FDI is typically more expensive than remittances. In general, both FDI and remittances play a critical role in developing countries. FDI helps fund development projects, creates employment opportunities, and stimulates economic growth. At the same time, remittances are an essential source of capital for countries with a large diaspora and are often a more cost-effective way to transfer funds across borders.

Challenges of promoting remittance FDI inflows to India

India has already attracted over 100 Fortune 500 companies that have invested in the country, generating employment opportunities, income, technology transfer, and economic stability. However, challenges still hinder more significant FDI inflows into India despite these advantages. India strives to ensure political and social stability and create a regulatory environment that maximizes foreign investment. Nevertheless, several challenges impede the flow of larger FDIs in India. These challenges include:

- **Resource challenge:** India is widely recognized for its abundant resources, including a vast human talent pool and significant fixed and working capital availability. However, despite these strengths, some underutilized or unexploited resources remain, particularly in rural and urban areas. To address these challenges and facilitate more significant inflows of FDI, India is focused on increasing its infrastructure over the next decade, with an estimated investment requirement of around US$150 billion. This emphasis on infrastructure development is essential in overcoming obstacles to more significant FDI in India.

- **Equity challenge:** India's development pace has accelerated in recent years, but progress has been uneven, with more significant gains in urban areas than in rural regions, where underdevelopment remains a concern. This approach fosters social equality while promoting balanced economic growth across the country.

- **Political Challenge:** Foreign investors seeking to increase FDI in sectors such as banking and insurance require political support from the host country's political structure. It can be achieved through effective communication and collaboration between foreign investors and the Indian Parliament.

- **Federal Challenge:** One of the most significant challenges hindering larger FDI inflows into India is the need to accelerate the implementation of policies, rules, and regulations uniformly across all states in the country. Achieving parity in policy implementation speeds among all states is crucial. Furthermore, in addition to India's lacklustre performance in competitiveness, infrastructure quality, labour skills, and productivity, several other factors make it less attractive for direct investment than its potential suggests. Despite these challenges, India's vast and rapidly growing domestic market makes it an attractive destination for FDI. With ongoing reforms that improve institutions and economic policies, India can create an environment that promotes private investment and economic growth, leading to substantially higher FDI inflows

FDI and Remittance opportunities in Fintech

Fintech, or financial technology, has become a significant part of the global economy. As more countries continue to move towards digital banking solutions, Fintech has become an increasingly important part of the financial services sector. It has opened many opportunities for Foreign Direct Investment (FDI) and remittances in Fintech.

Additionally, Fintech companies often have access to cutting-edge technology that can be leveraged to provide a range of innovative services that can be highly profitable. FDI is a crucial driver of economic growth or financial resource for India's economic development. The Government has recently made numerous efforts, including easing FDI regulations in various industries, PSUs, oil refineries, telecom, and defence. India's FDI inflows reached record levels during 2020-21. The total FDI inflows stood at US$ 81,973 million, a 10% increase over the previous financial year. According to the World Investment Report 2022, India was ranked eighth among the world's primary FDI recipients in 2020, up from ninth in 2019. Information and technology, telecommunication and automobile were the central receivers of FDI in FY22. With the help of significant transactions in the technology and health sectors, multinational companies (MNCs) have pursued strategic collaborations with top domestic business groupings, fuelling an increase in cross-border M&A of 83% to US$ 27 billion.

Conclusion

Remittance FDI inflows have played a significant role in India's economy over the past few decades. With a large Indian diaspora spread worldwide, India has become one of the top recipients of remittance FDI globally. These inflows have helped to boost the country's foreign exchange reserves, reduce poverty, and increase investment in various sectors of the economy. The Indian Government has taken several measures to promote the inflow of remittance FDI, such as easing regulations, providing tax incentives, and improving the overall investment climate. Despite some challenges, such as the impact of the COVID-19 pandemic, the future looks promising for remittance FDI inflows into India, given the increasing use of technology, the continued growth of the Indian diaspora, and the country's strong economic fundamentals. Overall, remittance FDI inflows have been a critical driver of India's economic

References

(2023). Animated chart: Remittance flows and GDP impact by country.

Bhardwaj, N. (2023). India FDI Inflow 2022: Latest Data Analysis on Investment Landscape.

(2022). DIGITAL PAYMENTS AND THEIR IMPACT ON THE INDIAN ECONOMY.

(2022). Foreign Direct Investment (FDI).
(n.d.). Foreign Direct Investment in India:Issues and Challenges.

(2023). India FDI Inflow 2022: Latest Data Analysis on Investment Landscape.

(2020). Retail FDI in India.

About Agpaytech

Agpaytech Ltd. is a company pioneering in the Fintech Space with a focused approach to building robust technologies for eCommerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service White-Label Solution, Foreign Exchange, Cross Border Payments, and digital currency technology. We have partnered with multiple banks, non-banking financial institutions, and corporate organizations to create a solid service delivery model for them and their customers to ease their international remittances and payments concerns. Website: www.agpaytech.co.uk

United Kingdom
AGPAYTECH LTD.
3rd Floor, 86-90 Paul Street
London, EC2A 4NE, UK

Email: info@agpaytech.com

United States of America
AGPAYTECH USA LLC
9701 Apollo Dr Suite 100
Largo MD, 20774, USA

Email: usa@agpaytech.com