

Working paper

# Explaining the Ten-fold Increase in Remittances to Pakistan 2001-2012

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**Preliminary Study**

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This study for the IGC is part of a broader study being undertaken by PIDE on remittances and their impact on the Pakistan economy including explaining its over ten-fold increase between 2001-2012 from around US\$ 1 billion in FY 2001 to US\$ 12 billion in FY 2011. The focus of this preliminary study is to attempt to explain this increase.

**Context**

Possible reasons for the increase in remittances would include:

- (i) Shift in remittances from formal to informal channels
- (ii) Increase in the number of Pakistani workers abroad
- (iii) Change in the skill composition of Pakistani workers abroad
- (iv) Whitening of black money earned in Pakistan through remittances
- (v) Transfer of undeclared export earnings through remittances
- (vi) Transfer of earnings from illicit/illegal activities (kickbacks, commission, drugs, artifacts etc.)
- (vii) Transfer of receipts from sale of assets abroad (apartments, houses, real estate) acquired through genuine earnings/transfer or through transfers of black money or income earned through illicit/illegal activities.

**Methodology**

A fundamental premise of this study is that the total flow of foreign dominated remittances into Pakistan through formal channels cannot exceed the total demand for Pakistani rupees in foreign currency outside Pakistan to be sent through remittances. This is to say that the US\$12 billion sent into Pakistan through official channels as remittances in 2010-11 were by

individual who wanted to transfer rupee equivalent of their foreign currency (in whatever denomination) to individuals in Pakistan.

To establish the demand for these Pakistani rupees to be remitted by individuals abroad the following analysis is undertaken:

- (i) First, with the help of latest available HIES surveys which record remittances from Pakistani's abroad to households in Pakistan to calculate the total amount of such transfers.
- (ii) Second, to compare the total amounts so calculated with the total amounts recorded in the balance of payments data as received through formal banking and other channels.
- (iii) Third, given a significant gap between (i) and (ii) the definition of workers remittances is expanded to include not just Pakistani workers abroad but the entire Pakistani diaspora i.e. those with Pakistani parentage who have acquired the nationality of their country of residence.

It is important to point out here that the banking system in recording foreign remittances does **not** differentiate between workers remittances from remittances being sent by other individuals abroad to individuals in Pakistan. It is assumed that this remittance is from a Pakistani abroad or a person of Pakistani origin (only if a large transfer is made from an individual with a non-Pakistani name and this catches the attention of the bank watchdog, is this investigated).

- (iv) Fourth, to calculate the total amount of remittances being sent by the Pakistani diaspora abroad (from formal and informal channels), the size of this diaspora is established from recent sources and this is multiplied by the average remittances sent (again established from different sources).
- (v) Fifth, the present paper, the sum so calculated in (iv) is taken as representing the large bulk of the remittances being sent to Pakistan through formal and informal channels. By subtracting from this amount that being sent through formal channel an approximate estimate of that being sent through informal channels is calculated.
- (vi) Sixth, to this total amount of remittances (formal & informal) sent by the Pakistani diaspora a percentage is added to show illegal/illicit transfers that are earned in foreign exchange and then transferred back through fictitious individual accounts.

(vii) Seventh, the share in this formal transfer of whitening of black money from Pakistan is not estimated as this would require further enquiring from money changers which was not done in this preliminary study.

It is important to point out that since formal transfers only enter the Pakistan economy and have a multiplier effect on incomes and consumption while informal ('hawala') do not (Amjad, 2009; Amjad and Siddiqui 2012). Therefore an important objective of the banking system is to encourage transfers through formal channels, even though commercial banks do this for enhancing earnings of charges on such transfer than motivated by the larger national interest. The latter clearly is the objective of the State Bank and Ministry of Finance.

The preliminary study is divided as follows:

Section I details the time trend of survey based estimates of remittances to discern the provincial and rural/urban shifts, distribution of foreign remittances by sending countries as reported in the surveys of two years, 2005/06 and 2007/08 are compared with the similar distribution of balance of payments (official) data.

Section II provides a time trend estimates of Pakistan's emigrations using a patchwork of data sources such as Ministry of Labor which is confined to Middle East and information from Pakistani Missions abroad.

In Section III an effort is made to examine the composition and structure of remittances based on the definition of remittances as applied by State Bank of Pakistan.

Based on this analysis which includes interviews with the State Bank and major commercial banks<sup>1</sup> an attempt is made to explain the increase in recorded remittances. Post-2001 and a guess estimate made on total remittances being sent through formal and informal channels.

The main results of this preliminary study suggest:

- The large manifold increases in recorded remittances in the last decade can be explained to a significant extent by the increase in the stock of Pakistani migrants working abroad and changes in their skill composition (more skilled and better paid). However, this

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<sup>1</sup> Representatives of 15 major commercial banks met with the team during their visit to State Bank in Karachi.

explanation is critically dependent on the assumptions regarding remittances sent through formal and informal channels.

- The study reveals that the major part of the recorded remittances cover not just remittances from Pakistani workers abroad but in fact cover all remittances sent by the Pakistani diaspora (many of whom have acquired nationality of their resident country).
- The study suggests that the Pakistan Remittances Initiative (PRI) jointly started by the State Bank and the Ministry of Finance has played an important role in diverting remittances from the informal to formal channels. In this effort they have received sterling support from the major commercial banks.
- Based on estimates by the PRI and our guessestimates suggest the total amount of remittances being sent to Pakistan is around US\$20 billion.
- Some important recommendations that emerge from this study are:
  - o There is still a large pool of remittances that can be tapped and diverted into formal channels. This requires continued efforts by the PRI, State Bank and Commercial Banks.
  - o The major commercial banks have a major grievance that their efforts which have yielded very positive results are being hampered by changes in policy and/or non-payment of incentives offered to banks to transfer remittances. By so doing confidence of banks abroad that transfer such money is seriously impaired.
  - o There is need to examine current procedures and rules and regulations in countries which encourage transfers through informal channels as well as transfer of such resources into foreign accounts. This is especially so in the UK which (through Third Party Settlement Accounts) as well as in the US and other countries where banks do not allow walk-in transfers.
  - o Some commercial banks were also of the view that Pakistanis should be allowed to open foreign accounts abroad. This would encourage them to deposit money in Pakistani banks abroad rather than foreign banks. This needs further examination.

## Section-I

In an earlier exercise it was found the data sources based on household survey are indicative of over four times rise in the size of remittances during 1996/08. The estimate based on HIES were roughly 30% of those of the BOP wherein a departure since 2001/02 was striking (see graph ).

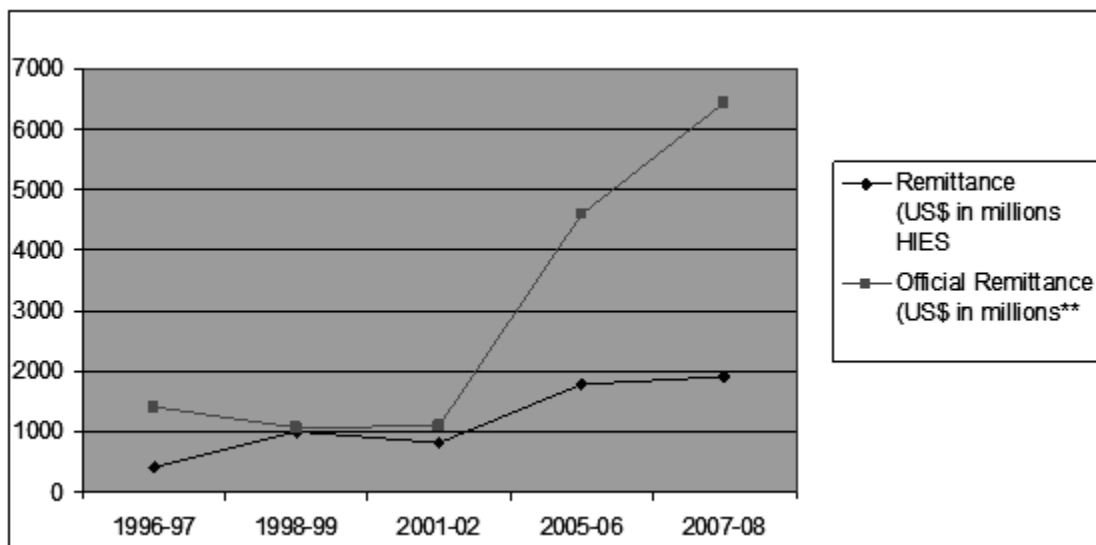


Fig 1. Comparison of Official and HIES Remittances  
Source: Irfan (2011)

This divergence as well as sharp rise in the two sets of data on workers remittances since 2001/02 needs to be further probed. Similar discrepancy between the survey based and BOP data found else where has been attributed to the under-estimation in the household survey (Acosta 2007). This can not be ruled out in case of Pakistan where fraction of households receiving remittances is around 5% and their distribution is not uniform across the country. In fact a special sampling procedure is needed to arrive at the estimate of remittances through household survey.

Equally it is imperative to scrutinize the BOP data on remittance with respect to its size and structure to assess whether or not it embodies inflows unrelated to workers remittances which are not sharply defined either. The rise in the level of remittances during 2001-2012 can be generated by variety of operatives, a rise in the size, skill content and propensity to remit of

the emigrants in conjunction with the anti-money laundering drives as well as the governmental measures to attract the remittances may have generated a rise in the level of remittances, through a shift from Havala. In the context of BOP data these two factors may have similar effect but in essence the former represents additionality and the latter a shift from pool of Havala to official channels, thereby making it equally important to make a judgment, to the extent possible, of the size or potential of this reservoir which may facilitate assessment of the role of different factors in the expansion of remittances.

In this exercise firstly in section 1 using HIES data remittances trend are analyzed in terms of their destination, urban and rural, a well as by major districts. Also the contribution of different sending regions is examined to both from HIES and BOP data. The second section of this exercise discusses the concept of the remittances according to IMF/World Bank definition, highlighting the wide ranging implications for computation of BOP data. This is followed by the description of the Pakistan BOP definitions and actual recording and compiling procedures and practices. Institutional structure and regulatory framework which acquired importance since the anti-money laundering, drives and the governmental measure to enhance the share of official channels is discussed in the third section wherein also size of remittances pool is gestimated.

### **Remittances time trend and interprovincial shifts**

The HIES as well as BOP data are indicative of a decline in remittances during the late 1990s reaching its lowest level around 2001/02 and sharply rising since then. Spatial spread of these inflows are described below in different tables.

Table 1: Percentage distribution of foreign remittance by Urban/Rural and provinces 1996/97- 2007/08

Year	Urban	Rural	Punjab	Sindh	NWFP	Balochistan
1996/97	50.7	41.3	62.5	11.5	20.4	2.6
2001/02	40.8	59.2	61.8	7.3	28.1	2.7
2005/06	33.65	66.4	68.0	4.5	26.4	1.1
2007/08	27.6	72.4	67.6	2.5	28.6	1.3

Source: Estimate based on HIES

As Table 1 shows there appears to be a massive shift of remittances from urban to rural areas. While both these areas were sharing equal percentages of foreign remittance in 1996/97 gradually these tilted towards rural areas accounting for over 70% in 2007/08. Relative size of the foreign remittances shrunk in urban areas during the period under study in all the provinces as depicted in table 2 below.

Table: 2 Percentage distribution of remittance in Urban/Rural Areas by provinces

Provinces	Urban Areas		Rural Areas	
	2001/02	2007/08	2001/02	2007/08
Punjab	27.81	20.77	34.01	46.80
Sindh	7.31	2.42	0.00	0.12
KPK	5.24	3.88	22.86	24.72
Balochistan	0.41	0.48	2.30	0.80
<b>Total</b>	<b>40.83</b>	<b>27.55</b>	<b>59.17</b>	<b>72.45</b>

Source: Estimate based on HIES.2001/02 and PSLMS 2007/08

Given that during this period the remittances estimated from HIES rose from US\$ 810 million to US \$ 1902 million, more than double, these must have had a positive influence on the well being of rural population. With the exception of Balochistan, with 1% of the total foreign remittances, rural areas of all the provinces experienced a relative gain in their shares during 2001/02 to 2007/08.

A closer perusal of both urban and rural areas at the district level reveals that in the year 2001/02 over half of the remittances were sent to 3 major districts, Gujranwala, Lahore and Karachi with 23.7%, 17.6% and 13.8% of the total urban remittances. With the spurts in remittances in 2007/08 a major change occurred wherein both Karachi and Lahore did not qualify as the top 3 major recipient cities, while Gujranwala still retained the top position accounting for one thirds of total urban remittances. Faisalabad and Rawalpindi, now together accounted for one - fourth of the remittances in urban areas.

A similar exercise for rural areas indentified Gujarat, Swat and Dir to be top three districts recording almost one- fourths of the total rural remittances in 2001/02. For 2007/08 with larger volume of total remittances the district ranking changed. Gujarat, Sialkot and Mandi Bahauddin acquired the importance with the receipt of 26% of the total remittances. Application



of care is counseled in drawing inferences regarding the impact on poverty. The geographic shift of the remittances is accompanied by a socio graphic shift of remittances away from the bottom two quantiles [Irfan, 2011].

### Remittance by Country of Origin

The percentage distribution of remittances as reported in house hold surveys are suggestive of the domination of Middle Eastern countries as sending region. Almost one thirds of the remittances are reported to be originating from Saudi Arabia alone. The contribution of the OECD countries particularly USA and UK is reported to be much less in the Household Surveys (9%) as compared to the official data (44%). One cannot rule out the possibility of the under reporting in HIES data while at the same time it is equally plausible that official reported remittances from the OECD countries is different than workers remittances in HIES.

Table:3 Percentage distribution of remittances by sending counter. 2005/06 and 2007/08

Country Name	% Share of Remittance 2005/06 (HIES)	% Share of Remittance 2007/08 (HIES)	Economic Survey (BOP) 2005/06	Economic Survey (BOP) 2007/08
Afghanistan	1.11	0.10	N.R	N.R
Algeria	0.03	0.09	N.R	N.R
Argentina	0.07	N.R	N.R	N.R
Australia	0.03	N.R	N.R	N.R
Azerbaijan	0.03	0.06	N.R	N.R
Bahrain	0.54	0.95	2.19	2.18
Belgium	1.08	0.04	N.R	N.R
Burma	0.32	N.R	N.R	N.R
Canada	0.83	0.55	1.78	1.56
Dubai	16.35	10.89	N.R	N.R
Egypt	0.02	0.10	N.R	N.R
France	2.45	1.00	N.R	N.R
Germany	0.06	1.32	1.29	1.14
Greece	4.84	1.19	N.R	N.R
Iran	0.06	0.19	N.R	N.R
Italy	2.27	3.06	N.R	N.R
Japan	1.22	0.10	0.14	0.07
Kazakistan	0.64	4.64	N.R	N.R
Kuwait	4.91	N.R	5.38	5.96
Libya	0.39	N.R	N.R	N.R
Malaysia	1.87	1.56	N.R	N.R
Mayanmar	0.98	0.06	N.R	N.R
Muskat	4.39	2,76	N.R	N.R

Netherland	0.26	0.14	N.R	N.R
Norway	0.14	0.16	0.37	0.45
Qatar	0.59	2.23	2.59	3.62
Russia	0.22	0.03	N.R	N.R
Saudi Arabia	34.83	31.46	16.36	19.40
Singapore	0.24	N.R	N.R	N.R
South Ahrica	0.007	0.31	N.R	N.R
Spain	2.56	18.85	N.R	N.R
Sudan	0.10	0.02	N.R	N.R
Switerland	0.43	0.29	N.R	N.R
UK	2.81	3.15	9.56	7.12
UAE	7.10	7.69	15.61	16.91
United State	3.19	2.87	27.08	27.32
Other	2.96	1.53	14.81	10.78
Total	100.00	100.00		

Source: Estimate based on HIES and Economic Survey

## **Section-II**

### **Stock of Overseas Pakistanis and Remittances**

Section I has shown the widening gap in remittances between HIES and balance of payment or official data as reported in Pakistan Economic Surveys. Estimates of remittances based on the HIES data are less than one-third of the remittances reported by the State Bank of Pakistan. This divergence between the two data sources could be attributed to under-reporting of remittances in the HIES. This section uses the stock of overseas Pakistanis data to estimate workers' remittances to see whether they match with the official data on remittances.

There are three major sources of data for estimating the stock of overseas Pakistanis:

1. The data produced by the Bureau of Immigration and Overseas Employment (BIOE);
2. The data about the number of overseas Pakistanis by Pakistan missions and embassies abroad; and
3. NADRA, which issues the National Identity Card for Overseas Pakistani (NICOP) and Pakistan Origin Card (POC).

The BIOE data for the stock of overseas Pakistanis is incomplete because it records only outflows of workers for employment, thus excluding migratory movements for education, family union or immigration. The BIOE has almost complete registration of annual outflows of Pakistani workers to the Middle East through legal channels. But, it does not record the return flows of workers. It is therefore not possible from the BIOE data to estimate the Stock of Overseas Pakistanis.

The data from the Embassies on the Stock of Overseas Pakistanis is not regular and probably not based on a scientific method. However, it provides most reliable estimates on the stock of overseas Pakistanis. The completeness of NADRA data depends on its coverage. Although Pakistanis are concentrated in five countries Saudi Arabia and UAE in the Middle East, UK in Europe and US and Canada in North America, they are spread in 80 countries of the World. Despite these limitations, the data on the stock of overseas Pakistani from different sources provide robust estimates.

Table 4 presents country-wise data on the stock of overseas Pakistani, which has increased from 3.97 million in 2004 to 6.7 million in 2012, an annual net increase of about 0.34 million workers. Some other sources show the stock figure as high as 7 million (Abbasi, 2010).

During the team's recent visit to Karachi, many bankers who are in the business of remittances consider the Pakistani diaspora as close to 8 million.

A close look at Table 4 reveals that around 85 percent of overseas Pakistanis are concentrated in seven countries in the following order: Saudi Arabia, United Kingdom (UK), United States of America (USA), United Arab Emirates (UAE), Canada, Oman and Kuwait. Within these countries, the table shows the large concentration of Pakistanis in first four countries.

The distribution of official remittances by host country shows a pattern similar to the stock data: 82 to 84 percent of inflows of remittances are from the above-reported seven countries (Table 4). However, the HIES data show these countries as source of only 60 and 70 percent of total remittances in 2005-06 and 2007-08 respectively. The major divergence between HIES and official data is in the inflows of remittances from USA and UK. In 2007-08, for example, according to the official data, around one-third of remittances were originated from the USA and UK, while their share in the HIES data is only 6 percent. Thus, the major reason for low estimates of remittances from the HIES data is the under-reporting of inflows of remittances from USA and UK, particularly the former.

Table-4: Stock of Overseas Pakistanis and remittances by host country

Name of Country/destination	Stock of overseas Pakistanis						% distribution of remittances (Official data <sup>d</sup> )		% distribution of remittances (HIES <sup>e</sup> )	
	2004 <sup>a</sup>		2009 <sup>b</sup>		2012 <sup>c</sup>		2004-05	2009-10	2005-06	2007-08
	Number (Million)	%	Number (Million)	%	Number (Million)	%				
All Countries	3.973	100	5.500	100	6.700	100	100	100	100	100
Saudi Arabia	1.100	27.7	1.200	21.8	1.700	25.4	15.10	21.53	31.46	34.83
United Kingdom	0.800	20.1	1.200	21.8	1.200	17.9	8.96	9.84	3.15	2.81
United States of America	0.600	15.1	0.900	16.4	0.900	13.4	31.17	19.89	2.87	3.19
United Arab Emirates	0.500	12.9	0.738	13.4	1.200	17.9	17.16	22.89	18.58	23.45
Canada	0.250	6.3	0.300	5.5	0.300	4.5	1.17	1.29	0.55	0.83
Oman	NA	NA	0.152	2.8	0.200	3.0	2.87	3.23	NA	NA
Kuwait	0.100	2.5	0.150	2.7	0.150	2.2	5.17	5.00	4.64	4.91
Qatar	NA	NA	0.083	1.5	NA	NA	2.09	3.98	2.23	0.59
Greece	NA	NA	0.080	1.5	0.090	1.3	NA	NA	1.19	4.84
Malaysia	0.010	0.2	0.062	1.1	NA	NA	NA	NA	1.56	1.87
South Africa	NA	NA	0.060	1.1	NA	NA	NA	NA	0.31	0.07
Bahrain	NA	NA	0.060	1.1	NA	NA	2.20	1.70	0.95	0.54
Spain	NA	NA	0.047	0.8	NA	NA	NA	NA	18.85	2.56
France	0.005	0.1	0.060	1.1	0.060	0.9	NA	NA	1.00	2.45
Germany	NA	NA	NA	NA	0.078	1.2	1.30	0.91	1.32	0.06
Italy	NA	NA	0.099	1.8	NA	NA	NA	NA	3.06	2.27
Netherlands	NA	NA	0.040	0.7	NA	NA	NA	NA	0.14	0.26
Denmark	NA	NA	0.031	0.6	0.030	0.4	NA	NA	NA	NA
Norway	NA	NA	0.030	0.5	NA	NA	0.44	0.39	0.16	0.14
Stockland	NA	NA	NA	NA	0.060	0.9	NA	NA	NA	NA
Australia	Na	NA	NA	NA	0.027	0.4	NA	NA	NA	0.03
Others	0.608	15.3	0.208	3.8	0.705	10.5	12.41	9.35	7.98	14.75

- Source: a: Medium Term Development Framework, 2005-10 Planning Commission, 2005, Islamabad  
b: Ministry of Foreign Affairs, Islamabad  
c: Secretary Election Commission, Dawn, February 15, 2012, page 3.  
d: Pakistan Economic Survey, 2010-11  
e: Computed from micro data of Household Income and Expenditure Survey (HIES) by Dr. M. Irfan.

The question is why this under-reporting is specific to these two countries. It is not easy to answer this question; there could be multiple reasons. Migration of Pakistanis to UK and USA is different from the movement of temporary workers to the Middle East. The former is primarily family movement for permanent settlement while the latter is largely short-time movement of workers only. When family is settled abroad, remittances are likely to be transferred home either for investment or help/donations. This investment or transfer of money could be through a relative or a friend, who is not a real recipient of remittances. This transfer of money is not likely to be shown in the HIES as remittances. Abbasi (2010) has recently shown that:

The second and third generation of Pakistanis in Europe are very different from their predecessors. Most are well-educated and better integrated into their respective European societies. They are mostly skilled professionals working in the medical field and information technology. They want to retain their Pakistani identity and remain connected to Pakistan, and aspire to contribute to both European and Pakistani society at the same time. Pakistani emigrants and their children influence their homeland culturally and economically, keeping close ties to their roots by travelling to Pakistan and investing there.

With this background and limitations of the HIES data, an attempt has been made to estimate remittances in 2009 using the stock data of overseas Pakistanis under three scenarios. According to the Ministry of Foreign Affairs data, there were 5.5 million overseas Pakistanis in 2009.<sup>2</sup> It is assumed for the estimation purpose that 60 percent of these Pakistanis are workers or earners (Table-5), considering the majority of Middle East stock as workers and the presence of dependent population in Europe and North America. It is further assumed that 75 percent of workers or earners have remitted home some money in 2009. This assumption is based on the fact that fresh migrants take time to start sending home money. Thus, out of the total stock of 5.5 million Pakistanis, it is assumed that 2.475 million, which constitutes 45 percent, were net remitter for the year of 2009.

Arif (2010), based on a small sample of households (548), which received remittances from Saudi Arabia in 2009, estimated Rs. 200000/- as the average annual remittances per worker. Remittances are heavily influenced by earnings, and because of relatively better skill-levels, Pakistanis in North America and Europe are likely to have on average remitted more money than Pakistanis in the Middle East. Thus, regarding the average remittances per workers

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<sup>2</sup> Migration and Remittances Fact book 2011 of the World Bank has shown the stock of Overseas Pakistanis as 4.7 million in 2009.

three scenarios have been developed: low, medium and high. Under the low scenario, the assumed remittances per worker in 2009 are Rs. 200000/ while the assumed per worker remittances for medium and high scenarios are respectively Rs. 250000/- and Rs. 300000/-.

Using the exchange rate of Rs.78.5 per US dollar, remittances for 2009 are estimated in Table 5 under three scenarios. In low scenario, the estimated remittances are US\$ 6306 million in 2009, which constitutes 80 percent of the official remittances in this year. Under the medium scenario, remittances are estimated as US\$ 7882 million, accounting for 101% of the official flows of remittances. The high scenario shows the remittance figure as US\$ 9458, or 121% of the official flow.

The use of stock data for the estimation of remittances suggests serious under-reporting of remittances in the HIES. Moreover, if the medium and high scenarios are taken into account, the estimated remittances put the official figure of remittances in a lower side, indicating the inflows of remittances through unofficial channels at a large scale.

Table-5: Estimates of Workers remittances based on the Stock of Overseas Pakistanis in 2009

	Low scenario	Medium scenario	High scenario
Stock of overseas Pakistanis in 2009	5.5 million	5.5 million	5.5 million
Share of workers/earners in the stock	60%	60%	60%
Number of overseas workers	3.3 million	3.3 million	3.3 million
Percentage of workers sending remittances	75%	75%	75%
Number of remittance senders	2.475 million	2.475 million	2475 million
Average annual remittances	Rs. 200000	Rs. 250,000	Rs.300000
Total remittances	Rs. 49500 million	Rs.618750 million	Rs.742500 million
Remittances in dollars (exchange rate Rs. 78.5	US\$ 6306 million	US\$ 7882 million	US\$ 9458
Official remittances (2008-09)	US\$ 7811 million	US\$ 7811 million	US\$ 7811
Estimated remittances as % of official remittances	80.1%	101%	121%

The recent rise in remittances can partially be attributed to three factors. First, the stock of overseas Pakistanis has increased during the last decade. As noted earlier, the net annual outflow of workers is about 0.34 million. Interestingly, Pakistani have not found any new destinations or labour market for employment. Rather, their flows continue to Saudi Arabia, UK, USA and UAE (Table-4). This increase in the stock during last decade could be one of the major reasons for rising trends in remittances. Second, the skill composition of Pakistanis have

improved. On the one hand, the younger generation of expatriate Pakistanis has entered into more modern professions in USA and UK (Abbasi, 2010), and, on the other hand, fresh migrants, particularly those who left Pakistan during last 7-8 years, are equipped with new sets of professional skills (Dawn, October 3, 2011). Higher wages of these professionals have contributed to rise in remittances. Third, the State Bank of Pakistan has taken steps, such as Pakistan Remittance Initiative (PRI) to boost and facilitate the flow of remittances sent home by non-resident Pakistanis. The State Bank takes the credit of its policies for recent rise in remittances. Similarly the message of senior representatives of Pakistani banks dealing with remittances during our recent meetings with them in Karachi was that their initiatives since 2005 have attracted more remittances through the banking channel. Had banks not taken these initiatives, remittances through non-banking channels would have been much larger at the cost of banking channel.

It appears that Pakistan is very much part of the global flows of capital as well as labour. Recently the World Bank has published a report entitled Migration and Remittances Factbook 2011. Pakistan related data given in this report is presented in Table 6, which shows Pakistan ranking in emigration, immigration and remittances. It is ranked 7<sup>th</sup> in top emigration countries and 9<sup>th</sup> in top emigration countries of physicians. In remittances, Pakistan has 11<sup>th</sup> position in 2009. It can be concluded that Pakistani diasporas is interested in and knowledgeable about social, political and economic developments in Pakistan. They not only remain connected to Pakistan but also contribute to its development through remittances.

Table- 6: Pakistan ranking in migration and remittances, 2010.

Pakistan ranking in:	Ranking	Data
1. Top immigration countries	13	4.2 million immigrants
2. Top emigration countries	7	4.7 million emigrants
3. Top migration corridors: Pakistani-Saudi Arabia	21	1.0 million migrants
4. Top emigration countries of physician (2000)	9	
5. Top remittance countries	11	9.4 billion US\$
6. Top destination countries for refugees	2	2.1 million refugees

Source: World Bank, 2011.



### Section-III

Remittances widely discussed flows have defied efforts to have a precise definitions. The coverage and quality of data on remittances are plagued by a host of factors, imprecision in the coverage whether or not to include only worker’s remittances, multiplicity of channels of remittances, further compounded by heterogeneity wherein small size transactions may not be detected by formal services. In addition to total absence of the informal flows from official data in the BOP framework, remittances may include trade related transactions’ and resident foreign currency accounts as well and at times may report the FDI too.

Cognizant upon these definitional issues G-8 in April 2004 impressed upon the IFI’s to improve the remittances statistics within the framework of BOP and provide guidance for collection and compilation of these statistics. A technical Sub Group (T.S.G.) under the chairmanship of the UN Statistics Division with membership drawn from Central Banks and International Statistical Agencies was constituted. As per deliberations and recommendations of these groups IMF broadened the definition of the remittances with BPM6, thought it may be added that from 2001 to 2007 IMF Balance of payment statistical Year Book used the definition for global receipts as workers remittances and compensation of employees, and sometimes migrant transfers. The former two reported in current account while the third in the capital account. Changes introduced along with BM6 in essence broadened the concept of worker remittances. Table No. 7 to total remittances.

Table 7: Total Remittances and transfers to NPISHs: a+b+c+d+e+f

Total remittances a+b+c+d					
Personal remittances: a+b+c					
Personal transfers (part of current transfers) <sup>a</sup>	Compensation of employes less taxes, social contributions, transport, and travel <sup>b</sup>	Capital transfers between households <sup>c</sup>	Social benefits (d)	Current transfers to NPISHs (e)	Capital transfers to NPISHs (f)

Source: IMF, 2008 (BFM6)

Note: Personal transfers is a standard item; other items are supplementary.

Under the BPM6 framework while the distinction between resident and non resident is retained the erstwhile worker's remittances have been identified as personal transfers from individuals independent of the source of income. Current transfers which directly affect the level of disposable income would now be inclusive of the receipts from abroad of the Non-Profit Institutions Serving Households (NPISH). The new definitions recommended by BMP6 is wide and not closely linked to migration and may include much of the private and official transfers too. Complex analytical implications to discern the impact of worker mobility on poverty alleviation and GOP growth have to be encountered under this broad definition wherein workers remittances are just related to remittances.

### **Pakistan Official (B.O.P) Remittance**

Workers remittances as defined by Central Bank and applied for B.O.P data compilation under workers remittances code 947/proceeds of the conversion of Foreign Currency Account into Pak Rupees both by resident as well non resident. Table No-8 provides the detailed definition as well as the amounts in US \$ received under different processing codes.

Table No: 8 Workers' Remittances – Purpose Wise

Purpose Code	(Million US\$)								
	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12 (July-Feb)
9471	2,908.74	3,116.59	3,122.25	3,555.36	4,036.19	4,663.64	6,320.41	8,786.12	6,209.67
9525	687.60	542.90	735.32	822.45	600.75	781.58	686.33	833.03	333.39
9531	39.31	38.85	24.81	25.99	2.36	41.50	41.38	46.44	53.46
Total	3,635.65	3,698.34	3,882.39	4,403.79	4,666.30	5,486.72	7,048.12	9,665.59	6,596.52
Share %									
9471	80.01	84.27	80.42	80.73	86.50	85.00	89.68	90.90	94.14
9525	18.91	14.68	18.94	18.68	12.87	14.25	9.74	8.62	5.05
9531	1.08	1.05	0.64	0.59	0.63	0.76	0.59	0.48	0.81
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
<b>Workers' Remittances (9471)</b>									
Remittance received from Pakistani Workers living abroad for one year or more on account of family maintenance in Pakistan. However, money remitted by a Pakistani for the purpose of making a deposit in his own account with a bank in Pakistan represents a financial investment, which is recorded in the financial account, rather than a transfer									
<b>Withdrawals in Equivalent Pak Rupees from FCA-non-residents individuals (9525)</b>									
Contra on account of withdrawals converted into Pak Rupees from FCA-residents individuals other than the purpose of export proceeds.									
<b>Withdrawals in Equivalent Pak Rupees from FCA-non-resident (9531)</b>									
Contra on account of withdrawals converted into Pak Rupees from FCA-non-residents.									

Source: State Bank of Pakistan.

As indicated by the table in FY 2011 the share of workers remittances with the professed condition of stay of one years or more abroad accounted for nine tenths of total remittances. It may be noted that this component of remittances experienced a relative rise from 80% in 2004 to 91% in 2011, and in absolute amount from US\$2.9 to US\$8.7 billion almost a 300% rise.

Conversion of Foreign Currency accounts attains second position in ranking being 19% of the total in 2004 and plummeted to 8.6% in FY 2011, though in terms of US\$ it registered a rise from 688 to 833 Million during the said period. Irrespective of its relative size the inclusion of converted FCA by resident Pakistanis into remittances rests on assumption that inflows into these accounts were exclusively remittances sometimes during the recent or distant past. The non-resident FCA has been a minor contributor accounting for 1% or less of the total remittances.

### **Channels of Transmission**

Bank constitute the major channels for transfer of the formal remittances from abroad, though their relative share in total underwent a diminution consistently from 94% in FY 2001 to FY 2010, but since then the Banks appear to regain their lost ground with their relative share registering a rise being 89% in FY 2012. This shift could possibly be attributed to provision of incentives for lowering the costs of transfers of funds through reimbursing the TT charges to banks and efforts mounted under PRI (Pakistan Remittance Initiative) for diversion of remittances through banking channels.

The government in 2009 announced reimbursement of the marketing expenses to banks for attraction of remittances at the following rates.

S. No.	Size of Remittances US\$	Marketing Expenses
1.	Upto 100 million	Nil
2.	Above 100 to 400 million	0.5% on the remittances over 100 million
3.	Above 400 to 800 million	0.75% on the remittances amount
4.	Above 800 to 1200 million	1.0% on the amount
5.	Above 12 million	1.0% on total

Source: The state of Pakistan Economy First Quarterly Report for year 2009-10, State Bank of Pakistan, Karachi 2010.

Amounts of remittances by channels provided in Table No-6 and are indicative of almost over one third rise in the share of banks (from 7.04 to 9.7 billion) in FY 2011 over the proceeding year. The top two banks (Habib Bank and United Bank) remitted around 2 Billion, hence qualifying for 1% of the total remittances as re-imburement. MCB and NBP though lower in this ranking reported over 1 billion US\$. Part of these gains have been at the expense of exchange companies whose relative position suffered with decline in the size of remittances transmitted through them. (see tables).

#### **Pakistan Remittance Initiative (PRI)**

PRI a joint venture of State Bank of Pakistan, Ministry of Overseas Pakistanis and Ministry of Finance was launched in April 2009. Major objective of PRI was to enhance the flow of remittances through official channels. A strategy based upon the objective analysis of ground realities revolving around the home remittance system, focusing upon wider participation of financial sector in the remittance services was framed.

PRI persuaded and encouraged the banks to extend their reach at the global level. In addition global M.T.O. like Western Union, Money Gram and Express Money were also involved with the help of SBP. The PRI has been instrumental in improving the payment systems such as cash over the counter and inter-bank settlements. In addition under the initiatives of PRI remittances rich areas were identified. A toll free call centre open round the clock has been established where all Pakistanis can lodge their complaints as well as make enquires about the services.

Exchange companies made their appearance in 2004 transferring remittances around 140 million accounting for 3.5% of the total. Both in terms of absolute numbers and relative shares of these exchange companies underwent a substantial rise uptill 2009 FY when these companies accounted for one fourths of the total remittances, almost 2 billion US\$. Their share went down because of the threat of funds being frozen in case of any action by state agencies, as has been the case. In addition banks were incentivized to exert competitive pressures and establishing the bilateral tie ups with foreign entities. Other minor channels are the Postal transfer and conversion of FEBC/FCBC.

Table No-9

**Workers' Remittances-BankWise**

Million US Dollar

Code	Bank Name	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12 (July-Feb)
1	Habib Bank Ltd	383.47	476.62	863.39	885.14	935.35	1,044.87	1,257.25	1,364.60	1,472.66	1,611.32	2,322.98	1,811.47
2	United Bank Ltd	101.51	184.65	362.14	371.64	447.61	532.40	690.99	812.10	1,051.99	1,463.38	1,998.70	1,723.17
3	MCB Bank Ltd	106.02	245.17	461.24	339.55	236.54	233.57	386.10	410.91	452.94	725.24	1,104.54	890.72
4	National Bank of Pakistan	100.12	169.04	212.43	215.36	267.63	370.97	518.40	637.75	803.52	866.51	1,093.59	792.81
5	Allied Bank Ltd	105.95	158.46	169.97	123.24	125.20	106.51	139.26	233.78	239.87	562.56	700.15	642.71
6	Bank of Punjab	0.86	3.06	20.50	14.01	8.12	13.92	16.43	47.66	257.91	543.14	564.22	369.94
7	Bank Alfalah Ltd	5.42	70.47	215.19	211.54	268.97	280.47	295.83	272.97	242.97	235.68	304.43	209.42
8	JS Bank Ltd (American Express Bank)	10.37	18.84	29.30	24.42	22.28	20.96	14.94	6.06	4.30	22.20	211.83	189.09
9	The Bank of Khyber	0.05	0.08	0.09	1.87	0.91	1.02	0.86	11.39	61.73	96.82	162.54	96.98
10	KASB Bank	0.41	6.33	2.57	7.67	2.64	4.69	6.51	6.34	5.88	62.52	162.37	115.11
11	Habib Metropolitan Bank Ltd	4.07	148.16	233.49	216.53	173.63	78.36	95.70	99.68	103.84	109.72	158.71	106.16
12	Hong Kong B C	3.75	11.61	27.01	26.35	33.89	44.33	58.36	78.66	99.71	97.74	107.78	64.05
13	Askari Commercial Bank Ltd	3.01	37.50	106.17	79.94	64.34	111.89	109.12	72.91	86.68	111.01	92.21	53.39
14	Standard Chartered Pakistan Bank	12.76	57.06	150.80	150.38	160.07	164.11	151.77	138.95	103.65	70.37	83.58	58.74
15	Bank Al-Habib Ltd	2.70	88.26	163.96	201.24	230.79	126.18	94.35	66.42	67.42	63.49	83.48	80.60
16	My Bank Ltd	0.57	17.51	130.02	34.61	19.27	16.37	17.22	44.58	105.15	112.69	80.85	-
17	Arif Habib Bank Ltd	0.03	0.06	0.07	0.08	0.09	0.11	0.72	1.51	2.93	7.47	77.97	157.99
18	Faysal Bank	4.60	47.27	48.35	41.68	44.55	35.49	39.61	44.66	56.63	55.28	59.41	51.78
19	NIB	0.01	1.06	6.53	2.47	3.63	13.58	18.44	20.65	24.18	28.70	46.82	46.25
20	Citi Bank, N. A.	91.52	130.74	199.78	180.12	196.37	170.16	115.68	95.97	81.75	56.38	46.80	24.07
21	Other Banks	84.58	469.71	717.83	507.83	456.46	512.39	376.21	198.74	161.01	145.89	202.63	161.84
	<b>Banks Total</b>	<b>1,021.77</b>	<b>2,341.67</b>	<b>4,120.83</b>	<b>3,635.65</b>	<b>3,698.34</b>	<b>3,882.39</b>	<b>4,403.79</b>	<b>4,666.30</b>	<b>5,486.72</b>	<b>7,048.12</b>	<b>9,665.58</b>	<b>7,646.30</b>
Channel Wise		FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12 (July-Feb)
	Banks	1,021.77	2,341.67	4,120.83	3,635.65	3,698.34	3,882.39	4,403.79	4,666.30	5,486.72	7,048.12	9,665.58	7,646.30
	Exchange Companies	-	-	-	141.39	392.89	620.62	952.16	1,589.79	2,019.83	1,552.20	1,316.92	850.22
	Postal	-	-	-	49.90	61.11	84.97	135.05	192.68	304.39	304.56	218.37	96.26
	FEBC/FCBC	-	-	-	45.42	16.50	12.09	2.68	2.40	0.48	1.02	0.06	-
	Exchange Co+Postal+FEBC/FCBC	64.98	48.26	116.15	-	-	-	-	-	-	-	-	-
	<b>Total *</b>	<b>1,086.75</b>	<b>2,389.93</b>	<b>4,236.98</b>	<b>3,872.36</b>	<b>4,168.84</b>	<b>4,600.07</b>	<b>5,493.68</b>	<b>6,451.16</b>	<b>7,811.42</b>	<b>8,905.90</b>	<b>11,200.94</b>	<b>8,592.78</b>

\* country wise and bank wise total may differ due to rounding of number

Note: - Order by Bank wise largest amount received during FY11

Table No-10:

TABLE NO: 10

**Workers' Remittances-BankWise**  
Million US Dollar

Code	Bank Name	Share %											
		FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12 (July-Feb)
1	Habib Bank Ltd	37.53	20.35	20.95	24.35	25.29	26.91	28.55	29.24	26.84	22.86	24.03	23.69
2	United Bank Ltd	9.93	7.89	8.79	10.22	12.10	13.71	15.69	17.40	19.17	20.76	20.68	22.54
3	MCB Bank Ltd	10.38	10.47	11.19	9.34	6.40	6.02	8.77	8.81	8.26	10.29	11.43	11.65
4	National Bank of Pakistan	9.80	7.22	5.16	5.92	7.24	9.56	11.77	13.67	14.64	12.29	11.31	10.37
5	Allied Bank Ltd	10.37	6.77	4.12	3.39	3.39	2.74	3.16	5.01	4.37	7.98	7.24	8.41
6	Bank of Punjab	0.08	0.13	0.50	0.39	0.22	0.36	0.37	1.02	4.70	7.71	5.84	4.84
7	Bank Alfalah Ltd	0.53	3.01	5.22	5.82	7.27	7.22	6.72	5.85	4.43	3.34	3.15	2.74
8	JS Bank Ltd (American Express Bank)	1.01	0.80	0.71	0.67	0.60	0.54	0.34	0.13	0.08	0.32	2.19	2.47
9	The Bank of Khyber	0.00	0.00	0.00	0.05	0.02	0.03	0.02	0.24	1.13	1.37	1.68	1.27
10	KASB Bank	0.04	0.27	0.06	0.21	0.07	0.12	0.15	0.14	0.11	0.89	1.68	1.51
11	Habib Metropolitan Bank Ltd	0.40	6.33	5.67	5.96	4.69	2.02	2.17	2.14	1.89	1.56	1.64	1.39
12	Hong Kong B C	0.37	0.50	0.66	0.72	0.92	1.14	1.33	1.69	1.82	1.39	1.12	0.84
13	Askari Commercial Bank Ltd	0.29	1.60	2.58	2.20	1.74	2.88	2.48	1.56	1.58	1.58	0.95	0.70
14	Standard Chartered Pakistan Bank	1.25	2.44	3.66	4.14	4.33	4.23	3.45	2.98	1.89	1.00	0.86	0.77
15	Bank Al-Habib Ltd	0.26	3.77	3.98	5.54	6.24	3.25	2.14	1.42	1.23	0.90	0.86	1.05
16	My Bank Ltd	0.06	0.75	3.16	0.95	0.52	0.42	0.39	0.96	1.92	1.60	0.84	-
17	Arif Habib Bank Ltd	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.03	0.05	0.11	0.81	2.07
18	Faysal Bank	0.45	2.02	1.17	1.15	1.20	0.91	0.90	0.96	1.03	0.78	0.61	0.68
19	NIB	0.00	0.05	0.16	0.07	0.10	0.35	0.42	0.44	0.44	0.41	0.48	0.60
20	Citi Bank, N. A.	8.96	5.58	4.85	4.95	5.31	4.38	2.63	2.06	1.49	0.80	0.48	0.31
21	Other Banks	8.28	20.06	17.42	13.97	12.34	13.20	8.54	4.26	2.93	2.07	2.10	2.12
	<b>Banks Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Channel Wise		Share %											
		FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12 (July-Feb)
	Banks	94.02	97.98	97.26	93.89	88.71	84.40	80.16	72.33	70.24	79.14	86.29	88.99
	Exchange Companies	-	-	-	3.65	9.42	13.49	17.33	24.64	25.86	17.43	11.76	9.89
	Postal	-	-	-	1.29	1.47	1.85	2.46	2.99	3.90	3.42	1.95	1.12
	FEBC/FCBC	-	-	-	1.17	0.40	0.26	0.05	0.04	0.01	0.01	0.00	-
	Exchange Co+Postal+FEBC/FCBC	5.98	2.02	2.74	-	-	-	-	-	-	-	-	-
	<b>Total *</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

\* country wise and Bank wise total may differ due to round  
Note: - Order by Bank wise largest amount received during

### **Size Distribution of Remittance**

Unfortunately the tabulation by size of the remittances could not be obtained for all the sending countries. According to an exercise carried out by PRI suggests that remittances received by GCC countries, transaction predominantly (85% of the total) were less than US\$ 1000. Average transaction size from G.C.C in 2011 is around US\$ 518. In case of Saudi Arabia and UAE were US\$ 392 and US\$ 505 respectively. These averages are much less than US\$ 790 worked out for USA in 2003.

### **Workers Remittance 2001-2011**

Formal remittances experienced a sharp increase from almost one billion US\$ in 2001 to 11.2 billion in 2011, almost over 11 times rise during the decade. The country wise breakdown suggests that USA, UK, UAE and Saudi Arabia were the major contributors in the expansion in the volume. While relative shares of these countries exhibit year wise fluctuations, together they account for over two thirds of the remittances (see Table No-11 and 12). A closer focus at the second half of the decade (since FY 2005) is indicative of the decline in the relative shares of Dubai and USA while Abu Dhabi and UK registered a substantial rise in their percentage shares in total remittances. Increased remittances from Abu Dhabi, according to a SBP report (2010) mostly represent diversion from informal to formal channels because of the crackdown on illegal fund transfer. Rising remittances from UK are attributed by the same study to a shift of the investment by expatriate from Dubai to Pakistan due to lower asset prices. An IMF working paper by Udo Kock and Yan Sun (2011) rationalized the rising remittance in terms of increasing flow of as well as higher levels of skill embodied by the emigrants, Explanations like these would be more convincing if the total size of remittances both formal and informal together could be speculated.

Table No-11:

**Workers' Remittances-Country Wise**  
(Million US Dollar)

Sr.No	Countries	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY 10	FY 11	FY12 (July-Feb)
1	Saudi Arabia	304.43	376.34	580.76	565.29	627.19	750.44	1,023.56	1,251.32	1,559.56	1,917.66	2,670.07	2,325.98
2	USA	134.81	778.98	1,237.52	1,225.09	1,294.08	1,242.49	1,459.64	1,762.03	1,735.87	1,771.19	2,068.67	1,525.45
3	Abu Dhabi	48.11	103.72	212.37	114.92	152.51	147.89	200.40	298.80	669.40	1,130.33	1,328.82	885.71
4	Dubai	129.69	331.47	581.09	447.49	532.93	540.24	635.60	761.24	970.42	851.54	1,201.15	969.94
5	U.K.	81.39	151.93	273.83	333.94	371.86	438.65	430.04	458.87	605.59	876.38	1,199.67	991.20
6	Others Countries	67.71	256.24	658.05	497.14	417.25	573.31	642.11	530.39	609.00	577.37	653.26	380.32
7	Kuwait	123.39	89.66	221.23	177.01	214.78	246.75	288.71	384.58	432.05	445.09	495.19	382.16
8	Oman	38.11	63.18	93.65	105.29	119.28	130.45	161.69	224.94	277.82	287.27	337.59	249.15
9	Qatar	13.38	31.87	87.68	88.69	86.86	118.69	170.65	233.36	339.51	354.15	306.11	208.32
10	Canada	4.90	20.52	15.19	22.90	48.49	81.71	87.20	100.62	79.07	115.12	184.62	119.31
11	Bahrain	23.87	39.58	71.46	80.55	91.22	100.57	136.28	140.51	153.27	151.35	167.29	129.28
12	Germany West	9.20	13.44	26.87	46.52	53.84	59.03	76.87	73.33	100.71	81.21	106.64	60.53
13	Australia	4.15	5.47	8.26	13.66	19.64	25.10	31.24	39.03	34.31	56.27	89.14	76.15
14	Sharjah	12.21	34.05	42.60	34.61	26.17	26.87	28.86	28.58	47.84	54.55	63.77	46.18
15	Spain	0.06	0.18	0.87	0.78	4.59	3.44	7.58	17.84	29.68	39.29	53.43	35.70
16	Italy	0.55	0.47	0.81	2.21	6.74	12.49	12.10	14.03	31.17	39.31	48.89	28.67
17	Ireland	0.20	0.02	0.52	1.26	3.31	6.70	5.59	15.72	24.37	18.84	46.28	50.48
18	France	2.22	3.52	3.92	3.64	4.11	8.14	8.94	9.87	19.25	28.07	39.68	30.69
19	Norway	5.74	6.55	8.89	10.22	18.30	16.82	22.04	28.78	24.94	34.68	36.99	26.42
20	Switzerland	4.24	16.21	34.67	29.11	22.71	20.50	18.06	22.72	18.61	21.93	31.67	23.28
21	Other Countries	13.23	17.39	30.49	25.84	36.43	37.75	43.81	52.28	48.51	53.28	71.97	47.87
Encashment and Profit in Pak.Rs. of Foreign Exchange Bearer Certificates (FEBCs) & Foreign Currency Bearer Certificates (FCBCs)		64.98	48.26	46.12	45.42	16.50	12.09	2.68	2.40	0.48	1.02	0.07	0.00
<b>Total*</b>		<b>1,086.57</b>	<b>2,389.05</b>	<b>4,236.85</b>	<b>3,871.58</b>	<b>4,168.79</b>	<b>4,600.12</b>	<b>5,493.65</b>	<b>6,451.24</b>	<b>7,811.43</b>	<b>8,905.90</b>	<b>11,200.97</b>	<b>8,592.79</b>

\* country wise and Bank wise total may differ due to rounding of number  
Note: - Order by country wise largest amount received during FY11



Table No-12:

**Workers' Remittances-Country Wise**  
(Million US Dollar)

Sr.No	Countries	Share %											
		FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY 10	FY 11	FY12 (July-Feb)
1	Saudi Arabia	28.02	15.75	13.71	14.60	15.04	16.31	18.63	19.40	19.97	21.53	23.84	27.07
2	USA	12.41	32.61	29.21	31.64	31.04	27.01	26.57	27.31	22.22	19.89	18.47	17.75
3	Abu Dhabi	4.43	4.34	5.01	2.97	3.66	3.21	3.65	4.63	8.57	12.69	11.86	10.31
4	Dubai	11.94	13.87	13.72	11.56	12.78	11.74	11.57	11.80	12.42	9.56	10.72	11.29
5	U.K.	7.49	6.36	6.46	8.63	8.92	9.54	7.83	7.11	7.75	9.84	10.71	11.54
6	Others Countries	6.23	10.73	15.53	12.84	10.01	12.46	11.69	8.22	7.80	6.48	5.83	4.43
7	Kuwait	11.36	3.75	5.22	4.57	5.15	5.36	5.26	5.96	5.53	5.00	4.42	4.45
8	Oman	3.51	2.64	2.21	2.72	2.86	2.84	2.94	3.49	3.56	3.23	3.01	2.90
9	Qatar	1.23	1.33	2.07	2.29	2.08	2.58	3.11	3.62	4.35	3.98	2.73	2.42
10	Canada	0.45	0.86	0.36	0.59	1.16	1.78	1.59	1.56	1.01	1.29	1.65	1.39
11	Behrain	2.20	1.66	1.69	2.08	2.19	2.19	2.48	2.18	1.96	1.70	1.49	1.50
12	Germany West	0.85	0.56	0.63	1.20	1.29	1.28	1.40	1.14	1.29	0.91	0.95	0.70
13	Australia	0.38	0.23	0.19	0.35	0.47	0.55	0.57	0.60	0.44	0.63	0.80	0.89
14	Sharjah	1.12	1.43	1.01	0.89	0.63	0.58	0.53	0.44	0.61	0.61	0.57	0.54
15	Spain	0.01	0.01	0.02	0.02	0.11	0.07	0.14	0.28	0.38	0.44	0.48	0.42
16	Italy	0.05	0.02	0.02	0.06	0.16	0.27	0.22	0.22	0.40	0.44	0.44	0.33
17	Ireland	0.02	0.00	0.01	0.03	0.08	0.15	0.10	0.24	0.31	0.21	0.41	0.59
18	France	0.20	0.15	0.09	0.09	0.10	0.18	0.16	0.15	0.25	0.32	0.35	0.36
19	Norway	0.53	0.27	0.21	0.26	0.44	0.37	0.40	0.45	0.32	0.39	0.33	0.31
20	Switzerland	0.39	0.68	0.82	0.75	0.54	0.45	0.33	0.35	0.24	0.25	0.28	0.27
21	Other Countries	1.22	0.73	0.72	0.67	0.87	0.82	0.80	0.81	0.62	0.60	0.64	0.56
Encashment and Profit in Pak.Rs. of Foreign Exchange Bearer Certificates (FEBCs) & Foreign Currency Bearer Certificates (FCBCs)		5.98	2.02	1.09	1.17	0.40	0.26	0.05	0.04	0.01	0.01	0.00	-
<b>Total*</b>		<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

\* country wise and Bank wise total may differ due to rounding of number

## **Institutional Framework**

Financial Action Task Force (FATF) on money laundering and financing of terrorism since 9/11 constitute a major effort to a large extent on the global level to prescribe a regulatory structure. Installation of the regulatory framework calls for registration and licensing of money or value providers. These money transfer operators (MTO) should satisfy themselves and record information pertaining to customer:

- a. Identification by NID/passport
- b. Appropriate record of transaction
- c. Referral of suspicious transactions to law enforcement authorities.

The aggregate transaction of MTOs or money business services (MBS) generally can reveal direction of flow by country of destination, transaction amount and purposes of transaction. The regulatory framework mounted under FATF entails wide latitude both country specific because of diversity of the environment, and global as well, and may defy the efforts to check money laundering and associated criminalization. Global service providers do have the potentials to internalize the cross-border transfer of foreign exchange. For instance MBS thousands operate in UK and function in a competitive environment. Remittances from Pakistani migrants initially up in sterling accounts for third party settlements. Value settlement may take place through a correspondent in Pakistan on behalf of MBS in UK without the transfer of funds. The labour sending country receives additional blows from these IVTS (Informal Value Transfer System). The pool of funds at the disposal of MBS which can easily be transferred to elsewhere such as Dubai based MBS in fact lends a support to variety of illegal activities such as under invoicing of imports to save the import duty [Mahmood (2012) in an exercise currently underway estimated that over US\$30 billion as the reverse capital flight during (1972-2009)]. Furthermore dollarization of corruption money to be stacked away in the off shore bank accounts takes place. One fails to understand the true spirit and intent of regulatory framework which places all the emphasis upon identification of the customer while the funds are being transferred by emigrants but extends a benign neglect to check whether or not the value settlements takes place through actual transfer of foreign exchange desperately needed by the developing countries which exports labour. This gloss over by international transmission system in fact promotes corruption and other illegal activities which could include terrorist financing, though in the process the periphery is denied access to foreign exchange which is retained by the centre. Under

these circumstances the Havala or Hundi system can hardly be squeezed and explaining part of total remittances (formal & informal) is more or less a futile exercise because the rise in B.O.P. workers remittances may represent a shift from informal channels. Below an effort is made to speculate about the total size of the remittances.

### Guestimating Total Size of Remittances

A number of exercise have been made to estimate the size of the informal remittance market in Pakistan. It appears that over half of the total remittances get transferred through the Havala or IVTS. The table below describes the exercises working out the spare or size of informal market

Table No-13: Size of the Informal Remittance Market in Pakistan

Estimate of Leakage	Source
Transfer of unrecorded remittances via <ul style="list-style-type: none"> <li>• Hundi system used by 48 percent of migrants</li> <li>• Hand-carried cash used by 27 percent and</li> <li>• Remittances in-kind used by 9 percent</li> </ul>	Gilani et al. (1981)
43 per cent of total remittances are sent via unofficial channels	ILO-ARTEP (1987)
Remittances in-kind <ul style="list-style-type: none"> <li>• 10 per cent of cash transfers for urban migrants</li> <li>• 11 per cent for rural migrants</li> </ul>	Kazi (1989)
Unofficial Remittances (Estimated from Simulation Model) US\$ Million 1988: 442      1991: 1,262 1993: 1,642    1997: 4,013	“Migrant Labor Remittances in South Asia” by Samuel Munzolo Malmbo Richard H. Adains, Jr. Roona Aggarwal Nikos Passas WB (2005)
Estimated proportion of unrecorded remittances based on econometric modeling: 1985: 40 per cent      1995: 41 per cent 1990: 41 per cent      2000: 50 per cent	E Quorchi at al. (2000), Proportions are modeled on the basis of the size of black market premium on exchange ratios.
Simulated Share of Informal Hawala in total Private Transfers (in percent of total) 1981 1982 1985 1990 1998 2000 90 56 40 41 57 50	Informal Fund Transfer Systems – An Analysis of the Informal Hawala System A Joint IMF-World Bank Paper (2003)
Officials in Pakistan estimate that more than \$7 billion flow into the nation through Hawala channels each year”.	“Contributions by the Department of the Treasury to the Financial War on Terrorism” Fact Sheet, United States Treasury Department, September 2002.
Estimated Private Remittances, 1981 – 2000 (US \$ billion) Total Recorded Unrecorded Share of Unrecorded in Total (%) 186 62 75 55%	Informal Funds Transfer Systems – An Analysis of the Informal Hawala System” A Joint IMF-World Bank Paper (2003).
20 per cent of remittances to Pakistan enter through formal channels with the vast majority entering via the Hawala system.	Shaukat Aziz, Finance Minister, of Pakistan (Economist Nov 22, 2001).
Prior to September 2001, formal channel remittances accounted for approximately 19% (US\$ 1.5 billion) as against 81% from Informal channels (US\$ 6.5 billion). These figures were quoted to be based on market participants.	Report of Task Force on Overseas Pakistanis

Source: SBP Report on Home Remittances.

The size of IVTS informal value transfer system estimated in UK by exercises conducted under DFID are indicative of the massive share of informal and unrecorded in the total remittances ranging from 51% in case of Baseline Estimation and 67% in case of B.O.P data for year 2003).

Informal Havala, or IVTS accounts for over half of the total size of remittances. Adjusting the B.O.P data for this leakage as yielded by PSLMS 2007/08 Irfan (2011) infact suggests that total size of remittance is US\$ 24 billion in contrast to US \$11 billion officially reported for FY 2011. Alternatively informal remittances can be estimated using some sort of modeling approach as done in WB (2006). Preferable in this context appears to be an Household Survey opting for multi-stage specific design of the survey based on the population of concern, the households who receive personal transfer (see IMF 2009 for methodology and examples). Parenthetically it may be added that formal/informal judgments on remittance could be country specific depending upon the regulatory framework, institutional structures and legal system. Revolution in the communication technology added to new transmission channels further complicating the task of delineation between formal and informal transfers.

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