

# Economic Cost of Remitters in Pakistan



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### **Author's Declaration**

I Abdur Rahman here by state that my MPhil thesis titled "Economic cost of remitters in Pakistan" is my own work and has not been submitted previously by me for taking any degree from Pakistan Institute of Development Economics or anywhere else in the country/world. At any time if statement is found to be incorrect even after my Graduation the university has right to withdraw my MS degree.

Date: 07/07/2022

Abdur Rahman



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## **Abstract**

Reducing the cost of remittances to 3 percent could have long-term socio-economic implications for developing countries, including Pakistan, that is one of the targets in with in Sustainable development goals (G10). Key factor of using informal channel for sending remittances to home is the cost of remittances paid by remitters. This research examines that cost of sending remittances can be reduced when larger amount are transferred to developing countries, it also proves that larger amount of remittances have less transaction cost as compared to less amount transferred. Using World Bank data on transmission rates, the average cost of transmission for major corridors is estimated for the period between the second quarter of 2016 and the fourth quarter of 2021. Similarly, the cost per main corridor for sending remittances, source of money transfers (Banks and Money Transferring operators (MTO's)), amount of money and means of transfer through bank account, money cash, mobile money and debit card. Sludge helps to eliminate different steps involved in processes of sending remittances. overall there is need for e-branches in Pakistan as e-braches help out getting 65% of the services given by Bank branches. That is need to bear rural areas so that it offers customers convenience and feasibility to transit over 65% of bank activities. Moreover, findings suggest policies suggest that PRI should be involved in making policies and there is a need to focus on decrease in remittances cost through formal channels.

**Keywords:** Cost of Remittances, banks, Money transferring operators, Pakistan Remitters initiative, Branches, remitters, remittances, Economic cost.

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## **List of Abbreviations**

ATM: Automatic Teller Machine

AUS PAK: Australia to Pakistan

BHR PAK: Bahrain to Pakistan

CAD PAK: Canada to Pakistan

EX: Exchange Rate

GDP: Gross Domestic Product

IND PAK: India to Pakistan

KII: Key informative interviews

KSA PAK: Saudi Arabia to Pakistan

KSA: Kingdom Saudi Arabia

KWT PAK: Kuwait to Pakistan

MTO: Money Transferring Operators

NOR PAK: Norway to Pakistan

OMN PAK: Oman to Pakistan

PAK: Pakistan

PRI: Pakistan Remittance Initiative

QTR PAK: Qatar to Pakistan

SGP PAK: Singapore to Pakistan

TA: Thematic Analysis

UAE PAK: United Arab Emirates to Pakistan

UAE: United Arab Emirates

UK PAK: United Kingdom to Pakistan

UK: United Kingdom

US PAK: United States to Pakistan

US: United States

VAT: value-added tax

WDI: World Bank Indicators



# Chapter 1

## INTRODUCTION

### 1. Introduction

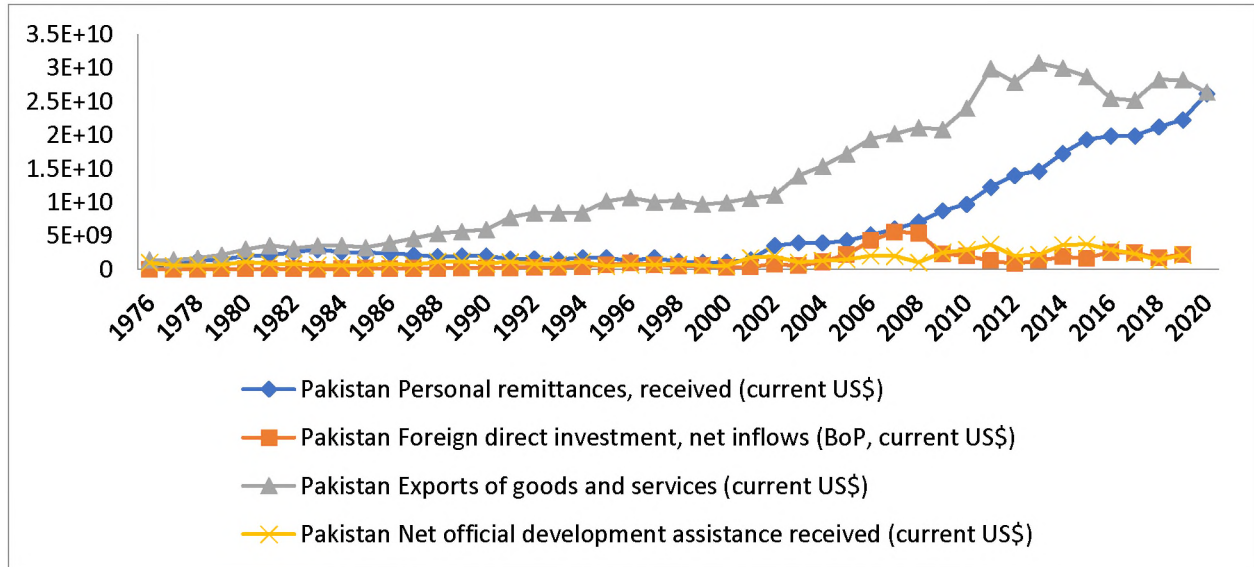
Starting from old times, remittances to developing countries surged \$328 billion in 2008, almost more than double the amount of official aid and more than half of the foreign direct investment flows (World Bank, 2009). Many studies have shown that remittances can have a positive and significant impact on economic expansion in multiple areas, including: poverty alleviation, education, entrepreneurship, infant mortality and financial development, to name a few. However, remittance transaction costs are known to be high, estimated to average 10% of the remittance value (World Bank, 2008).

According to the State Bank of Pakistan (2019), 22.9% of remittances came from Kingdom Saudi Arabia, making the most important corridor for flow of remittances between Saudi Arabia and Pakistan. 21.1% of remittances come from the UAE (United Arab Emirates). However, only three United Arab Emirates states are important in this respect, namely Dubai (14.1%), Abu Dhabi (6.8%) and Sharjah (0.2%). Moreover, the US-Pakistan and UK-Pakistan corridors dominate with a share of 15.63% and 15.61%, correspondingly, flow of remittances in Pakistan. In addition, Malaysia (7.1%), Kuwait (3.3%), Sultanate-e-Oman (3.1%), Qatar (1.8%), Bahrain (1.6%), Australia (1.1%), Canada (1.0%), Spain (0.7%), Germany (0.6%), Italy (0.5%), France (0.3%), Norway (0.2 %) and Japan (0.1%) are countries from which Pakistan receives a significant share of remittances and therefore

forms significant corridors with Pakistan. The remaining 3.4% of remittances come from all other countries with a very small or volatile share of individuals.

More than half of the \$ 16.3 billion fee paid by U.S. consumers and small businesses for international payments and remittances in 2019, according to a recent independent study commissioned by us, was about \$ 8.7 billion. It was hidden in the soaring exchange rate. Even more surprising, 55% of consumers said they understood the cost of remittances abroad, but only 18% correctly identified the exchange rate as one of the costs of transfer. The receiving of remittances to Pakistan has increased over time, but from \$ 11.2 billion in 2011 to \$ 21.8 billion in 2019 (Pakistan Economic Survey, 2019), the best way to emphasize on its significance is to Compare with other macroeconomic indicators. Figure 1 compares this trend of remittance inflows with other macroeconomic indicators such as foreign direct investment, development assistance and exports. Remittances (receipts) have been shown to be larger than both of net development aid and (FDI) foreign direct investment. In addition, the gap between remittances and exports (currently measured in US dollars for goods and services) has clearly narrowed, at about the same level, in part due in part to the decline in export revenues since 2015. Though, the surge in remittances plays an important role in such convergence. The decline in export earnings is partly due to increased international competition and partly reflects Pakistan's dependence on commodities. In the last years of 2015-2016, Pakistan's exports fell sharply due to falling global commodity prices (Mahmood & Ahmed, 2017). In 2020, personal remittance inflows accounted for 68 percent of total export earnings.

**Figure 1 Remittances Inflow in Pakistan Comparison**



**Data Source:** World Bank Indicators (WDI)

At the same time, different costs vary greatly along the corridors and range from 2.5- 26 percent of the amount of departure. In addition, much evidence have been notices in case studies on remittance that highlights flow of remittances are very cost sensitive and can increase significantly as costs fall (Gibson, McKenzie and Rohorua, 2006). At the 2009 G8 summit in L'Aquila, leaders pledged to halve the cost of remittances (from 10% to 5%) within five years. However, based on experience, little is known about the factors that affect the cost of remittances.

Potential senders any be the individual migrates and send money to its home country, to look for characteristics on individual (education, income, gender, and ethnicity). Inconstant, potential receivers given too much importance to remittance received. Lower income households have more chances of receiving remittances they are considered as the potential receiver of the remittances.

There are many a study in which reflects different stages in the history of migrating family. Migrants try their best to send money back to their homes because they want their household to spend a healthy lifestyle. The reactions that motivate them to send remittances are children, wife, or parents. New economics of labor migration puts the idea that migrants remit only to a specific household in their origin of country and remittances can be impacted by many other potential senders to the same household. Senders of the remittances have many assets in the country of origin because they endogenous mechanism in relation to receiver's household assets. The environment in which sender live have a great impact on them as if they live with individuals that have high propensity to remit the sender will remit more if he lives with individuals with low propensity to remit- there will send less remittances to origin country. There is an individual effect on the potential senders of remittances. Geographical, individual, and household factors can become an indicator of variation of remittances patterns of spending, saving or investing. Spending of remittances is not only affected by senders and receivers of the remittances. But they are also affected by the specific pair of countries from which they are being received and send. The time frame that affects the propensity to remit is spent in future savings and investments with a view to eventual return to the home country; it is the most obvious component of remittance costs. Financial costs include fees charged by MTOs or banks when sending or receiving money transfers (or both). There is the amount lost during the exchange of currency from a foreign currency unit to a local currency unit. The cost of sending money also depends on the form (tool used) of the amount to be sent. For example, transactions may be conducted using cash, bank accounts, current accounts, mobile services, online services, and the like. Fees can also be subject to on the way the recipient uses to receive the remittance. For example, the cost of

having mobile banking may be different from using traditional MTO methods. Non-financial costs includes the time taken to complete a transaction can also use an important tool in determining changes in remittance costs. This is a pertinent factor in an economy, where exchange rates fluctuate on a daily basis (like Pakistan's recent experience). Documentation forms and other documents need to be filled in, and the remitter/remitter is required to complete personal and remittance-related information or other related procedures during the transaction. Administrative procedures and formalities can affect service delivery (Chung et al., 2006).

Is the high cost issue mainly related to sending or receiving country factors? Are high costs a result of government policies and regulations, industry market structure, or socioeconomic factors? Are banks and money transfer companies significantly different from one another? (MTPs)? Given the stated importance of remittances to many developing countries, clarifying cost differences is of interest to both academia and policymakers. However, the target of less than 3% remittance costs has not been achieved and requires further attention from researchers and policymakers. Talking about today, there are many people that go for work in abroad it has been noticed that more than 200 million migrant workers send money home to more than 800 million family members, payments commonly known as remittances. Due to the ubiquity of remittances, regulators should strive to make remittances more accessible to all. This goal: requiring more transparency in the remittance process. Remittances, defined in a 2015 report as "relatively low-value cross-border, person-to-person payments", are a valuable lifeline in developing countries, meeting many basic household needs. They are taking center stage as our global economy reopens. But they are also expensive.

## **1.2 Statement of the Problem (SoP)**

Pakistan is among the countries that depend heavily on remittances for social and economic development. On the basis of previous research it can be analyzed that transaction cost has a very significant effect on the decision of remitters from both sides senders and receivers. Cost of sending and receiving remittances affects the decision of selecting money transfer channel, instruments used for transfer of funds, time and process of remittances. The main agenda is to focus on is that the CFPB Money Transfer Rule requires U.S. money transfer providers to disclose the total transaction amount, fees and taxes, the exchange rate used, and the total amount received. If the CFPB updates its rules so that the fees are clear, this would enable migrants, families living abroad and international travelers to make better financial decisions. The present study attempts to fill this gap. As a financial community, we must act together to promote fair, transparent and digital opportunities for remittances around the world, which can contribute to greater social, financial and economic inclusion. Even having the important role of remittances in Pakistan's economy, the economic costs of remittances in Pakistan remain to be explored. Most of these researchers have empirical research on the impact of remittances on economic growth through financial development has not received sufficient attention in various countries. Moreover, previous research has not examined or addressed economic growth in less developed countries, particularly Asian countries, in terms of finance and development.

Therefore, this study aims to fill this gap and contribute to the literature. Moreover, this study also aims to focus on the important public policy issues that are related to cost of remittances. There

is a need to address these issues and take give some policy recommendations for the cost of remittances that is paid by remitters. Furthermore, it will help to eliminate unnecessary channels and cost involved in transferring funds to Pakistan.

### **1.3 Research Problem**

*Based on the narrative of SoP as stated in the preceding text, I am narrowing my research problem into “Economic Cost of Remitters in Pakistan” and have operationalized my topic into following research questions and objectives.*

### **1.4 Research Questions**

Remittances involve numerous transactions that lead to various cost including direct cost, procedural cost and hidden cost. Now the question is how financial institutions play around to create rent paid by the consumer. In this context we are interested in procedural cost, direct cost and hidden cost.

## 1.5 Objectives of the Research

The research would cover the following three dimensions:

1. To identify procedural cost of remittances and sludge that leads to increase in these cost;
2. To evaluate how financial institutions, play around to create rent paid by the consumer;
3. To check the socio-economic effect of these hidden costs on the remitters and required policy intervention for monetization of hidden costs related to remittances, and
4. What is the economic cost of remitters?

## 1.6 Explanation of the Key Terms/Concepts

### 1.6.1 Determinants affecting Cost of Remittances (Sending/Receiving)

Variation in micro-level remittance flows are seen on both sides on the sending side and receiving side. Figure1 shows possible flow of remittances between sender and receiver. The roman number in the figure shows the chronological occurrence of determinants (Carling 2008).

- I. **Potential senders:** When any individual migrates and send money to its home country, to look for characteristics on individual (education, income, gender, and ethnicity).
- II. **Potential receivers:** Literature has given too much importance to the relationship between household and receipts of remittance. Lower income households have more chances of receiving remittances they are considered as the potential receiver of the remittances.



- III. **Sender-receiver relation and history of migration:** There are many a study in which reflects different stages in the history of migrating family. Migrants try their best to send money back to their homes because they want their household to spend a healthy lifestyle. The reactions that motivate them to send remittances are children, wife, or parents.
- IV. **Other receivers (potential receivers):** New economics of labor migration puts the idea that migrants remit only to a specific household in their origin of country.
- V. **Other senders (potential senders):** remittances can be impacted by many other potential senders to the same household.
- VI. **Assets of sender at origin:** Senders of the remittances have many assets in the country of origin because they endogenous mechanism in relation to receiver's household assets. That the sender of the amount is the owner of the asset.
- VII. **Environment of senders(Potential senders):** The environment in which sender live have a great impact on them as if they live with individuals that have high propensity to remit the sender will remit more if he lives with individuals with low propensity to remit- there will send less remittances to origin country. There is an individual effect on the potential senders of remittances.
- VIII. **Environment of receivers (Potential receivers):** Geographical, individual, and household factors can become an indicator of variation of remittances patterns of spending, saving or investing.

- IX. **Remittance corridor from country to country:** Spending of remittances is not only affected by senders and receivers of the remittances. But they are also affected by the specific pair of countries from which they are being received and send.
- X. **Variables related to time:** The time frame that affects the propensity to remit is spent in future savings and investments with a view to eventual return to the home country.
- XI. **Money Transfer fee:** it is the most obvious component of remittance costs. This fee includes fees charged by MTOs or banks when sending or receiving money transfers (or both).
- XII. **Spread of Exchange rate:** Usually, remittances are transmitted and paid in local currency (to the recipient), which requires some exchange rate manipulation. This is the amount lost during the exchange of currency from a foreign currency unit to a local currency unit.
- XIII. **Instrument of payment:** The cost of sending money also depends on the form (tool used) of the amount to be sent. For example, transactions may be conducted using cash, bank accounts, current accounts, mobile services, online services, and the like.
- XIV. **Method of receiving money:** Fees can also be subject to on the way the recipient uses to receive the remittance. For example, the cost of having mobile banking may be different from using traditional MTO methods.
- XV. **Time Taken:** The time taken to complete a transaction can also use an important tool in determining changes in remittance costs. This is an pertinent factor in an economy, where exchange rates fluctuate on a daily basis (like Pakistan's recent experience).
- XVI. **Documentation or procedures of administration:** Forms and other documents need to be filled in, and the remitter/remitter is required to complete personal and remittance-related

information or other related procedures during the transaction. Administrative procedures and formalities can affect service delivery (Chung et al., 2006).

### **1.7 Units of Data Collection**

Several data sources were used to calculate remittance costs along with the World Bank's Global Remittance Price Database (World Bank). The stated source shares data on sending countries' remittance costs, including fees and exchange rate differences, for two different amounts. It provides information on the source of the transfer (bank/ MTO) and sending instrument, transfer speed, access point, sending network coverage, allocated network coverage, and how both are received. the above amount. People working in foreign countries sent remittances to Pakistan from different areas of the world, but the portion of these remittances received is according to the income of the individual that are working and sending remittances at home. The most commonly used methods are published literature sources, surveys, interviews (face-to-face or telephone), observations, documents and records. In addition, there are other factors that can play a major contribution in determination of the cost of sending money to Pakistan, and the purpose of this study is to identify these factors and cost of remittances for the remitters. Collection of Data will on the points where data is collected where convenient. State Bank of Pakistan, Ministry of overseas Pakistanis and Ministry of Finance are the concerned departments that will be consulted for data collection.

Organization of this thesis is as following: chapter two gives a systematic literature review of previous studies on remittances and identification of literature gap, chapter three explains about the

methodology adopted, chapter four presents the empirical results of data and findings and lastly, chapter five concludes the results with practical policy recommendations.

## **Chapter 2**

### **Review of Literature and Theory**

#### **2.1 Systematic Literature Review**

Pakistan is among the recipient of funds from Australia, Bahrain, Canada, Germany, Japan, Kuwait, Malaysia, Norway, Qatar, Saudi Arabia, Sultanate of Oman, Singapore, UAE, UK and USA, as well as Afghanistan and Bangladesh countries (World Bank, 2019). According to World Bank estimates, Pakistan has an average inflation rate of 4% (2% to 5% across bridges) (World Bank, 2017). Though, World Bank calculations are largely based on anecdotal and informal data. The cost of sending money that is estimated is based on this data may not match the actual cost borne by the sender. In addition, this cost is measured at the collective level of all avenues. Present study can fill the gap on literature on costing at the classification level it may be amount, corridor, instrument and source of remittance and most importantly time of sending remittances.

The number of world international migrants is estimated to be 272 million in the fiscal year 2019, it has been noted that from 2010 there is increase of 51 million of migrants. Today near about 7.6 million on Pakistani people are working in abroad and almost 4 million immigrants are living in the region of Persian Gulf.

Many of research have been conducted to check the impact of remittances on household welfare, poverty, consumption, production, economic growth, human capital, and many other terms.

As we all know that remittances have become the most important topic in academic literature because its impact and drivers are shaping public opinion about international remittances. (Mohapatra and Ratha, 2010; FAO, 2016).

Many papers are published in different regions of the world. That have used many terms with remittances. About 277,000 results are shown in Google scholar if you write remittances in the search bar. Researchers have contributed huge number of publications related to remittances and its impact. Recently articles published in Ghana shows that using of mobile money helps in enhancing welfare, especially for low-income households and results show that money users have received higher remittances as a result their consumption is higher than non users of remittances (Baffour, Rahaman et al. 2020). In another study it was found that remittances from international migrants helps to improve household welfare, whereas there is a negative correlation between education and age of household head reason was that portion of male received more remittances than females (Quartey 2006). Another study done by Peter Quartey shows that migrant remittances in Ghana increases because of economic shocks and empirical test view that is counter cyclical. Moreover, study also shows that households that have land in their ownership can survive in economic shocks and that is the reason they have better welfare than individuals having no land (Quartey 2006). George Joseph and Sonia Plaza conducted a research in which the results showed that households that were receiving reduced the participation child in labor market around 2% in Ghana and international remittances decreased child labor to 6%. Other than that remittances do not have any effect on the decision of sending child to labor market (Joseph and Plaza 2010). Lastly, Frank in his paper examined the microeconomic determinants of remittances to specific individuals at home, according to paper

migrants remit depending upon the size, income, sex of migrant, obligations, and other things (Sackey and Development 2011).

Many studies have been conducted in Viet Nam by different authors, Nguyen paper shows the increase in per capita expenditure due to receiving of international remittances, because the results reveal that international remittances have a positive impact on expenditure and nonfood consumption (Nguyen 2013). On the other hand, in a case study of Viet Nam shows that remittances help to grow economic development as it provides a mechanism to reduce poverty, share risk and improve equality (Pfau and Giang 2009). An article by Cuong and Mont shows that most of the remittances are spent on purchasing house, land, paying debts or saving (Cuong and Mont 2012). Very less portion of remittances is used for consumption purpose because its impact on consumption-based poverty is less. The impact of is greater than expenditure on consumption (Nguyen 2013). Onn the base secondary data both migrants and non-migrants are both most important indicator to decrease poverty and increase household consumption (Ogunwole and Development 2016). Lastly, Sarah Bales and Paper article shows that labor supply of poor households has reduced dur to disability and in non-poor households it is reduced due to severe illness (Bales and Paper 2013).

After Vietnam, Bangladesh has also published articles to show the impact of remittances in their economy. Selim Raihan At AL in an article grouped the impact of remittance into three categories. Firstly, macroeconomics and social impacts. Secondly, impact on factor markets and lastly, impect on household welfare, consumption, and poverty (Raihan, Sugiyarto et al. 2009). Along with that their results show that real GDP of Bangladesh declined 0.25% due to decline in remittances

and household consumption declined 3% because of remittances. In another article by Bezon Kumar (2019) indicates that households that receive more remittances spend more on food and non-food items (housing, health, education & investment) (Kumar and Discovery 2019). Therefore, for this study it's concluded that remittances perform an pertinent role in welfare of households. Contradictory, an article by Syed Naimul Wadood and Amzad Hossain revealed that reduction in poverty is because of internal and external remittances. They also found that there was no impact of remittances on household expenditures like education and healthcare (Wadood, Hossain et al. 2017). Moreover, returns from migration depends upon some factors such as, skill composition, financial capital, ability to send remittances and lastly, the scope of using skill in abroad as a migrant (Ahmed and Management 2012).

Impact of remittances is also seen in other countries which show a positive impact on household welfare and other items. In Ethiopia, Lisa Andersson found a positive but weak impact of remittances in rural area. In contrast, results from urban sample did not show any positive impact of remittances on consumer asset accumulation (Andersson 2012).

In Sri Lanka, article published by Prabal K. De & Dilip Ratha showed their results in two parts. In first part, the remittances to families and distribution helped the recipient's family members to move them from low income to high income level. In second part, they showed a positive impact on the health of children of recipient.

Northern and Central Malawi in Asia Kangmennaang, Bezner-Kerr et al. (2018) published an article in which they also showed similar impact of remittance on household welfare. It also



highlighted the impact on food security and wealth. The article concluded with recommendations related to making policy for international remittances (Ajaero, Nzeadibe et al. 2018).

The impact of reduction in transport, time cost and transaction cost associated with mobile based financial transactions and results changes the model specification and alternatives in Uganda in an article by Munyegeera and Matsumoto (2016). In (2014) their article showed the impact of remittances on household welfare. The results show that 69% of household income increased due to mobile money survives in Uganda.

Publications in Africans countries like Nigeria have focused on different aspects of remittances on household welfare. Ogunwole and Development (2016) conducted survey that resulted in positive impact on the household welfare in Nigeria. There were other variables that that mentioned were age of head of household, size of household, education, residential place and region of residence. The data from 1981 to 2012 shows that government officials should develop work models and implement them (Ogunwole and Development 2016). In another article publishes by Fonta, Ichoku et al. (2011) shows that strategic needs of women are addressed in context of decision making, respected family members, developing community and playing role in local leadership.

Talking about remittance in Armenia, an article by Grigorian and Melkonyan (2011) shows that households individuals work few hours, and they spend less on education of the children. They tend to save more to expand their business activities.

In Kenya, Kikulwe, Fischer et al. (2014) conducted a research which shows that usage of mobile money has positive impact on income of household. In contrast, transaction cost is reduced

when money flows through traditional formal channels. It has provided the people of Kenya to save more and initiated people to invest more on farming.

In other countries of Africa, like Harare and Bulawayo, Zimbabwe (Bracking and Sachikonye 2010) indicated that economics crises are being improved due to increase in international migrants. Bouoiyour and Miftah (2014) published an article in Morocco that shows positive impact of remittances on children education of poor families. Moreover, in Morocco a decline in child work have been noted. In Botswana, Okurut, Kagiso et al. (2014) work shows that household get empowerment in decision making and participation leadership activities locally specially in context of women.

In Indonesia, a publication shows that results from consumption is higher than the wage and profit. The effect of education, spending, health and housing is greater than the food related expenditure (Mirdad and Rusliana 2019). If we draw our attention towards Nepal, the households receiving remittances is higher in rich households as compared to poor households. In total remittance contribute almost 20% reduction in total poverty in Nepal (Devkota 2014). Karki Nepal (2016) published an article in which we examined that there was an increase in non-food expenses, education, because of remittances from migrants. An increase in education of children was also noted which is also an outcome of remittances. In context of Kosovo, Shaorshadze and Miyata (2010) said that overseas remittances do not have impact on the inequality, that is observed from heterogeneity in Kosovo. A positive and important effect of international transfers is noted on short and long-term nutrition of children in Ecuador as discussed in an article by Antén (2010).

An article by Ellyne and Mahlalela (2017) on 32 African countries showed that an average 10% increase international remittances and 1% reduction in poverty while they kept other variables as constant. The poverty gap ratio shows a coefficient of -0.10 and poverty headcount ratio showed coefficient of -0.09. which shows that they both are negatively correlated to each other. Another study showed the impact of remittances on 84 developing countries in an article by Mahapatro, Bailey et al. (2017) that showed the volatility of consumption in households as it's has reinforced the stabilizing effect between consumption and remittances.

In our neighboring country India, out of 272 million migrants almost 17.5 million migrants are from India that is a huge population that is working in international markets. Mahapatro, Bailey et al. (2017) in his study used score matching technique author gave an optimistic view about the findings that present data and study is showing that household wellbeing is being increased. The impact on economy is more because of international remittances as compared to internal indicators that helps in developing economy and economic growth.

## **2.2 In context of Pakistan**

Narrowing the literature now we will discuss the impact of remittances on household welfare and how it is discussed by different authors in different context. Starting with the study on remittances by Awan, Javed et al. (2015), in this article ten villages were randomly selected and were kept in analysis. The findings of this article given by Awan, Javed et al. are that international migration remittances have significant and positive impact on the welfare of households. Moreover, they gave suggestions to the government to formulate a migration policy and as a developing economy Pakistan

Government should sign bilateral agreements with different countries to up-lead the remittances. As remittances can be used as a to decrease the poverty and unemployment.

Ahmed, Sugiyarto et al. (2010) developed a case study that if there is decrease in international remittances it decreases the GDP (Gross Domestic Product), investment and consumption of households, which in result uplift the poverty in the country. In contrast, there is chance to poverty reduction by 12.7% if the household receive remittances. Javid, Arif et al. (2012) have shown a strong and significant impact on reduction on poverty and growth in context of Pakistan. From the literature and evidence from study of different articles of Pakistan shows that remittance has positively affected the economy and has a significance relation.

All in all, study also shows that along with household welfare remittances have a positive relation with poverty reduction. There are many potential benefits that are associated with the inflows of international remittances in home country. Lastly, from different literatures we have found many evidence, that remittances influence the education of children in positive way along with health of household, human capital, poverty, consumption and expenditure, reduction in child labor, asset building and there are many other fields on which remittances have positive correlation. Benefits that are associated household welfare especially in developing countries like Pakistan and rest of neighboring countries.

### **2.3 Theoretical Framework**

Theories on labor migration and remittances include optimistic, pessimistic, two-difference models and endogenous theoretical models. Some prominent scholars who share the optimistic view

include: Kindleberger (1965), Todaro (1969), Beijer (1970), and Massey et al. (1993). Returning to this assessment of development theory in the 1950s and 1960s, returning migrants were seen as important agents of change and innovation. Immigrants are expected to play a viable role in the development process as they are expected to bring back not only funds but also new ideas, knowledge and entrepreneurial attitudes (De Haas, 2010). From this point of view, immigrant remittances are considered important because they induce changes in household incomes, encourage investment and innovation, and thus contribute to the economic recovery of larger economies in the countries of origin of immigrants (Kindleberger, 1965; Beijer, 1970 and de Haas, 2007). In the 1970s and 1980s, there was a pessimistic view that immigration and remittances led to the underdevelopment of immigrants' countries of origin (Olufemi and Ayandibu, 2014). Remittances make the receiving country dependent on the sending country and the sending country dependent on the sender (Binford, 2003).

This leads to moral impairment in the recipient countries that can be considered as moral hazard. Related to this view are Lipton (1980), Rubenstein (1992), Russell (1992) and Binford (2003). There is conflicting and conflicting empirical evidence on the relationship between remittances, financial development, and economic growth. This can be seen from studies conducted in specific countries, regions or different countries. Empirically, some studies showed that remittances are not a significant source of capital for economic development and therefore there is no significant association between remittances and in growth of developing countries (Karagoz, 2009 Turkey; Siddique et al., 2010 Bangladesh and India) and Sri Lanka; Feeny et al., 2014, for SSA, Pacific and Small Island Developing States (SIDs) in Latin America and the Caribbean. The

researchers also examined the nature of the relationship between remittances and financial development using time series and panel data.

For some, remittances complement financial development, which thrives in countries with developed financial systems (Aggarwal et al. 2011 for 109 developing countries, Kratou and Gazdar 2016 for Middle East and North African (MENA) countries ; Akonji and Wakili, 2013 for Nigeria), while others hypothesize that remittances provide another means of financing investments and help overcome liquidity constraints (Giuliani and Ruiz Arranz, 2009, for 100 developing countries; Fayissa and Nsiah, 2010 for Latin America; Sobiech, 2015 for 60 countries) developing countries). Moreover, recent studies have examined the relationship between remittances, financial development and economic growth (Levine et al., 2000 for developing countries; Cooray, 2012 for South Asia; Pearce and Peesai, 2013 for Nigeria; Sibindi, 2014). ; Kibet and Agbelenko, 2015, for the West African Economic and Monetary Union (WAEMU); Barua and Rana, 2015 for South Asia.

### **2.3.1 Coase Theorem**

The mutual benefit of voluntary exchange is fundamental concept in economics. Ronald H. Coase's (1960) famous proposition—often called Coase's theorem—builds on this simple and fundamental insight. The law creates many rights and statutory rights, establishing the initial distribution of rights and responsibilities. As long as there are no legal or factual barriers to exchange, market dynamics will determine the final allocation of such rights.

One of the most passionate and engaging discussions in the history of economic and legal theory has been triggered by Coase's claim that the initial assignment of property rights is frequently

irrelevant to overall wellbeing. In a world where common pool losses outweigh the whole of contracting costs and enforcement of exclusive property rights, private property is frequently justified as the inevitable outcome of scarcity. The basic premise of the economic literature at the turn of the 20th century was that private property evolved spontaneously as a result of the desirable characteristics of private property regimes in the development of incentives for restricted optimization. Coase's statement that the initial distribution of property rights is often unrelated to overall welfare sparked one of the most vigorous and fascinating debates in the history of legal and economic thought. Private property is often interpreted as an inevitable by-product of scarcity, in a world where common pool losses exceed the sum of contract costs and enforcing exclusive property rights. In 20th century,

According to the Coase theorem, the market will choose the eventual distribution of legal rights based on their relative worth to the parties, regardless of the original supply of property rights and the choice of remedial protection. Numerous publications that give an intellectual history of Coase's Fundamental Theorem and analyze the literature that has grown up around it have argued against Coase's claims. It evaluates the most significant challenges to the Coase theorem and looks at the methodological, normative, and practical ramifications in the context of law and policy.

Some economists argue that the Coase theorem largely implies the appropriate scope for government intervention in the economy and the welfare consequences of laissez-faire. Others see this as mere tautology: if people negotiate effectively, every outcome will be valid. The Coase theorem only matters if we think that effective negotiation is possible. Of course, we could attribute the inefficiency to "bargaining flaws", but doing so probably won't help. This attitude sometimes

seems to depend more on ideology than rationality. Many economist have studied the concept they came up with the concept that this theorem is classified as ‘Problem of social cost’’. It discusses the Coase theorem as a consequence of decentralization, and why decentralization results are interesting. It considers the design of mechanisms for disclosing private information and describes centralization issues.

Anyone who has taught Coase's theorem to new people has experienced firsthand the wonder and admiration it inspires, but Coase never wrote it down, and when others try, it may turn out to be a fallacy or a tautology.

## **2.4 Literature Gap**

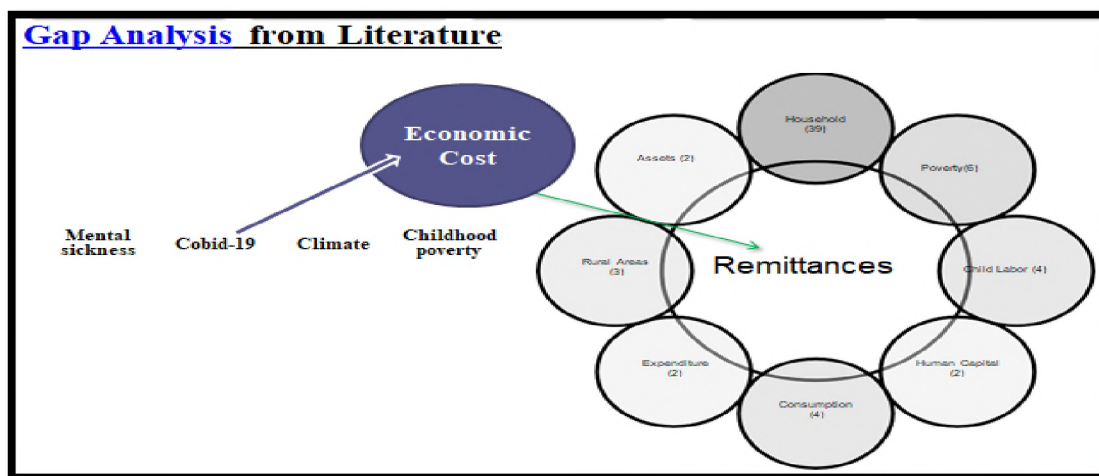
In Pakistan remittances have been discussed on the basis of focusing on household welfare, poverty, consumption, production, economic growth, human capital, and many other terms. As we all know that remittances have become the most important topic in academic literature because its impact and drivers are shaping public opinion about international remittances. The uniqueness of the study is that economic cost has not been discussed in context of remittances it has been discussed in context of different variables like economic cost of mental sickness, Cobid-19, climate, childhood poverty and many other social and psychosocial areas have been linked with economic cost but there is no link found that directly shows the relationship of remittances with economic cost. That is a huge gap that needs to be identified to fill the gap of decreeing cost of remittances.



Distinguish three groups of factors as potential drivers of remittance costs (1= socioeconomic attributes of receiving and sending remittances across countries, 2= remittance service provider and 3= government).

The above literature focuses on the impact of remittances on developing or emerging economies. Positive, negative, mixed and neutral effects are found different of remittances. Most of these papers either identified only the combined effects of a group of countries, or the effects of individual countries. They did not analyze both effects. Further research should focus on different aspect that have impact of on cost of remittances.

**Figure 2 Literature Gap**



The gap in the study is that the economic cost has not been discussed in the context of remittances, but in the context of different variables, such as the economic cost of mental illness, Cobid-19, climate, child poverty, and many other social and psychosocial field. Were associated with economic costs, but no link was found to directly show a relationship between remittances and

economic costs. All in all, empirical literature previous research has focused extensively on the relationship between remittances and financial development, and how these two variables affect economic growth in developing countries as well as other macroeconomic variables. However, empirical research on the impact of remittances on economic growth through financial development has not received sufficient attention in various countries. Moreover, previous research has not examined or addressed economic growth in less developed countries, particularly Asian countries, in terms of finance and development. Therefore, this study aims to fill this gap and contribute to the literature.

## **Chapter 3**

### **Research Methodology**

Once significant corridors have been identified, the value of remittances is calculated using data obtained from the sources discussed above. In addition to the total cost estimate, a disaggregated cost analysis is also carried out. We will estimate the cost of money transfer transactions using equal weights. In terms of procedural costs and hidden costs (in terms of payment fee hidden in exchange rate inflated), we need to make sure that the overall costs are transparent and not hidden behind arbitrary "fees". This will be done through various key informant interviews (KIIs) and desk reviews with senders and providers of remittances through different channels.

#### **3.1 Research Strategy**

According to Yin (1994), the choice of research strategy should be based on the situation of research. Every strategy for research has its own specific approach for collecting and analyzing empirical data of the study, and depending upon the different types of strategies each strategy has its own pros and cons. While each strategy has its own characteristics, there are also areas of overlap that add complexity to the strategy selection process. In quantitative research it is difficult to find a clear and unambiguous statement of what exactly qualitative research is.

Once significant corridors have been identified, the value of remittances is measured by using data gained from sources. In addition to the total cost estimate, cost analysis will also be carried out. To

do this, we will use a mixed methodology approach. The target group of my research is remitters, banks, and money transfer systems. Exchange rate measures and exploring the use of portable/mobile cash technology to improve the efficiency of money transfer channels available to end users.

### **3.2 Research Design**

Research design is the overall strategy you choose to integrate the different components of your research in a logical and coherent manner, ensuring that you can effectively address your research question; it forms the blueprint for data collection, measurement, and analysis. A case study is an in-depth study of a specific research question, not a comprehensive statistical survey or comprehensive comparative survey. It is often used to narrow a very broad field of study to one or a few easy-to-research examples. Case study designs are also useful for testing whether particular theories and models actually apply to real-world phenomena. For the purpose of this research I will rely on case study design. We will identify the procedure and direct costs for each of the corridor through qualitative analysis to explore the cost of remittances. Primary research, content analysis and sampling method will be used to determine the cost of remittances.

### **3.3 Methods of Data Collection**

1. Key Informant Interviews (KII) and Desk Reviews (face-to-face or telephone)
2. Observations, documents record and Bank reports
3. Data available on World Bank indicators

### **3.4 Sampling**

**Sampling technique:** Respondents who are "convenient" to the researcher are used in convenience sampling. These respondents may have been gathered by just asking persons who were passing by on the street, in public places, or at work; there is no pattern to how they were found. The data from the chosen population will be collected using an easy sampling procedure. The remitters, banks, and other means of money transmission will be the focus group.

### **3.5 Analysis**

The qualitative part of study will be performed through Content analysis. Key Informant Interviews (KII) and Desk Reviews, reports and some secondary data available on World Bank indicators website are the qualitative analysis to explore the cost of remittances. Thematic analysis (TA) is an easy-to-use, flexible, and progressively popular method of qualitative data analysis. Learning to do so provides qualitative researchers with a foundation of fundamental skills needed to perform qualitative data analysis using other methods.

#### **Key Informant Interviews (KII) of study**

Interviews from remitters, banks domestic and foreign, money transferring operators (MTO's), State Bank of Pakistan and PRI representatives are the concerned departments that will be consulted for data collection.

## **Chapter 4**

### **Results and Discussion**

#### **4.1 Estimating Cost of Remittances for Remitters**

Estimation of remittances is carried out using different platforms because remittances are transferred through different channels. Among the largest diaspora in the world Pakistan is on sixth number, it has been noticed that Pakistani are present in all contents of the world except Antarctica if it has living population it is sure that Pakistani were expected to migrate there as well. According to report of World Economic Forum countries receiving remittances from foreign Pakistan is ranked sixth worldwide. Taking a closer look at population in 2022 regarding most migrants United States has the higher number of migration with number of 50,632,836 with 15.28% of the total population. While talking about gulf countries Saudi Arabia has the third highest rank of migration with number of 13,454,842 with 38.65% of the total population and UAE has 10,081,785 number of migration and that is 13% of total population of UAE. If we compare with our neighboring countries like India in recent past 2021 among 200 nations working in UAE; India has the highest number of 2.75 million, in contrast Pakistani are 1.27 million.

For estimation of estimating cost of remittances for remitters initially transaction cost is estimated using different financial institutions, World Bank Database, channels (MTOs), average cost, and comparison cost among different channels. Through which we can identify the cost components that can help in decreasing the overall cost of remittances.

## **4.2 Transaction Cost of Remittances and Exchange Rate Inflation**

This section estimates the cost of remittances sent to Pakistan by MTOs and Banks. First, we will introduce you total shipping cost of 200 and 500 USD in Pakistan. This analysis is followed by the cost of sending funds from important source of sending remittances. Remittances are received from different countries. From the analysis the transaction cost of remittances is calculated and graphically represented in Appendix country wise. The segregation of data is on basis of MTO's and Banks along with that graphs shows comparison between two sending US\$200 and US\$500 to Pakistan. Table 1, Table 2 and Table 3 shown below illustrate the comparison and change in average percentage change in sending remittances to Pakistan. Moreover, there were some data missing regarding some of the countries or it can be assumed that remittances flow in Pakistan is not carried out through banks in few counties where MTO's are preferred for sending remittances.

**Table 1 Average percentage Cost of Sending \$200 and \$500 to Pakistan from different Corridors**

Country		Australia		U.S		UAE		U.K		Singapoure	
Amount		\$200	\$500	\$200	\$500	\$200	\$500	\$200	\$500	\$200	\$500
MTO's	2019 Q4	2.86%	1.29%	3.17%	1.73%	2.19%	42.00%	2.67%	0.65%	2.12%	1.43%
	2020 Q4	2.30%	1.23%	2.19%	1.29%	2.35%	0.98%	0.77%	0.77%	1.05%	0.96%
	2021 Q4	2.19%	1.44%	2.04%	1.45%	3.08%	2.60%	0.23%	0.23%	1.01%	0.87%
		↓0.11%	↓0.21%	↓0.15%	↓0.16%	↓0.73%	↓1.62%	↓0.54%	↓0.54%	↓0.04%	↓0.09%
Banks	2019 Q4	4.55%	2.40%	4.35%	2.53%	2.82%	1.50%	0.95%	0.95%	0.00%	0.00%
	2020 Q4	4.32%	2.33%	4.29%	2.59%	3.06%	1.55%	0.81%	0.81%	0.00%	0.00%
	2021 Q4	4.41%	2.96%	4.49%	3.21%	2.29%	1.98%	-0.46%	-0.46%	0.00%	0.00%
		↑0.09%	↑0.63%	↑0.20%	↑0.62%	↓0.77%	↑0.43%	↓1.27%	↓1.27%	→0.00%	→0.00%

Average percentage of cost of sending remittances to Pakistan is calculated by comparing three Q4 of 2019, 2020 and 2021. With compassion between sending US\$200 and US\$500 to Pakistan through MTO's and Banks. Likewise starting from Australia Figure 1 and Figure 2 shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 1 reveals that cost of sending US\$200 ranges between 32.63 to 2.19 percent and US\$500 ranges between 1.92 to 1.44 percent of total amount sent through MTO's. Figure 2 reveals that cost of sending US\$200 ranges between 3.28 to 1.75 percent and US\$500 ranges between 1.92 to 1.27 percent of total amount sent through banks.



However, from Table 2 comparison shows that transaction cost of sending remittances of US\$200 have decreased by 0.11% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have decreased by 0.21% in Q4 2021 as compared to Q4 2020 and Q4 2019.

Figure 39 and Figure 43 shows average percentage of sending remittances of US \$200 and US \$500 to Pakistan from United States through MTO's and Banks to home country. Figure 39 reveals that cost of sending US\$200 ranges between 2.45to2.40 percent and US\$500 ranges between 1.52to1.94 percent of total amount sent through MTO's. Figure 43 reveals that cost of sending US\$200 ranges between 3.91to4.93 percent and US\$500 ranges between 2.19to3.21 percent of total amount sent through banks. However, from Table 2 comparison shows that transaction cost of sending remittances of US\$200 have decreased by 0.15% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have decreased by 0.16% in Q4 2021 as compared to Q4 2020 and Q4 2019.

Figure 47 shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan from United Arab Emirates through MTO's and Banks to home country. Figure \_ reveals that cost of sending US\$200 ranges between 2.18 to 3.08 percent and US\$500 ranges between 1.27 to 2.60 percent of total amount sent through MTO's. Figure 47 reveals that cost of sending US\$200 ranges between 2.88 to 2.29 percent and US\$500 ranges between 1.99 to1.98 percent of total amount sent through banks. However, from Table 2 comparison shows that transaction cost of sending remittances of US\$200 have decreased by 0.73% in Q4 2021 as compared to Q4 2020 and

2019. It is analyzed that transaction cost of sending remittances of US\$500 have decreased by 1.62 % in Q4 2021 as compared to Q4 2020 and Q4 2019.

Figure 41 and Figure 45 shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan from United Kingdom through MTO's and Banks to home country. Figure 45 reveals that cost of sending US\$200 ranges between 2.84to2.04 percent and US\$500 ranges between 1.27to2.60 percent of total amount sent through MTO's. Figure 41 reveals that cost of sending US\$200 ranges between 22.93 to -0.32 percent and US\$500 ranges between 10.92 to -0.32 percent of total amount sent through banks. However, from Table 2 comparison shows that transaction cost of sending remittances of US\$200 have decreased by 0.54% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have decreased by 0.54% in Q4 2021 as compared to Q4 2020 and Q4 2019.

Figure 37shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan from Singapore through MTO's and Banks to home country. Figure 37 reveals that cost of sending US\$200 ranges between 4.92 to 2.40 percent and US\$500 ranges between 1.52 to 1.94 percent of total amount sent through MTO's. However, from Table 2 comparison shows that transaction cost of sending remittances of US\$200 have decreased by 0.04% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have decreased by 0.09% in Q4 2021 as compared to Q4 2020 and Q4 2019.

**Table 2 Average percentage Cost of Sending \$200 and \$500 to Pakistan from different Corridors**

Country		Singapoure		KSA		India		Baharin		Oman	
Amount		\$200	\$500	\$200	\$500	\$200	\$500	\$200	\$500	\$200	\$500
MTO's	2019 Q4	2.12%	1.43%	2.52%	1.15%	0.00%	1.15%	2.64%	1.39%	2.15%	1.26%
	2020 Q4	1.05%	0.96%	2.36%	1.36%	2.98%	2.98%	2.87%	2.08%	2.14%	1.25%
	2021 Q4	1.01%	0.87%	2.37%	1.45%	13.09%	13.09%	1.52%	1.25%	3.66%	1.70%
		↓0.04%	↓0.09%	↓0.01%	↓0.09%	↑10.11%	↑10.11%	↓1.35%	↓0.83%	↓1.52%	↓0.45%
Banks	2019 Q4	0.00%	0.00%	2.82%	1.50%	1.02%	1.04%	2.37%	1.41%	0.00%	0.00%
	2020 Q4	0.00%	0.00%	0.24%	0.24%	3.93%	2.05%	4.85%	3.75%	0.00%	0.00%
	2021 Q4	0.00%	0.00%	2.29%	1.98%	6.35%	3.13%	2.61%	2.22%	0.00%	0.00%
		→0.00%	→0.00%	↑2.05%	↑1.74%	↑2.42%	↑1.08%	↓2.24%	↓1.53%	→0.00%	→0.00%

Figure 49 and Figure 51 shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan from Saudia Arabia through MTO's and Banks to home country. Figure 49 reveals that cost of sending US\$200 ranges between 2.18to2.37 percent and US\$500 ranges between 1.37to1.45 percent of total amount sent through MTO's. Figure 51 reveals that cost of sending US\$200 ranges between 2.88 to2.29 percent and US\$500 ranges between 1.99 to1.98 percent of total amount sent through banks.

However, from Table 3 comparison shows that transaction cost of sending remittances of US\$200 have decreased by 0.01% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have decreased by 0.09% in Q4 2021 as compared to Q4 2020 and Q4 2019.

Figure 21 and Figure 23 shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan from India through MTO's and Banks to home country. Figure 21 reveals that cost of sending US\$200 ranges between 0.06 to 13.09 percent and US\$500 ranges between 0.06 to 13.09 percent of total amount sent through MTO's. Figure 23 reveals that cost of sending US\$200 ranges between 22.85 to 6.35 percent and US\$500 ranges between 1.14 to 3.13 percent of total amount sent through banks. However, from Table 3 comparison shows that transaction cost of sending remittances of US\$200 have increased by 0.10.11% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have increased by 0.10.11% in Q4 2021 as compared to Q4 2020 and Q4 2019.

Figure \_ and Figure \_ shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan from Baharin through MTO's and Banks to home country. Figure \_ reveals that cost of sending US\$200 ranges between 2.20 to 1.52 percent and US\$500 ranges between 1.02 to 1.25 percent of total amount sent through MTO's. However, from Table 3 comparison shows that transaction cost of sending remittances of US\$200 have decreased by 1.35% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have decreased by 0.38% in Q4 2021 as compared to Q4 2020 and Q4 2019.

Figure 24 shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan from Oman through MTO's and Banks to home country. Figure 24 reveals that cost of sending US\$200 ranges between 2.09 to 2.31 percent and US\$500 ranges between 0.91 to 1.70 percent of total amount sent through MTO's. However, from Table 3 comparison shows that transaction cost of sending remittances of US\$200 have decreased by 1.52% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have decreased by 0.45% in Q4 2021 as compared to Q4 2020 and Q4 2019.

Economical financial systems in migrant or host countries facilitate legal remittances (Acosta et al., 2009; Giuliano and Ruiz-Arranz, 2009; Mallick, 2017; Ratha, 2005; Suro et al., 2002). Receiving countries with developed financial institutions and technology attract an increase in remittances through formal channels (Kemegue et al., 2011). Some authors argue that one of the reasons for remittances to SSA is the limited presence of the financial sector (Mohapatra & Ratha, 2011; Page & Plaza, 2006). Following King and Levine (1993) and Bettin and Zazzaro (2012), we use the ratio of liquid bank loans to GDP (also known as broad money or M3) as a proxy for a country's financial stability. Based on the literature, we find that the economy of the financial sector has a positive impact on remittances. The results are important for the financial sectors of both the sending and receiving countries, although the impact is greater for the sending country.

**Table 3 Average percentage Cost of Sending \$200 and \$500 to Pakistan from different Corridors**













Country		Norway		Kuwait		Canada		Qatar	
Amount		\$200	\$500	\$200	\$500	\$200	\$500	\$200	\$500
MTO's	2019 Q4	0.00%	0.00%	1.02%	2.07%	3.16%	2.08%	2.83%	2.02%
	2020 Q4	2.65%	1.66%	4.85%	3.75%	1.90%	1.18%	2.23%	1.52%
	2021 Q4	1.45%	0.95%	2.61%	2.22%	2.54%	1.79%	1.74%	1.35%
		↓1.20%	↓0.71%	↓2.24%	↓1.53%	↓0.64%	↓0.61%	↓0.49%	↓0.17%
Banks	2019 Q4	4.55%	11.32%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	2020 Q4	4.32%	10.13%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	2021 Q4	4.41%	7.79%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
		→0.09%	↓-2.34%	→0.00%	→0.00%	→0.00%	→0.00%	→0.00%	→0.00%

Figure 31 shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan from Norway through MTO's and Banks to home country. Figure 31 reveals that cost of sending US\$200 ranges between 4.39 to 1.73 percent and US\$500 ranges between 0.91 to 1.70 percent of total amount sent through MTO's.

However, from Table 4 comparison shows that transaction cost of sending remittances of US\$200 have decreased by 1.20% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have increased/decreased by 0.71% in Q4 2021 as compared to Q4 2020 and Q4 2019.

Figure 29 shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan from Kuwait through MTO's and Banks to home country. Figure 29 reveals that cost of sending US\$200 ranges between 2.82 to 2.61 percent and US\$500 ranges between 1.60 to 2.22 percent of total amount sent through MTO's. However, from Table 4 comparison shows that transaction cost of sending remittances of US\$200 have decreased by 2.24% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have decreased by 1.53% in Q4 2021 as compared to Q4 2020 and Q4 2019.

Figure 26 and Figure 27 shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan from Canada through MTO's and Banks to home country. Figure 27 reveals that cost of sending US\$200 ranges between 2.77 to 2.54 percent and US\$500 ranges between 1.40 to 1.79 percent of total amount sent through MTO's. Figure 26 reveals that cost of sending US\$200 ranges between 2.82 to 2.61 percent and US\$500 ranges between 1.60 to 2.22percent of total amount sent through banks. However, from Table 4 comparison shows that transaction cost of sending remittances of US\$200 have increased/decreased by 0.64% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have increased/decreased by 0.61% in Q4 2021 as compared to Q4 2020 and Q4 2019.

	COST	
	MTO'S	
	\$200	\$500
	Decreased	Increased
	Decreased	Increased
	Increased	Increased
	Decreased	Decreased
	Increased	Increased
	Decreased	Decreased
	Increased	Increased
	Increased	Increased
	Decreased	Decreased
	Decreased	Decreased
	Decreased	Decreased
	Increased	Increased



	COST	
	BANK'S	
	\$200	\$500
	Increased	Increased
	Increased	Increased
	Decreased	Decreased
	Increased	Decreased
	Increased	Increased
	-	-
	Increased	Increased
	Decreased	Increased
	-	-
	-	-
	-	-
	Decreased	Decreased
	-	-



Figure 33 shows average percentage of sending remittances of US\$200 and US\$500 to Pakistan from Qatar through MTO's and Banks to home country. Figure 33 reveals that cost of sending US\$200 ranges between 2.53 to 1.74 percent and US\$500 ranges between 1.62 to 1.35 percent of total amount sent through MTO's. However, Table 4 comparison shows that transaction cost of sending remittances of US\$200 have increased/decreased by 0.49% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction cost of sending remittances of US\$500 have increased/decreased by 0.17% in Q4 2021 as compared to Q4 2020 and Q4 2019.

**Table 4 Estimation of Exchange rate Inflation**

Category	Years	Australia	U.S	U.K	Norway	India	Singapoure	KSA	UAE	Oman	Kuwait	Qatar	Baharin
MTO's	2019 Q4	2.62%	3.93%	2.65%	2.14%	0.00%	2.87%	1.52%	0.09%	1.40%	0.98%	2.54%	1.20%
	2020 Q4	2.18%	3.52%	2.34%	1.16%	3.41%	1.74%	6.83%	1.19%	1.16%	5.89%	1.69%	2.82%
	2021 Q4	2.13%	3.57%	2.29%	2.06%	1.39%	1.38%	1.39%	2.42%	3.10%	3.70%	1.70%	2.41%
		↑ -0.05%	↑ 0.05%	↑ -0.05%	↑ 0.90%	⇒ -2.02%	↑ -0.36%	↓ -5.44%	↑ 1.23%	↑ 1.94%	⇒ 2.19%	↑ 0.01%	↑ -0.41%
Banks	2019 Q4	1.73%	1.84%	2.63%	0.00%	0.00%	0.00%	2.14%	2.14%	0.00%	0.00%	0.00%	0.00%
	2020 Q4	1.05%	1.93%	2.31%	0.00%	0.00%	0.00%	2.20%	2.20%	0.00%	0.00%	0.00%	0.00%
	2021 Q4	2.81%	2.61%	2.29%	0.00%	0.00%	0.00%	1.09%	1.09%	0.00%	0.00%	0.00%	0.00%
		↑ 1.76%	↑ 0.68%	↑ -0.02%	⇒ 0.00%	⇒ 0.00%	⇒ 0.00%	↓ -1.11%	↓ -1.11%	⇒ 0.00%	⇒ 0.00%	⇒ 0.00%	⇒ 0.00%

Average percentage of exchange rate of sending remittances to Pakistan is calculated by comparing three Q4 of 2019, 2020 and 2021. With comparison between sending US\$200 and US\$500 to Pakistan through MTO's and Banks. Likewise starting from Australia Figure 40 and Figure 44 shows average exchange rate of sending remittances of US \$200 and US \$500 to Pakistan through MTO's and Banks to home country. Figure 40 reveals that cost of sending US\$200 ranges between 2.63 to 2.13 percent and US\$500 ranges between 2.63 to 2.13 percent of total amount sent through MTO's. However, from Table 5 comparison shows that exchange rate of sending remittances of US\$200 and US\$500 through MTO's have decreased by 0.05% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction exchange rate of sending remittances of US\$200 and US\$500 through banks have increased by 1.76% in Q4 2021 as compared to Q4 2020 and Q4 2019.

For U.S Figure 40 and Figure 43 shows average exchange rate of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 40 reveals that cost of sending US\$200 ranges between 1.82 to 2.29 percent and US\$500 ranges between 1.82 to 2.29 percent of total amount sent through MTO's. Figure 44 reveals that cost of sending US\$200 ranges between 2.58 to 3.57 percent and US\$500 ranges between 2.58 to 3.57percent of total amount sent through banks. However, from Table 5 comparison shows that exchange rate of sending remittances of US\$200 and US\$500 through MTO's have decreased by 0.05% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction exchange rate of sending remittances of US\$200 and US\$500 through banks have increased by 0.65% in Q4 2021 as compared to Q4 2020 and Q4 2019.

For U.K Figure 42 and Figure 46 shows average exchange rate of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 42 reveals that cost of sending US\$200 ranges between 1.82 to 2.62 percent and US\$500 ranges between 1.82 to 2.61 percent of total amount sent through MTO's. Figure 46 reveals that cost of sending US\$200 ranges between 1.78 to -0.46 percent and US\$500 ranges between 1.78 to -0.4 percent of total amount sent through banks. However, from Table 5 comparison shows that exchange rate of sending remittances of US\$200 and US\$500 through MTO's have decreased by -0.05% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction exchange rate of sending remittances of US\$200 and US\$500 through banks have increased by -0.02% in Q4 2021 as compared to Q4 2020 and Q4 2019.

For Norway Figure 32 shows average exchange rate of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 32 reveals that cost of sending US\$200 ranges between 1.11 to 3.70 percent and US\$500 ranges between 1.11 to 3.70 percent of total amount sent through MTO's. However, from Table 5 comparison shows that exchange rate of sending remittances of US\$200 and US\$500 through MTO's have decreased by 0.90% in Q4 2021 as compared to Q4 2020 and 2019.

For India Figure 22 shows average exchange rate of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 22 reveals that cost of sending US\$200 ranges between 0.07 to 11.38 percent and US\$500 ranges between 0.07 to 11.38 percent of total amount sent through MTO's. However, from Table 5 comparison shows that

exchange rate of sending remittances of US\$200 and US\$500 through MTO's have decreased by - 0.20% in Q4 2021 as compared to Q4 2020 and 2019.

For Singapore Figure 38 shows average exchange rate of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 38 reveals that cost of sending US\$200 ranges between 2.58 to 1.38 percent and US\$500 ranges between 2.58 to 1.38 percent of total amount sent through MTO's. However, from Table 5 comparison shows that exchange rate of sending remittances of US\$200 and US\$500 through MTO's have decreased by - 0.36% in Q4 2021 as compared to Q4 2020 and 2019.

For Saudi Arabia Figure 50 and Figure 52 shows average exchange rate of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 50 reveals that cost of sending US\$200 ranges between 1.92 to 1.39 percent and US\$500 ranges between 1.92 to 1.39 percent of total amount sent through MTO's. Figure 52 reveals that cost of sending US\$200 ranges between 2.32 to 1.39 percent and US\$500 ranges between 2.32 to 1.39 percent of total amount sent through banks. However, from Table 5 comparison shows that exchange rate of sending remittances of US\$200 and US\$500 through MTO's have decreased by -5.44% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction exchange rate of sending remittances of US\$200 and US\$500 through banks have decreased by -1.11% in Q4 2021 as compared to Q4 2020 and Q4 2019.

For UAE Figure 48 shows average exchange rate of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 48 reveals that cost of sending US\$200 ranges between 2.02 to 4.42 same for US\$500 ranges MTO's. Figure 48 reveals

that cost of sending US\$200 ranges between 2.32 to 1.39 percent and US\$500 ranges between 2.32 to 1.39 percent of total amount sent through banks. However, from Table 5 comparison shows that exchange rate of sending remittances of US\$200 and US\$500 through MTO's have increased by 1.23% in Q4 2021 as compared to Q4 2020 and 2019. It is analyzed that transaction exchange rate of sending remittances of US\$200 and US\$500 through banks have decreased by -1.11% in Q4 2021 as compared to Q4 2020 and Q4 2019.

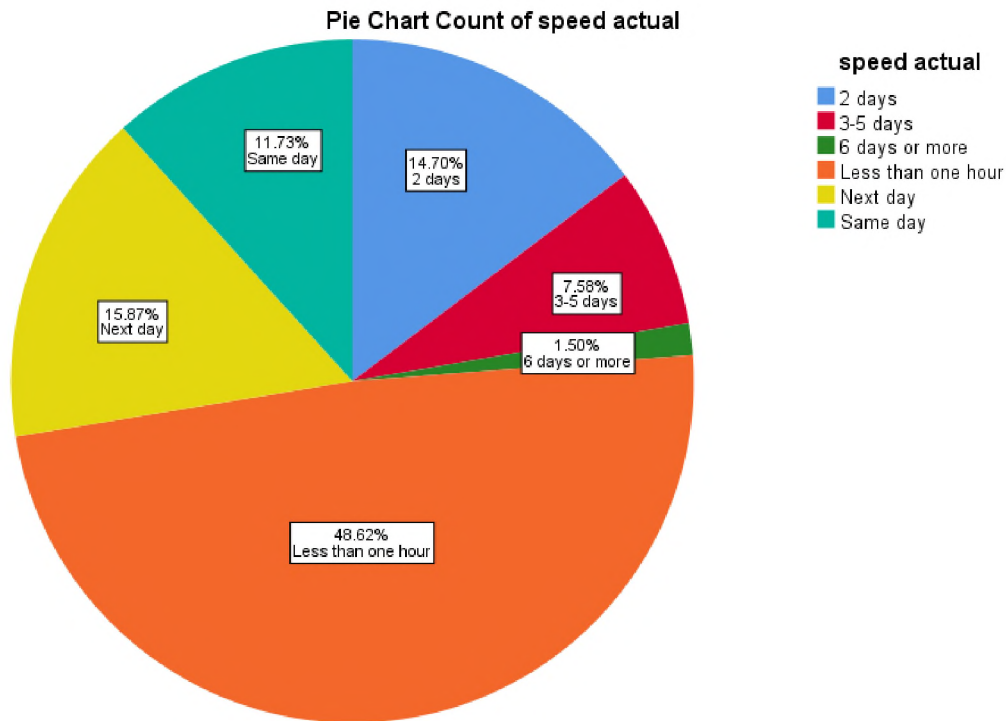
For Oman Figure 36 shows average exchange rate of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 36 reveals that cost of sending US\$200 ranges between 1.95 to 3.10 percent and US\$500 ranges between 0.74 to 3.10 percent of total amount sent through MTO's. However, from Table 5 comparison shows that exchange rate of sending remittances of US\$200 and US\$500 through MTO's have increased by 1.96% in Q4 2021 as compared to Q4 2020 and 2019.

For Kuwait Figure 30 shows average exchange rate of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 30 reveals that cost of sending US\$200 ranges between 1.11 to 3.70 percent and US\$500 ranges between 1.11 to 3.70 percent of total amount sent through MTO's. However, from Table 5 comparison shows that exchange rate of sending remittances of US\$200 and US\$500 through MTO's have decreased by -2.19% in Q4 2021 as compared to Q4 2020 and 2019.

For Qatar Figure 34 shows average exchange rate of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 34 reveals that cost of sending US\$200 ranges between 1.56-1.70 percent and US\$500 ranges between 1.56-1.70 percent

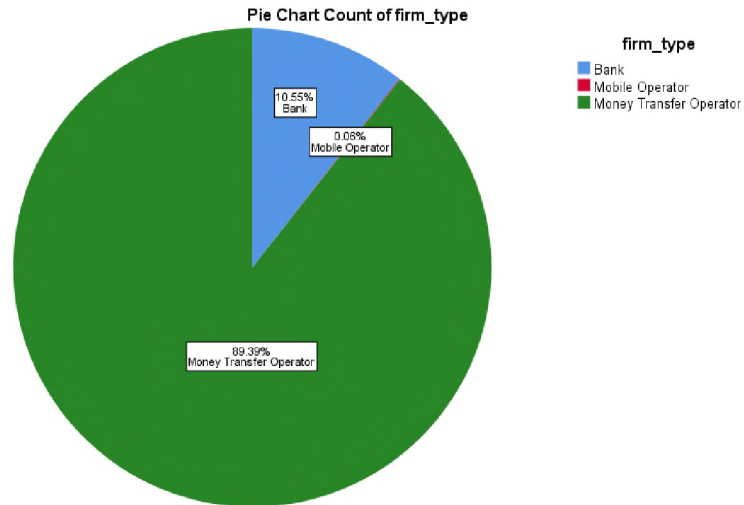
of total amount sent through MTO's. However, from Table 5 comparison shows that exchange rate of sending remittances of US\$200 and US\$500 through MTO's have increased by 0.01% in Q4 2021 as compared to Q4 2020 and 2019.

For Bahrain Figure 25 shows average exchange rate of sending remittances of US\$200 and US\$500 to Pakistan through MTO's and Banks to home country. Figure 25 reveals that cost of sending US\$200 ranges between 0.56 to 2.41 percent and US\$500 ranges between 0.42 to 2.41percent of total amount sent through MTO's. However, from Table 5 comparison shows that exchange rate of sending remittances of US\$200 and US\$500 through MTO's have decreased by - 0.41% in Q4 2021 as compared to Q4 2020 and 2019.



**Figure 3 Comparing Cost of Different Channels**

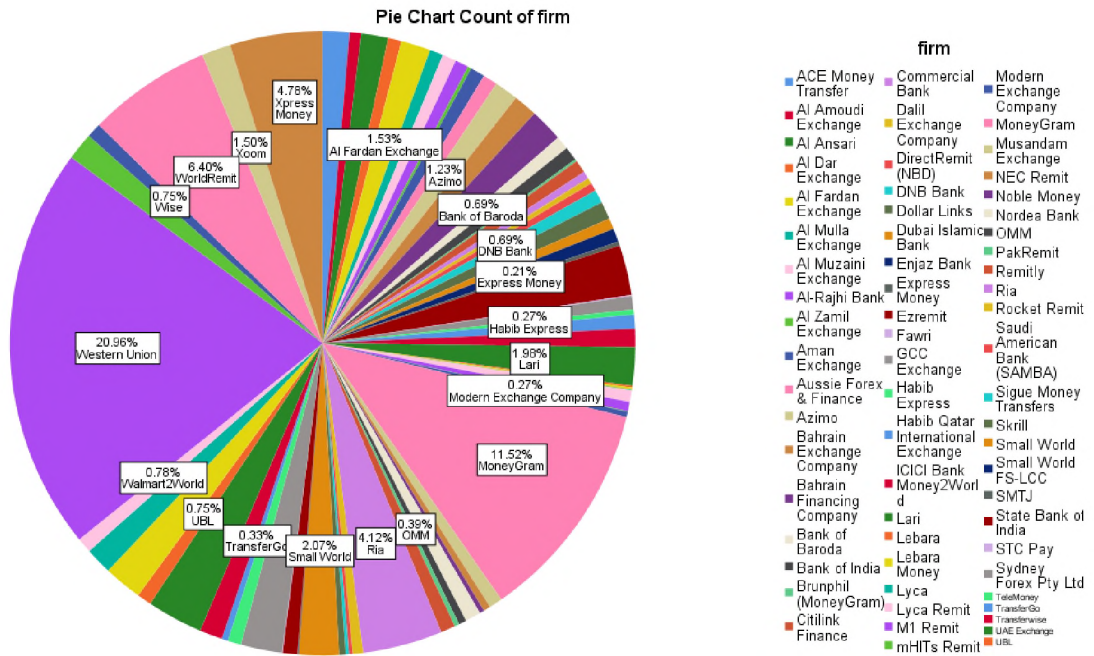
Time is the most important factor that is considered when it is connected with money. Remittances time taken for the money to be available for the receiver. Figure shows that money is available for the receiver in less than one hour is 48.62%, same day is 11.73%, next day is 15.87%, received within 2 days is 14.70%, 3-5 days is 7.58% and 1.50% remittances available for the receiver in 6 days or more.



**Figure 4 Firm Type**

In Pakistan Money Operating firm is considered as providers of services to for transferring amount of remittances to Pakistan with average estimated percentage of 89.39% from world bank data. Secondly, Banks are used as source for sending remittances with percentage of 10.55% and lastly, least preferred service provider offering services is mobile operators with percentage of 0.06%. From data it is understood that the MTO's are the type of remittance service providers that are preferred.





**Figure 5 Firm Count for receiving remittances**

There are huge number of firms that are providing services for receiving remittances among them Western Union (20.96%), Money Gram (11.52%), World Remit (6.40%) and many other channels are used that are shown in figure.

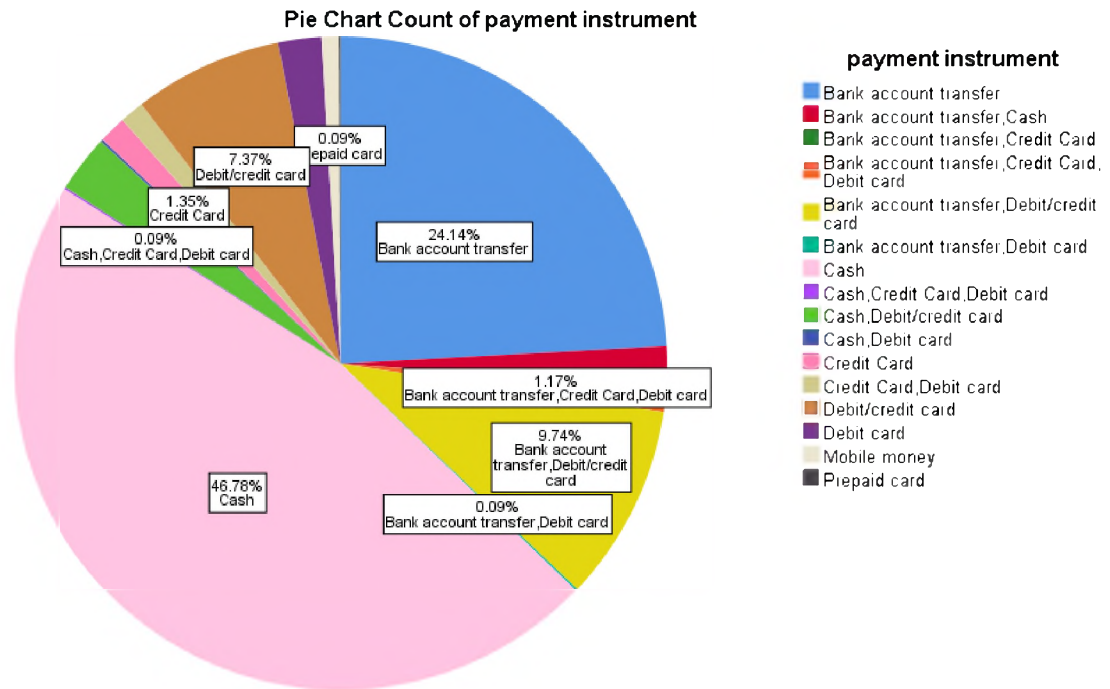
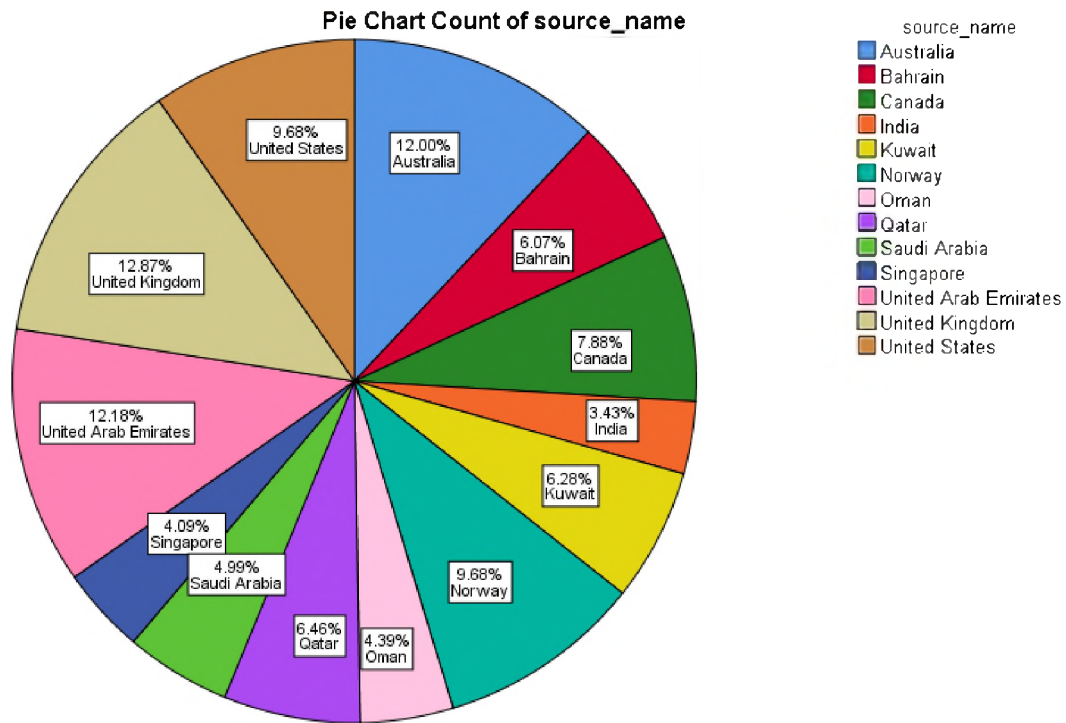
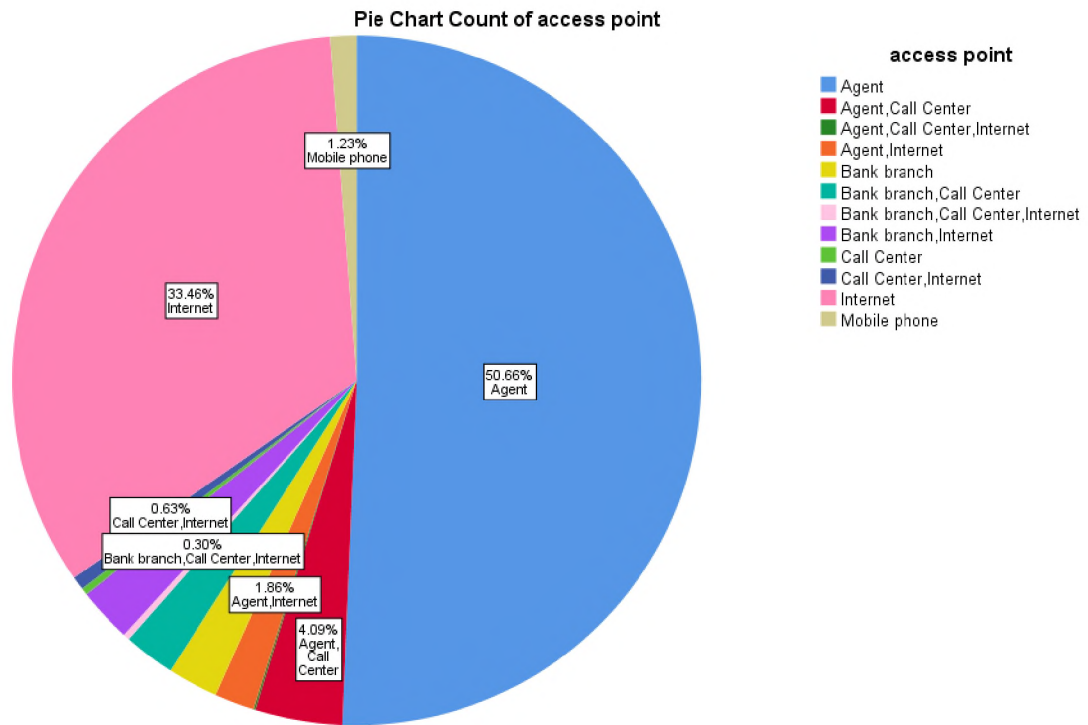


Figure shows that most frequently used instrument for transfer of payment to Pakistan is cash (46.78%), bank account transfer (24.14%) and combination of debit or credit cards, bank transfers and cash are used as an instrument for sending remittances.



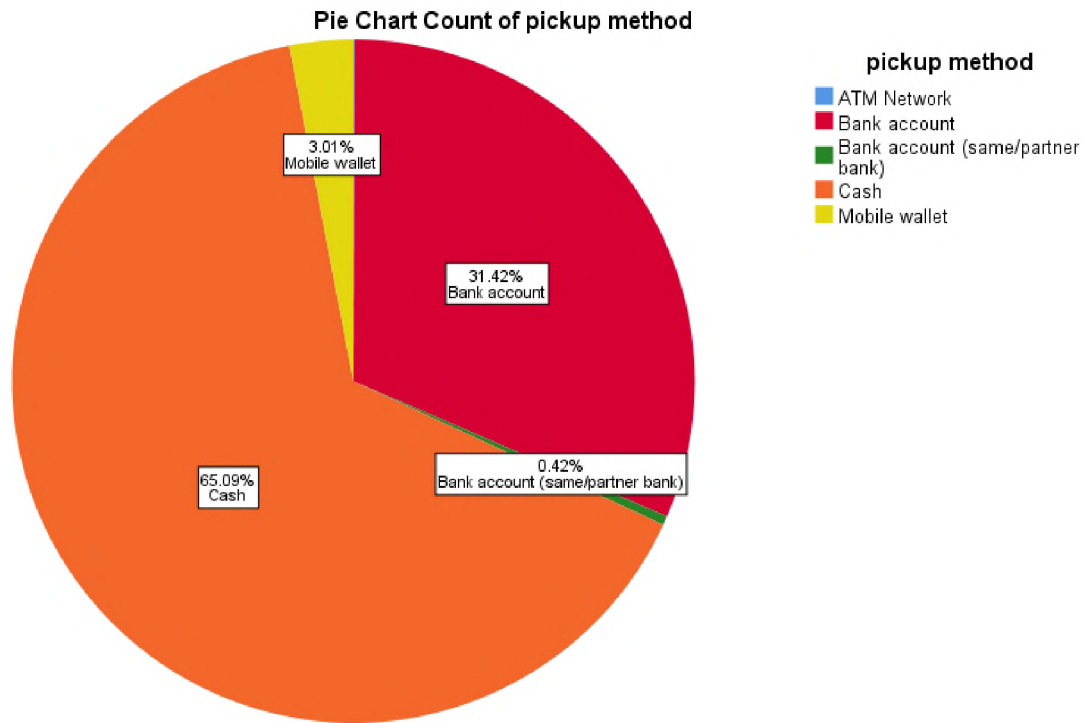
**Figure 7 Source Name of Remittances**

Figure shows corridors that are used for sending remittances to Pakistan that include Singapore (4.09%), Australia (12%), Norway (9.68%), Canada (7.88%), United States (9.68%), India (3.43%), Saudi Arabia (4.99%), Qatar (6.46%), Oman (4.39%), United Kingdom (12.87%), UAE (12.18%), Bahrain (6.07%) and Kuwait (6.28%).



**Figure 8 Access Point**

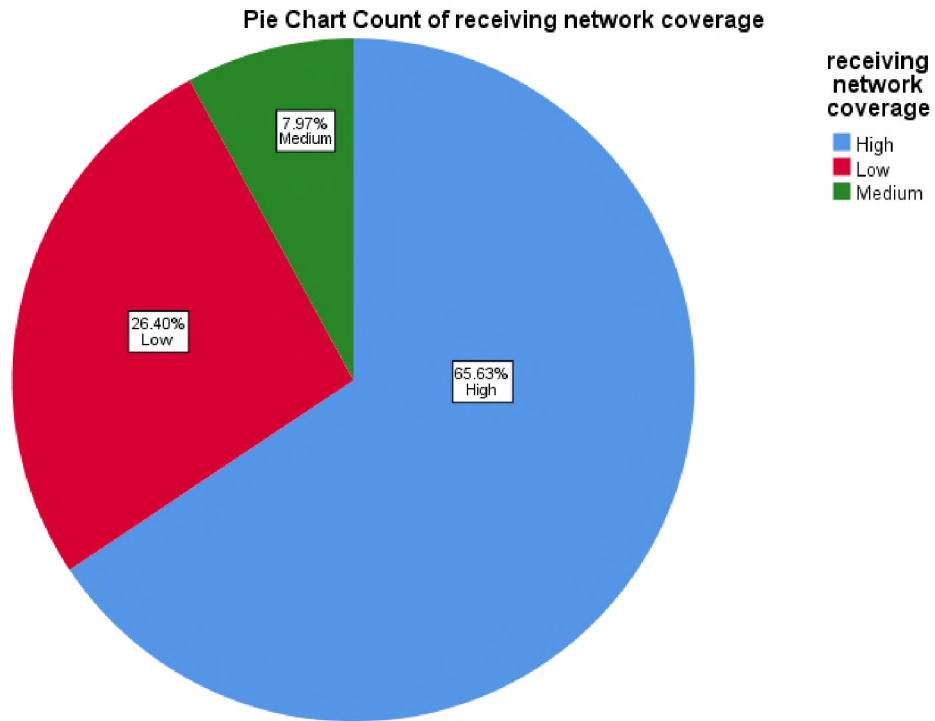
Point of access that is preferred for sending remittances to Pakistan have different point of access, like agents, call centers, internet, bank branch and mobile phones. Most probably, more than one access points are used for sending amount to home country. Most frequently preferred is through agent (50.66%), internet (33.46%), agent call center (4.09%), mobile phone (1.23) and rest blend of access points are like agent and call center, bank branch and call center, bank branch, call center and internet, and many more combination of that.



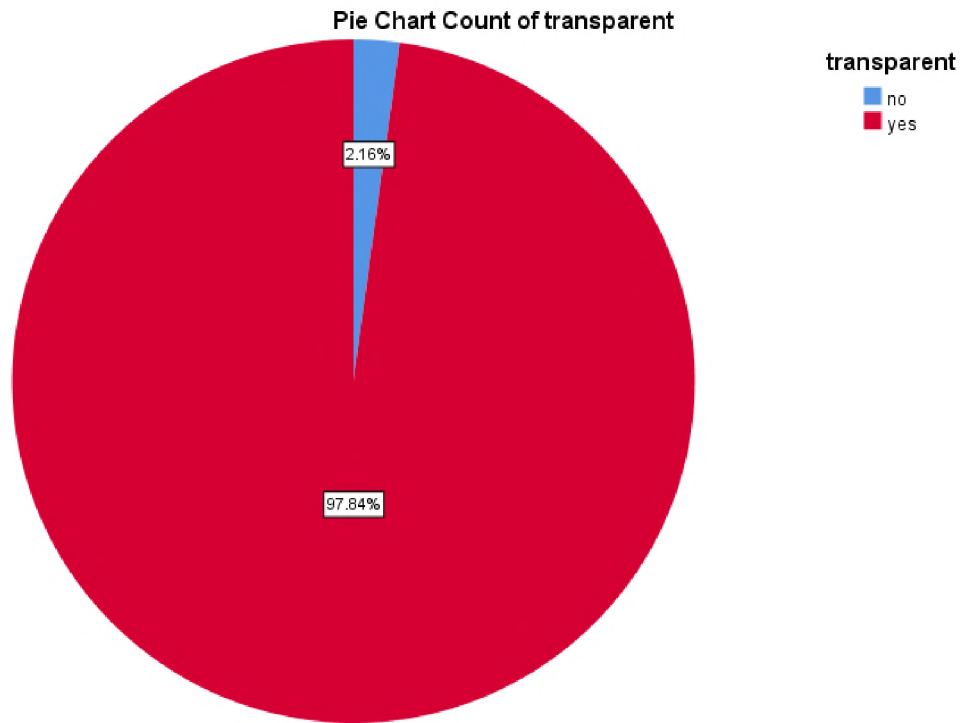
**Figure 9 Pick-up Method**

There are many methods for picking up money in receiving country, on the basis of data that indicates how money is picked up in receiving country, in Pakistan five methods are used for picking up money; ATM Network, Bank Account, Bank Account ( same/partner bank), Cash and Mobile Wallet. Most preferred method for picking up money is Cash with percentage of 65.09%, Bank account is 31.42%, Mobile wallet is 3.01% and Bank account ( same/Partner bank) is 0.42%. which shows that people prefer to receive money in cash rather than in bank accounts and etc.

**Figure 10 Network Coverage**

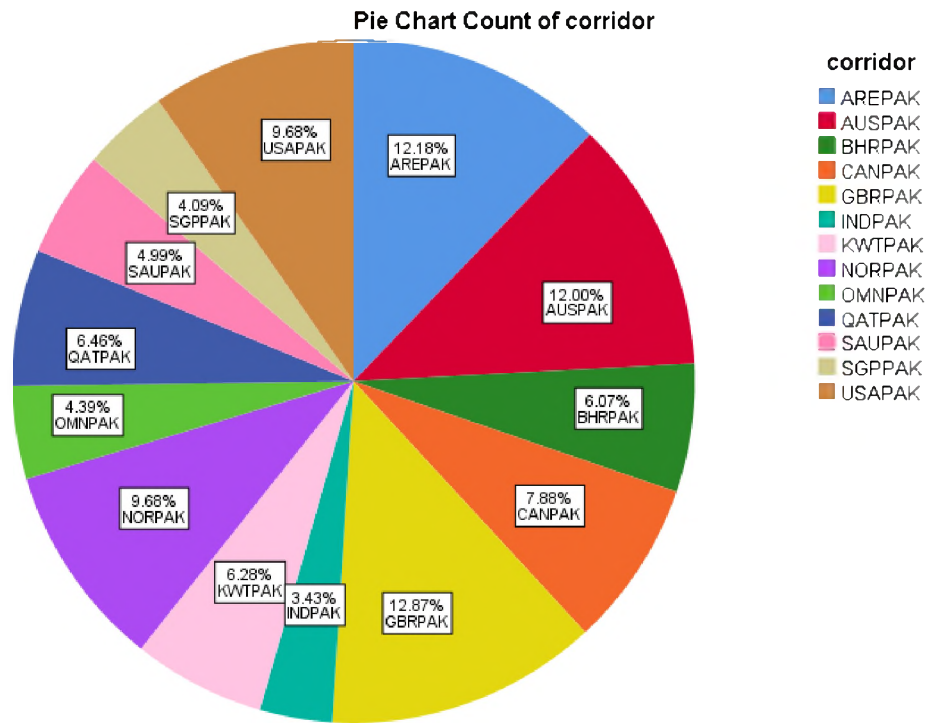


Remittances are received on the basis of network coverage the extensiveness of the receiving network is ranked in High, Low and Medium. Figure shows that 65.63% of are very high extensive in receiving country, 26.40% of are low extensive in receiving country and 7.97% of are medium.



**Figure 11 Transparency**

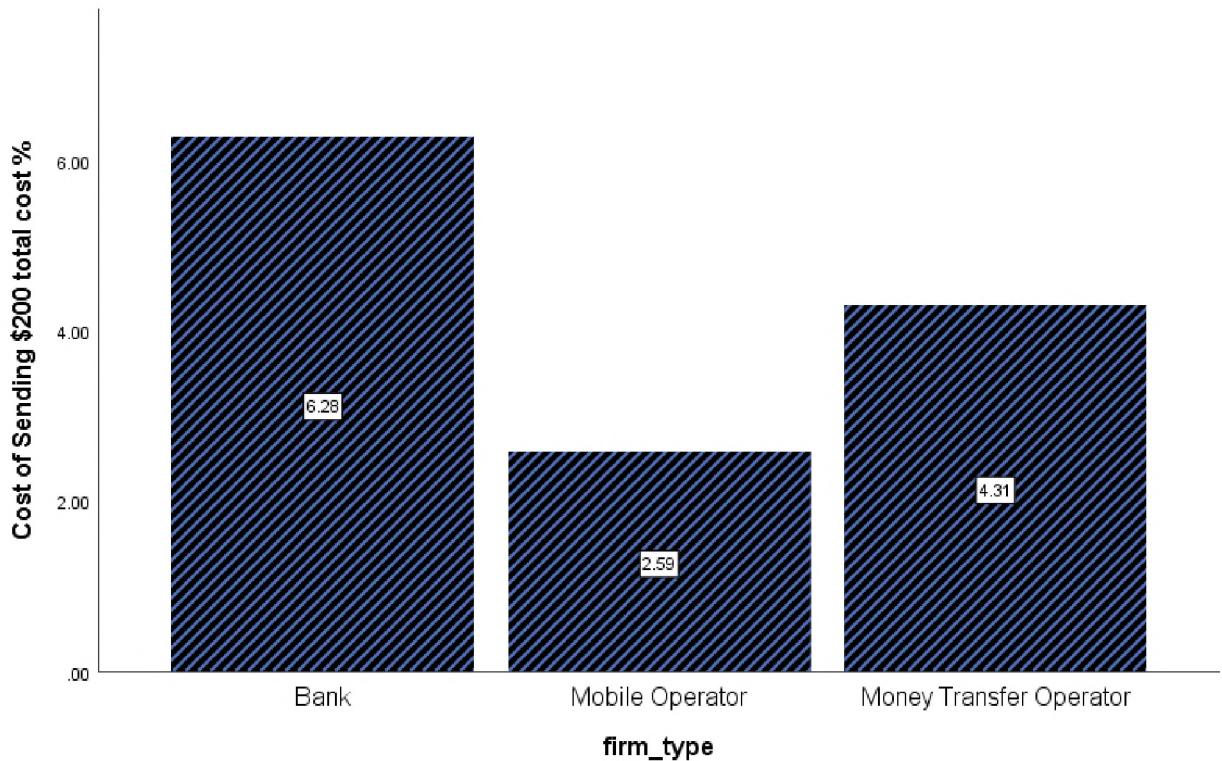
Transparency in the transaction that remittance service providers provide information to remitters that exchange rate is being applied on the transaction, yes indicates that they were provided information about exchange rate that is being applied on the transaction and no indicates that they were not provided information that exchange rate is being applied on the transaction. Figure shows that 97.84% people were provided with information and 2.16% were not provided with information that what exchange rate is being applied on the transaction.



**Figure 12 Corridor**

Figure shows corridors that are used for sending remittances to Pakistan that include Singapore (4.09%), Australia (12%), Norway (9.68%), Canada (7.88%), United States (9.68%), India (3.43%), Saudi Arabia (4.99%), Qatar (6.46%), Oman (4.39%), United Kingdom (12.87%), UAE (12.18%), Bahrain (6.07%) and Kuwait (6.28%).

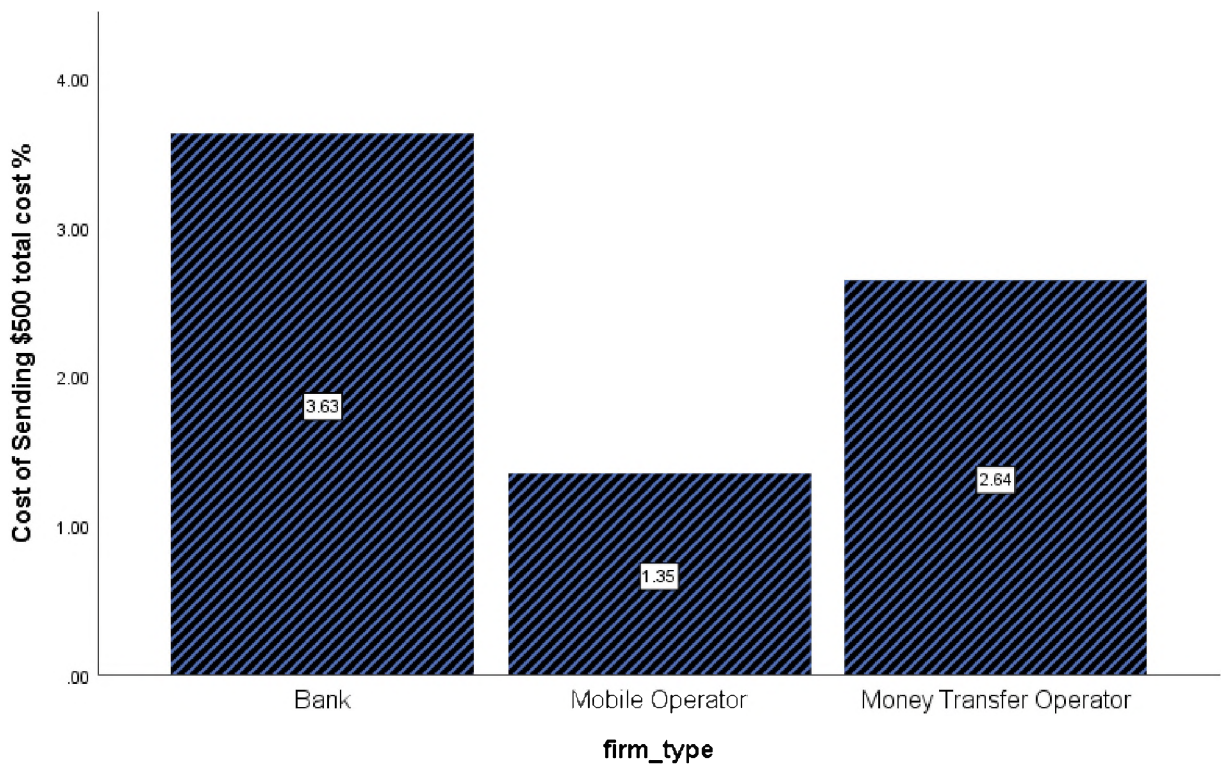




**Figure 13 Firm Type for \$200**

Sending \$200 to Pakistan through in percentage on the basis of firm that remitters use for sending remittances are divided in to three categories banks, mobile operators and Money Transfer Operators (MTO's). The average percentage of using bank as transfer of payment is 6.28, mobile operator is 2.59 and Money Transfer Operators (MTO's) is 4.31. From above figure it can be analyzed that most of remitters prefer banks to send their remittances to Pakistan as first priority, as mentioned by Manager of Faisal Bank,

*“Most of the remitters have security issues that weather their families will receive remittances or not that why they trust banks to transfer their remittances to Pakistan because they have fear of manipulation and mistrust.”*



**Figure 14 Firm Type for \$500**

Sending \$500 to Pakistan through in percentage on the basis of firm that remitters use for sending remittances are divided in to three categories banks, mobile operators and Money Transfer Operators (MTO's). The average percentage of using bank as transfer of payment is 3.63, mobile operator is 1.35 and Money Transfer Operators (MTO's) is 2.64. From above figure it can be

analyzed that case is still the same increasing in amount do not affect the remitters prefer banks to send their remittances to Pakistan as first priority, as mentioned by Manager of United Bank limited (UBL),

*“Security mode of sending or receiving remittances is same it do not depend upon the amount that is being sent well I as a banker must say that every banks are considered as the most secured mode of sending or receiving remittances higher the amount higher the risk .”*

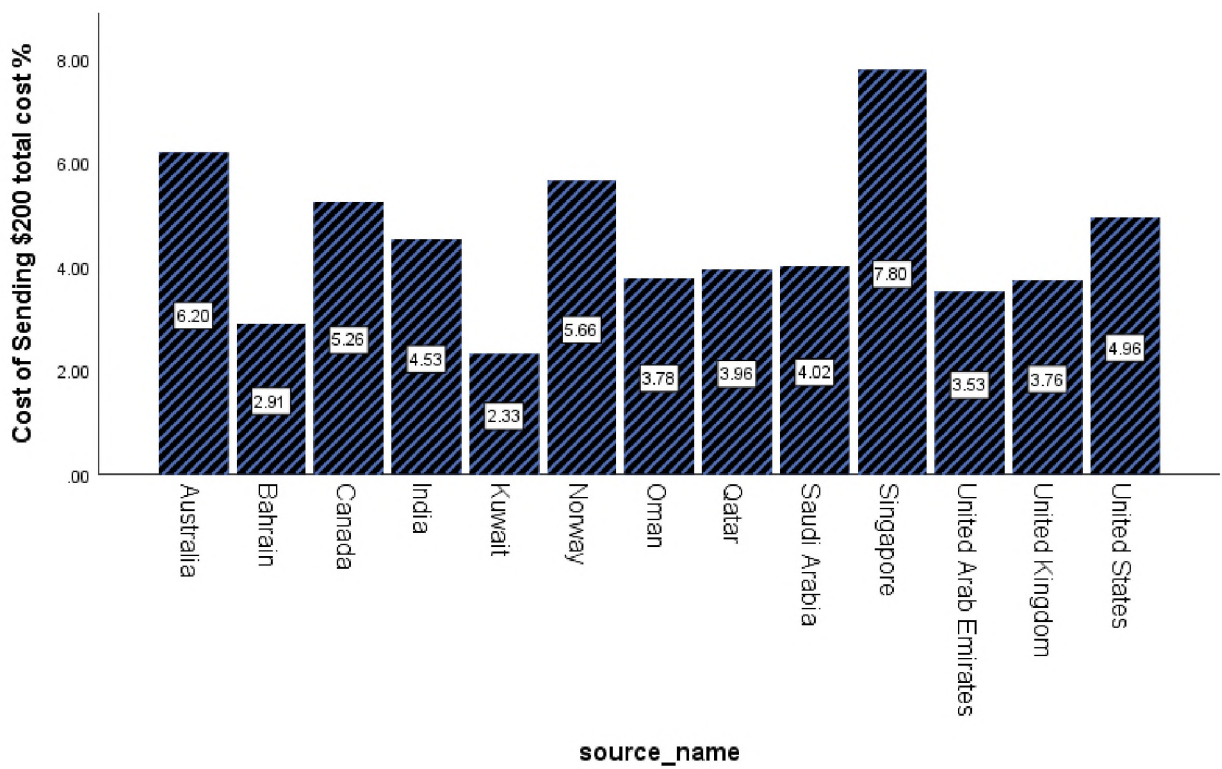


Figure 15 Spruce of Sending \$200

On average the cost of sending \$200 to Pakistan from different sources from all over the world, data has been extracted from world bank that has help to know that cost of sending remittances from Singapore is higher than rest of the corridors, in contrast Kuwait has lowest cost of sending remittances to Pakistan. From above table shows average cost of sending \$200 to Pakistan from different corridors; Singapore has 7.80%, Australia has 6.20%, Norway has 5.66%, Canada has 5.62%, united states has 4.96%, India has 4.53%, Saudi Arabia has 4.02%, Qatar has 3.96%, Oman has 3.78%, united kingdom has 3.76%, UAE has 3.53%, Bahrain has 2.91% and Kuwait has 2.33%.

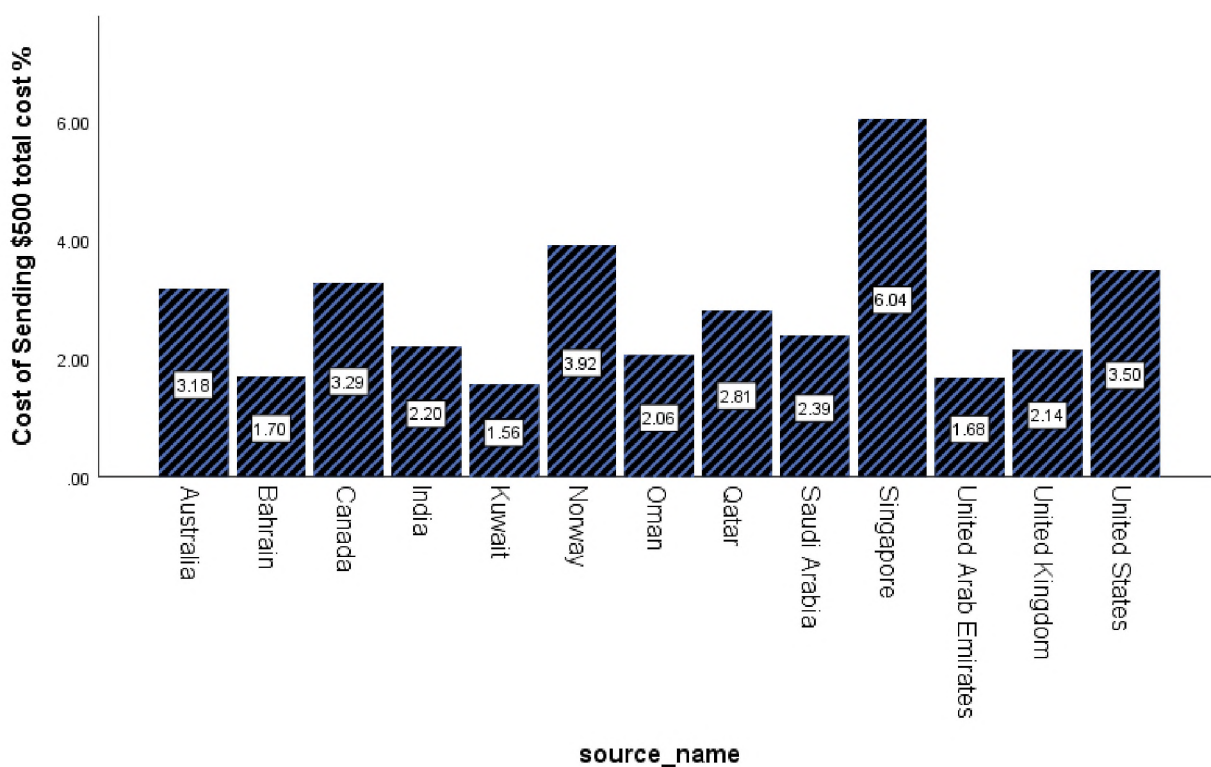
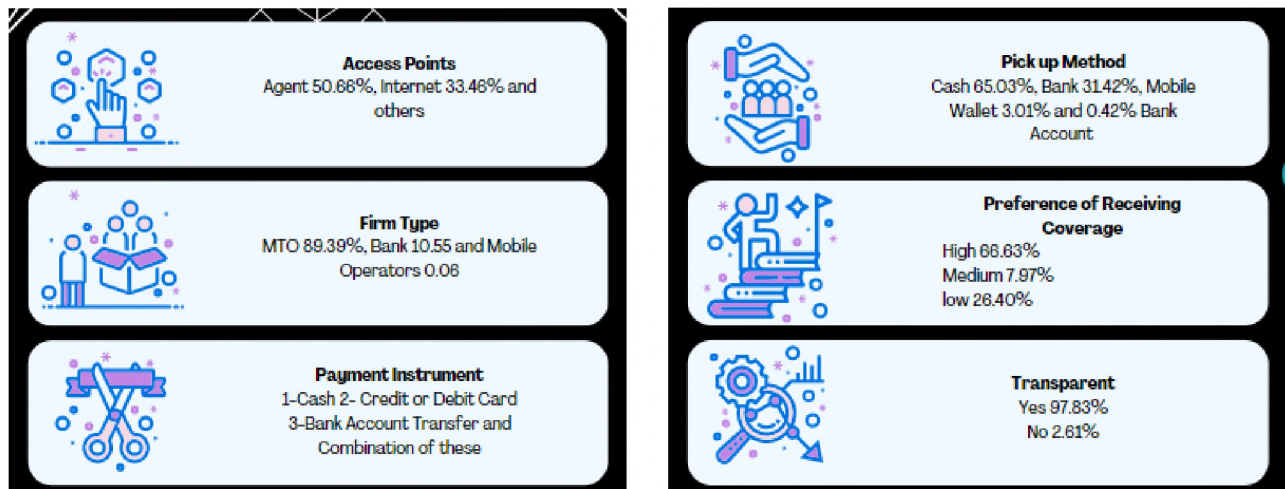


Figure 16 source of Sending \$500



On average the cost of sending \$500 to Pakistan from different sources from all over the world, data has been extracted from world bank that has help to know that cost of sending remittances from Singapore is higher than rest of the corridors, in contrast Kuwait has lowest cost of sending remittances to Pakistan. From above table shows average cost of sending \$500 to Pakistan from different corridors; Singapore has 7.80%, Australia has 6.04%, Norway has 3.92%, Canada has 3.29%, United States has 3.50%, India has 2.20%, Saudi Arabia has 2.39%, Qatar has 2.81%, Oman has 2.06%, united kingdom has 1.68%, UAE has 2.14%, Bahrain has 1.70% and Kuwait has 1.56%.

All in all, it can be noticed that cost of sending \$200 has higher average cost of remitting as compared to cost of sending \$500. That helps us to build the relationship between cost and amount of mitting that high cost low amount and low cost and higher amount.



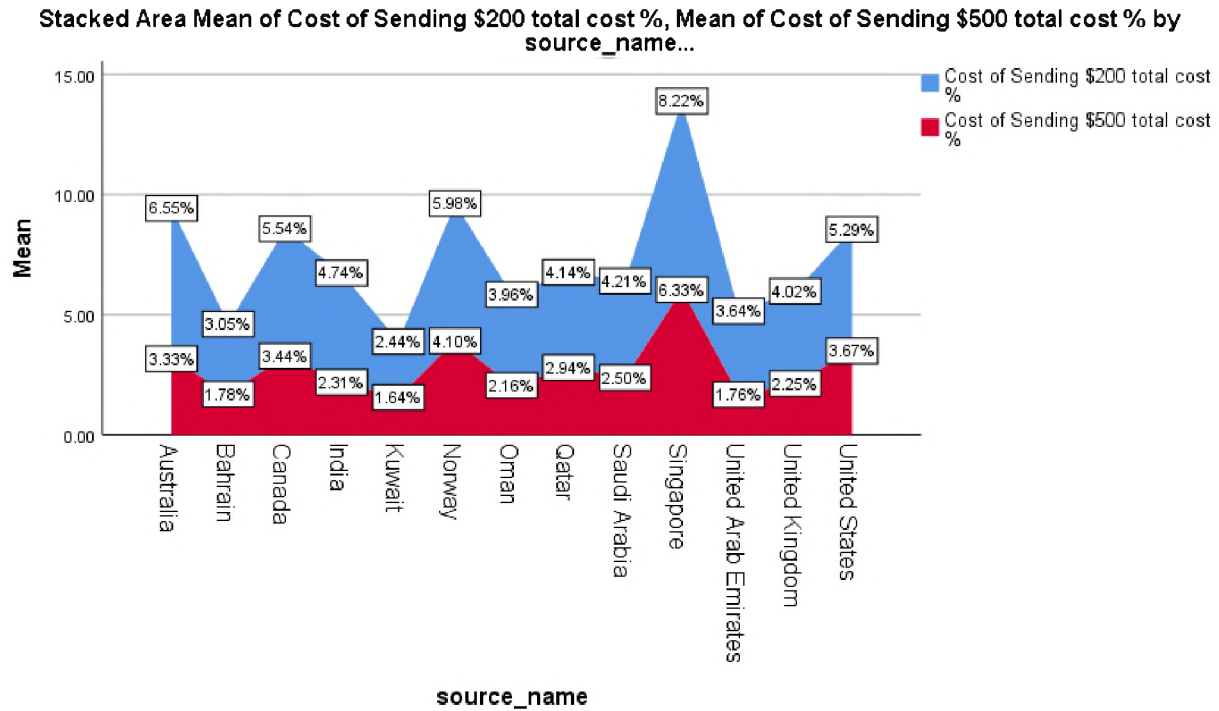


Figure 17 Compression of Men of Source of sending \$200 vs \$500

Cost of sending \$200 and \$500 to Pakistan from different corridors from 2016 Q2 to 2021 Q4, From figure that shows mean cost of sending \$200 and \$500 to Pakistan from different corridors in percentage; Singapore has 8.22% and 6.33%, Australia has 6.55% and 3.33%, Norway has 5.98% and 4.10%, Canada has 5.54% and 3.44%, United States has 5.29% and 3.67%, India has 4.74% and 2.31%, Saudi Arabia has 4.21% and 2.50%, Qatar has 4.14% and 2.94%, Oman has 4.14% and 2.16%, united kingdom has 4.02% and 2.25%, UAE has 3.64% and 1.76%, Bahrain has 3.05% and 1.78%, and Kuwait has 2.44% and 1.64%.

### 2.3 Sludge

Steps and Time Consumed in sending and Receiving remittances through MTO's

Color Ledger

Stress Ledger



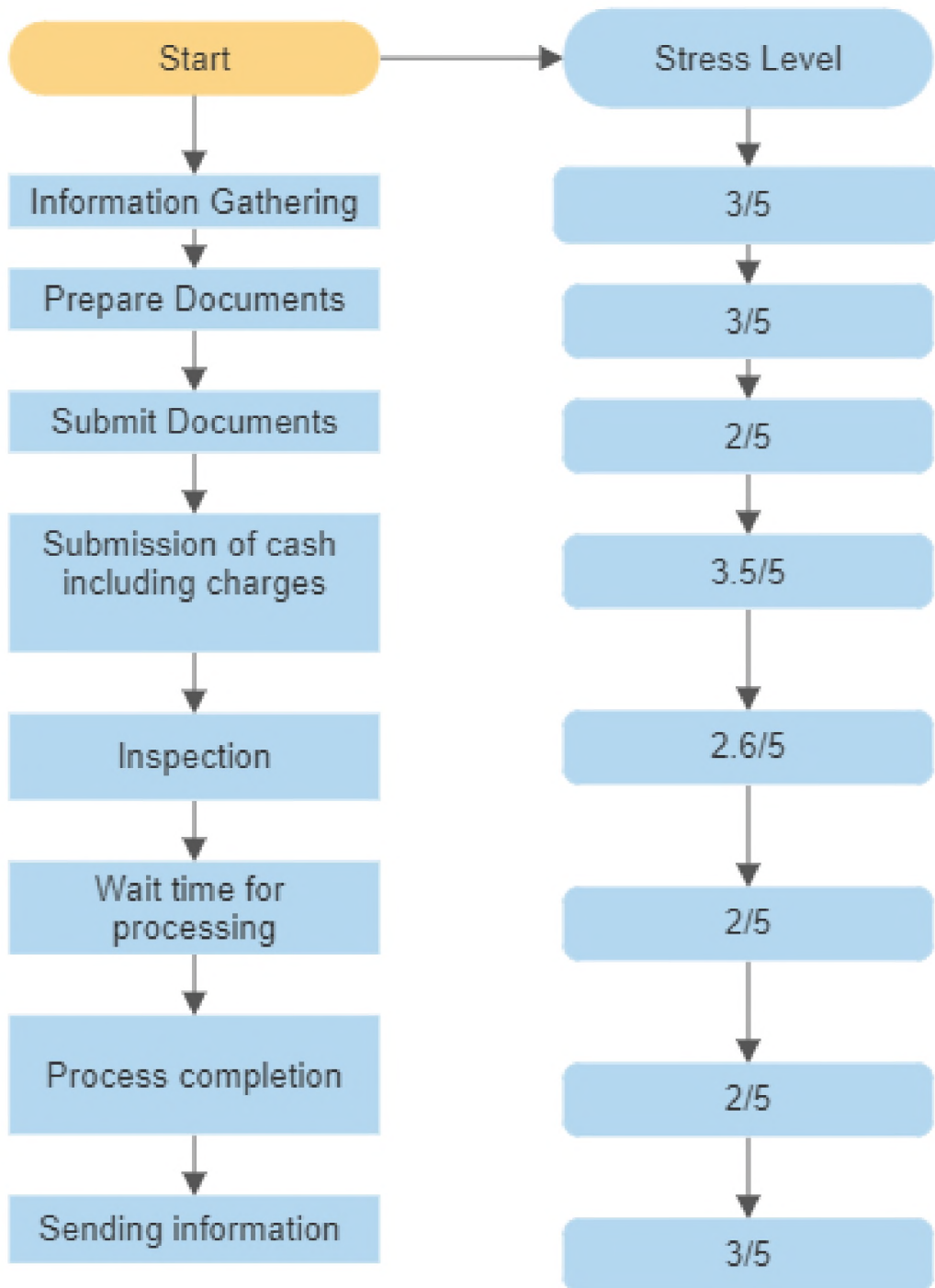
Box-2: Stress Percentage The distribution of stress across steps has been calculated by multiplying the total process time (including travel, waiting, and transaction time) of each step with the stress level. The Stress % column in the table contains a percentage representation of stress distribution






























Low Stress		1
Mild Stress		2
Moderate Stress		3
High Stress		4
Sever Stress		5

NO	Steps	Description	Time (Minutes)			
			Travel	Waiting	Transaction /Process	Total
<b>Sender (MTO's)</b>						
1	Information Gathering	MTO's	15			15
		Meet officials for gathering information on transfer of funds		10		10
2	Prepare Documents	Application form			10	10
		CNIC Copy			5	5
		Token for document submission				0
3	Submit Document	Application form			2	2
		CNIC Copy			3	3
4	Submission of Cash and fee	Cash			5	5
		Transaction fee		2		2
5	Inspection	Getting personal Information		5	5	10
		verification of documents		5	5	10
6	Wait for processing of Application	Data entry			5	5
		Printing of receipt			2	2
7	Process Completed	Signature and verification of Signature		2	2	4
		Handing over the receipt			2	2
8	Sending Information to Remittee	Information sent Via Telephone calls or through social media applications			15	15
Total Minutes			15	24	61	100
<b>Receiver (MTO's)</b>						
1	Receiving Information	Information Received Via Telephone calls or through social media applications	300			300
		Meet officials for gathering information about receiving of funds		10		10
2	Prepare Documents	Application form			10	10
		CNIC Copy			5	5
3	Submit Document and Cash	Application form			5	5
		CNIC copy			5	5
4	Inspection	Getting personal Information			5	5
5	Wait for processing of Application	Data entry			5	5
6	Process Completed	Printing of form			5	5
		Signature and verification of Signature		2	3	5
7	Sending to Cash counter	Depositing the signed form			5	5
		Cash receiving			10	10
8	Traveling back to home or Bank	Traveling with cash			20	20
Total Minutes			300	12	78	390



NO	Steps	Description	Stress			
			Stress Level	Weighted Stress	Stress Percentage	
<b>Sender Through MTO</b>						
1	Information Gathering	MTO's		4	60	0.196
		Meet officials for gathering information on transfer of funds		2	20	0.065
2	Prepare Documents	Application form		4	40	0.131
		CNIC Copy		3	15	0.049
		Token for document submission		2	0	0.000
3	Submit Document	Application form		2	4	0.013
		CNIC Copy		2	6	0.020
4	Submission of Cash and fee	Cash		4	20	0.065
		Transaction fee		3	6	0.020
5	Inspection	Getting personal information		3	30	0.098
		verification of documents		3	30	0.098
6	Wait for processing of Application	Data entry		2	10	0.033
		Printing of receipt		2	4	0.013
7	Process Completed	Signature and verification of Signature		3	12	0.039
		Handing over the receipt		2	4	0.013
8	Sending Information to Remittee	Information sent Via Telephone calls or through social media applications		3	45	0.147
<b>Receiver</b>						
1	Receiving Information	Information Received Via Telephone calls or through social media applications		2	600	0.682
		Meet officials for gathering information about receiving of funds		3	30	0.034
2	Prepare Documents	Application form		2	20	0.023
		CNIC Scan		3	15	0.017
3	Submit Document and Cash	Application form		3	15	0.017
		CNIC Scan		2	10	0.011
4	Inspection	Getting personal information		3	15	0.017
5	Wait for processing of Application	Data entry		2	10	0.011
6	Process Completed	Printing of form		1	5	0.006
		Signature and verification of Signature		2	10	0.011
7	Sending to Cash counter	Depositing the signed form		2	10	0.011
		Cash receiving		4	40	0.045
8	Traveling back to home or Bank	Traveling with cash <sup>67</sup>		5	100	0.114
					880	

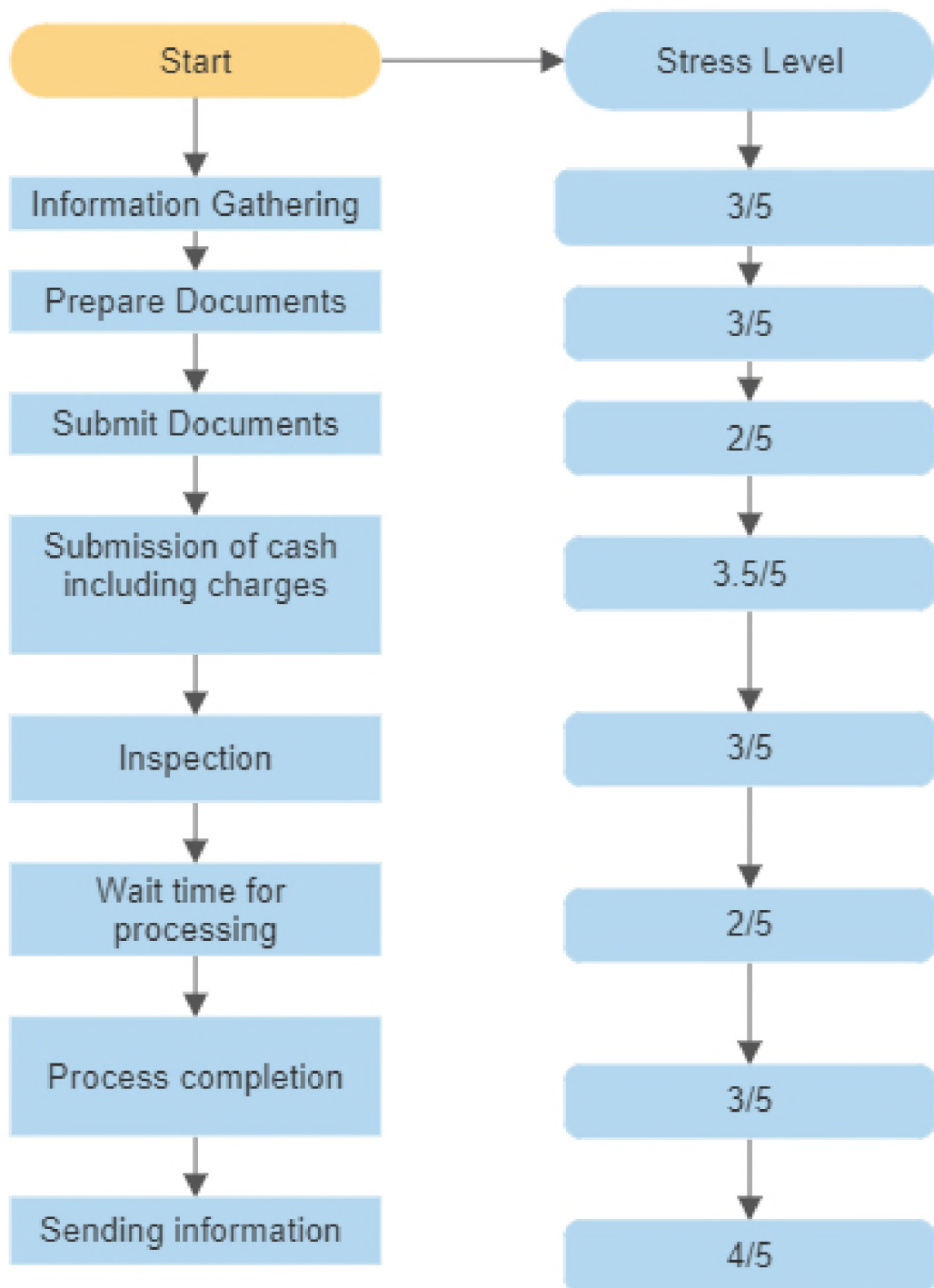
































NO	Steps	Description	Stress	
			Stress Level	Stress %
<b>Sender Through MTO</b>				
1	Information Gathering	MTO's	 4	22%
		Meet officials for gathering information on transfer of funds	 2	7%
2	Prepare Documents	Application form	 4	15%
		CNIC Copy	 3	6%
		Token for document submission	 2	4%
3	Submit Document	Application form	 2	1%
		CNIC Copy	 2	2%
4	Submission of Cash and fee	Cash	 4	7%
		Transaction fee	 3	2%
5	Inspection	Getting personal Information	 3	11%
		verification of documents	 3	11%
6	Wait for processing of Application	Data entry	 2	4%
		Printing of receipt	 2	1%
7	Process Completed	Signature and verification of Signature	 3	4%
		Handing over the receipt	 2	1%
8	Sending Information to Remittee	Information sent Via Telephone calls or through social media applications	 3	14%
<b>Receiver (MTO's)</b>				
1	Receiving Information	Information Received Via Telephone calls or through social media applications	 2	68%
		Meet officials for gathering information about receiving of funds	 3	3%
2	Prepare Documents	Application form	 2	2%
		CNIC Scan	 3	2%
3	Submit Document and Cash	Application form	 3	2%
		CNIC Scan	 2	1%
4	Inspection	Getting personal Information	 3	2%
5	Wait for processing of Application	Data entry	 2	1%
6	Process Completed	Printing of form	 1	1%
		Signature and verification of Signature	 2	1%
7	Sending to Cash counter	Depositing the signed form	 2	1%
		Cash receiving	 4	5%
8	Traveling back to home or Bank	Traveling with cash	 5	11%

### Steps and Time Consumed in sending and Receiving remittances through Banks's

NO	Steps	Description	Time (Minutes)			
			Travel	Waiting	Transaction /Process	Total
<b>Sender (Bank)</b>						
1	Information Gathering	Traveling to bank	20			20
		Token		15		15
2	Prepare Documents	Application form			10	10
		CNIC Copy			5	5
		Token for submission			2	2
3	Submit Document	Application form			10	10
		CNIC Copy			5	5
4	Submission of Cash and fee	Cash		5	10	15
		Trasnsaction fee		5	5	10
5	Inspection	Getting personal Information		5	10	15
		verification of documents		5	5	10
6	Wait for processing of Application	Data entry			10	10
		Signature and verification of Signature		2	5	7
7	Process Completed	Printing of receipt		2	2	4
		Handing over the receipt		5	5	10
8	Sending Information to Remitter	Information sent Via Telephone calls or through social media applications		5	15	20
	Total time in Minutes		20	49	99	168
<b>Receiver (Bank)</b>						
1	Receiving Information	Information Received Via Telephone calls or through social media applications				
		Information Gathering	Visit Bank	20		20
2	Prepare Documents	Token: To Meet officials for gathering information about receiving of funds		10		10
		Application form			10	10
3	Submit Document and Cash	CNIC Copy			5	5
		Application form			5	5
4		CNIC Copy			5	5
5	Inspection	Getting personal Information and account details			5	5
6	Wait for processing of Application	Data entry			5	5
	Process Completed	Printing of form			5	5
7	Sending to Cash counter	Signature and verification of Signature		2	3	5
		Depositing the signed form			5	5
8		Trasfering of amount to Account			10	10
9	Traveling back to home or bank	Traveling with or without cash		5	20	25
	Total time in Minutes		20	17	78	115

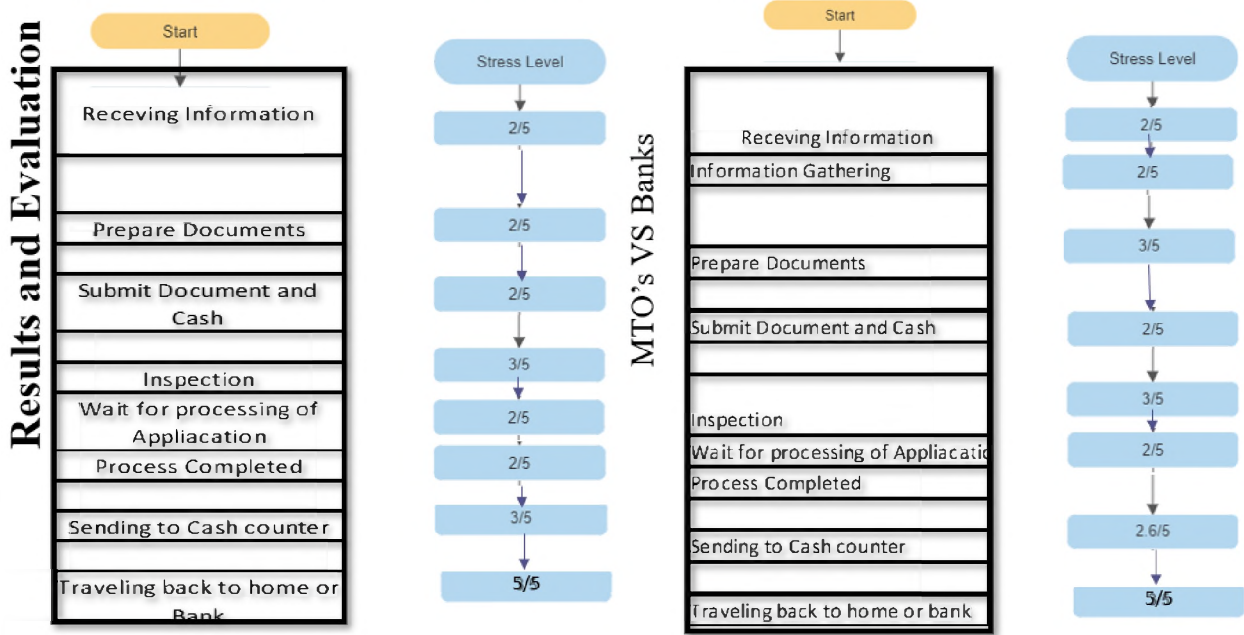
NO	Steps	Description	Stress		
			Stress Level	Weighted Stress	Stress Percentage
<b>Sender Bank</b>					
1	Information Gathering	Traveling to bank	4	80	0.165
		Token	2	30	0.062
2	Prepare Documents	Application form	4	40	0.082
		CNIC Copy	3	15	0.031
		Token for submission	2	4	0.008
3	Submit Document	Application form	2	20	0.041
		CNIC Copy	2	10	0.021
4	Submission of Cash and fee	Cash	1	15	0.031
		Trasnaction fee	4	40	0.082
5	Inspection	Getting personal Information	3	45	0.093
		verification of documents	3	30	0.062
6	Wait for processing of Appliacation	Data entry	2	20	0.041
		Signature and verification of Signature	2	14	0.029
7	Process Completed	Printing of receipt	3	12	0.025
		Handing over the receipt	3	30	0.062
8	Seneding Information to Remitter	Information sent Via Telephone calls or through social media applications	4	80	0.165
<b>Receiver Bank</b>				<b>485</b>	<b>1.000</b>
1	Receiving Information	Information Received Via Telephone calls or through social media applications	2	0	0.000
	Information Gathering	Visit Bank	2	40	0.116
2	Prepare Documents	Token: To Meet officals for gathering infromation about receiving of funds	3	30	0.087
		Application form	2	20	0.058
3	Submit Document and Cash	CNIC Copy	3	15	0.043
		Application form	3	15	0.043
4		CNIC Copy	2	10	0.029
5	Inspection	Getting personal Information and accoount details	3	15	0.043
6	Wait for processing of Appliacation	Data entry	2	10	0.029
	Process Completed	Printing of form	1	5	0.014
7	Sending to Cash counter	Signature and verification of Signature	2	10	0.029
		Depositing the signed form	2	10	0.029
8		Trasfering of amount to Account	4	40	0.116
9	Traveling back to home or bank	Traveling with cash	5	125	0.362
				345	



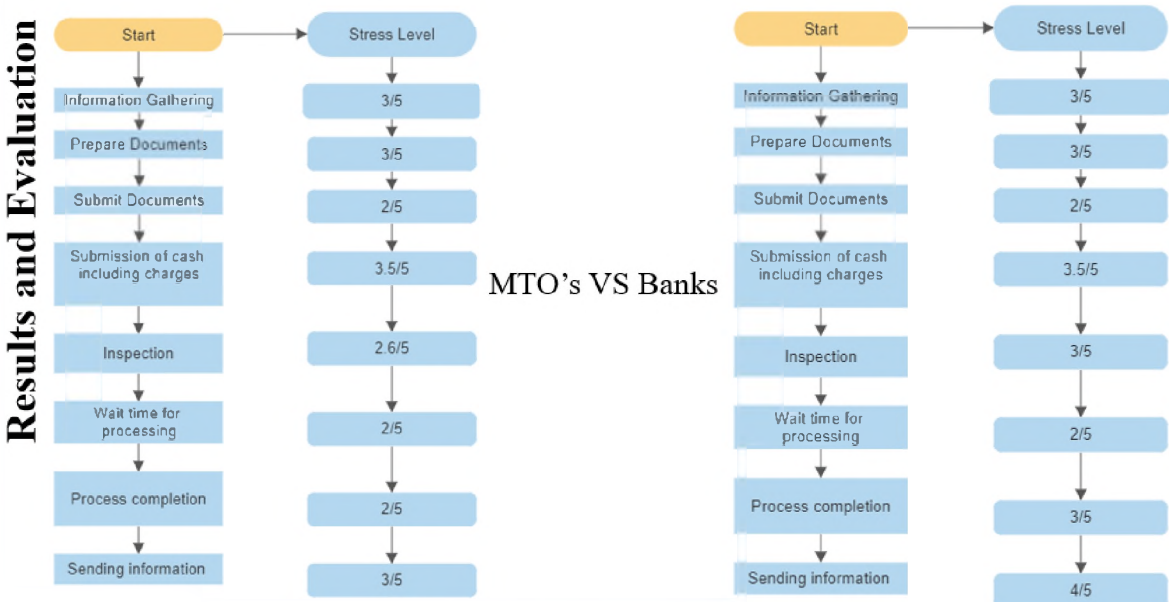
NO	Steps	Description	Stress	
			Stress Level	Stress Percentage
<b>Sender Bank</b>				
1	Information Gathering	Traveling to bank	 4	16%
		Token	 2	6%
2	Prepare Documents	Application form	 4	8%
		CNIC Copy	 3	3%
		Token for submission	 2	1%
3	Submit Document	Application form	 2	4%
		CNIC Copy	 2	2%
4	Submission of Cash and fee	Cash	 1	3%
		Trasnaction fee	 4	8%
5	Inspection	Getting personal Information	 3	9%
		verification of documents	 3	6%
6	Wait for processing of Appliacation	Data entry	 2	4%
		Signature and verification of Signature	 2	3%
7	Process Completed	Printing of receipt	 3	2%
		Handing over the receipt	 3	6%
8	Seneding Information to Remitter	Information sent Via Telephone calls or through social media applications	 4	16%
<b>Receiver Bank</b>				100%
1	Receiving Information	Information Received Via Telephone calls or through social media applications	 2	0%
	Information Gathering	Visit Bank	 2	12%
2	Prepare Documents	Token: To Meet officals for gathering infromation about receiving of funds	 3	9%
		Application form	 2	6%
3	Submit Document and Cash	CNIC Copy	 3	4%
		Application form	 3	4%
4		CNIC Copy	 2	3%
5	Inspection	Getting personal Information and accoutnt details	 3	4%
6	Wait for processing of Appliacation	Data entry	 2	3%
	Process Completed	Printing of form	 1	1%
7	Sending to Cash counter	Signature and verification of Signature	 2	3%
		Depositing the signed form	 2	3%
8		Trasfering of amount to Account	 4	12%
9	Traveling back to home or bank	Traveling with cash	 5	36%



**Sludge : Stress Level MTO's VS Bank (Receiver's End)**

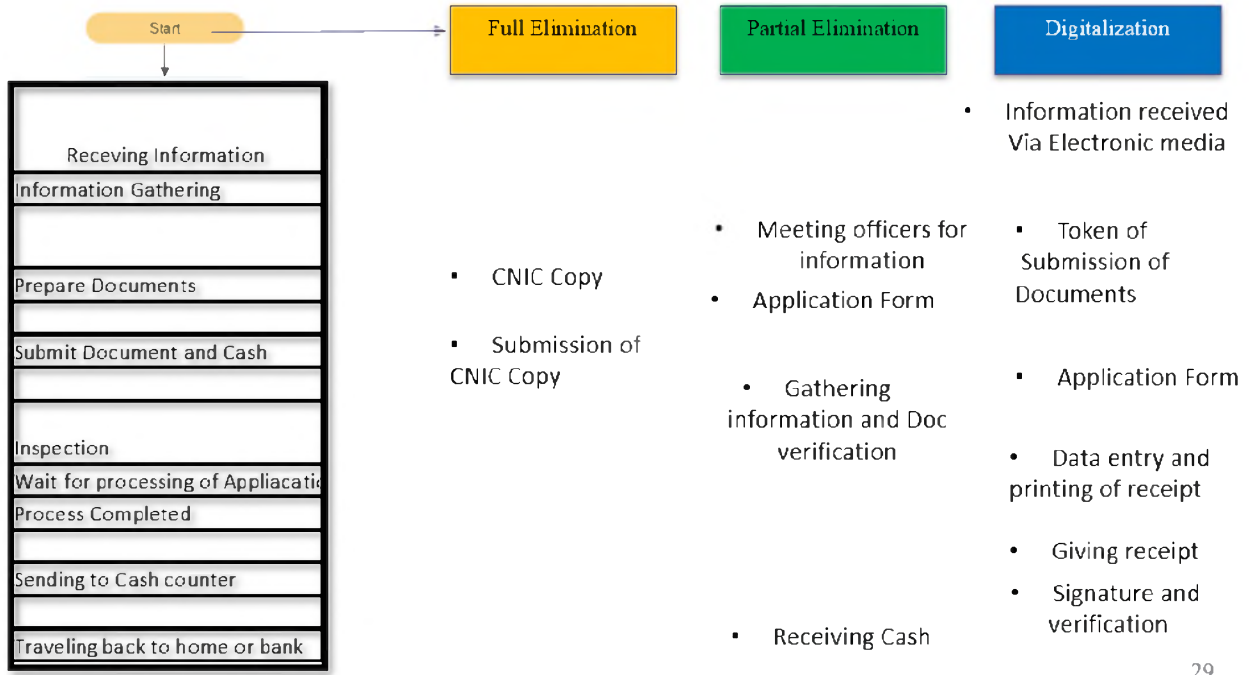


**Sludge : Stress Level MTO's VS Bank (Sender's End)**



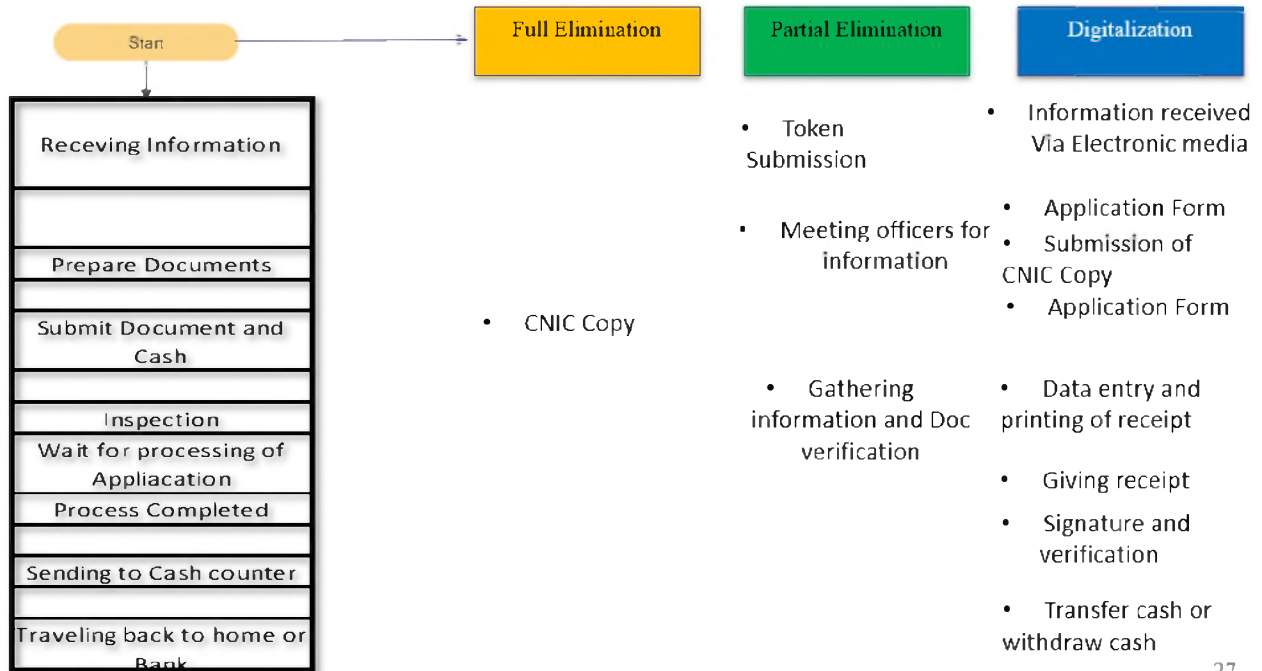


### Sludge Bank (Receiver End)



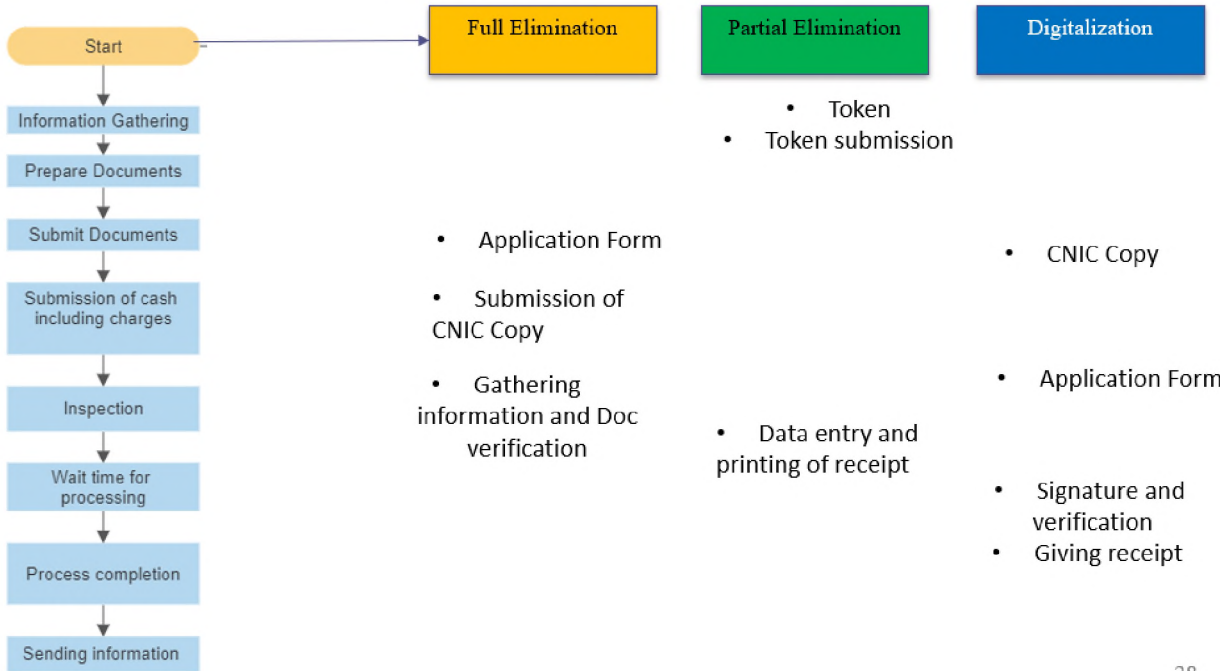
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### Sludge MTO's (Receiver End)



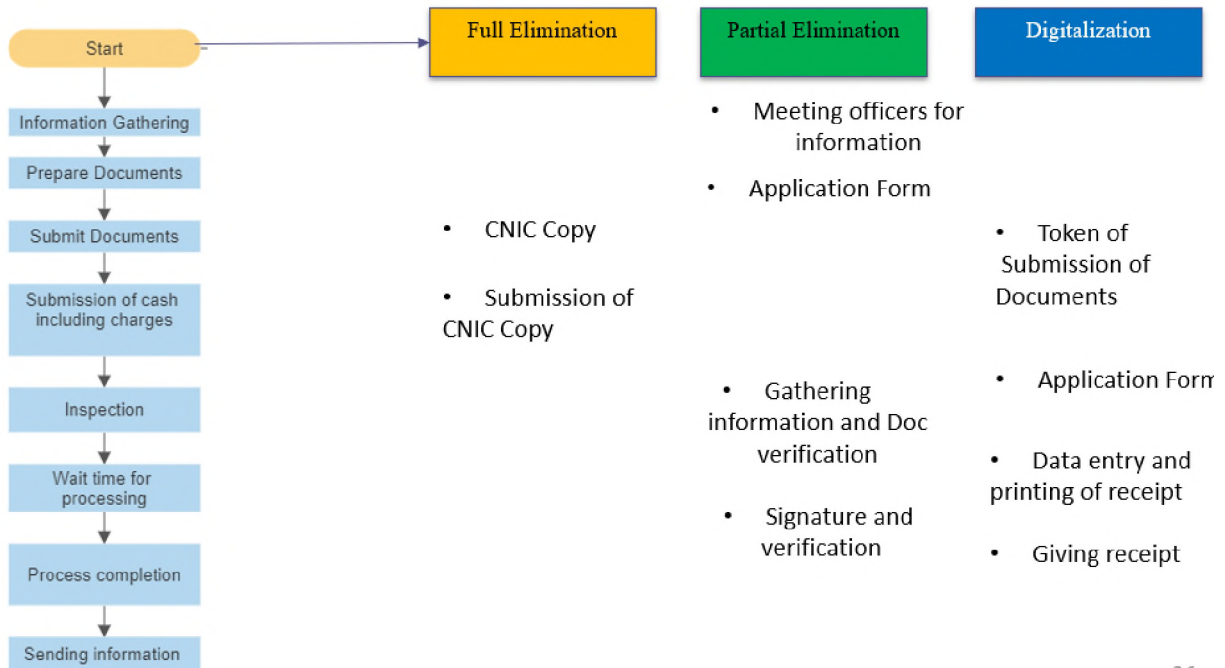
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### Sludge Bank's (Senders End)



28

### Sludge MTO's (Senders End)



26

## 2.4 Discussion

On the basis of the analysis and the above findings, following points are in discussion:

- i. In Pakistan banks have extensive cover all over, overall there is a need for e-branches in Pakistan as e-braches help out getting 65% of the services given by Bank branches. That is needed to bear rural areas so that it offers customers convenience and feasibility to transit over 65% of bank activities. According to SBP, there is 14.24 percent of E-branches as compared to extensive branches.
- ii. The partnership between the bank and the MTO is less than expected. Though every bank is associated with at least one global money transfer operator, a bank's partners have only 11 MTOs, which greatly limits them from facilitating inward transfers Ability to send money.
- iii. PRI strives to migrate Pakistanis around the world by tying up with MTOs and international banks to reduce the cost of sending money to Pakistan. Overseas Pakistanis have benefited from 152 partnerships (with "free shipping facilities") in several countries around the world. The release of this facility can both encourage senders to send money through official channels and can reduce the average cost of sending money. However, PRI has not signed any free transfer facility agreement with reputable M T Os like Western-Union and Money. Gram International, which have a significant share of

Pakistan's remittance market. Cooperation with these two MTOs helps to reduce the cost of sending money to Pakistan.

- iv. Pakistani government should also support and facilitate the geographic expansion of local banks, especially in rural areas. As most overseas workers come from rural households, the development of banks will benefit recipients as they can save the cost and time of travelling to cities to collect payments. This is also in line with the State Bank of Pakistan branch licensing policy, which requires banks to open 20% additional branches in rural and non-banking areas. In addition, banks can also set up special information kiosks to issue transfer cards to facilitate transfer of beneficiaries.
- v. Remitters need financial training on money transfer. For example, they should be aware that the cost of sending money decreases as the volume of remittances increases. Thus, they should send large more amount of remittances as compared to small that cost them pay more for each transaction. In addition, they should be aware of the bank-to-bank transfer channel and the cost of money transfer companies and the money transfer companies in which country they operate are the cheapest. This can be done through media counters at airports, hierarchies, social media, electronic and print.
- vi. The government of Pakistan has made efforts to increase household remittances, especially in the last decade. This includes various initiatives to reduce the costs of remittances, improve the efficiency of banks or MTOs through the introduction of different financial products (or payment instruments) and increase the accessibility of banks and MTOs. The most important and largest of these schemes is the Pakistan

Remittance Initiative (PRI), which allows Pakistani money transmitters to send money for free through 152 international partner institutions in different countries. Domestic remittances have increased significantly over the past decade and expected to reach US\$1600 million in 2023, which is part of the government's efforts. It is recommended that PRI become an independent entity or part of a government department (this is currently only an initiative) to access and maintain complete data on remittance transactions. Therefore, such institutions should be responsible for formulating, evaluating and regulating policies related to remittances.

- vii. Data related to the cost of remittances is not currently maintained by any institution that can be easily traced so that some proper actions can be taken for decreasing cost of remittances. In this context, we also suggest that a specific institution (e.g. the Pakistan Remittance Initiative) be tasked with collecting and maintaining comprehensive data on the cost of remittances for each corridor.
- viii. This increase in cost is due to the value-added tax that is levied on overseas remittances by the UAE government. However, VAT applies to the fee collected, not the amount remitted. Nonetheless, it does affect exchanges that charge remittance fees. The higher fees they charge may reflect the value-added tax charged. The Pakistani government may negotiate with the UAE and other countries' governments to remove VAT to Pakistan to reduce the cost of inward remittances.



## **Chapter: 5**

### **Conclusion and Policy recommendation:**

The significant source of foreign reserves is the inflow of remittances and in Pakistan remittances are an important source of foreign reserves. Most importantly, given current fiscal challenges that are faced by the government of Pakistan. Evidences that are collected from recent research shows that there is increase in inflow of remittances because of reduction in cost of remittances. Cost of remittances that is measured in this report with the help of data from World Bank, State Bank of Pakistan and some primary information that is collected through primary sources through Key Informative interviews. In methodology qualitative part of study is performed through Content analysis. Key Informant Interviews (KII) and Desk Reviews, reports and some secondary data available on World Bank indicators website are the qualitative analysis to explore the cost of remittances. Using World Bank data on transmission rates, the average cost of transmission for major corridors is estimated for the period between the second quarter of 2016 and the fourth quarter of 2021. Similarly, the cost per main corridor for sending remittances, source of money transfers (Banks and Money Transferring operators (MTO's)), amount of money and means of transfer through bank account, money cash, mobile money and debit card.

The transaction cost of remittances is calculated using simple and average of the cost. Weighted average for calculation of cost, each corridor is assigned weight with respect to their percentage of share in total inflow of remittances in Pakistan. The cost of sending US\$500 is lower than the cost

of sending US\$200 as shown in table. Moreover, from the KII with the MTO's of financial institutions mentioned that remittances that are more than US\$10,000 are given a special rate that is depends on average rate of remittances that are received though out the moth, that rate is named as treasury rate it can be greater than the present rate and sometime less than the present rate that is how financial institution play with the exchange rate and treasury rate. Moreover, fixed fee charged by the source bank on per transaction other than the number of remittances sent to the home country plays an important role in reeducation in the increasing amount of remittances that are transferred from bank to bank. It is therefore recommenced that cost can be saved if remitters prefer few transactions on a big amount of remittances.

Remitters indicated that the amount sent from banks costs more than the amount sent through MTOs, on average it is cleared that amount sent through banks costs higher and as higher coverage more expensive and the speed of transaction also cost more as compared to the normal speed of transaction. In case of Pakistan cost of remitting is lower than remitting to other low-income countries.

All in all, reducing the cost of remittances, and thus increasing remittance inflows, can also have an impact in reducing economic inequality. We find that the remittance-increasing effect of cost reductions is mainly reflected in small transfers. Since such transfers are often made by temporary, low-income migrant workers who often send money home, lower remittance costs will allow them to send more money through formal channels. Governments can play a key role in this by promoting competition between remittance operators and banking institutions. This is especially important as anti-money laundering and counter-terrorism financing regulations increase the cost of monitoring customers and their financial transactions, especially affecting small financial institutions. Therefore,



ensuring a level playing field for all players in the formal financial market can help reduce costs. Another policy approach to reducing the cost of remittances could include improving the transparency and comparability of the pricing of remittance services, for example by updating an online registry to record the prices charged for various remittance products. Finally, providing migrants and their left-behind families with better information about these pricing mechanisms and helping them make more informed decisions could increase the use of lower-cost remittance services.

### **Policy Recommendations:**

On the basis of the analysis and the above findings, policy recommendations are proposed as:

- i. Pakistani government should also support and facilitate the geographic expansion of local banks, especially in rural areas. Banks can also set up special information kiosks to issue transfer cards to facilitate transfer of beneficiaries. Cooperation with these two MTOs helps to reduce the cost of sending money to Pakistan.
- ii. The partnership between the bank and the MTO is less than expected. Though every bank is associated with at least one global money transfer operator, a bank's partners have only 11 MTOs, which greatly limits them from facilitating inward transfers Ability to send money.
- iii. Remitters need financial training on money transfer. They should be aware of the bank-to-bank transfer channel and the cost of money transfer companies and the money transfer companies in which country they operate are the cheapest. This can be done through media counters at airports, social media, electronic and print.

- iv. The government of Pakistan has made efforts to increase household remittances, especially in the last decade. This includes various initiatives to reduce the costs of remittances, improve the efficiency of banks or MTOs through the introduction of different financial products (or payment instruments) and increase the accessibility of banks and MTOs. Therefore, such institutions should be responsible for formulating, evaluating and regulating policies related to remittances.
- v. Data related to the cost of remittances is not currently maintained by any institution that can be easily traced so that some proper actions can be taken for decreasing cost of remittances.
- vi. This increase in cost is due to the value-added tax that is levied on overseas remittances by the UAE government. The Pakistani government may negotiate with the UAE and other countries' governments to remove VAT to Pakistan to reduce the cost of inward remittances.

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## Appendix

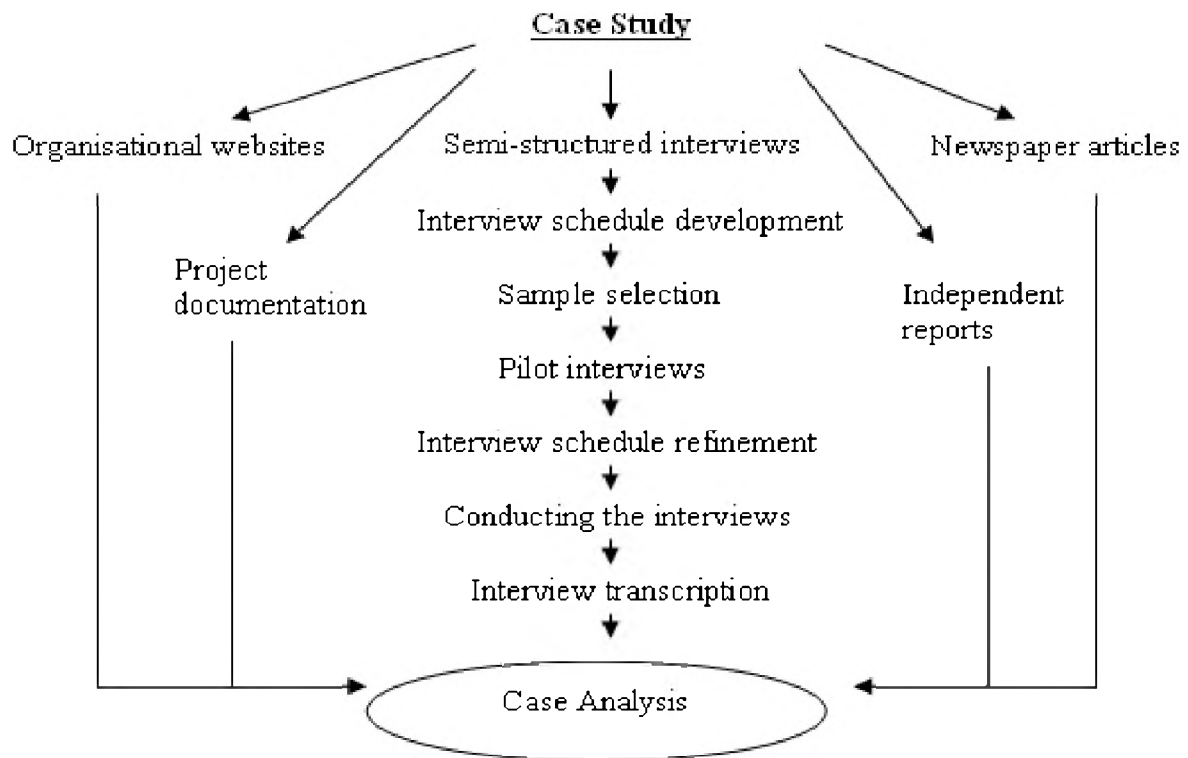
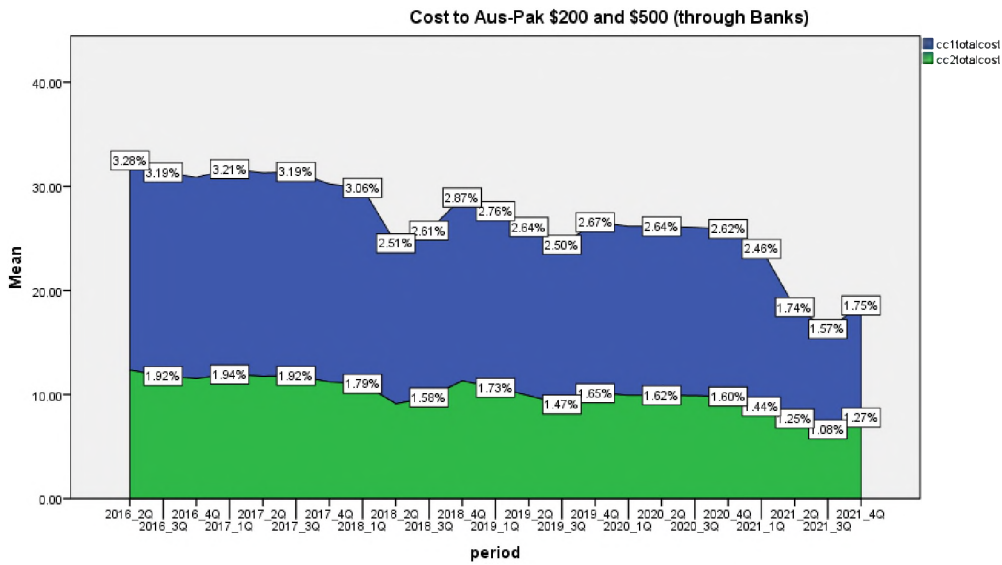
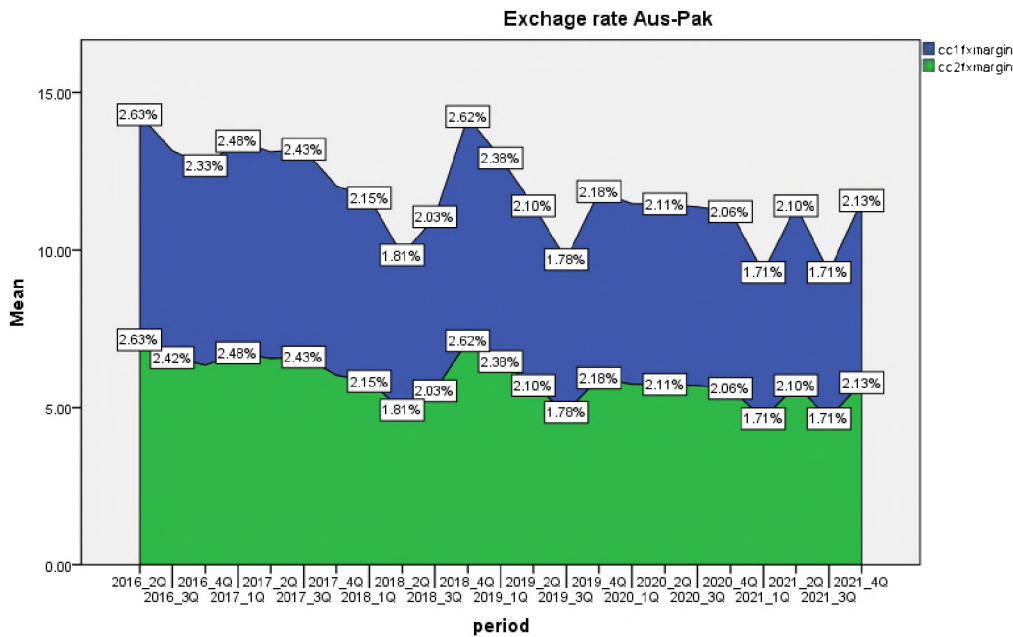


Figure 18 Case study Analysis

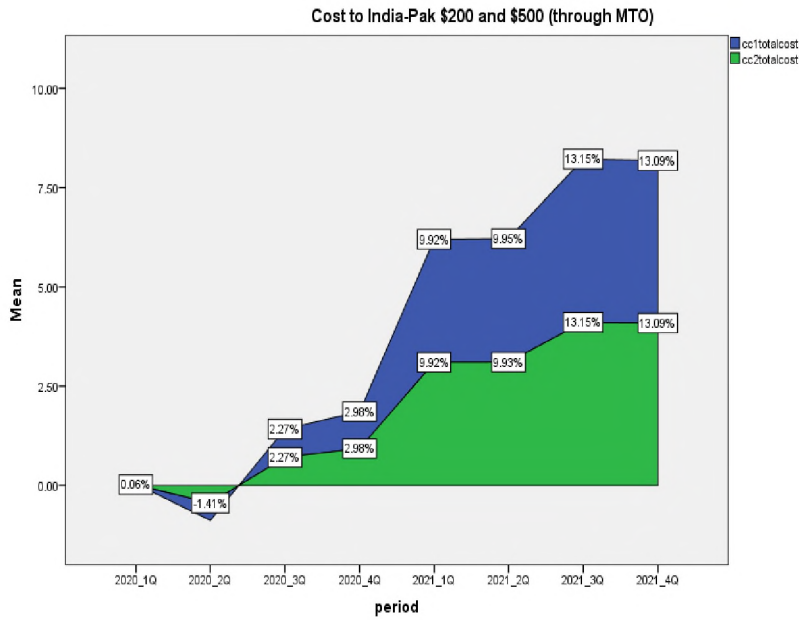
**Figure 19 Cost to AUS-PAK \$200 and \$500 (through Banks)**



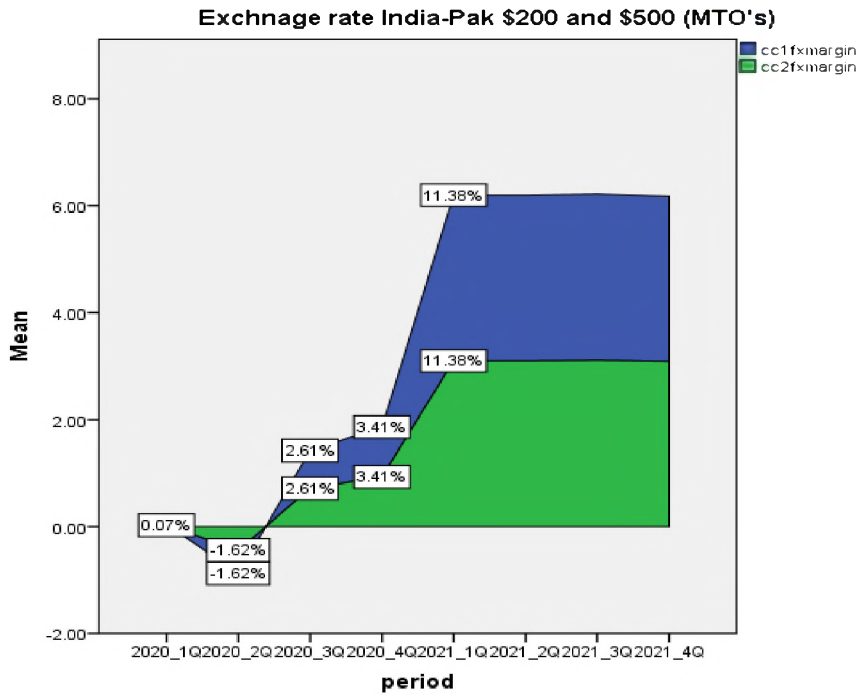
**Figure 20 Exchange Rate AUS-PAK**



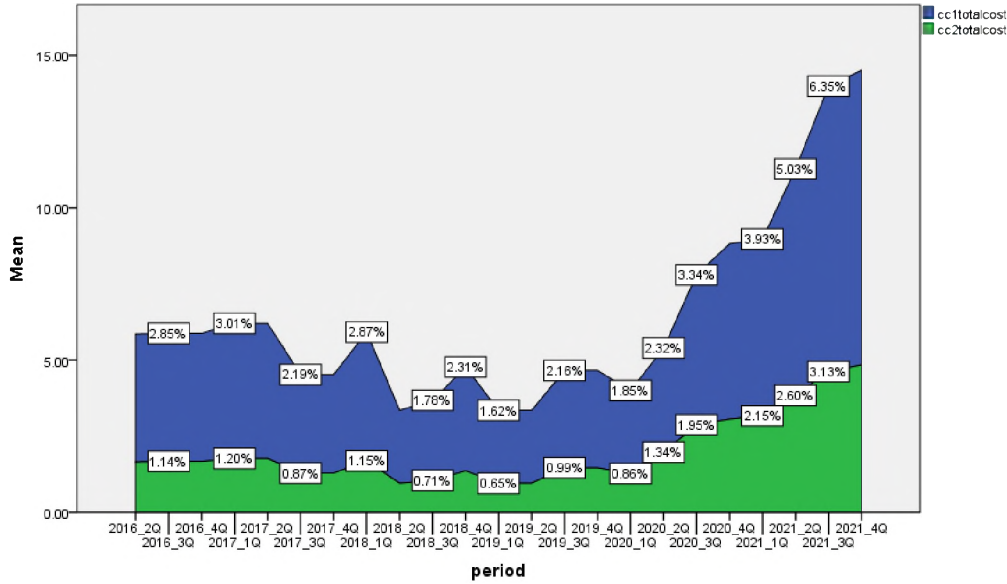
**Figure 21 Cost to India-Pak \$200 and \$500 (through MTO)**



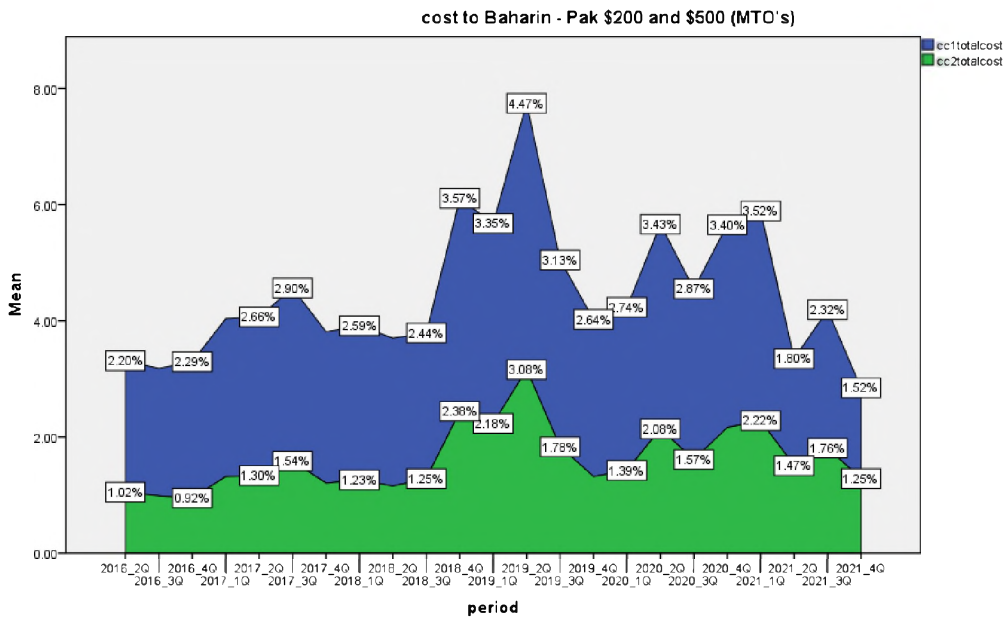
**Figure 22 Exchange Rate India-Pak (through MTO's)**



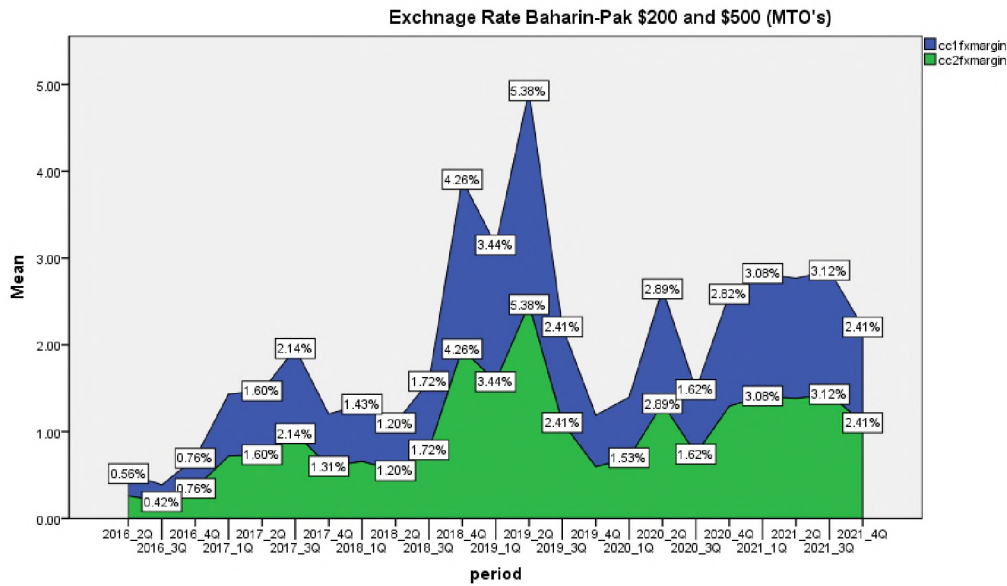
**Figure 23 Cost to India-Pak \$200 and \$500 (through Banks)**



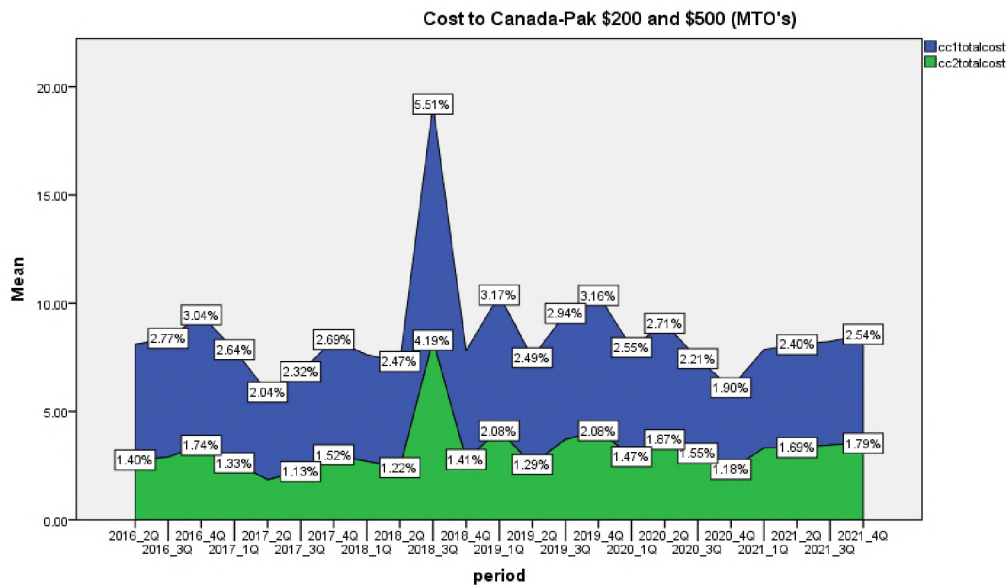
**Figure 24 Cost to Bahrain-Pak \$200 and \$500 (through MTO's)**



**Figure 25 Exchange rate Bahrain-Pak \$200 and \$500 (through MTO's)**

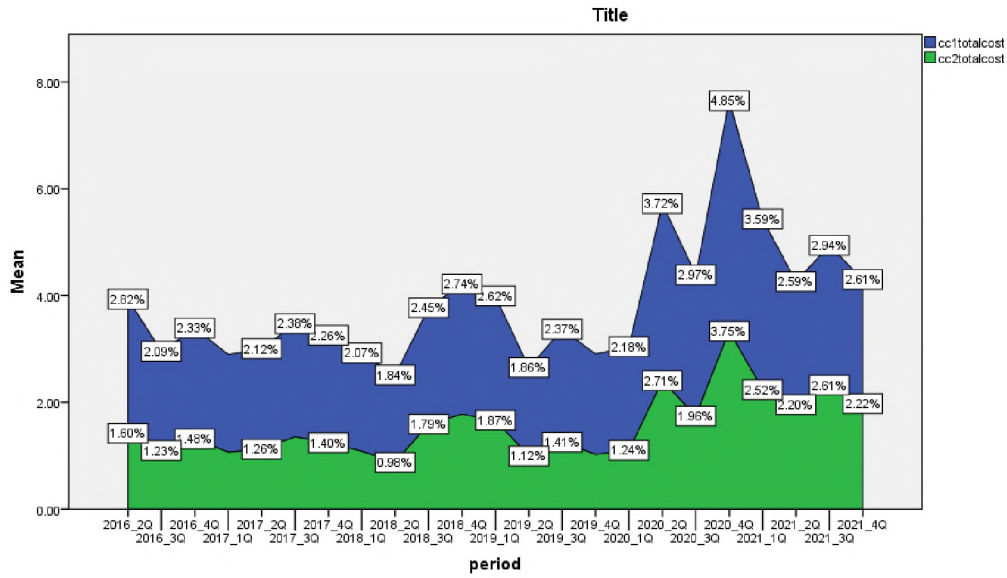


**Figure 26 Cost to Canada-Pak \$200 and \$500 (through MTO's)**



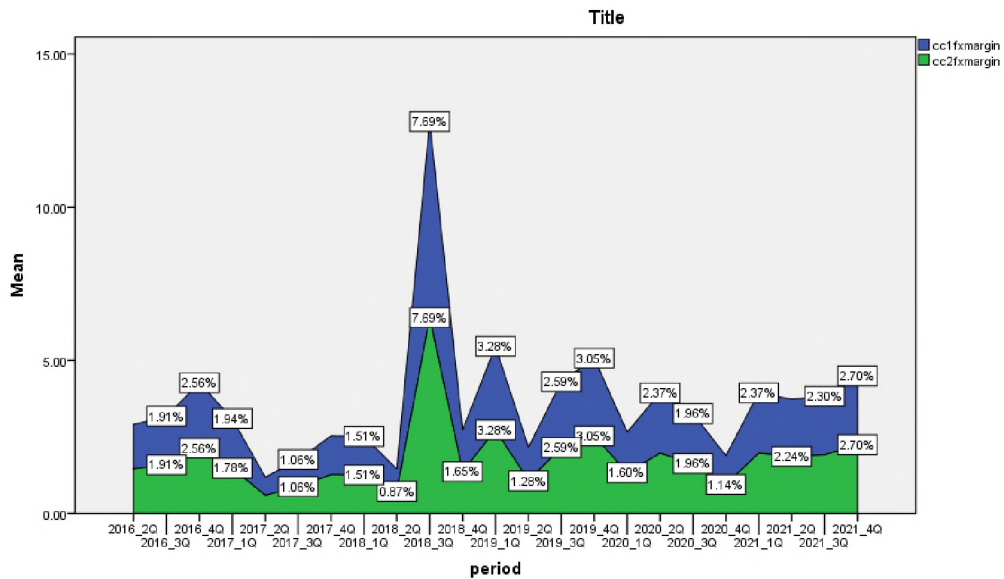
**Figure 27**

**Cost to Canada-Pak \$200 and \$500 (through Bank's)**

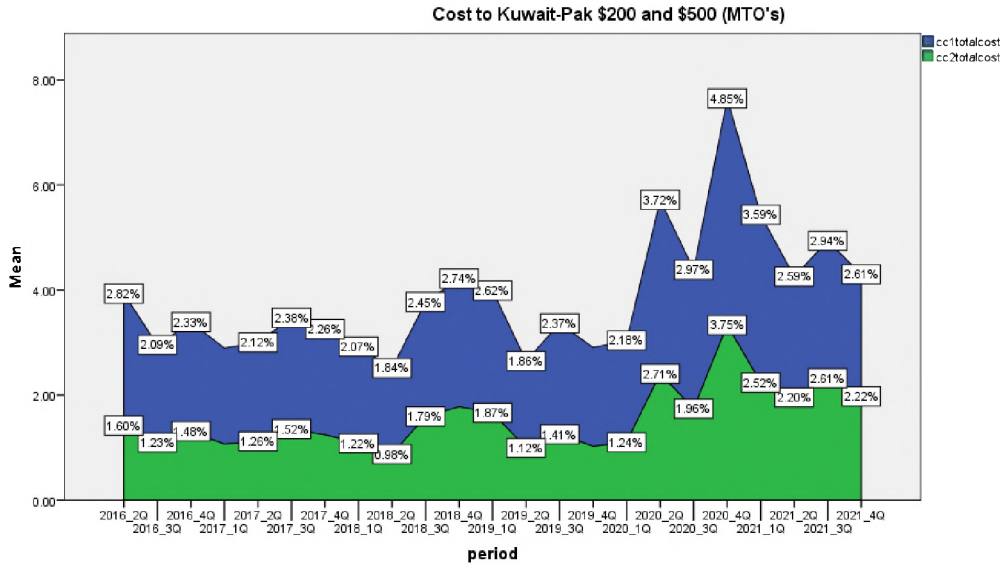


**Figure 28**

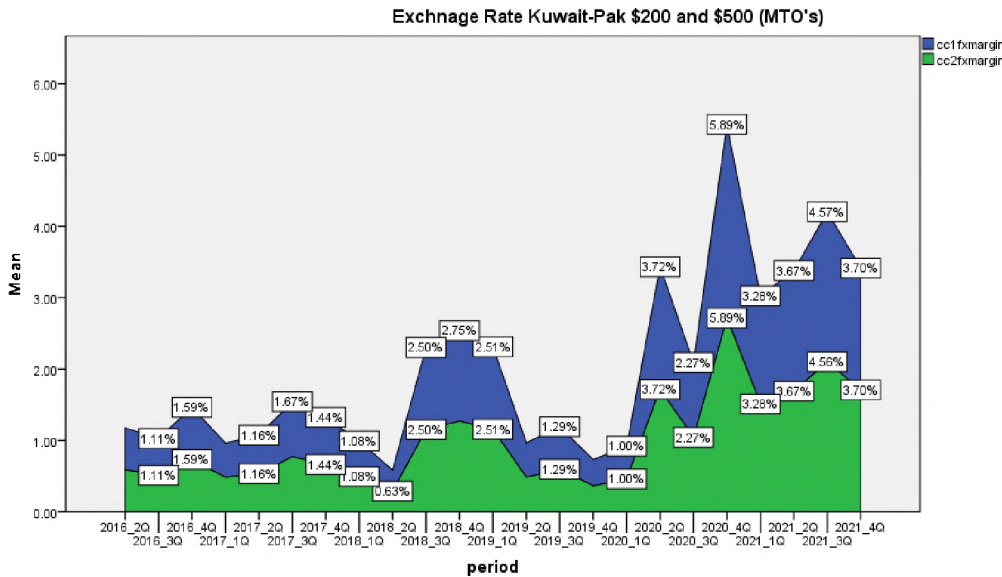
**Exchange rate Canada-Pak \$200 and \$500 (through MTO's)**



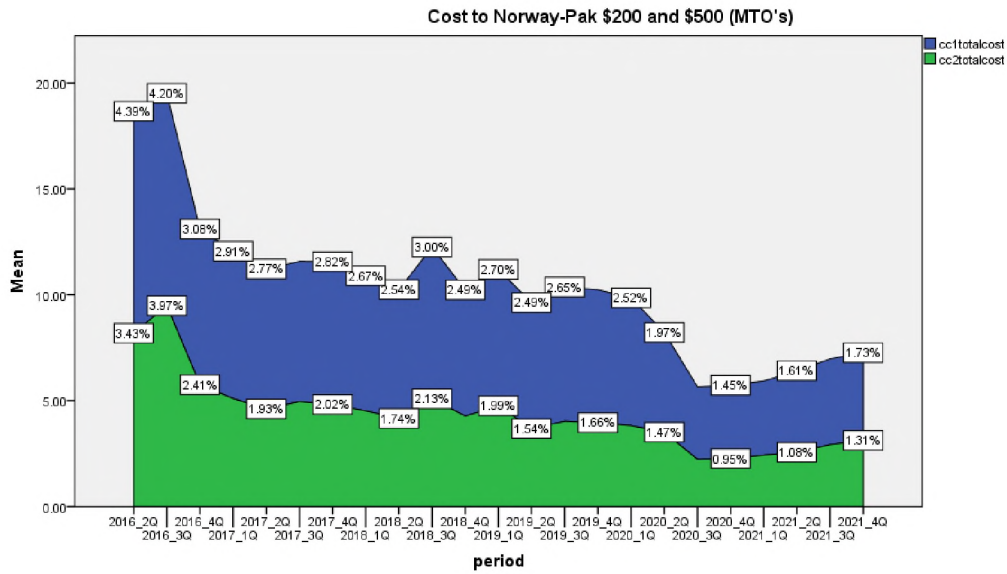
**Figure 29 Cost to Kuwait-Pak \$200 and \$500 (through MTO's)**



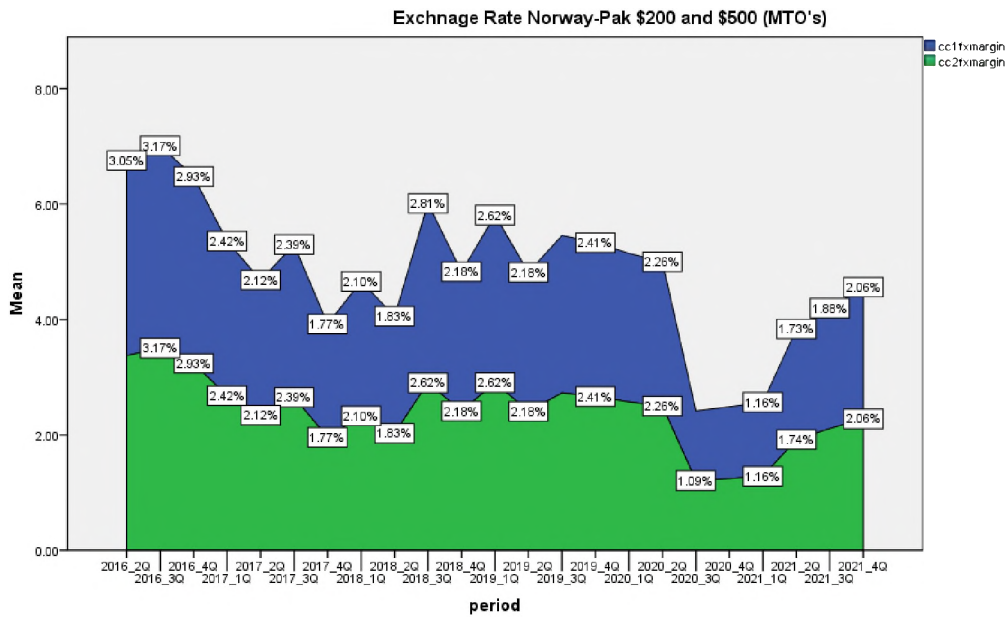
**Figure 30 Exchange rate Kuwait-Pak \$200 and \$500 (through MTO's)**



**Figure 31 Cost to Norway-Pak \$200 and \$500 (through MTO's)**

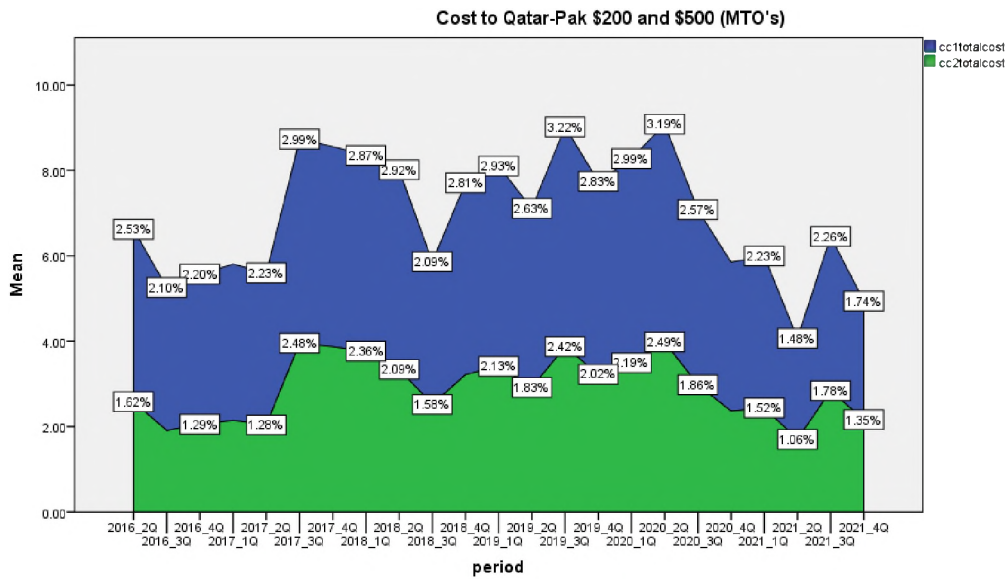


**Figure 32 Exchange rate Norway-Pak \$200 and \$500 (through MTO's)**

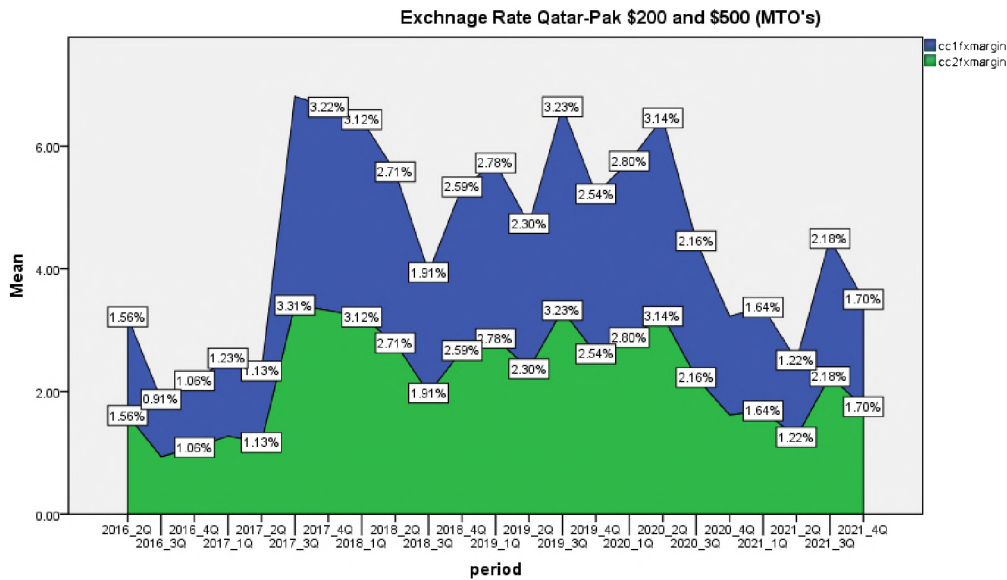




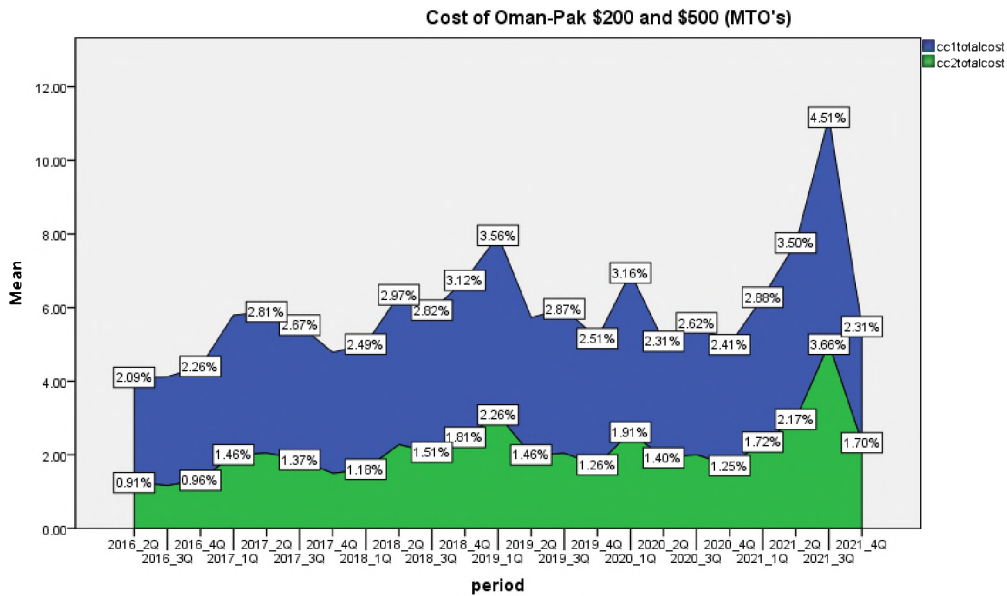
**Figure 33 Cost to Qatar-Pak \$200 and \$500 (through MTO's)**



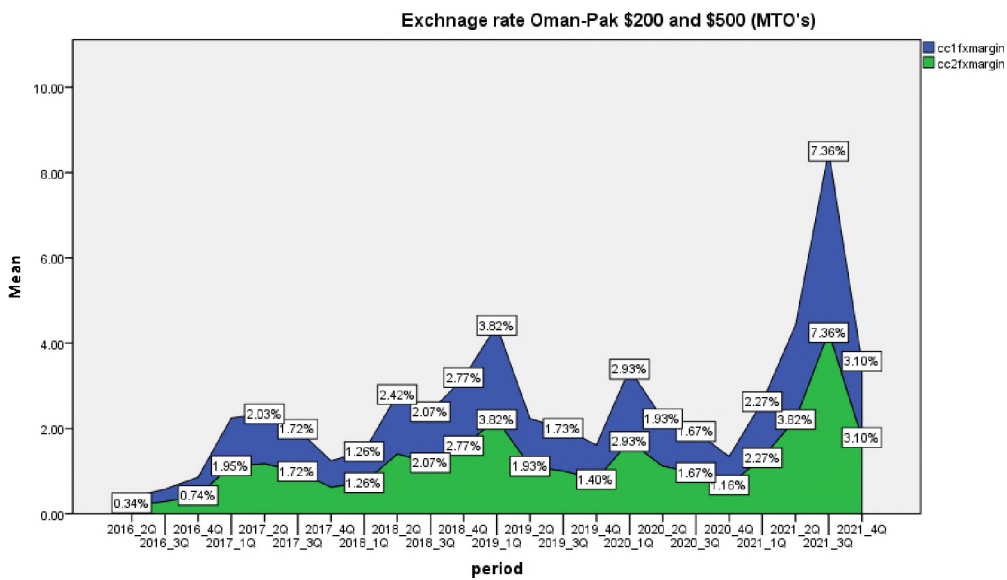
**Figure 34 Exchange rate Qatar-Pak \$200 and \$500 (through MTO's)**



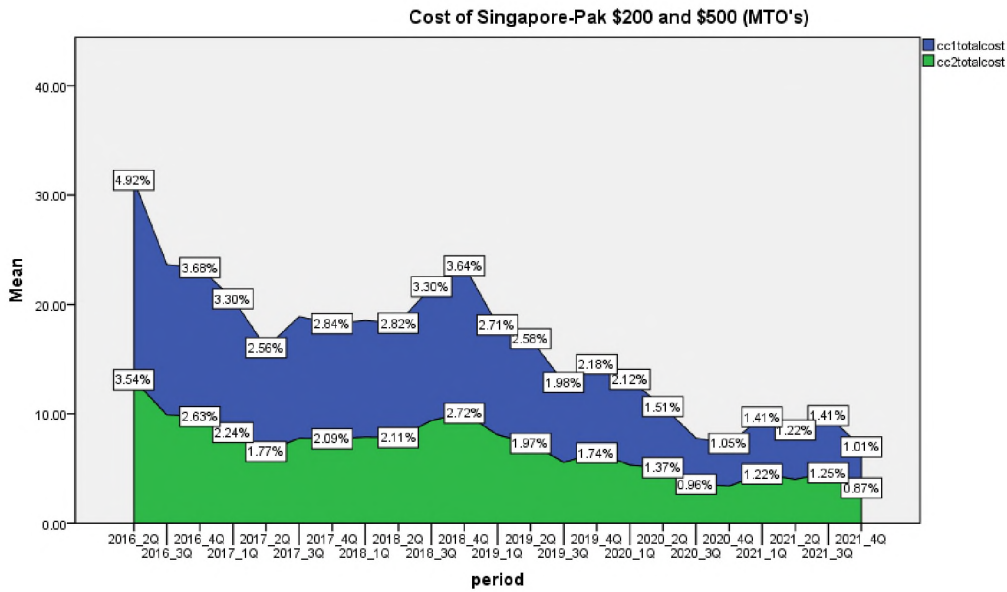
**Figure 35 Cost to Oman-Pak \$200 and \$500 (through MTO's)**



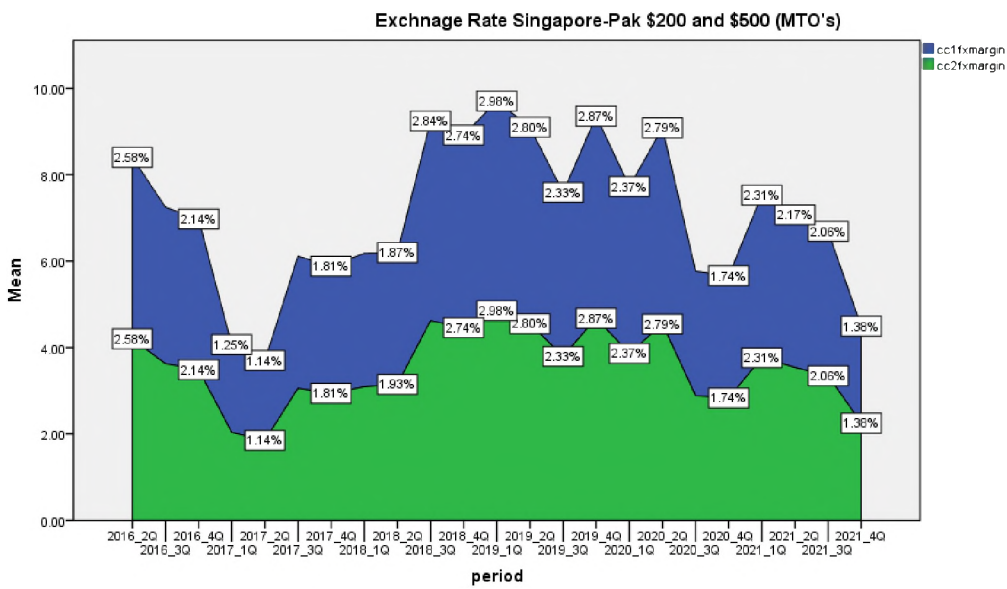
**Figure 36 Exchange rate Oman-Pak \$200 and \$500 (through MTO's)**



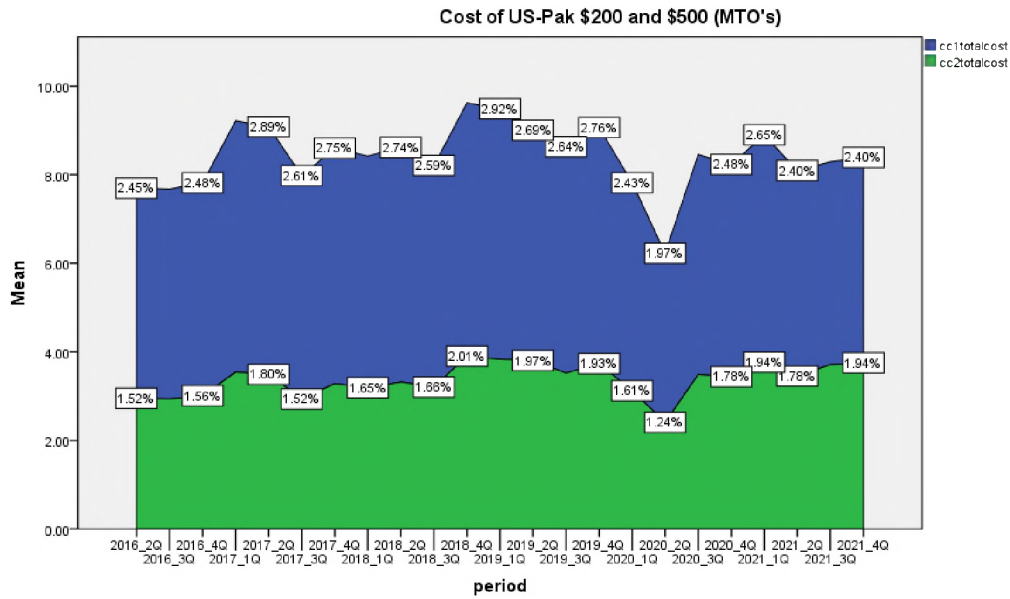
**Figure 37 Cost to Singapore-Pak \$200 and \$500 (through MTO's)**



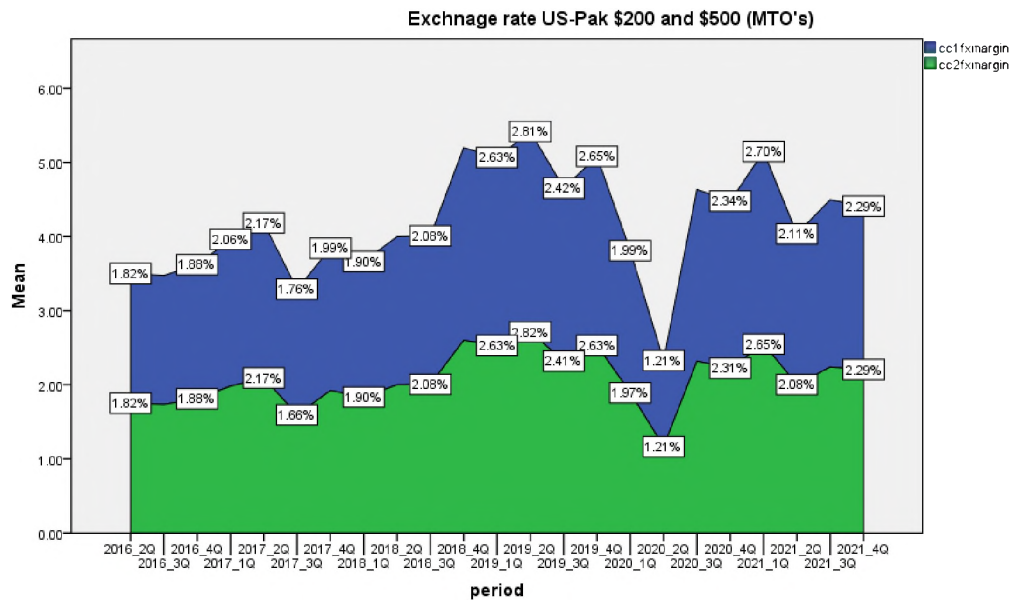
**Figure 38 Exchange rate Singapore-Pak \$200 and \$500 (through MTO's)**



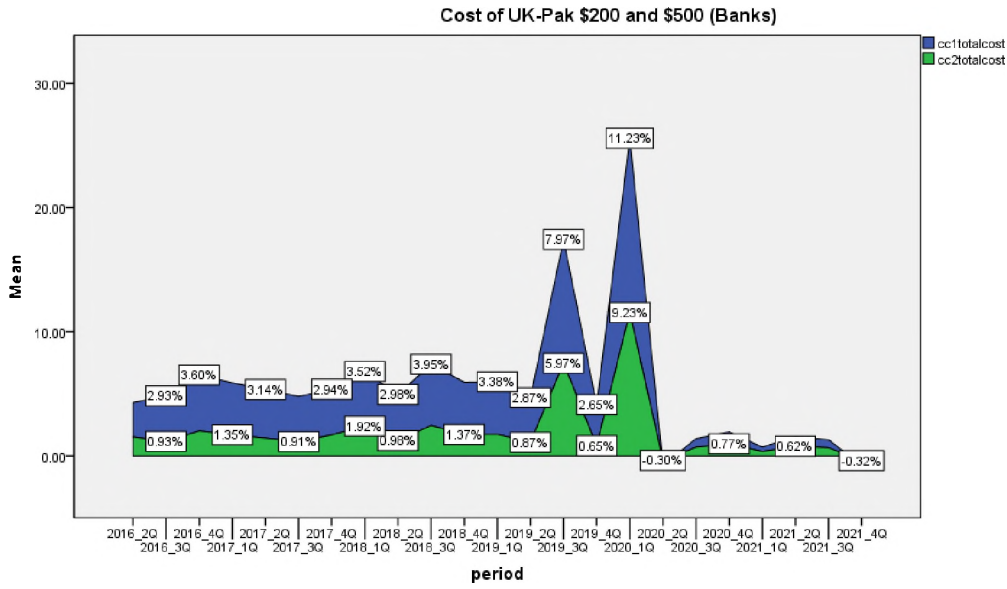
**Figure 39 Cost to US-Pak \$200 and \$500 (through MTO's)**



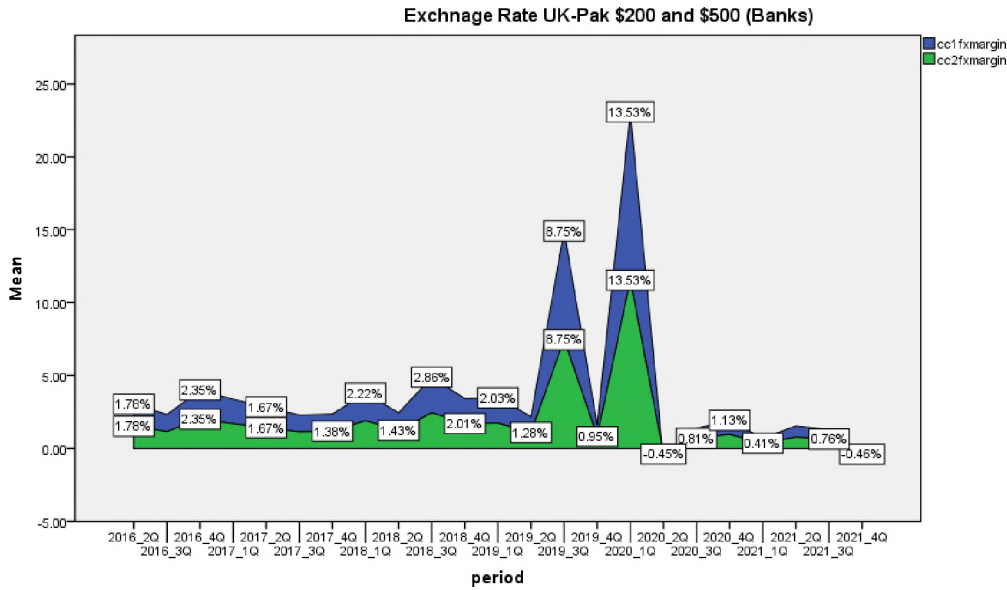
**Figure 40 Exchange rate US-Pak \$200 and \$500 (through MTO's)**



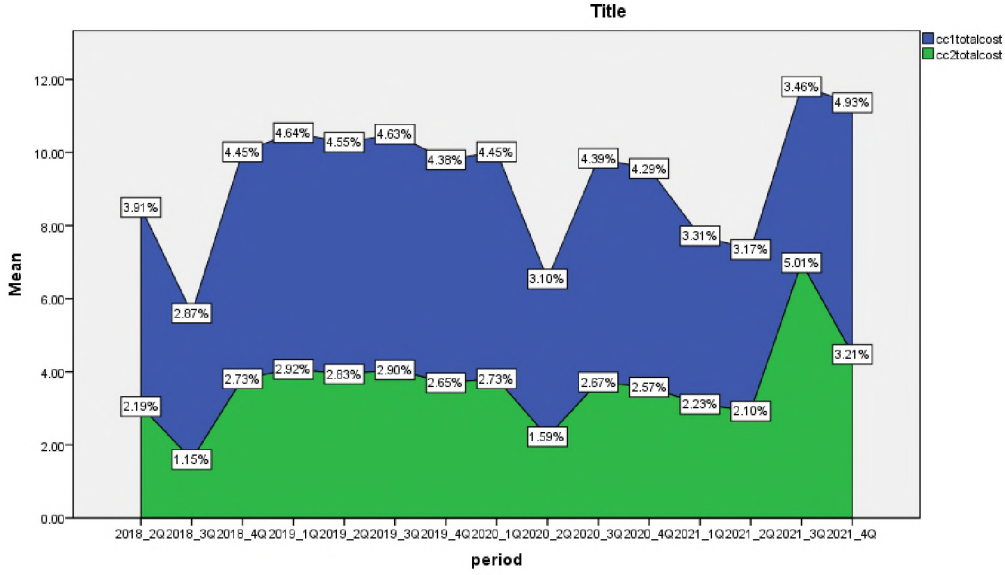
**Figure 41 Cost to Uk-Pak \$200 and \$500 (through Bank's)**



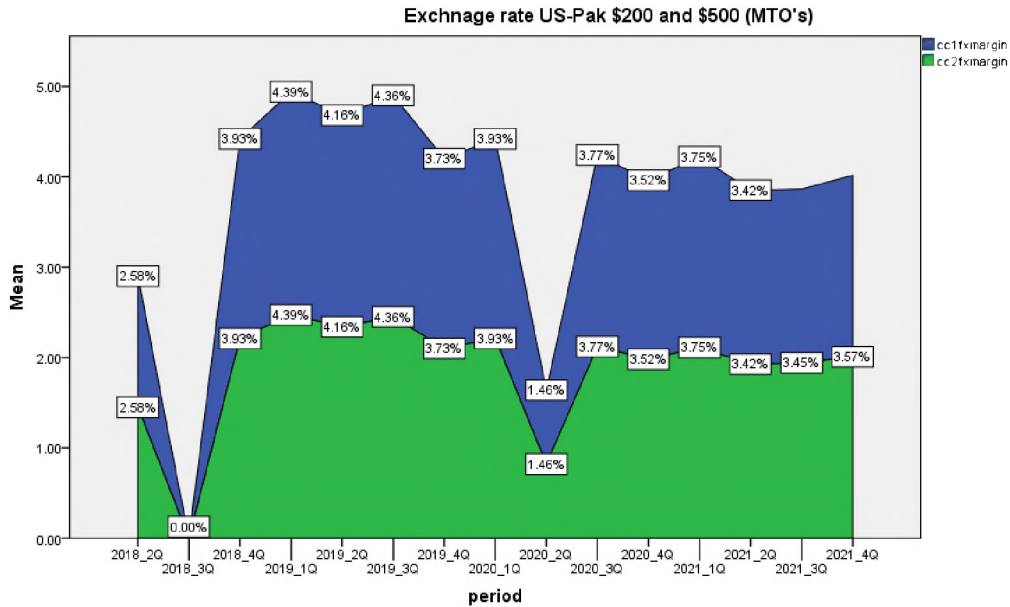
**Figure 42 Exchange rate UK-Pak \$200 and \$500 (through Bank's)**



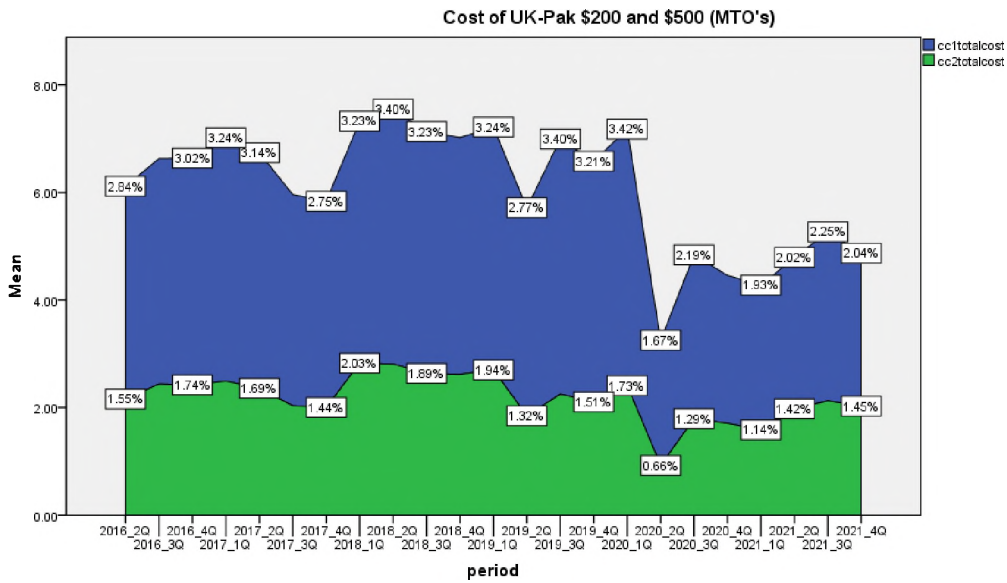
**Figure 43 Cost to US-Pak \$200 and \$500 (through Bank's)**



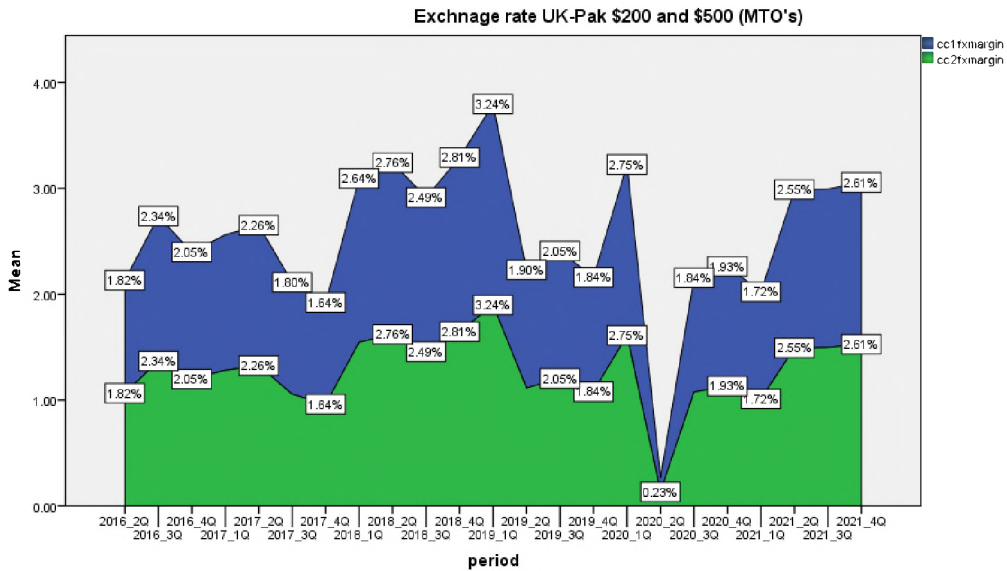
**Figure 44 Exchange Rate US-Pak \$200 and \$500 (through MTO's)**



**Figure 45 Cost to UK-Pak \$200 and \$500 (through MTO's)**

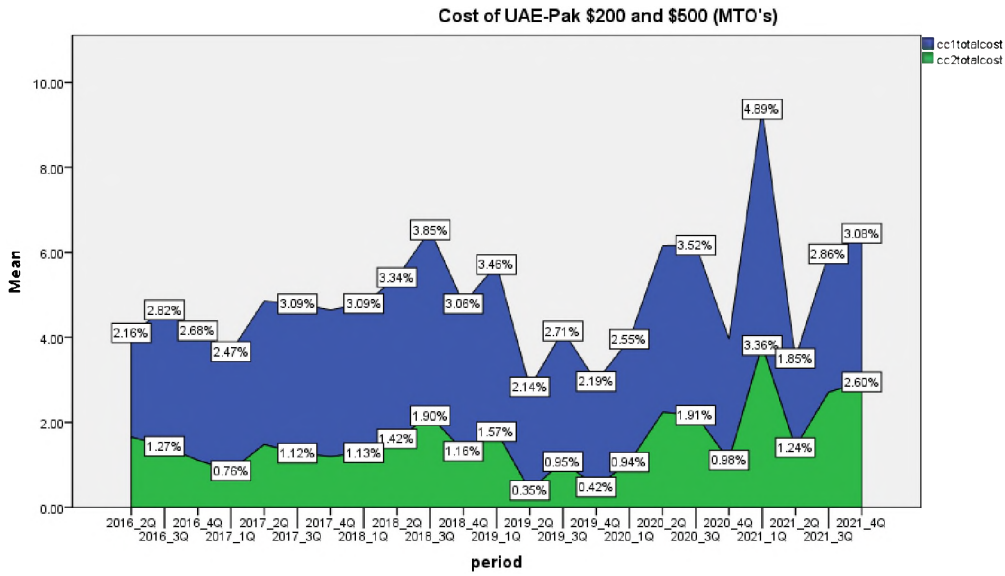


**Figure 46 Exchange rate UK-Pak \$200 and \$500 (through MTO's)**

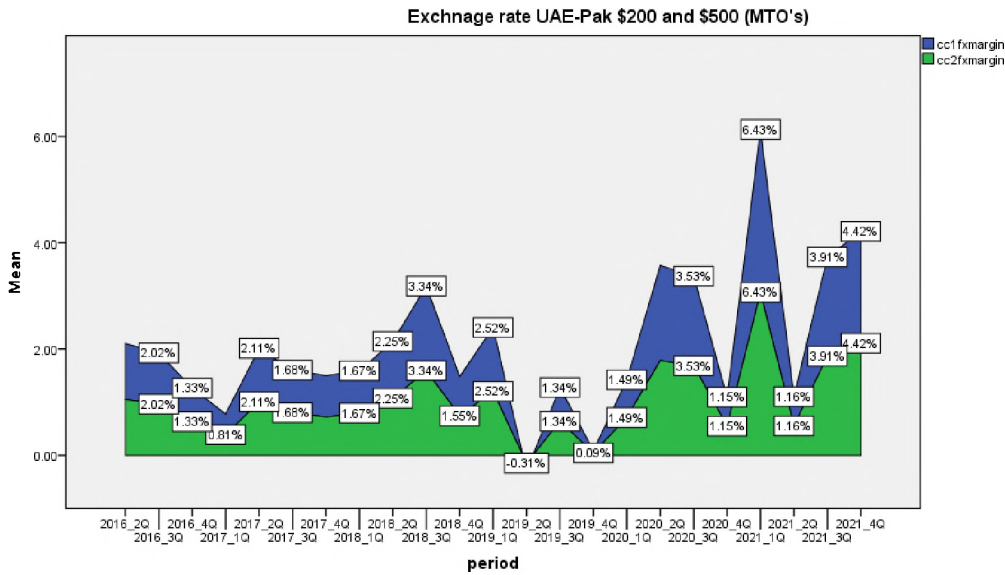




**Figure 47 Cost to UAE-Pak \$200 and \$500 (through MTO's)**

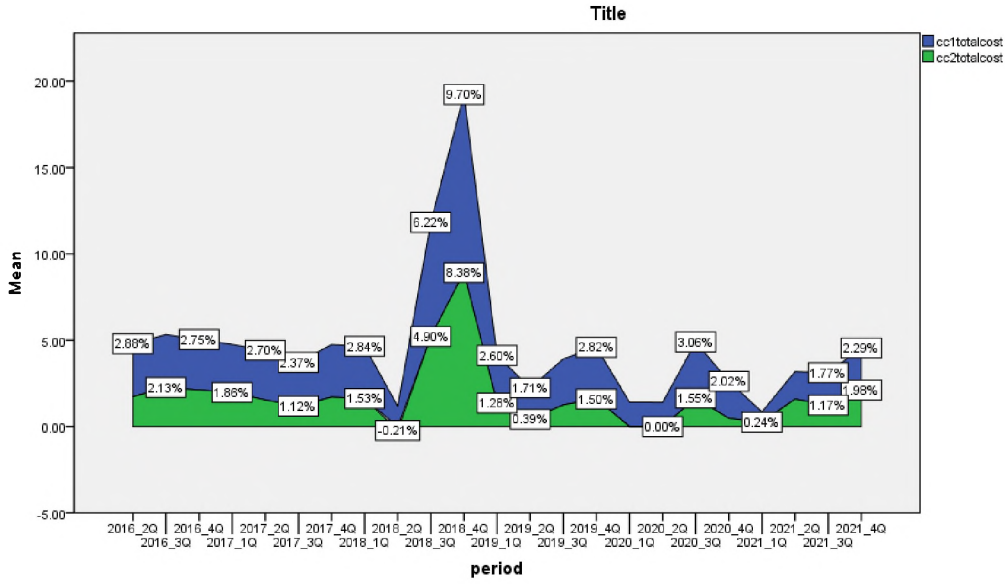


**Figure 48 Exchange rate UAE-Pak \$200 and \$500 (through MTO's)**

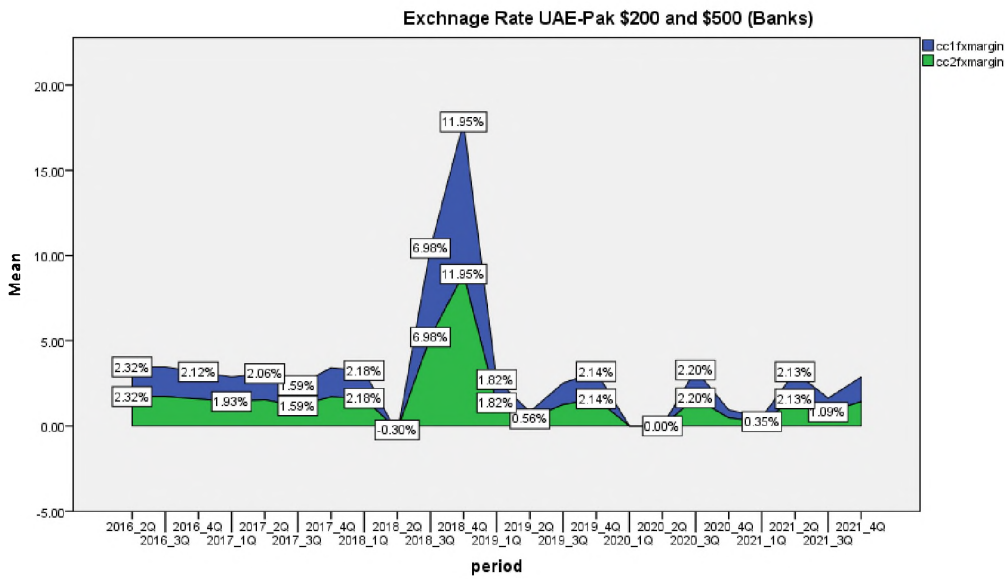




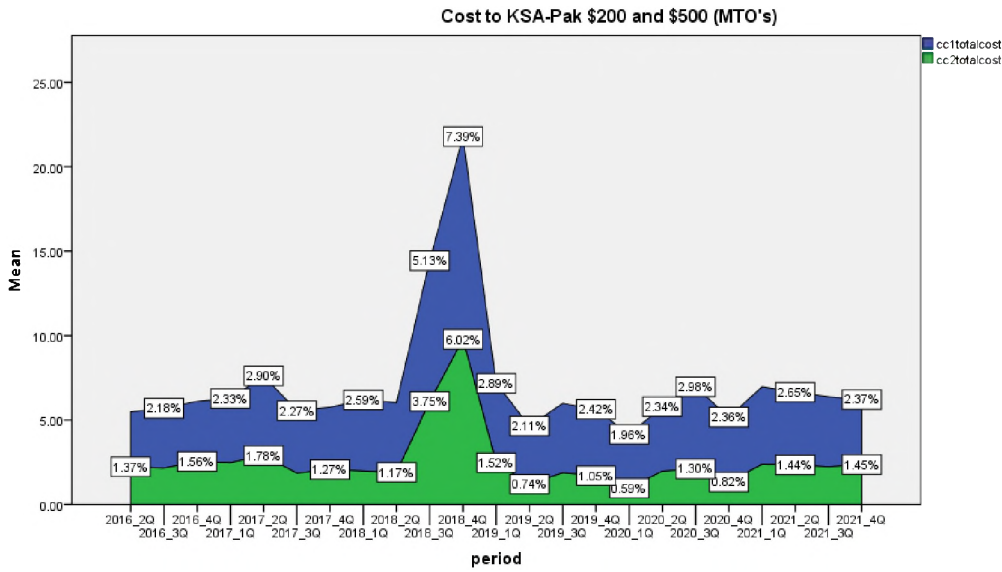
**Figure 49 Cost to KSA-Pak \$200 and \$500 (through Bank's)**



**Figure 50 Exchange rate UAE-Pak \$200 and \$500 (through Bank's)**



**Figure 51 Cost to KSA-Pak \$200 and \$500 (through MTO's)**



**Figure 52 Exchange rate KSA-Pak \$200 and \$500 (through MTO's)**

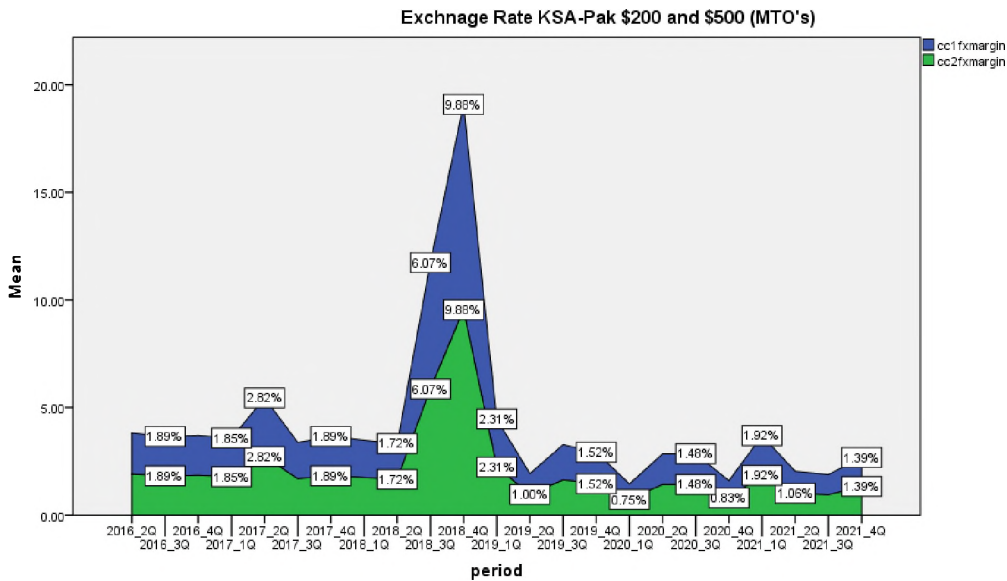
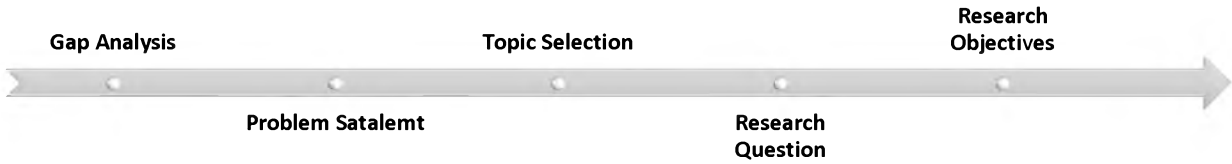
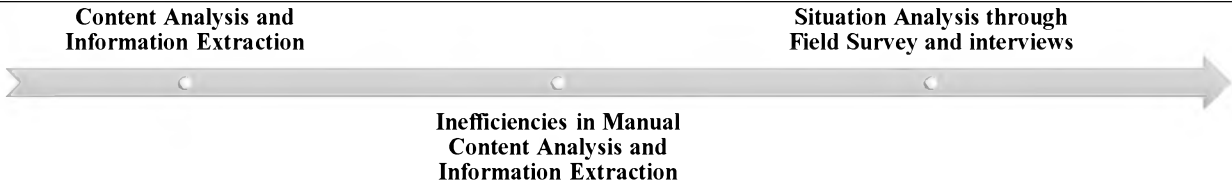
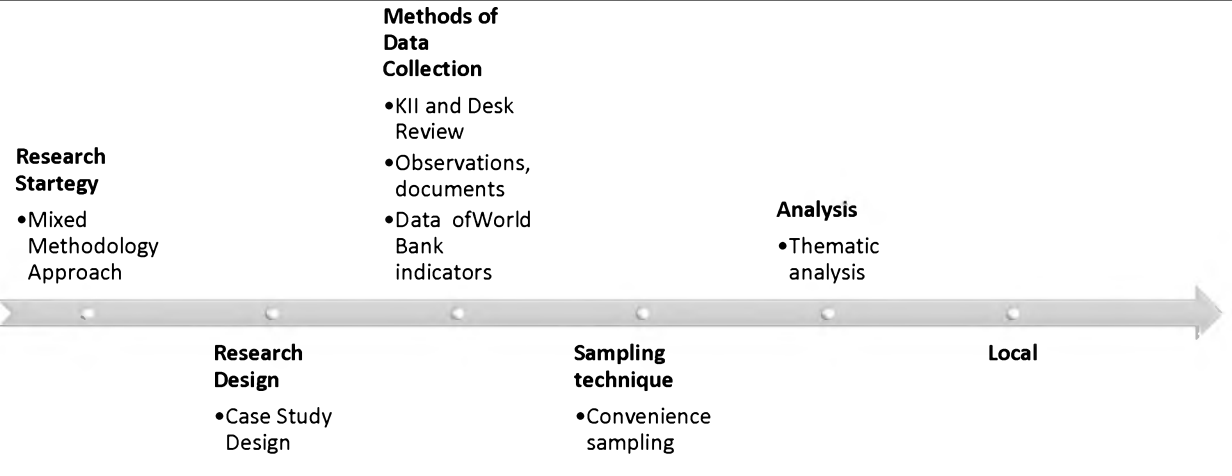
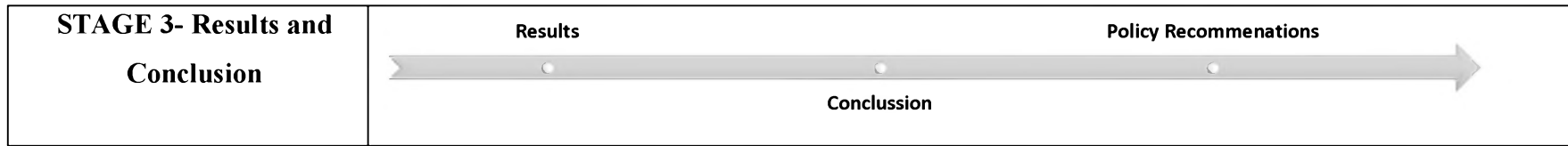


Table 5 Research Design

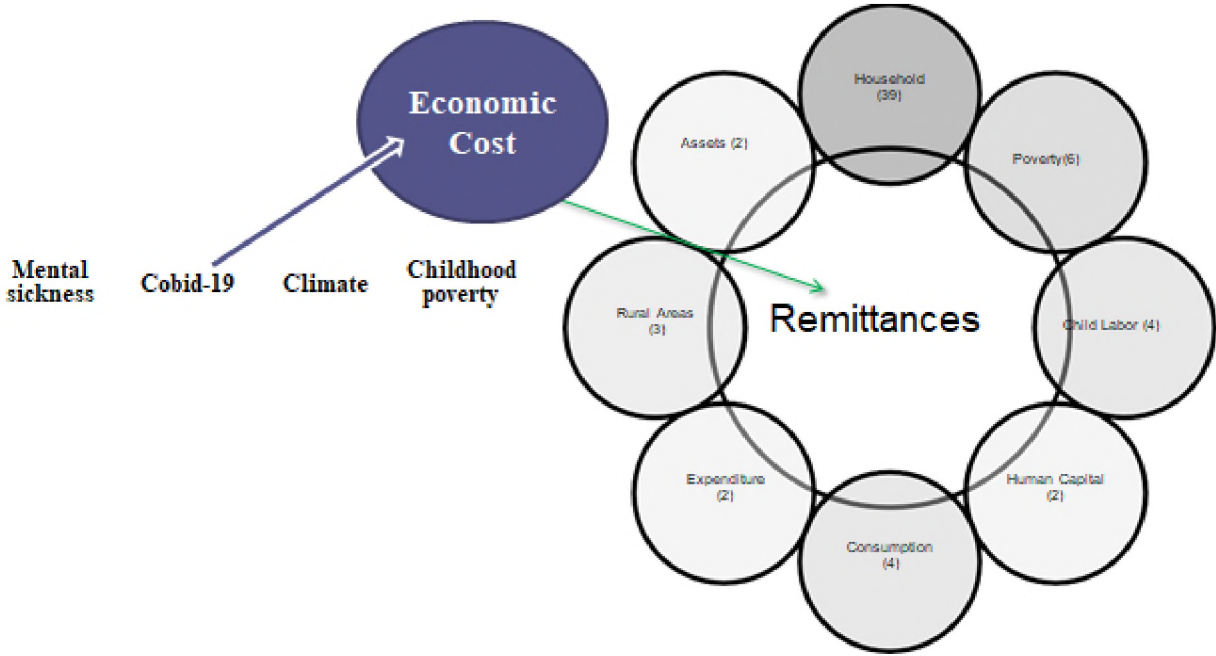
<p><b>Primarily Research</b></p>	
<p><b>STAGE 1- Identification of inefficiencies and solution</b></p>	
<p><b>STAGE 2- Framework Development for data collection</b></p>	 <p><b>Research Startegy</b></p> <ul style="list-style-type: none"> <li>•Mixed Methodology Approach</li> </ul> <p><b>Methods of Data Collection</b></p> <ul style="list-style-type: none"> <li>•KII and Desk Review</li> <li>•Observations, documents</li> <li>•Data ofWorld Bank indicators</li> </ul> <p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>•Thematic analysis</li> </ul> <p><b>Research Design</b></p> <ul style="list-style-type: none"> <li>•Case Study Design</li> </ul> <p><b>Sampling technique</b></p> <ul style="list-style-type: none"> <li>•Convenience sampling</li> </ul> <p><b>Local</b></p>



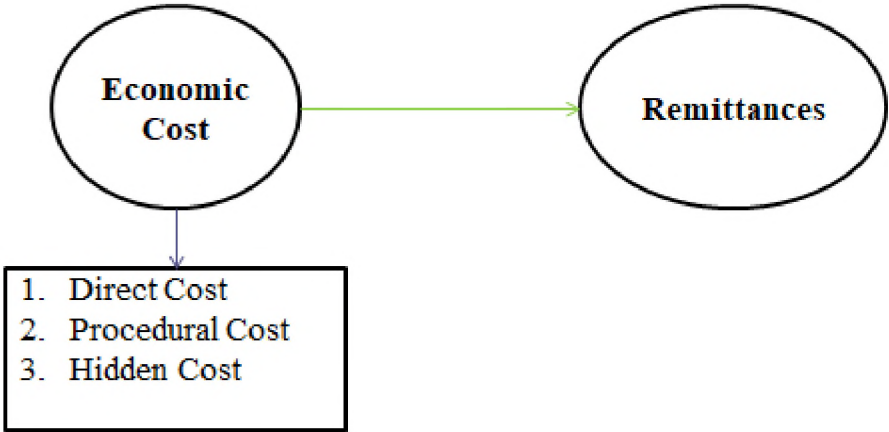
**Research Design and Strategy**

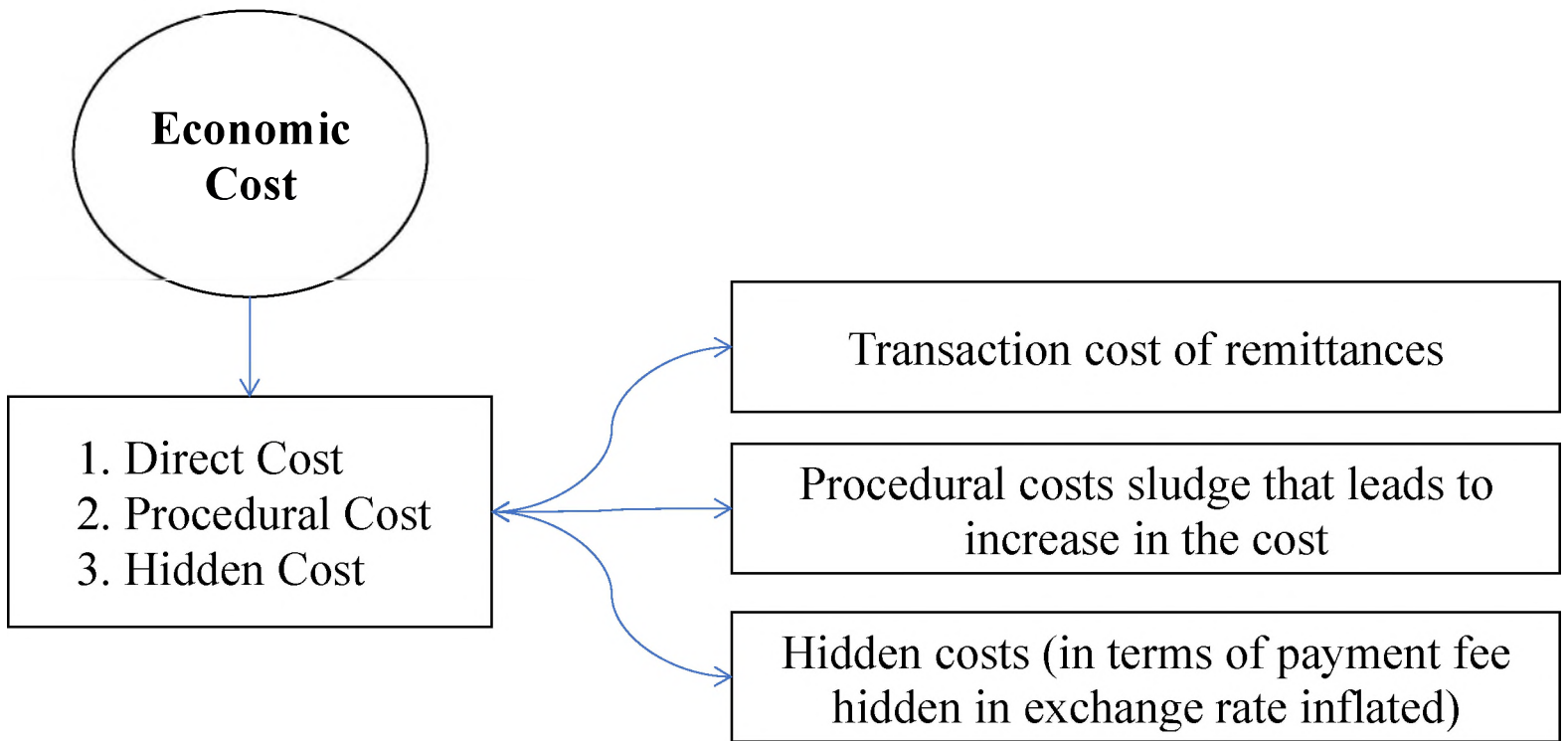


Gap Analysis from Literature



Gap Analysis





Calculated the effective exchange rate commission, R, as;  
 $R = 100 * (\text{Interbank Rate} - \text{Interbank Rate}) / \text{Interbank Rate}$

(John Gibson et al 2006)