MEASURING COST OF RECEIVING REMITTANCES IN PAKISTAN

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EXECUTIVE SUMMARY

The Sustainable Development Goal 10.c of the United Nations Organization (UNO) targets to reduce the transaction cost of migrant remittances to 3 percent by 2030. The aim is to encourage remittance transactions through formal channels including banks and money transfer operators. Reduction of remittance cost to 3 percent can have long-term socio-economic consequences for developing countries including Pakistan which relies significantly on remittances for socio-economic development and financing its trade deficit. For instance, about 69% of the trade deficit in fiscal year 2018-19 was financed through workers’ remittances. Despite the fact that remittances have significant effects on the economy, evidence-based research on the transaction cost of remittances to Pakistan is lacking. This report calculates the cost of remittance transactions to Pakistan both at the aggregate and corridor levels.

- Using World Bank data on remittance prices, average transaction cost is estimated from 2011Q1-2019Q2 for significant corridors. Similarly, the cost is calculated for each significant corridor (sending country), source of transfer (bank and money transfer operators (MTOs)), volume of transfer (US$200 and $500), and instrument of the transaction (bank account, cash, mobile money and debit card).
- The average transaction cost of remitting is calculated while using both weighted and unweighted (equal weights) averages techniques. The weights have been assigned on the basis of share of a corridor in the total remittances inflow to Pakistan in a given quarter.
- Similarly, different factors have also been identified which affect the flow of remittance transactions.
- A key informant interview approach is used for domestic and foreign banks to uncover any hidden portion of the cost charged by these financial institutions.
- A critical evaluation of the government efforts and initiatives has also been performed through key informant interviews from Pakistan Remittance Initiative (PRI) and State Bank of Pakistan to highlight the success and failure of the implemented initiatives.

Based on the above questions and their analysis, the following results have been obtained.

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1 The terms equal weights and unweighted are used interchangeably.
- The average cost per remittance transaction is decreasing over the time. For instance, the cost decreased from 5.29% in 2018 to 4.81% in the first two quarter of 2019 - a reduction of around 9%. However, this cost was calculated for the amount of $200 transaction and on the basis of equal weights (unweighted).

- Similarly, the weighted average cost of transaction is reduced from 4.76% in 2018 to 3.64% in first half of the year 2019 - a reduction of about 24%. Interestingly, the percentage reduction in the weighted cost is higher than the unweighted one. It shows that equal weights averages overestimate the actual cost of remittance transaction.

- A comparison between the costs of transaction of $200 and $500 in first two quarter of 2019 reveals that the cost of remitting $500 is 39% lower than $200.

- There are also noteworthy variations in costs across significant corridors. Kuwait is the least expensive corridor with 1.66% cost while Singapore is the most expensive with an average cost of 12.43%. However, due attention is needed for UAE where the cost is 6.19% - well above the average of rest of the Gulf States.

- Significant variations exist in average cost between sources of transfers, i.e., money transfer operators and bank-to-bank channel. In 2018, banks charged an additional 2.43 dollars for remitting $200 to Pakistan.

- International banks charge fixed cost/fee per remittance transaction. Thus, the cost of remittance transaction through bank-to-bank channel significantly decreases as the volume of amount increases.

- Domestic or receiving banks do not charge the remitter any cost for providing their services. However, they can get benefits in the form of foreign exchange reserves which they sell at the banking rate in the market. Furthermore, they get rebates of 20 Saudi Riyals per eligible transaction.

- Government initiatives in the form of Pakistan Remittance Initiative (PRI) significantly reduced the cost and increased the flow of remittances to Pakistan.

On the basis of the above findings, the following policy recommendations are offered:

- **E-branches and banks partnerships with MTOs**: Although some banks have extensive coverage in the form of total branches across the country, the share of e-branches is only 14.24 percent of the total branches. Moreover, banks’ partnership with Money Transfer
Operators (MTOs) is on the lower side which restricts their potential to facilitate remittance inflows. The government should facilitate the integration of banks with these financial companies to enhance their accessibility for the beneficiaries.

- **Tie-ups with major MTOs:** Although overseas Pakistanis are already benefiting from 152 tie-ups in multiple countries around the world, yet PRI does not have any free send facility contract with renowned MTOs like Western Union and Money Gram International which capture a significant share in the remittance market in Pakistan. Tie-ups with these two MTOs will help reduce the cost of remitting to Pakistan.

- **Bank branch expansion:** As majority of overseas workers belong to rural areas, their family members incur additional cost when they travel to cities to collect remittances. The government should encourage and facilitate domestic banks for their geographical expansion in rural areas so the convenience may lead to increased inward transfers. In addition, the banks may also open special booths and issue remittance cards to facilitate the remittance beneficiaries.

- **Autonomy of PRI:** PRI is still not autonomous in terms of remittance transactions record and policy arrangements with banks and MTOs. Steps should be taken in consultation with State Bank of Pakistan (SBP) to empower PRI in terms of keeping record of transactions, remittance policy formulation, and financial awareness and education.

- **Financial Education and Awareness:** Migrants need to be financially educated on the transaction of remittances. They should be informed that remitting bigger sums through fewer transactions is much economical than frequent transactions of smaller amounts. Moreover, they should also be informed about the cheaper bank to bank and MTO transfer channels through awareness counters at airports, broachers, social, electronic and print media.
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1. INTRODUCTION

1.1 Background

Sustainable Development Goal (SDG) 10.c states that “by 2030, reduce to less than 3 percent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 percent” (United Nations, 2015). This 3 percent cost of remittance target would have long-term socio-economic consequences in developing countries as remittances is a source of access to international capital markets, debt financing and balance of payment adjustments for majority of them. Empirical evidence shows that inflow of remittances improves living standards, stabilizes inflation and employment, reduces infant mortality and affects other socio-economic indicators which directly or indirectly contribute to the development processes of an economy. However, the target of below 3 percent cost of remittances is yet to be achieved and calls for further attention of researchers and policy makers.

Pakistan is among countries which rely significantly on remittances for socio-economic development. Various studies in Pakistan have observed that remittance income significantly affect household consumption, education, health, and labor supply (Arif, 2004; Mansuri, 2006; Nasir et al., 2011; Hassan, Mehmood & Hassan, 2013; Arif & Chaudhry, 2015; Khan & Khan, 2016); rural investment and asset accumulation (Jr and H, 1998); poverty (Siddiqui and Kemal, 2006). Nevertheless, among these socio-economic indicators, trade deficit is the perpetual economic problem which the country is facing since decades. Trade deficit has increased from $10.4 billion in fiscal year 2010-11 to $31.8 billion in 2018-19. In 2018-19, about 69% of this deficit is financed through workers remittances. Despite the significant role of remittances in the economy of Pakistan, the cost of remittance transactions in Pakistan is yet to be explored. The current study tries to fill this gape.

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2 For a thorough discussion on remittances and poverty see (Adams, 2004, 2006; Adams & Page, 2003, 2005; Córdova, 2006; Yang, 2008). Further studies such as Edwards and Ureta (2003), Borraz (2005), Calero et al. (2009), Alcaraz et al. (2012) study the impact of remittances on schooling. It is also found that remittances increase investment (Adams Jr & Cuecuecha, 2010, 2013; Bjuggren & Dzansi, 2008); contribute in financial development (Aggarwal et al., 2011; Giuliano & Ruiz-Arranz, 2009); and can help to reduce growth volatility (Bugamelli & Paterno, 2011). Higher remittance inflow is also found to be associated with lower infant mortality (Kanaiaupuni & Donato, 1999), higher birth weight (Frank & Hummer, 2002), and enhanced investment in human capital (Calero et al., 2009; Yang, 2008).

3 Pakistan received around $21.84 billion of remittances in fiscal year 2018-19 (Pakistan Economic Survey, 19).
While the inflow of remittances to Pakistan is increasing over time - from $11.2 billion in 2011 to $19.6 billion in 2018 (Pakistan Economic Survey, 2018) - one way to highlight its importance is to compare it with other macroeconomic indicators. Figure 1 compares this trend of remittance inflow with other macroeconomic indicators including foreign direct investment, development assistance and exports. It is shown that remittances (received) are greater than both net development assistance and foreign direct investment. Moreover, the gap between remittances and exports (of goods and services measured in terms of current USD) is apparently decreasing which is partly caused by reduction in export earnings since 2015. However, the increase in remittances is ostensible and plays a significant role in this convergence. Partially, the reduction in export earnings is due to the increased international competition and in part it reflects the dependents of Pakistan’s exports on primary commodities. In FY2015-16, decline in international commodity prices caused Pakistani exports to plunge (Mahmood & Ahmed, 2017). In 2017, the inflow of personal remittances was equal to 68 percent of total export earnings.

Figure 1: Inflow of Remittances to Pakistan

Source: World Development Indicators (WDI)

Government of Pakistan has taken some initiatives to increase the inflow of remittances in the country. The State Bank of Pakistan has adopted “no restrictions” policy on inward
remittances. Furthermore, inward remittances have been declared tax free with certain conditions.\textsuperscript{4} This is a major step for reducing the cost and increasing the volume of remittances. However, the most prominent of these steps is the joint initiative of the State Bank of Pakistan, Ministry of Finance, and the Ministry of Overseas Pakistanis called Pakistan Remittance Initiative (PRI). The main objective of this initiative is to reduce the cost of remittances along with formalization, transparency, and facilitation of remittances. This initiative has launched three services, namely, Real Time Gross Settlement (RTGS), Inter Bank Fund Transfer (IBFT), and Cash Over the Counter (COC) for receiving methods/payment instruments to make remittance transactions efficient in the country (PRI, 2019).

A few studies have tried to calculate the cost of remittance transactions. For instance, \textit{Gibson, McKenzie, and Rohorua (2006)} calculated the cost elasticity of remittances from New Zealand-Tonga corridor. It observed that a 1% increase in the price of remittance transaction decreases the amount of remittance sending by significant amount of 22%. Similarly, \textit{Aycinena, Martinez, and Yang (2010)} conducted a field experiment and report that $1 reduction in the cost of remittances is associated with an increase of $25 in the remitted amount in the case of Washington DC (USA)-El-Salvador corridor. However, the most significant of these studies is the work by \textit{Beck and Martínez Pería (2011)} which contributes critically to the literature by calculating and identifying the factors that contribute to this cost. The study, by utilizing the data for 119 country corridors across the world, finds that number of migrants and mainly greater competition among financial service providers contribute to the lower cost. For Pakistan, \textit{Ahmad and Zarzoso (2016)} observed significantly negative effect of transaction costs on remittance flows. However, they observed this correlation at the aggregative level. Thus, this project will not only focus on the transaction costs at the aggregate level but also perform a disaggregate analysis on the basis of corridor, source of transfer, amount of transfer, and government initiatives in the form of Pakistan Remittance Initiative (PRI).

\textsuperscript{4} According to the Financial Act 2019, however, if a beneficiary want to receive more than Rs. 5 million, he/she must declare the source of those remittances. If the explained source is not satisfying, then, the remitted amount is treated as income tax chargeable. If the explained source of remittance is satisfactory, then, the remitted amount is exempt from any taxation (PRI, 2019).
1.2 Scope of Work

With this backdrop, the given report calculates the cost of sending remittances to Pakistan. It estimates the average cost of remittance transaction not only at the aggregate level but a dis-aggregate average cost has also been assessed. At the dis-aggregate level, the cost is calculated at the corridor level (sending country), source of transfer (bank and money transfer operators), volume of the amount ($200 and $500), and instrument of the transaction (bank account, cash, mobile money and debit card). Furthermore, it identifies different factors which explain the variation in the cost. Besides, the report evaluated the effectiveness of government’s efforts, such as, Pakistan Remittance Initiative (PRI) which was launched to reduce the cost and facilitate the inflow of remittances in the country. Similarly, it digs deep to investigate the role of hidden charge, if any, by sending or receiving banks in the remittance transactions.
2. RELATED LITERATURE

The objective, among others, behind the targeted reduction of the cost of remittances to 3 percent is to encourage remitters to use formal channels and refrain from using informal channels where these transactions go undocumented. This target, however, remains unachieved and the estimated average global cost of sending remittances stands at 7.2 percent (more than double of the target) of the remitted amount (United Nations, 2018). The time-series estimates of this cost show a negative trend, nevertheless, in the recent years, it has stagnated around 7 percent (World Bank, 2017). Furthermore, the global flow of remittances to the low- and middle-income countries was increased by 10.8 percent in 2018 (an increase of $528 billion). Similarly, the global remittances flow has an apparently stable and increasing trend. Putting it in a comparative fashion, this flow is “larger than official development assistance and more stable than private capital flows” (Knomad, 2018).

There are many factors which may affect the flow of remittances; nonetheless, the primary determinants are found to be the stock of migrants and the cost of remittance transactions. Freund and Spatafora (2008) show, based on a household survey data, that stock of migrants affects recorded remittances positively while transactions costs and exchange rate restrictions affect it negatively. The study also finds that migrants refrain from remitting if the cost is high or they choose to employ informal channels to send remittances. Similarly, Ahmed and Martínez-Zarzoso (2016) reiterate these findings in the case of Pakistan. They show that higher cost of sending remittances to Pakistan is associated with lessened flow of remittances and augmented usage of informal channels. The same study found that migrant networks and improved financial services in home country facilitate the flow of remittances.

The cost of remittances, although the average stands at 7.2 percent, varies among different corridors. Similarly, the cost elasticity of remittances also varies significantly among corridors. According to Gibson et al. (2006), the value of cost elasticity of remittances in New Zealand-Tonga corridor to be -0.22. The study also reports that remittances have negative association with the fixed fee component of the cost and lowering the fee would significantly raise remittances in competitive corridors. Aycinena et al. (2010) conducted a field experiment and report that a $1

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reduction in the cost of remittances is associated with an increase of $25 in the remitted amount in the case of Washington DC (USA)-El-Salvador corridor. Interestingly, the number of transactions increased but not the amount per transaction and this increase was not found to be associated with a shift from other (informal) channels. In simple words, a decrease in the cost of remittances is found to have encouraged new remittances.

A healthy inflow of remittances is not only an important source of external funding but can also contribute, directly and indirectly, to the process of development in the low- and middle-income economies. However, their inflow, as mentioned above, is sensitive to the cost/price of sending these remittances from a host to recipient countries. Policy makers around the world pledged at L’Aquila 2009 G-8 Summit to reduce this cost on a priority basis (Padovani, 2010). Owing to the limited empirical research on the determinants of the cost of remittances, it is not clear that which factors contribute to the higher cost of sending and receiving remittances and which factors are contributing to the stagnation of this cost at high levels in recent years.

Pakistan is a recipient of remittances from Australia, Bahrain, Canada, Germany, Japan, Kuwait, Norway, Qatar, Saudi Arabia, Sultanat-e-Oman, Singapore, UAE, UK, and USA and a sender of remittances to Afghanistan and Bangladesh (World Bank, 2019). According to World Bank calculations, Pakistan has an average 4 percent remittance cost (which varies between 2 and 5 percent from corridor to corridor) (World Bank, 2017). However, World Bank’s calculations are based mainly on informal and unofficial data. The estimated cost of remittances by that data can diverge from the correct cost bear by the remitters. Furthermore, this cost is calculated at the aggregate level for all corridors. This study will contribute to the literature while calculating the cost at the disaggregate levels (corridor, amount, source of sending the remittances and time).

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6 The above mentioned studies, for example (Beck, Demirguc-Kunt, & Martinez Peria, 2005), are also based on the data collected by World Bank and hence are prone to the same risk of deviation from true cost of remittances.
3. SITUATIONAL ANALYSIS AND GOVERNMENT EFFORTS

During the last decade, Government of Pakistan has made certain efforts to increase the inflow of worker’s remittances through official channels. As will be discussed in the subsequent section (3.1.4), the trend of home-remittances in the last decade is much steeper than before. One may contend that government efforts so far have apparently been fruitful. These efforts include different initiatives and the availability of different means of sending and receiving remittances. For example, Pakistan Post Office Department (PPOD) has launched Foreign Remittance Initiative through which they have started home remittance payment service in collaboration with National Bank of Pakistan. Through this initiative, the beneficiary can receive the amount from any PPOD branch without paying any fee or tax. The other initiative is called Pakistan Remittance Initiative (PRI) which is the biggest step forward towards achieving a low cost and efficient inflow of remittances. In a key informant telephonic interview, on 31st July 2019, a PRI official disclosed that 85-90 percent of home-remittances are flowing through this initiative.

3.1 Pakistan Remittance Initiative

Pakistan Remittance Initiative (PRI) is a joint initiative of the Ministry of Finance, Ministry of Overseas Pakistanis and State Bank of Pakistan to facilitate remittance transactions from the rest of the world to Pakistan. It was launched in 2008 with the objective to reduce the cost of remittances along with formalization, transparency, and facilitation of remittance transactions. Similarly, PRI’s secondary role is to encourage and facilitate Pakistani nationals living abroad to invest in Pakistan. Many steps have been taken so far to achieve these objectives which include policy making, introduction of different financial services, and training, etc. Prior to launching this initiative, the government\(^7\) and State Bank of Pakistan thoroughly analyzed the remittance system in Pakistan (PRI, 2015). Based on a comprehensive collected data, weak spots in the Home Remittance System were identified including the analysis of international and national efforts to increase the inflow of remittances. This led PRI to focus on greater financial market commitment to remittances to enhance transparency, increase consumer protection, increase efficiency of

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\(^7\) Ministry of Finance and Ministry of Overseas Pakistanis.
payment system, lower the cost of remittances, incentivize both remitters and recipients and ultimately to achieve the objective of greater number of remittance inflows.

3.1.1 Implementation of PRI

The implementation of PRI started by a policy formation to increase competition in the remittance market which has been achieved by a significant increase in the number of banks involved in the remittance business. PRI has encouraged banks to enhance their outreach worldwide by making bilateral agreements. In this regard, a significant number, about 600, new bilateral arrangements have been made and efforts have been enhanced to focus on the global MTOs. Help from International Association of Money Transfer Network (IAMT) platform has also been sought and the use of card technology has been made possible by PRI.

For the development of payment system, three financial services have been introduced. Two of these services, namely, Real Time Gross Settlement (RTGS) and Cash Over the Counter were launched in 2009. The third, Inter Bank Fund Transfer (IBFT) was initiated in 2012. Introduction of these services is one of the most important parts of the PRI. Through RTGS, the remitted amount can be transferred to the recipient account on the same day that a sender sends. On the other hand, COC is the most competitive service to the informal sector which enables recipients to receive the amount in cash. This is the most commonly used service throughout Pakistan. Furthermore, IBFT enabled beneficiaries to significantly reduce turnaround time by the use of ATM Switch and Instant Account Credit facilities, since it enabled individuals to make interbank transactions. In order to make distribution of remittances more efficient, PRI has done comprehensive research to identify significant remittance recipient zones. Progress has been made to engage microfinance banks and postal services in the remittance business. Moreover, home remittance networks and branchless banking are both contributing in the efficient distribution of remittances.

A number of innovative financial products has also been introduced. Non-Resident Pakistan Account (NRP) encourages overseas Pakistanis to open a bank account8 in Pakistan. The account holder then can deposit its money, on a rate of return, in domestic banks. For the people who receive remittances, Pardes Card has been introduced, through which they can debit their amount from any online ATM machine. Pardes Card holder (and the recipient of remittances) can still acquire the amount through other services (like COC). Thus, Pardes Card adds in the convenience

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8 Almost every commercial bank provide this service.
of the beneficiaries by enabling them to use ATM machines. PRI aims to fully utilize the modern internet and electronic means to enhance the procedure of home remittances in Pakistan. To encourage the service providers, State Bank of Pakistan awards the financial service providers on the basis of their services and efforts in contributing to the national cause of Home Remittances.

Apart from that, different awareness and training programs such as “strategic framework for remittance services to policy level initiatives” are launched (PRI, 2015). Finally, PRI’s complaint center is working very efficiently to enhance the confidence of both remitters and recipients by responding in very timely and efficient manner.

Complaint center does not only resolve the complaints of financial institutions working with PRI but is also empowered to deal with problems related to remittances in other domestic banks. The rising number of calls, from 0 to 2500 a month, clearly shows that not only beneficiaries are getting the deserved feedback but also trust PRI to resolve their remittance related problems.

Interview with PRI Call Center Official

3.1.2 Free Remittance Facility to Beneficiaries

Twenty-five domestic commercial banks are working in collaboration with Pakistan Remittance Initiative (PRI, 2019). These banks offer free remittance facility to customers and charge no cost/fee on home remittances. The customer, however, has to have a valid identity (mostly a valid national identity card is a compulsion).

If a customer has a valid Computerized National Identity Card (CNIC) then he/she can receive remittances up to PKR 500,000 without paying any taxes or other cost of any kind. This limit goes up to PKR 5 million if the beneficiary has a bank account and still bear zero cost.

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9 For example, Best Performance Award and other performance based honorary awards are given to banks based on their performance to acknowledge their efforts.

According to Financial Act 2019, however, if a beneficiary wants to receive more than Rs. 5 million, he/she must declare the source of those remittances[1]. If the explained source is not satisfying, then, the remitted amount is treated as income tax chargeable. If the explained source of remittance is satisfactory, then, the remitted amount is exempt from any taxation (PRI, 2019).

Furthermore, only individual to individual remittance transactions (without inclusion of any third-party institution) are considered as home remittance transactions and not subject to taxes. If, however, any third-party institute or organization is involved in the transaction, then, it is considered as a commercial transaction and is subject to income tax. Apart from these legal requirements, there is no monetary cost associated with receiving the remittances in Pakistan[11].

3.1.3 Free Remittance Facility to Senders through International Tie-ups
PRI reaches to overseas Pakistanis around the globe to reduce the cost of sending remittances to Pakistan by forming ties with international MTOs and banks. Overseas Pakistanis are benefiting from 152 such tie-ups (which provide the ‘free send’ facility) in multiple countries of the world (PRI, 2019). PRI has been and continuously trying to collaborate with the most utilized channels to remit to Pakistan. A delegation usually visits the foreign bank or MTO to make certain arrangements to make the collaboration successful.

Using this facility, Pakistanis living abroad can send an amount equivalent to $200 or above to a beneficiary in Pakistan without bearing any cost whatsoever through these tie-ups. These financial institutions (working in collaboration with PRI), however, receive their respective cost and taxes (decided at the time of tie-up) from Government of Pakistan (GOP) (or State Bank of Pakistan). In simple words, GOP is subsidizing the inflow of remittances (of amount equivalent or above

[1] This is not true if the beneficiary wants foreign currency. In this case, the sender sends the foreign currency to the beneficiary’s foreign currency account and both banks (sender’s and recipient’s) can charge a fee accordingly. In simple words, transaction directly in foreign currency are not facilitated by PRI.

Interview with official from PRI
$200) by paying all the cost and taxes itself to the financial institutions working in collaboration with PRI (also the domestic banks). Hence, senders utilizing these channels bear zero cost to remit to Pakistan. The PRI official also revealed that 85-90 percent of the official home-remittances are being sent through PRI tie-ups. However, these tie-ups do not yet include some of the famous MTOs like Western Union and MoneyGram. Hence, PRI tie-ups do not fully eliminate the cost of sending remittances.

3.1.4 Impact of PRI on Remittances
As mentioned before, PRI is the first major step taken by Government of Pakistan with the help of the State Bank of Pakistan to facilitate the flow of remittances to Pakistan. Apparently, home remittances have grown steadily in the past decade. Figure 2 shows the trend in monthly home remittances prior to and after the inception of PRI. In the last decade (after the inception of PRI) the trend in home remittances is much steeper than it was since 1970s. Numerous other factors, such as the advances in technology in developed countries and some Gulf Cooperation Council (GCC) countries (World Bank, 2018), or economic globalization (Bach & Solomon, 2008) could also have contributed in this upsurge of remittances through legal channels. However, in case of Pakistan, the most plausible explanation of it seems to be successful execution of Pakistan Remittance Initiative.
3.2 Situational Analysis of Banks in Pakistan

Table 1 below provides a situational analysis of banks in Pakistan which unveils the opportunities for and gaps in facilitating the inflow of remittances. There is a widespread network of bank branches across the country indicating significant geographic coverage. While the overseas branches are established by the big banks only, almost all the banks have Nostro accounts. Meezan Bank has the highest number of NOSTRO accounts (almost 21) in foreign countries. UK, USA, Germany and Saudi Arabia are the corridors where all of the Pakistani banks have their Nostro accounts. This is important because banks with overseas branches do not charge remittance fee if the remittances are sent through them. Similarly, remittance services are provided free of charge to the remitters even if money is sent through other banks or MTOs. Also, all the banks provide cash over the counter facilities. To ensure safety and security of transactions, all banks demand
unique transaction reference number and copy of CNIC/Passport/Driving License from beneficiary (remittance collector). In most banks, the maximum amount per transaction is PKR. 500,000. All these steps play significant role in reducing the cost of sending remittances and thereby improving remittance inflow.

One of the interesting outcome from Table 1 below as well as from our key informant interviews with official from banks and PRI is that the remitters are not charged a fee (by banks) or tax (by government). While one can understand why the government would tax-free flow of remittance, it appears surprising that banks, especially private banks, do not charge a fee. In our key informant interviews, we asked the bank official if there are any hidden charges or they provide these services free of charge. The bank officials responded as follows:

> We do not charge any fee for remittance transaction that are equal to or above $200 under the Free Remittance Facility of PRI. There are no hidden charges either. We, however, benefit in two ways: (i) Banks receive rebate against all eligible transactions. State Bank of Pakistan (SBP) release rebates of 20 Saudi Riyal per eligible transaction. (ii) Such transactions also increase foreign reserves of the banks who can earn from utilizing exchange rate variations.

Interview with officials from Banks and PRI

While the above discussion presents a promising scenario for remittance growth, certain gaps need to be filled to achieve it. For instance, although some banks have extensive coverage in the form of total branches across the country, the share of e-branches are on the lower side. On average, e-branches are 14.24 percent of the total branches of a bank. More importantly, banks’ partnership with Money Transfer Operators (MTOs) is on the lower side. While all the banks are associated with at least one of the world wide money transfer operators (Western Union, MoneyGram, Xpress Money and RIA money transfer), on average, a bank partners with only 11 MTOs. This significantly hinders the banking channel’s facilitation in remittance inflow. To comprehend this, the mechanism through which MTOs transfer money needs to be understood. The money sent by a remitter through an MTO can be received from a bank only if that MTO has partnered with the bank. Hence, even though a bank may have extensive geographical presence in an area, it cannot facilitate the remittance transaction if it not a partner with MTOs. An extensive partnership with
MTOs is, therefore, as important as having extensive coverage.\textsuperscript{12} Smaller and regional banks especially find it difficult to convince MTOs for integration. For instance, a bank official expressed his disappointment during the key informant interview as follows:

\begin{quote}
We have been finding it extremely difficult to convince MTOs to form partnership with us. They (MTOs) ask why should we integrate with you when there are big banks (with more coverage) to form partnership with. I tried told them our bank has extensive network in the province (of Khyber Pakhtunkhwa) and that Pashtun community do prefer our banks. So far, we have been able to have only 6 partners. People do come to our branches with required documents because it is convenient for them. However, due to lack of integration with MTOs through which their money is sent, we can facilitate them. Consequently, the customers stop using our banks even though it is relatively convenient for them. MTOs do not give weight to our requests. The government should play a role to facilitate the integration of MTOs with banks.
\end{quote}

Interview with a Khyber Bank official

Another concern is with regard to having lower number of Nostro account in the significant corridor. Although all the banks do have Nostro account, only few of them has these accounts in all the countries contributing significantly to our remittance inflow. The presence of Nostro accounts in a remittance sending country reduces the probability of involvement of intermediary financial institutions thereby reducing the cost of remittance transactions through banking channels.

\textsuperscript{12} Allied bank limited is a good example of this. It has 1345 branches (extensive coverage) and the highest (44) number of MTO partners (extensive partnership).
Table 1: Situational Analysis of Banks in Pakistan w.r.t Remittance Facilitation

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Total branches</th>
<th>E-branches</th>
<th>Overseas branches</th>
<th>No of partners (MTOs)</th>
<th>Fee charged from remitter</th>
<th>Cash over the counter facility</th>
<th>Maximum amount per transaction (pkr)</th>
<th>NOSTRO accounts</th>
<th>NOSTRO accounts in major corridors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al Baraka Bank (Pakistan)</td>
<td>191</td>
<td>37</td>
<td>N/A</td>
<td>3</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Allied Bank Limited</td>
<td>1345</td>
<td>152</td>
<td>Yes</td>
<td>44</td>
<td>No</td>
<td>Yes</td>
<td>500,000</td>
<td>Yes</td>
<td>7</td>
</tr>
<tr>
<td>Askari Bank Limited</td>
<td>516</td>
<td>75</td>
<td>Yes</td>
<td>4</td>
<td>No</td>
<td>Yes</td>
<td>500,000</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Bank Al Habib Limited</td>
<td>737</td>
<td>179</td>
<td>Yes</td>
<td>1</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Bank Alfalah Limited</td>
<td>600</td>
<td>79</td>
<td>Yes</td>
<td>9</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Bank Islami Pakistan</td>
<td>317</td>
<td>106</td>
<td>No</td>
<td>2</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Dubai Islamic Bank</td>
<td>200</td>
<td>33</td>
<td>N/A</td>
<td>4</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Faysal Bank Limited</td>
<td>300</td>
<td>64</td>
<td>N/A</td>
<td>8</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Habib Metropolitan Bank</td>
<td>320</td>
<td>66</td>
<td>No</td>
<td>12</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>6</td>
</tr>
<tr>
<td>Habib Bank Limited (HBL)</td>
<td>1700</td>
<td>163</td>
<td>Yes</td>
<td>N/A</td>
<td>No</td>
<td>Yes</td>
<td>500,000</td>
<td>Yes</td>
<td>6</td>
</tr>
<tr>
<td>JS Bank Limited</td>
<td>345</td>
<td>42</td>
<td>Yes</td>
<td>1</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>7</td>
</tr>
<tr>
<td>Muslim Commercial Bank</td>
<td>1400</td>
<td>195</td>
<td>Yes</td>
<td>3</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>8</td>
</tr>
<tr>
<td>Meezan Bank Limited</td>
<td>650</td>
<td>101</td>
<td>No</td>
<td>20</td>
<td>No</td>
<td>Yes</td>
<td>500,000</td>
<td>Yes</td>
<td>7</td>
</tr>
<tr>
<td>National Bank of Pakistan</td>
<td>1470+</td>
<td>198</td>
<td>Yes</td>
<td>38</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Standard Chartered Bank</td>
<td>68</td>
<td>19</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Samba Bank Limited</td>
<td>37</td>
<td>5</td>
<td>N/A</td>
<td>N/A</td>
<td>No</td>
<td>Yes</td>
<td>1,200,000</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Silkbank Limited</td>
<td>85</td>
<td>15</td>
<td>No</td>
<td>10</td>
<td>No</td>
<td>Yes</td>
<td>500,000</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Sindh Bank Limited</td>
<td>260</td>
<td>36</td>
<td>No</td>
<td>1</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>6</td>
</tr>
<tr>
<td>Soneri Bank Limited</td>
<td>291</td>
<td>54</td>
<td>No</td>
<td>7</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Summit Bank Limited</td>
<td>193+</td>
<td>32</td>
<td>N/A</td>
<td>17</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>The Bank of Khyber</td>
<td>130+</td>
<td>22</td>
<td>No</td>
<td>6</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>The Bank of Punjab</td>
<td>575+</td>
<td>69</td>
<td>No</td>
<td>25</td>
<td>No</td>
<td>Yes</td>
<td>500,000</td>
<td>Yes</td>
<td>6</td>
</tr>
<tr>
<td>United Bank Limited</td>
<td>900+</td>
<td>122</td>
<td>Yes</td>
<td>18</td>
<td>No</td>
<td>Yes</td>
<td>500,000</td>
<td>Yes</td>
<td>8</td>
</tr>
</tbody>
</table>

Note: Data are collected from multiple sources including the websites of Banks. N/A= Not Available.
4. COST OF REMITTANCES TO PAKISTAN

4.1 Data and Methodology

4.1.1 Identification of Significant Corridors

Pakistan is a recipient of remittances from various countries but the share of these countries in the remittance income varies significantly. According to Pakistan Economic Survey (2018), 13.24.8% of remittances received from Saudi Arabia which makes Pakistan-Saudi Arabia corridor the most important. 22.1% of remittances come from UAE. However, only three UAE states, namely, Dubai (16.2%), Abu Dhabi (5.6%), and Sharjah (0.2%) are important in this regard. After that, UK-Pakistan and USA-Pakistan corridors are dominating with 14.1% and 13.8% share, respectively, in the total inflow of remittance to Pakistan. Furthermore, Kuwait (3.9%), Sultanate-e-Oman (3.3%), Qatar (1.9%), Bahrain (1.8%), Canada (1.1%), Germany (0.7%), Norway (0.2%), and Japan (0.1%) are countries from which Pakistan receives considerable share of remittances and hence make significant corridors with Pakistan. The remaining 12% remittances are received from all other countries having very small or unstable individual’s share.

4.1.2 Data

Multiple data sources for calculation of cost of remittance are utilized including the World Bank’s Remittance Prices Worldwide database (World Bank). This source shares data about the cost of remittance (including fee as well as the exchange rate margin) in the sender country for two different amounts ($200 and $500). In addition, it also provides information about the sources of transfer (banks/money transfer operators (MTOs)) and the sending instrument, transfer speed, access points, sending network coverage, distributing network coverage, and receiving methods of these transfers for the two amounts mentioned above.

In addition, official data is collected from formal institutions which include State Bank of Pakistan (SBP), commercial banks in Pakistan, and foreign banks. We also conducted Key Informant Interviews (KII) with relevant individuals at the Pakistan Remittance Initiative (PRI), SBP, local commercial banks (HBL, National Bank, the Bank of Khyber, UBL, and Askari Bank), foreign banks (Santander Bank and Cirizen Bank in USA, and Abu Dhabi Islamic Bank in UAE) to identify the fee structure, role of intermediaries, and hidden charges, if any. These interviews were

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13 Ministry of Finance publish these statistics with the collaboration of State Bank of Pakistan.
also helpful in understanding the mechanism of transfer through banks and MTOs and in identifying the main corridors for remittances.

However, transparency is one of the main problems while estimating the cost of remittances. There are many formal and informal channels which the remitters can opt. The data on informal transactions is very hard to extract since these transactions are usually hidden (and illegal). Nevertheless, the following is the list of the components/ factors affecting cost of sending or receiving remittances:

- **Transfer fee:** This is the most visible component of the cost of remittances. This cost includes the fee charged by MTOs or banks either at the time of sending or receiving the remittances (or both).

- **Exchange rate spread:** Usually the remittances are paid (to the recipient) in local currency which require an exchange rate operation. This is the loss of amount during the conversion of the currency from foreign to local currency unit.

- **Payment instrument:** The cost of remittances also depends on the form (instrument used) in which the amount is remitted. For example, the transaction can be made using cash, bank account, Nostro account, mobile service, online service, etc.

- **Receiving method:** The cost may also depend on the method used by recipient to receive the remittances. For example, the cost of using mobile banking may differ from using a conventional MTO method.

- **Time:** The time taken to complete the transaction can also play an important role in determining the variation in the cost of remittances. This is an important factor in an economy where the exchange rate fluctuates on daily basis (like the recent experience of Pakistan).

- **Documentation or Administrative Procedures:** The requirement of documentation such as forms to be filled requiring personal as well as remittance related information or other related formalities to be fulfilled by the sender/remitter at the time of transaction, Administrative procedures, and formalities, can affect the provision of the service (Chung et al., 2006).

Furthermore, many other factors may contribute in determining the cost of remittances in Pakistan and this study aims to identify them by collecting the official data. The data on network coverage and access points is also collected.
4.1.3 Methodology

After identifying the significant corridors, the cost of remittance is calculated using the data obtained from the sources discussed above. In addition to the estimation of overall cost, a disaggregate analysis of cost is also conducted. This disaggregation is done by corridor, source of transfer (banks / MTOs), and volume of amount ($200 / $500). In contrast to the Remittance Price Worldwide database which uses equal weight in calculation of cost, we assign weights according to the respective shares of each corridor in remittance inflow to reduce the chance of under/overestimation. In order to examine temporal variations in the cost, a quarterly analysis has been performed, at both the aggregate and corridor levels, since 2011. For comparison purpose, we also estimated the cost of remittance transactions while using equal weights.

Once the cost is calculated for each corridor, we use qualitative analysis to explore the reasons for inter-corridor variations in the cost of remittances. This is done through Key Informant Interviews and Desk Reviews. For identification of variation in the cost of remittances over time and across sources, the Ordinary Least Square (OLS) estimation technique is used. The potential factors that are used in this estimation of cost include transfer speed, access points, sending network coverage, distributing network coverage, receiving methods, and the country fixed effects. After the identification of factors that explain the cost of remittance and inter-corridor differences in price of remittance, policy recommendations are put forth that can contemplate ways to reduce this cost for high price corridors.

4.2 Estimation of Remittance Cost

4.2.1 Estimates Using World Remittances Database

With sixth largest diaspora in the world, Pakistani migrants present in every continent of the world. The presence of overseas Pakistanis put Pakistan among the top ten recipients of remittances in the world with remittance-to-GDP ratio of 6.8% in 2018.14 Amjad and Arif (2014) reported that around 43% of Pakistani migrants in the gulf countries are low-skilled laborers. These laborers often send small amounts back home to finance food, education and health of the family. However, a significant portion of their money is being eaten up as a cost of sending remittances. In this

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section, we provide an in-depth analysis on the cost of sending remittances to Pakistan. Using World Bank’s Remittance Prices Worldwide database, we show that cost of remitting to Pakistan is significantly high and can be brought down to encourage the smooth flow of remittances through formal channels.

World Bank’s Remittance Prices Worldwide database is the only dataset which contains an extensive coverage of 365 country corridors with 48 sending and 105 receiving countries. As a costumer, World Bank’s researchers gather firsthand information from the firms within each corridor of sending the threshold amounts $200 and $500. Usually, the information is accumulated from the major places of the corridor (for example, populous city). The data also disaggregate the cost into two components—fee and exchange rate margin. Furthermore, it also provides information about the sources of transfer (banks/money transfer operators (MTOs)) and the sending instrument, transfer speed, access points, sending network coverage, distributing network coverage, and receiving methods of these transfer for the two amounts mentioned above. In this analysis, we will use the aforementioned data to inspect the cost of sending remittances to Pakistan. Our scheme of analysis is as follows: Firstly, we explicitly study the two major formal players in the remittance industry (i.e., Banks and MTOs). Consequently, we will compare the costs related to each source of transfer. It is followed by a section on weighted and unweighted costs of remittances. Finally, we disaggregate the cost with respect to mode of transaction and coverage in recipient country to decipher the important questions for informed policy-makers.

4.2.2 Cost of Remitting to Pakistan through MTOs

Money transfer operators (MTOs) is one of the three major players in remittance industry. According to World Bank, Western union along with three other MTOs captures around 25 percent of the remittance market.\(^\text{15}\) Several MTOs also provide services to Pakistani diaspora for sending their money back to Pakistan. This section estimates the cost of remittances to Pakistan through MTOs. First, we will present the overall cost of sending 200 and 500 USD to Pakistan. This analysis is then followed by cost of sending remittances from significant corridors.

Figures 3 and 4 below present the cost of remittances to Pakistan through MTOs over the time. A considerable difference can be observed between the cost of sending 200 and 500 USD

\(^\text{15}\) [https://www.saveonsend.com/blog/western-union-money-transfer/](https://www.saveonsend.com/blog/western-union-money-transfer/)
through MTOs. The dotted line in figures 3 and 4 shows the average total cost of sending remittances to lower middle-income countries. Considering it as a reference point, it is evident from the figures that cost of remitting to Pakistan through MTOs, though high, but is considerably lower than the cost of remitting to lower middle-income countries. Figure 3 reveals that cost of sending $200 oscillates between 4 to 5 percent of the amount. In absolute terms, this cost is around 8 to 10 USD. However, in figure 4, cost of sending $500 falls considerably to 3% of the amount or to around 15 dollars. It shows that remittance cost is regressive in nature. Cost becomes insignificant in the case of higher amounts, because, it tends to decrease as a percentage of principal amount. However, most of the Pakistani migrants who live in the middle eastern countries and Saudi Arabia do unskilled labour and are impelled to send smaller amounts back home to finance various household-level expenditures, like, food and education (Suleri & Savage, 2006). Therefore, cost is of a primary concern to the Pakistani migrants, especially, unskilled laborers.

Figure 3: Cost of Sending $200 to Pakistan (through MTOs)
Similarly, figures 5 and 6 compare the cost of sending 200 and 500 USD to Pakistan with the cost of similar amount sent to India and Bangladesh. Both figures indicate that cost of sending 200 as well as 500 USD to Pakistan through MTOs is cheaper than India. However, the cost of similar amounts are being remitted to Bangladesh with a slightly lower cost than Pakistan. Contrary to the persistent decline in the cost for low income countries (shown in figures 3 and 4), these figures show that cost of remittances fluctuates considerably over the given period.
Furthermore, figures 7 to 18 deal with the cost of remittances for all the corridors to Pakistan whose data is available in Remittance Prices Worldwide database. Figure 7 shows that the cost of remittance from USA through MTOs is around 6% and 4% for the amount 200 and 500 USD, respectively. The cost drops sharply after first quarter of 2013 and remains stagnant for the rest of the period. Similarly, figure 8 reveals that the cost of remitting from UK is even lower than that of USA. Moreover, it also meets the threshold level of 3%. The cost of sending $200 from UK through MTOs was around 3% in the first quarter of 2011. It falls to 2 percent during the period of 2015. Moreover, a modest increase in cost can be seen after the third quarter of 2017. The most dramatic case is that of Saudi Arabia which is depicted in figure 9. At the start, cost of sending 200 and 500 USD from Saudi Arabia is lower than USA and UK. But a sharp increase in cost is evident after 2018. Figure 42 (in section 4.8.2) below concludes that this sudden surge in the cost is comes from an increase in exchange rate margin charged by transfer service providers but the fee remained constant. Moreover, cost of sending remittances to Pakistan from USA exceeds the average total cost of remittances to lower middle income countries. These results show that much effort is required to reduce the cost of remittances, especially, for the corridors like USA. Moreover, the recent fluctuation in Saudi Arabia-Pakistan also needs to be considered so that such unexpected fluctuations can be avoided in future.
Figure 7: Cost of USA-Pak Corridor (through MTOs)

Cost of sending remittances from USA through MTOs

Figure 8: Cost of UK-Pak Corridor (through MTOs)

Cost for sending remittances from UK through MTOs
In the same context, figures 10 to 18 provide the cost of various corridors according to the order of their share in Pakistan’s total remittance collections. Most of the figures show moderate...
trends with no sizable variations. However, a sudden spike and an increase in cost of remittances from UAE is explained by the disaggregation of the costs. As shown below in figure 10, sharp rise in 2014 is due to higher exchange rate margin charged by the firms while persistent increase after 2015 is due to the rise in $200 fee (see, figure 40 in section 4.2.8). Also, the cost for Norway (figure 16) and Singapore (figure 18) is higher than the cost of other corridors. Moreover, cost for Oman, Canada, and Australia is pacing up for the most recent periods of the data.

Figure 11: Cost of Kuwait-Pak Corridor (through MTOs)

Figure 12: Cost of Oman-Pak Corridor (through MTOs)
Figure 13: Cost of Qatar-Pak Corridor (through MTOs)

Figure 14: Cost of Bahrain-Pak Corridor (through MTOs)
Figure 15: Cost of Canada-Pak Corridor (through MTOs)

Cost of Sending remittances from Canada through MTOs

Figure 16: Cost of Norway-Pak Corridor (through MTOs)

Cost of Sending remittances from Norway through MTOs
Figure 17: Cost of Australia-Pak Corridor (through MTOs)

Figure 18: Cost of Singapore-Pak Corridor (through MTOs)
Furthermore, table 2 shows that the cost of transferring $200 through four major MTOs varies within as well as across corridors. For example, column 2 of the table shows that *MoneyGram* is the cheapest source of funds transfer among three MTOs whose data is available for Saudi Arabia. Similarly, *MoneyGram* also has cost advantage over its counterparts in Oman and Bahrain. Likewise, *Xpress Money* enjoys the cost advantage in Kuwait, Qatar, Bahrain, Norway, Australia, and Singapore. Finally, *WorldRemit* is cheaper for United Kingdom, United States, and Canada. Overall, *Xpress Money* is cost effective mode of sending $200 than the other three large money transfer service providers.

Moreover, table 3 provides similar information $500 amount. The overall trend is also similar for the cost of $500. However, *Xpress Money* became cost effective for more number of corridors (8 out of 11). Overall cost of *Xpress Money* is also significantly lower than the remaining three money transfer operators. *WorldRemit, MoneyGram, and Western Union* charge about 41, 190, and 255 percent higher amount than *Xpress Money* for sending $500.
Table 2: Cost of Sending $200 to Pakistan (Major MTOs 2019Q2)

<table>
<thead>
<tr>
<th></th>
<th>KSA</th>
<th>UAE*</th>
<th>UK</th>
<th>USA</th>
<th>Kuwait</th>
<th>Oman</th>
<th>Qatar</th>
<th>Bahrain</th>
<th>Canada</th>
<th>Norway</th>
<th>Australia</th>
<th>Singapore</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Union</td>
<td>3.67</td>
<td>4.70</td>
<td>5.67</td>
<td>1.2</td>
<td>4.89</td>
<td>4.15</td>
<td>5.84</td>
<td>7.04</td>
<td>6.79</td>
<td>6.04</td>
<td>13.32</td>
<td>5.75</td>
<td></td>
</tr>
<tr>
<td>MoneyGram</td>
<td>3.21</td>
<td>5.85</td>
<td>5.33</td>
<td>1.75</td>
<td>1.92</td>
<td>-</td>
<td>2.58</td>
<td>5.01</td>
<td>5.25</td>
<td>6.03</td>
<td>17.43</td>
<td>5.44</td>
<td></td>
</tr>
<tr>
<td>Xpress Money</td>
<td>4.12</td>
<td>3.96</td>
<td>4.81</td>
<td>0.37</td>
<td>3.69</td>
<td>3.01</td>
<td>2.58</td>
<td>4.97</td>
<td>5.25</td>
<td>5.72</td>
<td>4.76</td>
<td>3.93</td>
<td></td>
</tr>
<tr>
<td>WorldRemit</td>
<td>-</td>
<td>2.95</td>
<td>4.05</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4.83</td>
<td>6.92</td>
<td>6.83</td>
<td>-</td>
<td>5.12</td>
<td></td>
</tr>
</tbody>
</table>

*Data for UAE is not available for any of the four major MTOs.

Table 3: Cost of Sending $500 to Pakistan (Major MTOs 2019Q2)

<table>
<thead>
<tr>
<th></th>
<th>RSA</th>
<th>UAE*</th>
<th>UK</th>
<th>USA</th>
<th>Kuwait</th>
<th>Oman</th>
<th>Qatar</th>
<th>Bahrain</th>
<th>Canada</th>
<th>Norway</th>
<th>Australia</th>
<th>Singapore</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Union</td>
<td>1.14</td>
<td>2.88</td>
<td>4.57</td>
<td>1.2</td>
<td>2.47</td>
<td>2.51</td>
<td>3.82</td>
<td>4.01</td>
<td>5.15</td>
<td>4.21</td>
<td>11.39</td>
<td>3.94</td>
<td></td>
</tr>
<tr>
<td>MoneyGram</td>
<td>2.29</td>
<td>3.13</td>
<td>3.77</td>
<td>0.88</td>
<td>1.11</td>
<td>-</td>
<td>0.58</td>
<td>2.61</td>
<td>4.04</td>
<td>3.78</td>
<td>12.49</td>
<td>3.47</td>
<td></td>
</tr>
<tr>
<td>Xpress Money</td>
<td>1.32</td>
<td>1.46</td>
<td>2.41</td>
<td>0.37</td>
<td>1.02</td>
<td>0.95</td>
<td>0.58</td>
<td>2.47</td>
<td>1.22</td>
<td>0.72</td>
<td>2.45</td>
<td>1.36</td>
<td></td>
</tr>
<tr>
<td>WorldRemit</td>
<td>-</td>
<td>0.88</td>
<td>2.06</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.14</td>
<td>1.59</td>
<td>3.94</td>
<td>-</td>
<td>2.32</td>
<td></td>
</tr>
</tbody>
</table>

*Data for UAE is not available for any of the four major MTOs
4.2.3 Cost of Remitting to Pakistan through Banks

Apart from MTOs, banking sector is also an important formal channel to send money back home. However, banks are the least popular source of transferring money partly due the heavy cost per transaction. This cost consists of two parts: (i) bank fee and (ii) exchange rate margin. This section will present the cost of sending 200 and 500 USD to Pakistan through banks. First, we compare the cost of sending 200 and 500 USD to Pakistan with average total cost of sending the same amounts to lower middle-income countries. After that, cost of sending money to Pakistan through banks for the significant corridors is examined.

Figures 19 and 20 capture the trend of sending remittances through the banking channel. Surprisingly, cost of remitting from the banking sector is more expensive. In the first quarter of 2011, cost of remittances was around 10% of the amount (or, 20 dollars). It falls sharply for the rest of the period and ends at around 7% in the first quarter of 2019. Similarly, the cost of sending $500 through banks is significantly lower compared to $200. Figure 19 shows that it started from 5% of the amount in the first quarter of 2011 and came down to 4% in 2019Q1.

Figure 19: Cost of Sending $200 to Pakistan (through Banks)
Correspondingly, figures 21 and 22 compare the costs of sending 200 and 500 USD to Pakistan, India, and Bangladesh. For $200 amounts, India has higher cost as compared to Pakistan, nevertheless, Bangladesh has lower average cost per transaction for most of the period of analysis. Similarly, with an exception of quarter 2014Q4, cost fluctuates around the same mean value in case of $500.

Figure 21: Cost of Sending $200 to Pakistan, India and Bangladesh (through Banks)
Figure 22: Cost of Sending $500 to Pakistan, India and Bangladesh (through Banks)

Moreover, the disaggregated analysis at corridor-level is also presented for each of the corridor in figures below.\(^\text{16}\) Figure 23 illustrates the cost of sending money to Pakistan from USA through banking channel. The trend shows that USA is relatively expensive corridor when it comes to sending money through banking channel. At the first quarter of 2011, cost of sending 200 and 500 USD was 13% and 6%, respectively. However, the cost of $200 dropped evidently to around 6% in 2019. Moreover, cost of sending $200 was lower than cost of sending 500 USD in second quarter of 2014. This decline is partly explained by the increase in competition among the service providers, and the greater use of technology in recent years. For example, as shown in the figures 46 and 47 (see section 4.2.9), the introduction of mobile money as an instrument of transaction has decreased the previously high cost of remittances.\(^\text{17}\)

\(^{16}\) Cost of remittances from the banks is not available in World Remittance data for the following corridors: Kuwait, Oman, Bahrain, Canada, and Singapore.

\(^{17}\) [https://tribune.com.pk/story/2022840/6-bringing-cost-remitting-pakistan/]
Likewise, Figure 24 provides the cost of remitting from UK, which is another significant corridor for Pakistan. The trend shows that banking channel is cheaper for UK than MTOs. In the first quarter of 2011, cost of sending $200 from UK was less than 2%. A modest increase in the cost can be seen, but it is still around 2% of the amount or only 4 dollars in absolute terms. In case of $500, the cost is comparably lower than the other corridors and oscillates around 4% of the amount. In the same way, figure 25 presents the cost of remitting from Saudi Arabia. Cost of sending money from Saudi Arabia to Pakistan through banking channel is one of the lowest in all corridors. For example, the figure reveals that it was around 2% for both amounts until 2018. However, it raised sharply to around 10% for one quarter and moved back to the mean.

Finally, Figure 26-29 illustrate the trends for remaining corridors. Figure 26 captures a declining trend in the costs for UAE corridor which is second most significant corridor when it comes to share in total remittance inflows to Pakistan. Figures 28 and 29 shows that the cost for banking sector is skyrocketing in case of Norway and Australia.
Figure 24: Cost of UK-Pak Corridor (through Banks)

Cost of sending remittances from UK through Banks

Figure 25: Cost of KSA-Pak Corridor (through Banks)

Cost of sending remittances from RSA through Banks
Figure 26: Cost of UAE-Pak Corridor (through Banks)

Figure 27: Cost of Qatar-Pak Corridor (through Banks)
Figure 28: Cost of Norway-Pak (through Banks)

Figure 29: Cost of Australia-Pak Corridor (through Banks)

4.2.4 Comparison of Cost of Remittance through Banks and MTOs

Previous sections provide a comprehensive overlook of the cost of sending remittances through MTOs and Banks. However, it is important to compare the relative costs incurred by both modes of transferring money to Pakistan. In this regard, table 4 below provides the comparison by source of transfer across time. A considerable difference can be noted for the costs between transfers
through banks and MTOs. This difference ranges from 78% in 2012 to 52% in 2018 for 200 dollars amount. The similar trend can be observed for $500 where cost of sending remittances through banks is around 40% higher in 2012 and 46% higher in 2018 than MTOs transfers.\footnote{Difference in 2012 for $200: (8.60-4.84)/4.84=0.78*100=78%. Difference in 2018 for $200: (7.16-4.73)/4.73=0.52*100=52%.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|}
\hline
 & Total Cost of sending $200 (in Percent) & & Total Cost of sending $500 (in Percent) & \\
\hline
Year & Through Banks & Through MTOs & Through Banks & Through MTOs \\
\hline
2012 & 8.60 & 4.84 & 4.88 & 3.45 \\
2014 & 6.06 & 4.25 & 3.55 & 3.00 \\
2016 & 8.21 & 4.39 & 4.83 & 2.64 \\
2018 & 7.16 & 4.73 & 4.24 & 2.91 \\
\hline
\end{tabular}
\caption{Total Cost of Sending Remittances to Pakistan (by Source of Transfer)}
\end{table}

Correspondingly, Figures 30 and 31 also highlight that cost of remitting through banks is substantially higher than MTOs. On average, in 2011, there was a difference of 5% between banks and MTOs transfers cost for $200. This difference squeezed over the time and decreased to 2% for the said amount in 2019Q1. Similar trend can also be observed in figure 31 for the transaction of $500 USD. However, the difference between the two channels remained relatively insignificant in the case of $500 amount. In first quarter of 2019, the difference was less than 1% of the amount.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure30.png}
\caption{Comparison of Costs by Source of Transfer (for $200)}
\end{figure}
4.2.5 Average Total Cost of Remittances to Pakistan

Table 5 below provides the weighted\(^{19}\) and unweighted average cost of sending remittances to Pakistan. The results show that there is a sizable difference between weighted and unweighted costs for both 200 and 500 dollars amount. For instance, in 2018, weighted cost is about 10 percentage points lower than the unweighted cost for $200 transaction. Moreover, weighted cost for sending $500 to Pakistan was 12 percentage points lower than unweighted cost in the same period. Another striking feature observed from Table 5 is that weighted cost is increasing while unweighted cost is decreasing over the time. This trend is most likely due to the increase in cost for two significant corridors (i.e., UAE and Saudi Arabia). As both corridors have higher share in the total remittances, an increasing trend in these two corridors is significantly translated into the overall weighted costs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cost of sending $200 (in Percent)</th>
<th>Total Cost of sending $500 (in Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Weighted*</td>
<td>Unweighted</td>
</tr>
<tr>
<td>2012</td>
<td>2.81</td>
<td>6.09</td>
</tr>
<tr>
<td>2014</td>
<td>2.36</td>
<td>4.85</td>
</tr>
<tr>
<td>2016</td>
<td>3.04</td>
<td>4.92</td>
</tr>
<tr>
<td>2018</td>
<td>4.76</td>
<td>5.29</td>
</tr>
</tbody>
</table>

\(^{19}\) The weights are assigned to each corridor based on its share in total remittances to Pakistan. For example, the cost of remittances from USA is assigned the weight of 0.15 in 2019Q1 since its share in total remittances inflows is 15 percent.
The weights are assigned to each corridor based on its share in total remittances to Pakistan. ** Data for 2019 is for the first two quarters only.

Analogously, figures 32 and 34 also confirm the above findings. For 2011Q1, there is a noticeable difference between the weighted and unweighted average costs for both $200 and $500 amount. However, both trends monotonously converged over the time. Moreover, Figures 32 and 33 compare the average costs (weighted and unweighted) by the amount sent. Figure 32 shows similar trends between unweighted costs for the $200 and $500 amount transaction. In absolute terms, it costs, on average, $10.57 to send $200, and $16.95 to send $500 to Pakistan in the first quarter of 2019. Unlike cost with equal weights, Figure 33 illustrates the upward trend in weighted costs for both $200 and $500 remittance amount. In terms of magnitude, on average, the cost of sending $200 to Pakistan was around 8.08 dollars in first quarter of 2019 while it was 11.41 dollars for $500 in the same period. The surprising rise in the weighted cost may be attributed to the increase in the cost of corridors with larger share in remittances inflows to Pakistan. Additionally, the average total cost of sending 200 and 500 USD to lower middle-income countries is higher than both weighted and unweighted costs for transferring funds to Pakistan.
Likewise, figures 34 and 35 depict the total cost for each corridor. In case of $200 transaction, cost is significantly higher for USA compared to other corridors. Moreover, it shows similar trend for rest of the corridors. Another important observation from figure 34 is that cost of all the corridors is significantly lower than the global average cost. However, the two spikes (one for Saudi Arabia, and the other for UAE) exceed from the global average cost. Table 6 below also provides the corridor-wise cost for 200 and 500 USD amounts send to Pakistan.
Table 6: Corridor-Wise Total Cost of Sending Remittances to Pakistan (2019Q2)

<table>
<thead>
<tr>
<th>Corridor</th>
<th>Banks ($200)</th>
<th>MTOs ($200)</th>
<th>Banks ($500)</th>
<th>MTOs ($500)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>1.82</td>
<td>3.43</td>
<td>0.42</td>
<td>1.24</td>
</tr>
<tr>
<td>UAE</td>
<td>7.37</td>
<td>5.00</td>
<td>4.81</td>
<td>2.86</td>
</tr>
<tr>
<td>UK</td>
<td>3.59</td>
<td>1.09</td>
<td>3.75</td>
<td>1.85</td>
</tr>
<tr>
<td>USA</td>
<td>6.34</td>
<td>5.12</td>
<td>3.94</td>
<td>3.80</td>
</tr>
<tr>
<td>Kuwait</td>
<td>-</td>
<td>1.66</td>
<td>-</td>
<td>0.99</td>
</tr>
<tr>
<td>Oman</td>
<td>-</td>
<td>3.74</td>
<td>-</td>
<td>1.99</td>
</tr>
<tr>
<td>Qatar</td>
<td>2.31</td>
<td>4.20</td>
<td>1.49</td>
<td>2.92</td>
</tr>
<tr>
<td>Bahrain</td>
<td>-</td>
<td>4.59</td>
<td>-</td>
<td>3.16</td>
</tr>
<tr>
<td>Canada</td>
<td>-</td>
<td>5.17</td>
<td>-</td>
<td>2.75</td>
</tr>
<tr>
<td>Norway</td>
<td>7.05</td>
<td>6.17</td>
<td>4.15</td>
<td>3.68</td>
</tr>
<tr>
<td>Australia</td>
<td>16.2</td>
<td>5.84</td>
<td>9.90</td>
<td>2.89</td>
</tr>
<tr>
<td>Singapore</td>
<td>-</td>
<td>12.43</td>
<td>-</td>
<td>9.82</td>
</tr>
</tbody>
</table>

4.2.6 Average Cost of Sending Remittances to Pakistan (by Years)

This section discusses the average cost by amount sent for years 2012, 2014, 2016 and 2018. Each multiple bar chart shows the cost of sending remittances from seven corridors. Figure 36 displays that the average cost of sending $200 is highest for Singapore. Moreover, the cost is also significantly higher for Australia, Norway, and United States. Similarly, the same corridors have higher average cost than 5%.
Furthermore, figure 37 shows the cost of remittances for 2014. Compared to 2012, average cost significantly reduced in 2014. It can be observed that the cost for USA decreased than the threshold of 5% in 2014. However, average cost still exceeds 5% for Singapore, Australia, and Norway.

Figure 36: Cost of Sending Remittances to Pakistan (2012)

Figure 37: Cost of Sending Remittances to Pakistan (2014)
Moreover, Figure 38 provides the similar bar charts for 2016. The downward trend in average cost for various corridors is evident compared to 2012 and 2014. In 2016, the average cost of sending the amount of $500 also reduced than the threshold of 5% for Norway.

![Figure 38: Cost of Sending Remittances to Pakistan (2016)](image)

Lastly, Figure 39 provides the bar chart for 2018. Contrary to the declining trend in the previous figures, the analysis for 2018 reports an increase in average cost for major corridors like, United States, Saudi Arabia, UAE, and United Kingdom. However, slight decline can also be noted for Norway and Australia.
4.2.7 Components of Cost

The figures below demonstrate trends of the average exchange rate margin and fee charged by remittance service providers in the major corridors. At first, figures 40 and 41 highlight the line which captures the average exchange rate margin being charged to send 200 and 500 USD in Pakistan. Moreover, fee cannot be aggregated because it is being charged in local currency units (LCU) by both transfer service providers which varies for each corridor.
Additionally, figures 42 and 43 are about exchange rate margin and fee charged while sending remittances from UAE. The results demonstrate that a spike is observed in 2014, which reflects in the total cost presented in the figure 8 of section 4.2.2. Moreover, a sudden jump can be
seen in the transfer fee for smaller amounts (i.e., $200). The increase in fee charged can also be examined for other countries.\textsuperscript{20}

\vspace{1cm}

\textbf{Figure 42: Fee Charged (LCU) for Sending Remittances from UAE}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure42.png}
\caption{Fee Charged (LCU) for Sending Remittances from UAE}
\end{figure}

\textsuperscript{20} \url{https://gulfnews.com/business/personal-finance/uae-remittance-fees-rise-but-here-are-cheapest-places-to-send-money-to-1.1549786627494}
Similarly, the results for Saudi Arabia (figures 44 & 45) also witness an increase in transfer fee from the first quarter of 2015. Surprisingly, the amalgamated trend lines indicate that the same amount has been charged as exchange rate margin for the amounts of 200 and 500 USD.

Finally, figure 46 to 49 captures the exchange rate margin and fee charged by the service providers for UK and USA, respectively. Unlike the previously two corridors, both components of the cost remain fairly stable in the given period of time.
Figure 44: Fee Charged (LCU) for Sending Remittances from Saudi Arabia

![Fee Charged (in LCU)](image)

Figure 45: Exchange Rate Margin for Sending Remittances from Saudi Arabia

![Exchange Rate Margin](image)
Figure 46: Fee Charged (LCU) for Sending Remittances from UK

Fee charged (in LCU)

Figure 47: Exchange Rate Margin for Sending remittances from UK

Exchange Rate Margin
Figure 48: Fee Charged (LCU) for Sending Remittances from USA

Fee charged (in LCU)

Figure 49: Exchange Rate Margin for Sending Remittances from USA

Exchange Rate Margin

Legend:
- 200 USD
- 500 USD
4.2.8 Cost by the Instrument of Transaction

Instead of targeting the source of transaction to reduce cost of remittances, policy makers can divert their attention towards promoting cheaper instruments of transaction. In this section, we provide the evidence that how costs vary for different types of the instruments used by sender to transact the amount.

Figures 50 and 51 show that cost varies noticeably for the instrument of transaction used by the sender. The cost of sending remittances through the mobile money is low compared to the other modes of transactions. On average, cost of sending 4200 to Pakistan by using mobile money as a mode of transaction was 2.725 of the amount in third quarter of 2018. During the fourth quarter, the cost jumped up to 4.07% of the amount. However, it dropped to 1.88% in the first quarter of 2019. Moreover, cost of transacting through bank account, cash, and debit card remained higher for the considered period. Cash remained the most expensive mode of transaction for the given quarters of 2018 and 2019.

The cost of transacting $500 through mobile money is also low. In the third quarter of 2018, it was 1.225 of the amount. Like the $200, cost by transacting through mobile money also increased for the fourth quarter of 2018. In the more recent quarter, it dropped back to 1.47% of the amount.

Figure 50: Cost by the Instrument of Transaction ($200)
4.2.9 Cost by Coverage in the Receiving Country

Another important policy question would be that how the coverage of remittance provider in the recipient country can explain the cost of remittances. This section answers the given question. Figure 52 provides the trend lines for three types of coverages provided by banks and MTOs. As expected, the results indicate that those who provide high coverage in the recipient country charge higher cost. The cost in case of high coverage transactions exceeds 6%. However, it remains between 2 to 4 percent in low coverage transactions. So, the 2% higher cost serve as a premium for high coverage in the recipient country.
In nutshell, using remittance price worldwide database, this section comprehensively investigated the cost of sending remittances to Pakistan. First, we evaluated the cost of sending remittances from two formal sources of transfer (banks and MTOs). Results show that MTOs captures most of the gulf countries remittance industry due to its lower cost per transaction. However, banking sector has cost advantage for USA and UK corridors. We also estimate the weighted and unweighted average cost over the time. The results indicated that unweighted cost has a declining trend while weighted average cost is ascending moderately over the time. However, both weighted and unweighted costs are higher than the threshold level of 3% of the amount. More importantly, the analysis show that cost of remittances are below 3% if the sender uses mobile money as an instrument of transaction. Another important policy relevant observation is that service providers seem to charge a premium of 2% for providing high coverage in the recipient country compared to low coverage.

4.3 Determinants of Cost

In the above section, figure 50 to 52 suggest that instrument of transferring the cash and coverage are important determinants of cost of remittance transaction. This section provides regression analysis to further investigate the suggestive evidence provided by previous section. In the regressions below, we use cross-sectional transfer firm level data to find whether certain transaction specific factors affect the cost.
Table 7 provides the results of regressions to explain the factors affecting total cost, fee, and exchange rate margin for sending $200 to Pakistan. The explanatory variables included in the analysis are transaction specific. For example, \( Bank (=1) \) is a dummy variable which captures the nature of money exchange firm. Secondly, \( coverage \) ranks transaction on the basis of the extensiveness of the network in the receiving country, higher the coverage more easily a receiver will get the payment. Moreover, \( payment\ instrument \) is ranked as per the liquidity of the payment method used by sender, higher the value of this variable, more liquid method is used for transaction. \( Speed\) captures the amount of time certain transaction take. Finally, access point refers to the method used by sender to transfer the amount. This variable is ranked according to the cost associated with it. For example, agent is ranked lowest while the internet is ranked highest as per the cost and convenience associated with each of the method. Column 1 of table 7 regresses total cost on firm specific factors. The results indicate that sending money through bank costs more than MTOs. Moreover, coverage and speed are also positively related with total cost and liquidity of payment instrument affects cost negatively. However, all the variables in column 1 are statistically insignificant.

Column 2 of table 7 captures the results when the dependent variable is Fee charged by service provider. Interestingly, Fee is significantly affected by firm type (Bank or MTOs), coverage, and speed of transaction. On average, sending money through banks is significantly expensive, higher coverage transactions has higher fee, and speedy transactions also cost more. Moreover, less liquidity of instrument used for the transaction reduces the cost of transaction, but the results are insignificant. Lastly, column 3 confirms that exchange rate margin charged by the service providers is not explained statistically by the variation in firm type, coverage, liquidity of the instrument, and speed of the transaction.

<table>
<thead>
<tr>
<th></th>
<th>Total Cost</th>
<th>Fee</th>
<th>ER Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank (=1)</td>
<td>2.499</td>
<td>7.528*</td>
<td>0.807</td>
</tr>
<tr>
<td></td>
<td>(1.541)</td>
<td>(3.984)</td>
<td>(0.667)</td>
</tr>
<tr>
<td>Coverage</td>
<td>0.480</td>
<td>3.275**</td>
<td>0.186</td>
</tr>
<tr>
<td></td>
<td>(0.313)</td>
<td>(1.255)</td>
<td>(0.160)</td>
</tr>
<tr>
<td>Payment Instrument (Liquidity)</td>
<td>-0.229</td>
<td>-0.446</td>
<td>0.092</td>
</tr>
<tr>
<td></td>
<td>(0.263)</td>
<td>(0.831)</td>
<td>(0.167)</td>
</tr>
<tr>
<td>Speed</td>
<td>0.001</td>
<td>0.055*</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>(0.010)</td>
<td>(0.033)</td>
<td>(0.007)</td>
</tr>
<tr>
<td>Access Points</td>
<td>0.132</td>
<td>0.303</td>
<td>-0.057</td>
</tr>
</tbody>
</table>
Furthermore, table 8 presents the results for the amount of $500 transaction. Analogous to the previous findings, exchange rate margin are not significantly associated with any of the included variables. However, fee charged by the service providers is explained by firm type, coverage, and speed. The higher coverage, and speed means higher fee to be charged by the service provider. Moreover, banks and higher coverage are significantly associated with the total cost for $500 transaction.

<table>
<thead>
<tr>
<th></th>
<th>Total Cost</th>
<th>Fee</th>
<th>Exchange Rate Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks (=1)</td>
<td>2.007*</td>
<td>13.177**</td>
<td>0.806</td>
</tr>
<tr>
<td></td>
<td>(1.067)</td>
<td>(5.077)</td>
<td>(0.669)</td>
</tr>
<tr>
<td>Coverage</td>
<td>0.445**</td>
<td>5.020***</td>
<td>0.183</td>
</tr>
<tr>
<td></td>
<td>(0.217)</td>
<td>(1.596)</td>
<td>(0.161)</td>
</tr>
<tr>
<td>Payment Instrument (Liquidity)</td>
<td>0.009</td>
<td>-0.521</td>
<td>0.096</td>
</tr>
<tr>
<td></td>
<td>(0.222)</td>
<td>(1.573)</td>
<td>(0.172)</td>
</tr>
<tr>
<td>Speed</td>
<td>0.001</td>
<td>0.080**</td>
<td>0.002</td>
</tr>
<tr>
<td></td>
<td>(0.008)</td>
<td>(0.039)</td>
<td>(0.007)</td>
</tr>
<tr>
<td>Access Points</td>
<td>-0.053</td>
<td>0.034</td>
<td>-0.059</td>
</tr>
<tr>
<td></td>
<td>(0.187)</td>
<td>(1.085)</td>
<td>(0.143)</td>
</tr>
<tr>
<td>Constant</td>
<td>6.535**</td>
<td>-4.332</td>
<td>4.796***</td>
</tr>
<tr>
<td></td>
<td>(2.719)</td>
<td>(15.616)</td>
<td>(1.463)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Observations</th>
<th>R-squared</th>
<th>Corridor Fixed Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks (=1)</td>
<td>131</td>
<td>131</td>
<td>Yes</td>
</tr>
<tr>
<td>Coverage</td>
<td>0.447</td>
<td>0.501</td>
<td>0.453</td>
</tr>
</tbody>
</table>

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

### 4.4 Cost of Bank-to-Bank Channel

Usually for small amounts (below $1000), the MTOs are preferred due to low cost of remittance transactions. One may also think of bank to bank transfer for such transactions. It is therefore
important to estimate the cost of such transfer. As discussed earlier, remitters are not charged by the banks in Pakistan if they send remittance through MTOs. It is important to mention here that this facility still holds for bank-to-bank transaction. The remitter, however, will bear the cost of sending bank. Unlike MTOs, the fee charged by the sending banks are fixed irrespective of the amount sent. These fees are, however, on the higher side when it comes to small amounts. For instance, the average fee charge by a bank in USA is $45. Sending an amount $200 ($500) for this fee would make the cost 22.5% (9%). Hence, the bank-to-bank channel for smaller amount is costly. However, if the amount is large, say $10,000 for the same fee, then this cost becomes negligible. Therefore, this channel should be used only in case of large amounts.

Table 9: Bank Channel Cost (USD)

<table>
<thead>
<tr>
<th>Country</th>
<th>Fee (Average)</th>
<th>Fee (Range)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States of America</td>
<td>45</td>
<td>30-85</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>31</td>
<td>12-53</td>
</tr>
<tr>
<td>Germany</td>
<td>40</td>
<td>6-84</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>15</td>
<td>7-25</td>
</tr>
</tbody>
</table>

Table 9 presents the fee (average across country) for four corridors. The highest average fee is for USA whereas the lowest for UAE. This is not surprising if one takes into account the distance factor. Within each corridor, however, the fee varies across banks. This is evident from the column showing the range of fee. For instance, in USA, Discover Bank charges as low as $30 per outbound transaction. On the other hand, this cost may go up to $85 (Fifth Third Bank). Even within a bank, the cost of transaction varies depending on factor such as whether the customer initiate transaction online or make a visit to a branch, whether the remittances would be sent in USD or local currency, and whether the bank would charge exchange rate margin. Initiating a transaction online instead of making a visit could save up to $10 per transaction. For all the countries in Table 9, the fee charged by a bank for an amount of $200-500 results in higher cost compared to a transfer through MTOs for the same amount.

The Key Informant Interviews (KII) with bank officials in USA and UAE reveals that most of the banks only charge fee and do not charge exchange rate margin. According to these officials, the most frequent amount sent to Pakistan through their banks are in the range of $5,000-15,000, suggesting that Pakistan diaspora are aware that bank-to-bank channel, in addition to being more
secure, have lower cost for large amounts. The KIIs further reveal that the remitter would be additionally charged if a third-party/intermediary financial institution would be involved in completing the transaction. This additional amount charge depends on the volume of transaction as well as financial variables. A rough estimate suggests that a third party involvement in the transaction increases the remitter cost by range of $10-25. This highlights the importance of Nostro accounts by the Pakistani Banks in important corridors. Lastly, the officials were asked if they pay some proportion of the fee they charged from remitter to the host bank in Pakistan. The officials responded that the fee they charge goes only to the sending bank and is not shared with the intermediary or host banks in the receiving country.

5. CONCLUSION AND RECOMMENDATIONS

Inflow of remittances in Pakistan is a significant source of foreign reserves, especially given the current fiscal challenges faced by the government. Recent evidence suggests that reduction in the cost of transaction can lead to increased inflow of remittances. This report measures the cost of remittances in Pakistan by utilizing World Bank and State Bank of Pakistan’s official data and by collecting primary information from multiple sources through key informant interviews. Different statistical analyses were conducted to not only estimate the true cost for a remitter/beneficiary but to also identify its determinants.

The cost is calculated by simple and weighted averages. In the case of weighted average, the weights are assigned to corridors with respect to their share in the total inflow of remittances. It is found that simple average technique overestimates the cost (which is equal to 4.81%). The weighted average cost (which is equal to 3.64%), however, is closer to the true cost which the remitter bears. The cost of sending US$500 is found to be 39% lower than the cost of sending US$200. Furthermore, source banks charge fixed fee per transaction irrespective of the amount sent through bank-to-bank transfer, meaning that the cost of remittances reduces with increasing amount of transaction. Hence, it is recommended that remitters can save on cost with fewer transactions of bigger amounts.
Regression analysis to identify determinants of the cost of remittances indicates that sending money through bank is costlier than transfers through MTOs. Furthermore, on average sending money through banks is significantly expensive, higher coverage transactions has higher fee, and speedy transactions also cost more. A comparison of the case of Pakistan with other developing countries reveals that the average cost of remitting to Pakistan is lower than that of remitting to low-income countries. Based on the above stated findings, we propose some policy recommendations.

i. Although some banks have extensive branch coverage in the country, the share of e-branches are on the lower side. On average, e-branches are 14.24 percent of the total branches of a bank. Increase in the number of e-branch may lead to reduction in the cost of inward remittances.

ii. There are fewer partnerships between banks and MTOs than what is desirable. While all the banks are associated with at least one of the world wide money transfer operators (Western Union, MoneyGram, Xpress Money and RIA money transfer), on average, a bank partners with only 11 MTOs which significantly limits their ability to facilitate inward remittances. The government should facilitate the integration of banks with these financial companies to increase accessibility for beneficiaries.

iii. PRI reaches out to overseas Pakistanis around the globe to reduce the cost of sending remittances to Pakistan by forming ties with international MTOs and banks. Overseas Pakistanis are benefiting from 152 tie-ups (which provide the ‘free send facility’) in multiple countries around the world. Spreading awareness about these facilities would both encourage remitters to remit through formal channels and would reduce the average cost of remittances. Nevertheless, PRI still does not have any free send facility contract with renowned MTOs like Western Union and Money Gram International which capture a significant share in the remittance market in Pakistan. Tie-ups with these two MTOs will help reduce the cost of remitting to Pakistan.

iv. The government must also encourage and facilitate domestic banks for their geographical expansion especially in rural areas. As majority of the overseas workers belong to rural households, expansion of banks would benefit receivers by saving their travel and time cost to cities to collect remittances. This will also be in line with the Branch Licensing Policy (2016) of the State Bank of Pakistan, which requires the banks
to open 20% of their additional branches in rural and unbanked areas. In addition, the banks may also open special booths and issue remittance cards to facilitate the remittance beneficiaries.

v. Migrants need to be financially educated on the transaction of remittances. For example, they should be informed that the cost of sending remittances decreases with increase in the volume of remittance to be sent. Thus, they should send higher amounts rather than small ones. Moreover, they should also be informed about the cost of bank-to-bank channel and MTOs and that which MTO is the cheapest in the country they are working. This can be done through awareness counters at airports, broachers, social, electronic and print media.

vi. Government of Pakistan has made certain efforts, especially in the last decade, to increase home-remittances. These efforts include different initiatives which have been launched to reduce the cost of remittances, to increase the efficiency of banks or MTOs by launching different financial products (or payment instruments), and to increase outreach of banks and MTOs. The most significant and the largest of these initiatives is Pakistan Remittance Initiative (PRI) which has enabled Pakistani remitters to remit free of charge through 152 international tie-ups in multiple countries. Home-remittances in the last decade increased significantly reaching to the $21.841 billion which is partly due to these government efforts. It is recommended though that PRI be made an autonomous institution or a part of a government division (currently it is just an initiative) which would access and maintain complete data related to remittance transactions. Such an institution, thus, should be tasked to make, evaluate, and regulate the policies related to remittances.

vii. The data on cost of remittances is currently not maintained by any single institution. This makes it hard for the researchers to collect comprehensive information needed to calculate the true cost of remittances. It is obligatory for commercial banks and MTOs to provide information on remittance transactions to the State Bank of Pakistan but the data on cost is not maintained on regular basis. In this context, we also propose that one particular institution (e.g. Pakistan Remittance Initiative) may be assigned the task of collecting and maintaining comprehensive data on cost of remittances for each corridor.
The cost of remittances from UAE is on the rise since January, 2018 (see Figure 10). The average cost in UAE is 6.19% whereas in Kuwait it is only 1.66%. However, this high cost is not specific to Pakistan only. An analysis of India and Bangladesh shows that UAE is a high cost corridor due to higher fee charged for these countries as well. This increase in cost is due to the VAT imposed on expatriate remittances by the UAE government. However, the VAT is the applied to the fee charged and not the remittance amount. Nonetheless, it does impact the exchange houses who charge remittance fee.\textsuperscript{21,22} The higher fee charged by them might be reflection of the VAT imposed. The Government of Pakistan may negotiate with the UAE government to remove the VAT for Pakistan in order to reduce the cost of inward remittance.

\textsuperscript{21} \url{https://www.khaleejtimes.com/business/gold-forex/sending-money-from-the-uae-heres-how-vat-could-affect-you}
\textsuperscript{22} \url{http://internationalmoneytransfers.org/united-arab-emirates-to-impose-vat-on-expatriate-remittances/}
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