Draft Report for discussion

TRANSACTION COST OF 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. Pakistan is among countries which rely significantly on remittances for socio-economic development. Trade deficit, which has been consistent economic problem for the country over the years, is mostly financed through remittance inflow. For instance, in fiscal year 2017-18, about 63% of the trade deficit is financed through workers’ remittances. Despite the fact that remittances have significant effects on the economy, evidence-based research on the transaction cost of remittance inflow 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.\(^1\) 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 transaction.
- A key informant interview approach is used for domestic and foreign banks to uncover any hidden portion of the cost charge 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 failures of the implemented initiatives.

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\(^1\) The terms equal weights and unweighted are used interchangeably.
Based on the above questions and their analysis, the following results have been obtained.

- 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 costs between source 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.
- Nevertheless, 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.
- Importantly, 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 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 partner with only 11 MTOs. This significantly hinders the banking channel’s facilitation in remittance inflow. The money sent by a remitter through an MTO can be received from a bank only if that MTO has partnered with the bank. An extensive partnership with MTOs is, therefore, as important as having extensive coverage. The MTOs especially avoid forming network with smaller or regional banks. The government must facilitate the integration of banks with these financial companies to enhance the financial coverage to increase accessibility for beneficiary.

- **Tie-ups with major MTOs:** 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. 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.

- **Bank branch expansion:** The government must also encourage and facilitate domestic banks for their geographical expansion. Majority of the overseas workers belong to rural households. In order to collect the money sent by these workers, their households have to go to cities. This is an implicit cost of remittance transaction. The banks should open branches in rural areas to facilitate these transactions. 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.
- **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 each and every transaction, remittance policy formulation, and financial awareness and education.

- **Financial Education and Awareness**: 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.
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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, since, remittances play significant role in the development processes of developing countries. Remittances is a source of access to international capital markets, debt financing and balance of payment adjustments for majority of the developing nations. 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\(^2\). However, the target of below 3 percent cost of remittance 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.\(^3\) Among these indicators, trade deficit is the perpetual economic problem which the country is facing since decades. Trade deficit has been increased from $10.4 billion in fiscal year 2010-11 to $31.2 billion in 2017-18. In 2017-18, about 63% of this deficit is financed through workers remittances.\(^4\) 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.

Similarly, the inflow of remittances in Pakistan is increasing over the time and it increased from $11.2 billion in 2011 to $19.6 billion in 2018 (Pakistan Economic Survey, 2018). One way

\(^2\) 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).

\(^3\) For example, see Jr and H (1998), Ballard (2005), Suleri and Savage (2006), Siddiqui and Kemal (2006), Nasir et al. (2011).

\(^4\) Pakistan received around $19.6 billion of remittances in fiscal year 2017-18 (Pakistan Economic Survey, 2018).
to highlight the importance of remittances is to compare it with other important macroeconomic indicators. Like the global trend, Pakistan’s remittance inflow also has a stable and increasing trend. Figure 1 compares this trend with the 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 difference between remittances and exports (of goods and services measured in terms of current $US) is apparently decreasing. This minimizing difference is partly due to reduction in export earnings, however, the increase in remittances is ostensible and plays a significant role in this convergence. In simple words, in 2017, inflow of personal remittances was equal to 68 percent of export earnings.

Figure 1: Inflow of Remittances to Pakistan

![Inflow of Remittances to Pakistan](image)

Source: World Development Indicators (WDI)

Government of Pakistan has taken some initiatives to increase the inflow of remittances in the country. State Bank of Pakistan has issued that there are “no restrictions” on inward remittances. Furthermore, there is no tax imposed on inward remittances.\(^5\) The most prominent of

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\(^5\) 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).
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. State Bank of Pakistan and Pakistan Remittance Initiative websites also provide guidelines to remitters on the different procedures and their legality. 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, Gibson et al. (2006) calculated the cost elasticity of remittances from New Zealand-Tonga corridor. It observed that a 1% increases in the price of remittance transaction decreases the amount of remittance sending by significant amount of 22%. Similarly, Aycinena et al. (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 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, 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).

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.
Sustainable Development Goal 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). The objective, among others, behind the reduction of this cost 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).6 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 most significant, visible and calculable seems to be its cost/price of sending. Freund and Spatafora (2008) show, based on 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

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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 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). Owning 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. The seminal work of Beck and Martínez Pería (2011) in this regard contributes greatly to the literature by calculating and identifying the factors that contribute to this cost. The study, by utilizing the data for 119 country corridors, finds that number of migrant and mainly greater competition among financial service providers contribute to the lower fees.

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 Banks 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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7 The above mentioned studies, for example (Beck et al., 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 Error! Reference source not found. shows the trend of home-remittances in the last decade is much steeper than before. It is tempting to say 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 interview, 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 and State Bank of Pakistan thoroughly analyzed the remittance system in Pakistan. 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 payment system, lower

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8 Ministry of Finance and Ministry of Overseas Pakistanis.
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 account\(^9\) 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

\(^9\) Almost every commercial bank provide this service.

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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.\textsuperscript{10} Apart from that, different awareness and training programs such as “strategic framework for remittance services to policy level initiatives” (PRI, 2015) are launched. Finally, PRI’s complaint center is working very efficiently to enhance the confidence of both the remitter’s and recipient’s 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 (Manager at PRI, 2019).

3.1.2 Free Remittance Facility to Beneficiaries

Twenty-five domestic commercial banks\textsuperscript{11} 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 (Manager at PRI, 2019). 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. 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

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\textsuperscript{10} For example, Best Performance Award and other performance based honorary awards are given to banks based on their performance to acknowledge their efforts.

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\(^\text{12}\).

### 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 $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. A PRI official in a KII revealed that 85-90 percent of the official home-remittances are being sent through PRI tie-ups (Manager at PRI, 2019). 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. Pakistan Remittance Initiative.

\(^{12}\) 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 (Manager at PRI, 2019).
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 could have contributed in this upsurge of remittances but the most
plausible explanation of it is the successful execution of Pakistan Remittance Initiative.

**Figure 2: Pre and Post PRI Trend in Home Remittances**

![Graph showing monthly remittance flow pre and post PRI](image)

### 3.2 Situational Analysis of Banks in Pakistan

Table 1 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 facility. 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 the above table 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 to 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 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 is not a partner with MTOs. An extensive partnership with MTOs is, therefore, as important as having extensive coverage. 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:

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.

Interview with a Khyber Bank official

Another concern is with regard to having lower number of Nostro account in the significant corridor. Although the 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.

13 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>8</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 many countries but the share of countries in these remittances varies significantly. According to Pakistan Economic Survey (2018), 24.8% of remittances come from Saudi Arabia which makes Pakistan-Saudi Arabia corridor the most important. 22.1 percent 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 dominant 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%), and Norway (0.2%) are countries from which Pakistan receives considerable share of remittances and hence make significant corridors with Pakistan. The remaining 13% remittances are received from all other countries having very small or unstable individual 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 US and $500 US). 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 transfer sources for the two amounts mentioned above.

In addition, official data is collected from formal institutions which include State Bank of Pakistan, commercial banks in Pakistan, and foreign banks. We also conducted Key Informant Interviews (KII) with relevant individuals at the Pakistan Remittance Initiative (PRI), State Bank of Pakistan (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

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14 Ministry of Finance publish these statistics with the collaboration of State Bank of Pakistan.
UAE) to identify the fee structure, role of intermediaries, and hidden charges, if any. These interviews were 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).

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 the temporal variations in the cost, both overall and for each corridor, this quarter-wise analysis is done for all the years since 2011. For comparison purpose, we conducted the analysis using equal weights as well.

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 across sources, the Ordinary Least Square (OLS) is used. The potential factors that are used in this analysis 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. According to Pakistan Economic Survey (2018), 24.8% of remittances come from Saudi Arabia which makes Pakistan-Saudi Arabia corridor the most important. Similarly, 22.1% of remittances received from the UAE. Subsequently, UK-Pakistan and USA-Pakistan corridors are other significant corridors, with UK having 14.1% and USA having 13.8% share in the total inflow of remittance to Pakistan. Also, Kuwait (3.9%), Oman (3.3%), Qatar (1.9%), Bahrain (1.8%), Canada (1.1%), Germany (0.7%), Norway (0.2%), and Japan (0.1%) are other corridors from which Pakistan receives considerable share of remittances and hence make them significant corridors with Pakistan. The remaining

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12.2% remittances are received from all other countries having very small or unstable individual shares.

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 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 bring 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 USD. 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 sources 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 remittances. 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 three significant corridors.

Figures 3 and 4 below present the cost of remittances to Pakistan through MTOs over the time. A considerable difference can be noted between cost of sending 200 and 500 USD 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 USD oscillates between 4 to 5 percent of the amount (200 USD). In absolute terms, this cost is around 8 to 10 dollars. However, cost of sending 500 USD falls considerably to 3 percent 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 east 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.

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16 https://www.saveonsend.com/blog/western-union-money-transfer/
Similarly, Figure 5 to 16 deals with the cost of remittances for all the corridors to Pakistan whose data is available in Remittance Prices Worldwide database. Figure 5 shows that the cost of remittance from USA through MTOs is around 4 percent for the amount of 200 USD and 6 percent for the amount of 500 USD. The cost drops sharply after first quarter of 2013 and remains stagnant.
for the rest of the period. Similarly, Figure 6 shows that the cost of remitting from UK is even lower than that of USA. Moreover, it also meets the threshold level of 3 percent. The cost of sending 200 USD from UK through MTOs was around 3 percent 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 third quarter of 2017. The most dramatic case is that of Saudi Arabia which is depicted in figure 7. 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 41 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 same. 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 5: Cost of Sending Remittances to Pakistan (through MTOs)
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Figure 6: Cost of Sending Remittances to Pakistan (through MTOs)

![Graph showing cost of sending remittances from UK through banks.]

Figure 7: Cost of Sending Remittances to Pakistan (through MTOs)

![Graph showing cost of sending remittances from RSA through MTOs.]

- Total Cost (in Percent)
- Quarter: 2011q1, 2013q1, 2015q1, 2017q1, 2019q1
- 200 USD, 500 USD
In the same context, figure 8 to 16 shows 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 8, 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 USD fee (see, figure 39 in section 4.2.8). Also, the cost for Norway (Figure 14) and Singapore (Figure 16) is higher in comparison to the cost for all the other corridors. Moreover, cost for Oman, Canada, and Australia is pacing up for the most recent periods of the data.
Figure 9: Cost of Sending Remittances to Pakistan (through MTOs)

Figure 10: Cost of Sending Remittances to Pakistan (through MTOs)
Figure 11: Cost of Sending Remittances to Pakistan (through MTOs)

Cost of Sending remittances from Qatar through MTOs

Figure 12: Cost of Sending Remittances to Pakistan (through MTOs)

Cost of Sending remittances from Bahrain through MTOs
Figure 13: Cost of Sending Remittances to Pakistan (through MTOs)

Figure 14: Cost of Sending Remittances to Pakistan (through MTOs)
Figure 15: Cost of Sending Remittances to Pakistan (through MTOs)

Figure 16: Cost of Sending Remittances to Pakistan (through MTOs)
Table 2: Cost of Sending 200 USD 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>-</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>
</tr>
<tr>
<td>MoneyGram</td>
<td>3.21</td>
<td>-</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>
</tr>
<tr>
<td>Xpress Money</td>
<td>4.12</td>
<td>-</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>
</tr>
<tr>
<td>WorldRemit</td>
<td>-</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>
</tr>
</tbody>
</table>

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

Table 3: Cost of Sending 500 USD 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>-</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>
</tr>
<tr>
<td>MoneyGram</td>
<td>2.29</td>
<td>-</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>
</tr>
<tr>
<td>Xpress Money</td>
<td>1.32</td>
<td>-</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>
</tr>
<tr>
<td>WorldRemit</td>
<td>-</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>
</tr>
</tbody>
</table>

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

COST OF REMITTANCES TO PAKISTAN
Table 2 shows the cost of transferring 200 USD 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. Similarly, 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 USD than the other three large money transfer service providers.

Moreover, table 3 provides similar information as table 2, but for the amount of 500 USD. The overall trend is also similar for the cost of 500 USD. 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 USD.

### 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 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 from the significant corridors is examined.

Figures 17 and 18 captures 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 percent of the amount (or, 20 dollars). It falls sharply for the rest of the period and ends at around 7 percent in first quarter of 2019. Similarly, the cost of sending 500 USD through banks is significantly lower compared to sending 200 USD. Figure 17 shows that it started from 5 percent of the amount in the first quarter of 2011 and came down to 4 percent in the first quarter of 2019.
Moreover, the disaggregated analysis at corridor-level is also presented for each of the corridor in figures below. Figure 19 illustrates the cost of sending money to Pakistan from USA

---

17 Cost of remittances from the banks is not available in World Remittance data for the following corridors: Kuwait, Oman, Bahrain, Canada, and Singapore.
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 USD was 5 percent of the amount while cost of sending 500 USD was at the very high level of 13 percent. However, the cost of sending 500 USD dropped evidently to around 6 percent in 2019. Paradoxically, cost of sending 500 USD was lower than cost of sending 200 USD in second quarter of 2014.

**Figure 19: Cost of Sending Remittances to Pakistan (through Banks)**

![Graph showing cost of sending remittances from USA through Banks](image)

Similarly, Figure 20 shows 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 USD from UK was less than 2 percent. A modest increase in the cost can be seen, but it is still around 2 percent of the amount or only 4 dollars in absolute terms. In case of 500 USD, the cost is comparably lower than the other corridors and oscillates around 4 percent of the amount. Similarly, Figure 21 presents the cost of remitting from Saudi Arabia. Cost of sending money from Saudi Arabia from Pakistan is clearly very low. For example, the figure shows that it was around 2 percent of the amount until 2018. However, it raised sharply to around 10 percent for one quarter and moved back to around 2 percent in first quarter of 2019.

Finally, figure 22 to 25 presents the trends for remaining corridors. Figure 22 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. Figure 24 and 25 shows that the cost for banking sector is skyrocketing in case of Norway and Australia.

**Figure 20: Cost of Sending Remittances to Pakistan (through Banks)**

![Graph showing cost of sending remittances from UK through banks over quarters]

**Figure 21: Cost of Sending Remittances to Pakistan (through Banks)**

![Graph showing cost of sending remittances from RSA through banks over quarters]
Figure 22: Cost of Sending Remittances to Pakistan (through Banks)

Figure 23: Cost of Sending Remittances to Pakistan (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 provides the results 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 percent in 2012 to 52 percent in 2018 for 200 dollars amount. The similar trends can be observed for 500 dollars where cost of sending remittances through banks is 40 percent higher in 2012 to 45 percent higher in 2018 than the cost of sending remittances through MTOs.\(^{18}\)

**Table 4: Total Cost of Sending Remittances to Pakistan (by Source of Transfer)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cost of sending 200 USD (in Percent)</th>
<th>Total Cost of sending 500 USD (in Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Through Banks</td>
<td>Through MTOs</td>
</tr>
<tr>
<td>2012</td>
<td>8.60</td>
<td>4.84</td>
</tr>
<tr>
<td>2014</td>
<td>6.06</td>
<td>4.25</td>
</tr>
<tr>
<td>2016</td>
<td>8.21</td>
<td>4.39</td>
</tr>
<tr>
<td>2018</td>
<td>7.16</td>
<td>4.73</td>
</tr>
</tbody>
</table>

Correspondingly, figures 26 and 27 also show that cost of remitting from the banks is substantially higher than MTOs. On average, there was the difference of 5 percent of the amount between cost of sending 200 USD to Pakistan through banks and MTOs in the first quarter of 2011. This difference squeezed over the time and was around 2 percent of the amount in the first quarter of 2019.

Similar trend can also be seen in figure 27 for the amounts of 500 USD. However, the difference between the two channels remained relatively insignificant in the case of 500 USD amount. In first quarter of 2019, the difference was less than 1 percent of the amount.

\(^{18}\) Difference in 2012 for 200 USD: \((8.60-4.84)/4.84=0.78*100=78%\). Difference in 2018 for 200 USD: \((7.16-4.73)/4.73=0.78*100=52%\).
4.2.5 Corridor-wise Comparison of Cost of Remittance through Banks and MTOs

Besides comparing the aggregates by source of transfer, we also compare the results for three significant corridors to understand the trends of amount received by Banks and MTOs for
providing the cash transfer services. In this regard, figure 28 provides the results for USA. At the start of 2011, appreciable difference can be seen in cost of remitting by the source of transfer. Nevertheless, the average difference between the two sources falls after the first quarter of 2013. Banking sectors remains cheaper source of sending 200 USD as compared to MTOs after 2013. Moreover, figure 29 compares the cost between banks and MTOs for United Kingdom. The trend reveals that banking sector also dominates the UK-Pakistan Corridor in terms of cost. On average, banks charge significantly lower amount as a percentage of 200 USD as compared to MTOs. However, the cost for banking sector went up after 2015. In the first quarter of 2019, costs of sending money through both the sources is identical. Finally, figure 30 depicts the trend for costs through different sources for Saudi Arabia. Surprisingly, the cost sending remittances from banks is also lower for Saudi Arabia. Moreover, the temporal variation between costs is equivalent for both sources of transfer.

Figure 28: Comparison of Costs by Source of Transfer (USA)
Figure 29: Comparison of Costs by Source of Transfer (UK)

Cost of Sending remittances from USA through Banks

Total Cost (in Percent)

Quarter

2011q1 2013q1 2015q1 2017q1 2019q1

Banks MTOs

Figure 30: Comparison of Costs by Source of Transfer (Saudi Arabia)

Cost of Sending remittances from USA through Banks

Total Cost (in Percent)

Quarter

2011q1 2013q1 2015q1 2017q1 2019q1

Banks MTOs
4.2.6 Average Total Cost of Remittances to Pakistan

Table 5 below provides the weighted\textsuperscript{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 dollars amount. Moreover, weighted cost for sending 500 dollars 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 dominantly translated into the overall weighted costs.

Table 5: Total Cost of Sending Remittances to Pakistan (by Amount)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cost of sending 200 USD (in Percent)</th>
<th>Total Cost of sending 500 USD (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>
<tr>
<td>2019**</td>
<td>3.64</td>
<td>4.81</td>
</tr>
</tbody>
</table>

*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.

Figures 31 and 32 also confirm the results discussed above. For 2011 Q1, 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 31 and 32 compare the average costs (weighted and unweighted) by the amount sent. Figure 31 below shows the similar trends between unweighted costs for the $200 and $500 amount. 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 32 shows the upward trend in weighted costs for both $200 and $500 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 on sending

\textsuperscript{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.
$500 in the same period. The astonishing 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.

Figure 31: Weighted and Unweighted Costs (200 USD)

Figure 32: Weighted and Unweighted Costs (500 USD)
Likewise, figures 33 and 34 depicts the total cost for each corridor. In case of 200 USD amount, 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 33 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 also provides the corridor-wise cost of sending 200 and 500 USD amounts to Pakistan.

Table 6: Corridor-wise Total Cost of Sending Remittances to Pakistan (in Q2 2019)

<table>
<thead>
<tr>
<th>Corridor</th>
<th>Cost of sending 200 USD</th>
<th>Cost of sending 500 USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>2.63</td>
<td>0.81</td>
</tr>
<tr>
<td>UAE</td>
<td>6.19</td>
<td>3.83</td>
</tr>
<tr>
<td>UK</td>
<td>2.34</td>
<td>2.80</td>
</tr>
<tr>
<td>USA</td>
<td>5.73</td>
<td>3.87</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1.66</td>
<td>0.99</td>
</tr>
<tr>
<td>Oman</td>
<td>3.74</td>
<td>2.00</td>
</tr>
<tr>
<td>Qatar</td>
<td>3.25</td>
<td>2.20</td>
</tr>
<tr>
<td>Bahrain</td>
<td>4.59</td>
<td>3.16</td>
</tr>
<tr>
<td>Canada</td>
<td>5.17</td>
<td>2.75</td>
</tr>
<tr>
<td>Norway</td>
<td>6.61</td>
<td>3.91</td>
</tr>
<tr>
<td>Australia</td>
<td>5.73</td>
<td>3.87</td>
</tr>
<tr>
<td>Singapore</td>
<td>12.43</td>
<td>9.82</td>
</tr>
</tbody>
</table>

Figure 33: Analysis of Costs by Corridor (200 USD)
4.2.7 Average Cost of Sending Remittances to Pakistan (by Years)

This section offers 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 35 shows that the average cost of sending 200 dollars is highest for Singapore. Moreover, the cost is also significantly higher for Australia, Norway, and United States. Likewise, four corridors, namely, Australia, Norway, Singapore, and United States has higher average cost than 5 percent.

In addition, Figure 36 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 percent in 2014. However, average cost still exceeds 5 percent for Singapore, Australia, and Norway.
Also, Figure 37 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 reduced than the threshold of 5 percent for Norway.
Lastly, Figure 38 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.
4.2.8 Components of Cost

The figures below show trends of the average exchange rate margin and fee charged by remittance service providers in the major corridors. At first, figure 39 and 40 offer the line which captures the average exchange rate margin being charged to send 200 and 500 USD in Pakistan. Moreover, fee can’t be aggregated because it is being charged in local currency units which varies for each corridor.

Figure 39: Average exchange rate margin (200 USD)

![Graph showing exchange rate margin for 200 USD from 2011q1 to 2019q1]

Figure 40: Average exchange rate margin (200 USD)

![Graph showing exchange rate margin for 200 USD from 2011q1 to 2019q1]
Additionally, figure 41 and 42 are exchange rate margin and fee charged for UAE. The results show 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 USD).

**Figure 41: Fee charged for sending remittances from UAE**

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

Similarly, the results for Saudi Arabia also witness an increase in transfer fee from the first quarter of 2015. Surprisingly, the amalgamated trend lines indicates that the same amount has been charged as exchange rate margin for the amounts of 200 and 500 USD.

**Figure 42: Exchange rate margin for sending remittances from UAE**

![Exchange Rate Margin](image)
Finally, figure 45 to 48 captures the exchange rate margin and fee charged by the service providers for UK and USA respectively. Unlike previously explained corridors, both components of the cost remain fairly stable in the given period of time.

**Figure 43: Fee charged for sending remittances from Saudi Arabia**

![Fee charged (in LCU)](chart1)

**Figure 44: Exchange rate margin for sending remittances from Saudi Arabia**

![Exchange Rate Margin](chart2)
Figure 45: Exchange rate margin for sending remittances from UK

Fee charged (in LCU)

Figure 46: Exchange rate margin for sending remittances from UK

Exchange Rate Margin
4.2.9 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.

Figure 49 and 50 show that cost varies noticeably for the instrument 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 200 USD to Pakistan by using mobile money as a mode of transaction was 2.72 percent of the amount in third quarter of 2018. During the fourth quarter, the cost jumped up to 4.07 percent of the amount. However, it dropped to 1.88 percent of the amount 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 USD through mobile money is also low. In the third quarter of 2018, it was 1.22 percent of the amount. Like the 200 USD, 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 49: Cost by the Instrument of Transaction (200 USD)**
4.2.10 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 51 shows 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 percent. However, it remains between 2 to 4 percent in low coverage transactions. So, the 2 percent higher cost serve as a premium for high coverage in the recipient country.
In nutshell, using remittance price worldwide database, this chapter comprehensively investigates 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 percent of the amount. More importantly, the analysis show that cost of remittances are below 3 percent 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 percent for providing high coverage in the recipient country compared to low coverage.

### 4.3 Determinants of Cost

In the above section, figure 49 to 51 suggest that instrument of transferring the cash and coverage are determinants of cost. 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: Regression analysis for 200 USD Amount

<table>
<thead>
<tr>
<th></th>
<th>Total Cost</th>
<th>Fee</th>
<th>ER Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks(=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>
<tr>
<td></td>
<td>(0.239)</td>
<td>(0.707)</td>
<td>(0.142)</td>
</tr>
<tr>
<td>Constant</td>
<td>8.606**</td>
<td>-1.036</td>
<td>4.789***</td>
</tr>
<tr>
<td></td>
<td>(3.667)</td>
<td>(9.842)</td>
<td>(1.458)</td>
</tr>
</tbody>
</table>

Observations 134 134 134
R-squared 0.411 0.726 0.454
Corridor Fixed Effects Yes Yes Yes

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

Table 7 provides the results of regressions to explain the factors affecting total cost, fee, and exchange rate margin for sending 200 USD to Pakistan. Column 1 of table 4 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. R-square for all the three models show that the variation in the included explanatory variables explain significant amount of variation in the dependent variables.
### Table 8: Regression analysis for 500 USD Amount

<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>

Observations: 131  R-squared: 0.447  Corridor Fixed Effects: Yes

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

Similarly, table 8 presents the results for the amount of 500 USD. Analogous to the previous findings, total cost and 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 be charge by the service provider.

### 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
COST OF REMITTANCES TO PAKISTAN

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 official 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 suggested was in the 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 during the current fiscal challenges the government is facing. Recent evidence suggests that reduction in the cost of remittance transaction can increase the flow of remittances. The Sustainable Development Goal 10.c of the United Nations targets to reduce the transaction cost of migrant remittances to 3 percent (of the transaction amount) by 2030. 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 are done to estimate the cost which reflects the true cost which the remitter/beneficiary bears and to identify different determinants of this cost.

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. So, the cost of remittances reduces as the amount of the transaction goes up. Hence, it is recommended to remitters to send bigger amounts of remittances to avoid greater cost.

Regression analysis to identify determinants of cost of remittances indicate that sending money through bank costs more than MTOs. Furthermore, on average sending money through banks is significantly expensive, higher coverage transactions has higher fee, and speedy transactions also cost more. Different graphical representations are also provided to compare the case of Pakistan with other developing countries and it is found that the cost of remitting to Pakistan is lower than the average cost of remitting to low-income countries. Based on these findings, we propose some policy recommendations.

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. The money sent by a remitter through an MTO can be received from a bank only if that MTO has partnered with the bank. An extensive partnership with MTOs is, therefore, as important as having extensive coverage. The MTOs especially avoid forming network with smaller or regional banks. The government must facilitate the integration of banks with these financial companies to enhance the financial coverage to increase accessibility for beneficiary.

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. 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.

The government must also encourage and facilitate domestic banks for their geographical expansion. Majority of the overseas workers belong to rural households. In order to collect the money sent by these workers, their households have to go to cities. This is an implicit cost of remittance transaction. The banks should open branches in rural areas to facilitate these transactions. 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.

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.
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 (see section 3 for details). 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. Furthermore, the data on cost of remittances is currently not maintained by any single institution. This makes it hard for the researchers to collect the 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 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 maintain comprehensive data on cost of remittances for each corridor. Furthermore, collection and maintenance of remittance cost data can be made a part of Pakistan Remittance Initiative. This can prove both economically efficient and easily manageable since PRI is solely focused on remittances. Collection and maintenance of data by a single institution would make policy makers and researchers able to accurately calculate the cost of remittances and better inform policies.
References


PRI. (2015). *PRI Brief*. Pakistan Remittance Initiative,


