

Remittances Potential and its Contribution to Economic Growth of Pakistan

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Abstract

The global flow of remittances in the last year was ever highest in the history, surpassing the foreign direct investment and foreign aid. This important transfer of money has positive economic implications for the recipient countries both at micro and macro level. The trends in the flow of remittances indicate that this will continue in future as well. Pakistan is among the top ten highest recipients of remittances. This important source of income for the families of the migrants is providing them necessary lifeline. Remittances are also important source of external finance and used for bridging the trade deficit. Unfortunately, the remittances flow in Pakistan have some challenges from the informal channels as well as high dependency on semi or unskilled workforce in the GCC countries. The study of the example of Philippines have indicated that the remittances can be increased by adopting a focused and coordinated mechanism.

The prime responsibility of managing the overseas workforce should be given to one organization. The workforce demand analysis in the host countries should be done in a scientific manner and the future requirements and projections be prepared. The workforce specialized training programs should be designed in view of the demand of the host countries. The skills imparting and focused modules be made permanent features in technical education system so that the required workforce is available. There should be centralized and coordinated mechanism for recruitment and training and multiplicity of administrative structures should be done away with and be replaced by a single professional, proactive, forward looking and research focused organization. Finally, some innovative solutions for transfer of money by the migrant workers be designed so that the informal channels can be reduced and more flow be ensured in formal banking system.

Introduction:

According to an estimate there are more than 270 million migrants in the world . If migrants were a nation, their country will be the fourth largest country by population. The dominant majority is the workers who had migrated from a developing country to another developing country as opposed to what is usually portrayed as a migration from developing to developed countries. Over 90% travel for their families and communities. Migrants are sending three times more money to their countries when compared to the foreign aid (excluding loans) being provided to the developing countries . This migration is coupled with a substantial flow of remittances which plays interesting role in economic support to their

families and communities. This flow of remittances is not free and has some cost attached. The cost of remittances to the remitters is more than 6.8% which means that more than \$30 billion is spent by the migrants just to transfer the money. The UN has suggested that the “cost of remittances be reduced to 3% for the recipient countries to help them fight poverty, illiteracy, diseases and unemployment”. Reducing remittance costs to 3 percent by 2030 is a global target under Sustainable Development Goal (SDG) 10.7. According to the World Bank report, the remittances to low and middle income countries (LMICs) had reached \$529 billion in 2018 which is an all time high and is an increase of 9.6 percent over the previous year. This year the remittances are expected to reach \$ 551 billion to middle and low income countries. The Pakistani migrants are more than 8.5 million who are working or settled in other countries and they continuously send remittances to their families. The share of remittances sent by Pakistani migrants has reached \$21-22 billion in 2018 which has steadily increased over last two decades. This continuous flow of remittances is a major source for bridging the current account deficit of Pakistan. This important phenomenon needs in depth analysis, understanding of its dynamics, so that measures to further improve this flow can be identified. The comparative analysis with countries like Philippines, having much higher remittances, will be conducted with a purpose to learn from their experience for the possibility for identification of policy and administrative interventions.

Significance of the study

Given the current account deficit of \$38 billion in 2018-19, Pakistan is in dire need for foreign exchange either in the form of exports, loans, grants or remittances. All other options, except remittances, have been tried on many occasions by the successive governments without much success. The remittances are an area which is considered of low priority for the decision makers therefore is least studied among the options; hence, this research paper is an attempt to study remittances and their potential for economic growth of Pakistan. The report would also analyze whether it is possible that the remittances can resolve the current account deficit in short run and contribute to economic growth and would also explore the possibility of potential interventions by the government.

Scope of the study

The study will be confined to the phenomenon of remittance and their potential in economic growth of Pakistan. The paper will also analyze the efforts of the government and will identify the areas for further improvement. The example of Philippines will also be analyzed for comparative purposes. The possibility to learn from their experience would be examined in the paper. This study will focus on in-depth analysis of the foreign remittances in Pakistan, understand and identify the factors which can be significant determinants and explore the potential of

remittances for economic growth in Pakistan.

Statement of the Problem

As per a report by the World Bank, the global flow of remittances in 2018 to low and middle income countries had increased by 9.6 percent in comparison to the last year. Pakistan's share of remittances has reached \$21-22 billion which is major source for bridging the current account deficit. The government has entered into an agreement with IMF for \$6 billion for three years . It is pertinent to highlight that the IMF deal has lot of conditionalities attached for which the government ensures that all agreed benchmarks are achieved as per agreed time lines. On the other hand, the important source i.e. remittances are hardly the focus of policy makers. The factors having implications have not been studied so that the real potential can be further explored. In this background, this study report will conduct an in-depth analysis of the foreign remittances in Pakistan, understand and identify the factors which can be significant determinants and explore the potential of remittances for economic growth in Pakistan. The report would also analyze whether it is possible that the remittances can resolve the current account deficit in short run and contribute to economic growth or not?

Literature review

According to a World Bank report, flow of remittances on international level in last two decades had increased substantially and has surpassed the official development assistance (ODA) and foreign direct investment (FDI) in many low-and middle-income countries . The World Bank, in another report emphasizes that the remittances exert a positive effect on balance of payments, boost to the economic growth, enhancing savings and investment as well as positively effecting the consumption in the recipient countries . This view is supported by many scholars who are focused on the research on this topic . The literature on the subject indicates that there are mixed views about the impact of remittances on the development in recipient countries. Research work by Adams & Page, Acosta, et al. highlight that the impact of remittances on economic growth is at multiple levels like investment in infrastructure and human development, multiplier effect on growth, and creating more employment prospects in the recipient countries . Adams and Cuecuecha consider remittances as “strong stabilizer against the productivity fluctuations” and “prevent volatility in GDP growth of developing economies” and they also state that households receiving remittances invest on education and housing . These studies indicate that there is evidence that households receiving remittances tend to increase consumption and also invest more on education, housing, medical care and durable goods thus creates an impact on local economic development. In case of Pakistan, many scholars supported the positive effects of remittances on reducing poverty as well as solving balance of payments constraints of the country. Mughal and Diawara, Ahmed et al. Qayyum, et al. support the poverty reduction, economic

growth, increasing spending on education and housing roles of the remittances . Moreover, the author Adams, Jr. argues that the “Pakistani families who get remittances have a very high tendency to save, and the effect of remittances on growth could be amplified if remittances are channeled by the banking sector” . El Hamma Imad while evaluating impact of remittances in 14 countries of the Middle East and Africa argues that the results about growth are positive in countries with a advanced level of banking and financial systems . Andrew Ang and M. Tariq Majeed opine that the remittances have positive implications on growth . Thomas H.W. Ziesemer provides evidence suggesting that the “effect of remittances on economic growth is stronger in low-income countries” . These findings are in line with reports of IMF and the World Bank which state that international remittance have potential to contribute to economic growth of developing economies by aggregating investment, building human capital and complementing total factor productivity (TFP) through different mechanisms.

On the contrary, according to the others, foreign remittances have either no impact on economic growth or have undesirable growth effects. The main argument against remittance is that these encourage consumption and housing expenditures. A study by Chami, et al. shows a negative relationship between growth rate of remittance and the per capita GDP. El Hamma Imad also suggested that remittances significantly reduce incentive to work, “create moral hazards or lead to Dutch Disease” effects . These authors however argue that in the long run, when remittances are invested in education, land, household enterprises and other safe and productive ventures, they are more likely to improve the lives of the migrants’ families; and would translate to a positive effect on the economy as a whole. Others have pointed out that remittances may significantly reduce “recipient households’ work effort” (El Hamma ; Chami et al.), “create moral hazards” (Gubert) , accelerate inflation (Khan & Islam) , and lead to appreciation in the exchange rate with its own distortions on trading .

In addition to the above, the reports from Ministry of Finance, State Bank of Pakistan, Pakistan Remittance Initiative, Bureau of Emigration and Overseas Employment, Pakistan Bureau of Statistics, Ministry of Overseas Pakistanis and HRD, World Bank, IMF and other national and international sources and analytical material was studied and used for understanding the subject and the report writing.

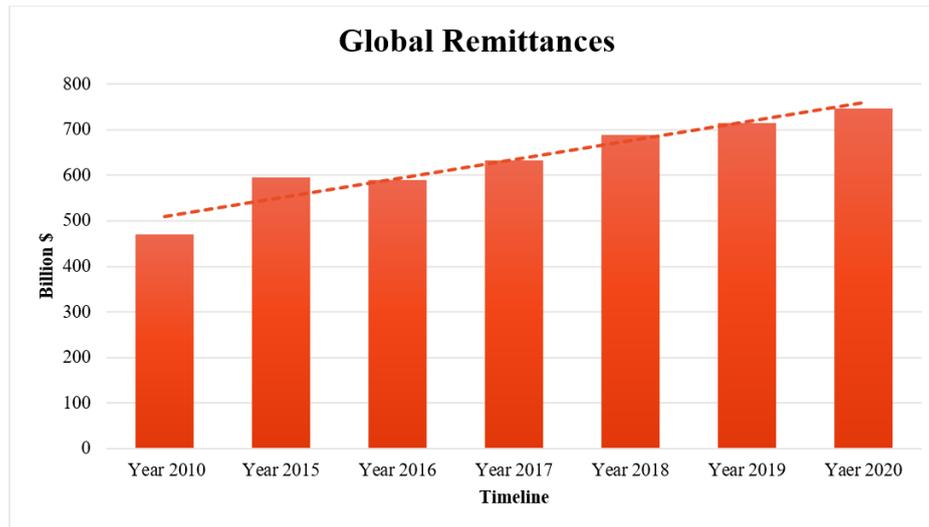
Research Methodology

The research methodology will be a mixed approach whereby the available literature from various sources would be explored and analyzed and the efforts of the government executives and agencies dealing with the subject would also be analyzed. In the research some semi-structured interviews with important functionaries of the government were conducted.

Global and National Trends Of Remittances

Global Patterns and Flow of Remittances

It has been elaborated in the previous part of the paper that there has been a phenomenal increase in the remittances sent by the migrants to their home countries. The trend has shown a steep increase over last two decades. The trend is still the same in current decade as depicted by the following graphic representation:



Source: World Bank 2019

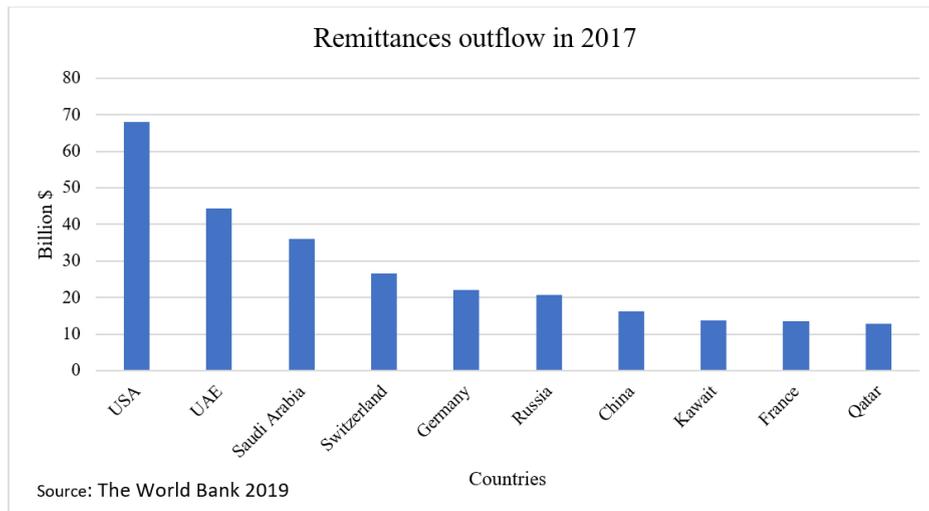
The migration has become beneficial to both the home as well as host countries by “allocating factors of production in a beneficial manner” . This also has a redistributive impact on the factors of production, specially the labor, from the poor to the comparatively rich countries therefore is economically beneficial. Globally the remittances are increasingly being seen as an innovative source of development finance due to the fact that the foreign assistance and aid is gradually declining. The global development institutions have espoused this discourse that remittances can become an instrument to bridge the gap in the financial requirements for meeting the MDGs and the expected flows of foreign assistance and aid . This discourse of financial inclusion by mainstreaming remittances through formal channels and securitization have also gained much importance in the development finance debates. In backdrop of declining foreign assistance, this debate is part of the global agenda of using remittances for development and is expected to gain more attention in policy circles for using these flows as financial instruments for economic development and poverty alleviation . The existing trend indicates that major outflows are from the USA, Gulf Countries and EU. The major recipient countries are China, India, Mexico, Philippines, Egypt, Nigeria, Pakistan, Bangladesh and other such countries of South East Asia, Africa and Eastern Europe. The

remittances have become 10% or more of the GDP of 25 middle and low income countries . The growing number of migrants from middle and low income countries to the USA, EU and Gulf Countries is the major reason for this growth in remittances. In some countries, the remittances have become a significant contributor in their GDP. For the year 2017, this contribution in Kyrgyzstan is 35% of GDP, in Tajikistan it is 31% and in Nepal it is 29% .There is another interesting pattern which shows that the share of migrants in the world population has also increased from 2.8 percent in 2000 to 3.5 percent in 2018 . This trend is likely to continue due to demographic changes, the uneven spread of employment opportunities and the ever increasing economic disparity. During the period 2013–17, the average income in the OECD countries was \$43,083, compared with \$795 in the low-income countries and to catch up, 135 years are required, provided the growth in low income countries is higher than the OECD countries .

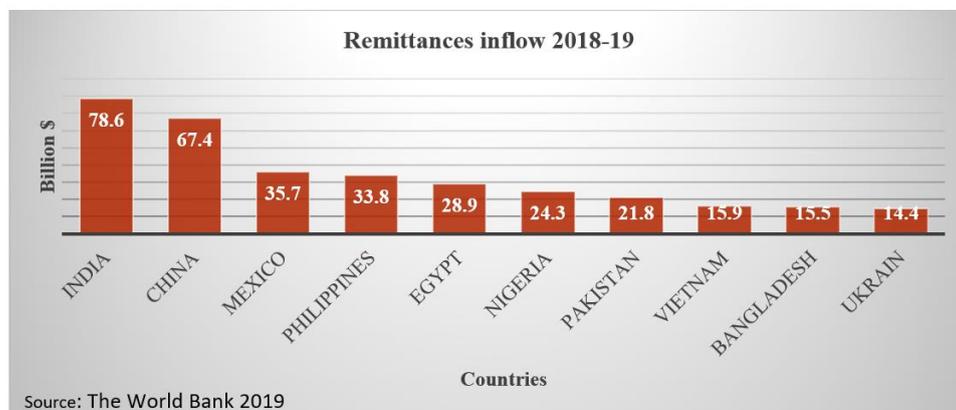
Major Contributing Countries & Composition

As discussed above, the major contribution in outflow of remittances is from USA, GCC countries and EU due to a large number of migrants working in those countries for employment. The top priority destination countries for the migrants are the United States, Saudi Arabia, UAE, Russia, the UK, Western EU countries and Australia and the top migrant corridor is the Mexico–US with a flow of 13 million migrants in 2013 . This migrant workforce is contributing in the GDP of the host countries and their families back home are benefitting from the remittances for household consumption and development. The flow of remittances from these countries have substantially increased in the last two decades specially after 2001 (9/11 attacks on twin towers, USA) due to many push factors in those countries. The prime drivers for “migrants are income and employment gaps between origin and destination countries; economic and social inequality; demographic imbalances; and social exclusion” . The demographic changes in the destination countries, increasing old aged population and the resultant labor market imbalances are further expected to change the dynamics of migrations. The increasing labor force in LMICs is going to be a challenge for provision of employment. The World Bank states that “global welfare gains from an increase in cross-border labor mobility could be several times larger than full trade liberalization” . It is also important to underscore that the change in conditions for the workers like increased scrutiny and anti-money laundering drives in the western countries had also played a significant role in increasing the flow of the remittances. The informal channels of transfers of money has become more difficult due to increased monitoring in the wake of terror financing and money laundering apprehensions. Recently, the renewed emphasis on the transparency of money transfer mechanisms, in the wake of Financial Action Task Force (FATF) and other financial control regimes, is likely to further decrease the scope of informal channels being used for transfer of money.

This emerging scenario is important for the policy makers while designing new mechanisms and incentives for money transfers through formal channels. The following chart gives the country wise position of outflow of remittances:



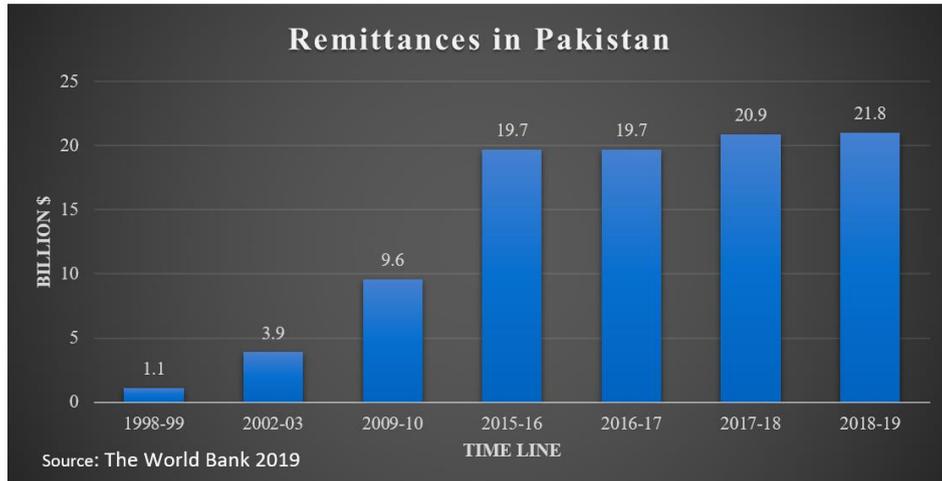
The major beneficiaries of the remittances are middle and low income countries of South East Asia, Africa, South and Central America, Eastern Europe and Central Asian Countries. The largest volume of remittances is going to emerging economies of India and China but other countries like Mexico, Philippines, Egypt, Nigeria, Pakistan and Bangladesh are also significant recipients of the remittances. The trend in the flow to the recipient countries is increasing with the time.



The above graph represents the remittance recipient countries which are middle and low income countries and their dependence on this factor for economic growth is significant (except China). Remittances play an important role in the economy of the recipient countries both at the level of the families of the migrants as well as the governments.

Pakistan's Remittances Profile

Pakistan has 8.8 million migrants working in other countries out of which 4.7 million are working in the Middle East countries . These migrants send their earning back home for their families. Pakistan had remittances of \$ 2.9 billion in 1983 and in the year 2000-01 these declined to \$ 1.1 Billion. In the years after 2001 the remittances had shown growth and has reached \$ 21.8 Billion in 2018-19 . The overall growth trajectory speaks of a consistent increase and is given in the following chart:



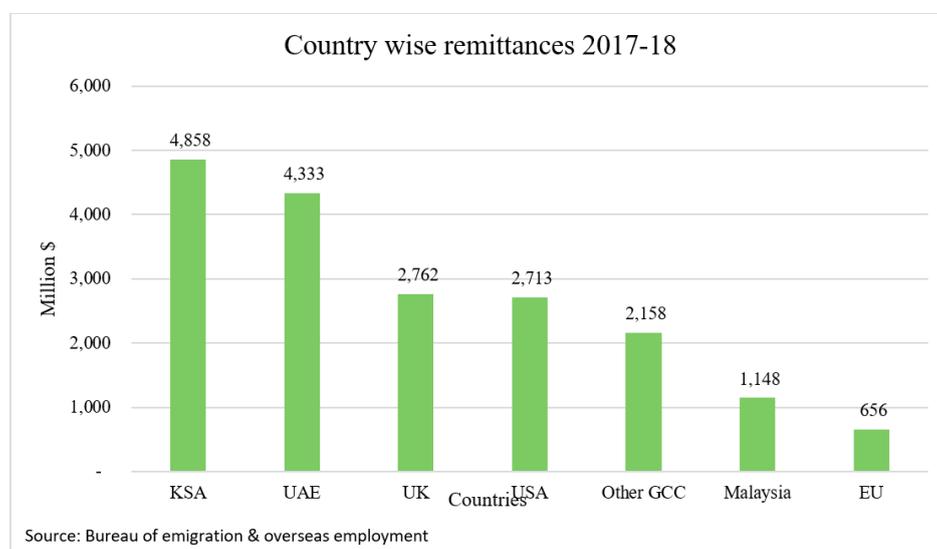
This chart also indicates that there is growth in the remittances but the pace of the growth has slowed down over last four years. In 2015-16 the total remittances were \$ 19.7 billion which have now reached to \$ 21.8 billion in 2018-19. While comparing the remittances of Pakistan with Philippines in the same period, it is significant to note that in last four years the growth in Philippines has been phenomenal which increased from \$ 23.6 billion (2015-16) to \$ 33.8 billion (2018-19). This difference is important and needs to be examined more closely with respect to the contributing factors leading to such a development. In case of Pakistan, the remittances are mostly contributed from the migrants in middle eastern countries. More than 50% remittances are coming from Saudi Arabia and UAE. The Pakistani migrant workforce analysis indicates a trend according to which the majority is in the GCC countries. Even among the GCC, the Saudi Arabia and United Arab Emirates (UAE) have more than 90% workforce of Pakistanis present in the region. This clearly shows that the fluctuations in the employment opportunities in these two countries have huge implications for the Pakistanis working there. The heavy reliance on these two countries is a risk factor also which needs to be kept in mind by the policy makers dealing with the overseas employment affairs. Recent data of years 2015 and onwards shows that there had been fluctuations and reduction in remittances to Pakistan due to the economic conditions of these countries, consequent to oil prices decline.

The data of emigrants for last seven years (2013-2019) is given in the table:

	Saudi Arabia	UAE	Oman	Qatar	Bahrain	Kuwait	Other Countries	Total
	270,502	273,234	47,794	8,119	9,600	229	13,236	622,714
	312,489	350,522	39,793	10,042	9,226	132	30,262	752,466
	522,750	326,986	47,788	12,741	9,029	164	27,113	946,571
	462,598	295,647	45,085	9,706	8,226	770	17,321	839,353
	143,363	275,436	42,362	11,592	7,919	773	14,841	496,286
	100,910	208,635	27,202	20,993	5,745	493	18,461	382,439
	217,154	155,839	21,250	13,734	5,887	103	16,562	430,529
Total	2,029,766	1,886,299	271,274	86,927	55,632	2,664	137,796	4,470,358

Source: Bureau of emigration and overseas employment.

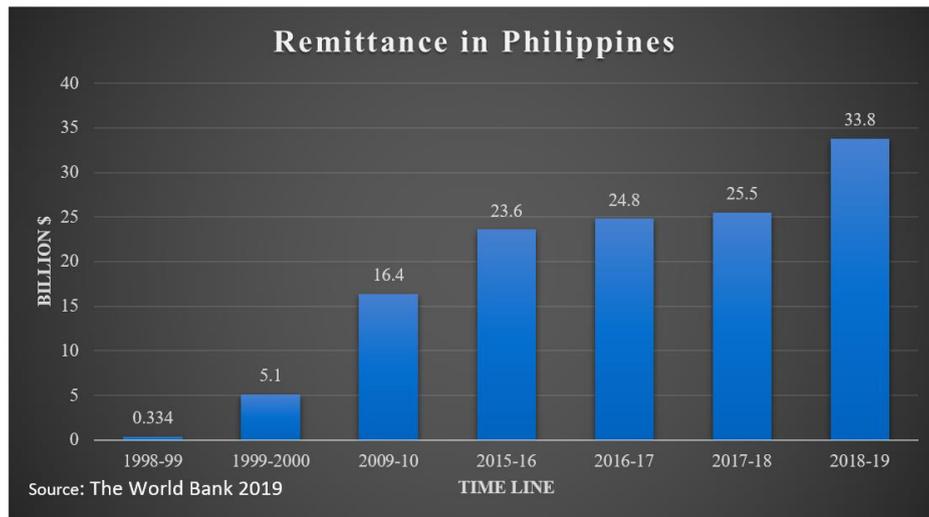
This table is a clear indication that a dominant majority of emigrant workers from Pakistan has been going to the GCC countries and most of these workers are unskilled or semi-skilled. The majority are unskilled laborers and the skilled/semi-skilled are also of the nature like machine drivers, technicians, electricians, masons etc. These categories of workers are mostly engaged in the construction works in the host countries. The graphic representation of country wise remittances flow to Pakistan is as under:



The labor market in the GCC countries and the USA or UK are entirely different. As stated above, the composition of Pakistani workforce is primarily male unskilled or semi-skilled. Now we discuss the workforce structure of Philippines and try to find out its composition and peculiarities.

Philippines – A Comparative Analysis

Currently there are more than 10.2 million migrants of Philippines working overseas. In this backdrop, if we look at the remittances growth patterns in Philippines these depict an interesting phenomenon. In the year 1998-99 the remittances were less than \$ 0.5 billion which have now reached to almost \$34 billion in the last year. The recent years have shown marked increase when compared to the figures viz-a-viz Pakistan. The growth spurts have been witnessed in flow of remittances from the years 2009-10 onwards. The following chart gives a view of the growth trends:



A cursory look at the chart amply demonstrates that there is a tremendous upward trend in the recent years. In order to understand this phenomenon, the reasons behind this recent growth need to be studied. For this purpose, the analysis of the workforce of migrants from Philippines is done which indicates that the country has a population of 108 million and is the 13th largest in terms of population. The composition of overseas population is mostly in USA (4.03 m), KSA (0.9 m), Canada (0.85 m), UAE (0.67 m), Malaysia (0.325 m), Kuwait (0.27 m) and Japan (0.26 m). The data suggests that one fifth of households in Philippines receive remittances. Another significant aspect is that the workforce is gender balanced, predominantly educated and skilled. The need identification for the required skill sets in host countries is done in a systematic manner. The decades of 70s and 80s saw a growth in demand of unskilled labor force from the Middle Eastern countries due to construction work in those countries while in 90s and 2000s the demand of more skilled workforce of Philippines had grown from ASEAN countries, China, Hong Kong, KSA & UAE, Far Eastern countries, USA and Europe. The categories of workers in high demand in 2000s were nursing and professional staff, hotel services, caregivers, household and domestic workers etc. Interestingly, the female

workforce is in significant number and its total composition is nearly half of the total workforce which is a feature different from other countries exporting manpower.

The lead government department to supervise labor recruitment and its overseas deployment is the Philippines Overseas Employment Administration (POEA), established in 1982, with a vision to provide excellence in governance for world class Filipino workforce . This agency provides a host of services like employment facilitation, workers protection, industry regulations, market demand analysis, recruitment and deployment of trained workforce, imparting specialized trainings as per requirements of the host destinations. There is a comprehensive program for the employment of Overseas Filipino Workers (OFW) after conducting the market requirements study and skills development of the human resource.

These workers are exempt from tax and the airport charges are also waived from them. In the employment facilitation, this agency's thrust is to intensify marketing intelligence work, strengthen linkages with education and training sector and enhance policy of skills development . The core functions of POEA has been registration of foreign principals and employers; evaluation and assessment of the processes of hiring and employment contracts; provision of required assistance to the departing workers; development and monitoring of market demand and study their growth patterns. This agency is also mandated to enter into memorandum of understanding on the recruitment of workers with borrowing countries, facilitates the deployment of workers, devises a system for registration of workers and maintenance of their profiles, conducts preemployment orientation classes to workers hired through the government-to-government arrangement. It also provides technical assistance in the drafting of bilateral and multilateral agreements, conducts global mapping and profiling of migrant's market and implements gender-sensitive programs . This shows that the government is involved in the whole process, starting from the research of market needs, analysis of demand, training and orientation of the workforce commensurate with the requirements to the complete follow up of the workforce in the host countries. This extensive engagement of the government from start of the process to the final placement and workplace assistance and support is a unique feature of Philippines. Over the years this diversification of overseas workforce has increased the dividends in terms of remittances as skilled manpower gets better paid. Along with diversification of workforce, its skills development and capacity enhancement are major contributors providing the unique leverage to the Filipino workforce. Another striking factor is that nearly 40% of the workforce of Philippines are working in USA which is a different market from the Gulf region. The market demand of workforce in the US is of skilled labor as against the semi-skilled workers in the Gulf region. The US market is also better in terms of wages when we compare it with the Gulf countries.

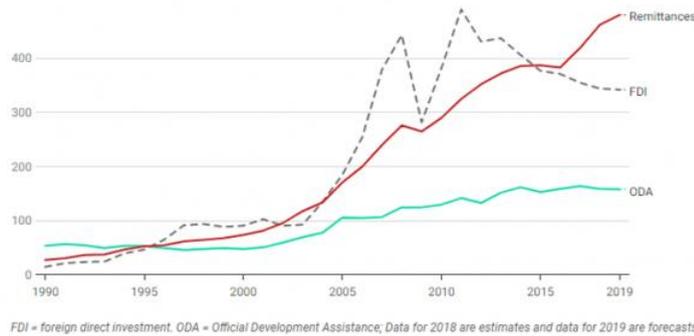
When we analyze the Pakistani workforce, it transpires that 53% of Pakistan's overseas workers are employed in the Gulf region. The composition of workforce reveals that it is mostly unskilled or semi-skilled labor.

Impact of Remittances on Economic Growth And Challenges

Remittances and Economic Growth

The phenomena of migrations have economic implications on the destination countries as well as the countries of origin of the migrants. The labor force working in the host or destination countries has an optimal redistributive effect of the migration whereby they contribute to the local GDP growth and economic contribution. This workforce sends money to their families in the countries of their origin where this becomes the household's income as well as the foreign exchange reserves of those countries. As elaborated in the preceding parts of the paper, the volume of remittances to low and middle income countries (excluding China) have now exceeded the ODA and FDI. For most of these countries, the remittances have become a largest single source of foreign exchange earnings and balance of payments support. This huge bonanza of remittances has twin benefits. Firstly, at the governmental level, in the shape of balance of payments support which is instrumental in most of the low and middle income countries. Their trade deficits are met by this flow of foreign currencies. The currency support provided by this flow of remittances against the exchange rate fluctuations is also instrumental as most of the local currencies of these countries are perpetually under pressure. Some of these countries, having huge component of foreign debts, often find it hard to meet their debt servicing obligations in foreign currencies therefore this vital source of foreign exchange is used by them to retire their obligations as well as to bridge their trade deficits. Besides, the multiplier effect of the remittances in terms of both demand as well as output are also significant. The following graphic representation is an indication of the growing volume of remittances and it is interesting to note that its growth is showing a steep increase, especially after 2004-05 onwards:

Remittance flows to Low- and Middle-Income countries (excluding China) are now larger than FDI and Development Assistance



In case this trend line continues, then it is obvious indication that over next few years remittances will far exceed the other sources of funding for the low and middle income countries. In many countries this has already become the single largest contributor of foreign currency, even surpassing their exports. This recent pattern of growth of remittances has demonstrated that this is a resilient source of economic growth and have displayed independence from growth fluctuations in the countries therefore it actually acts as a stabilizer against the economic shocks .

Secondly, at the individual level, these remittances are the disposable incomes of the households which provide necessary life line to millions of people who are in dire need to fund their basic necessities of life. Their households utilize these remittances for human and physical resources and infrastructure. Their daily food items consumption, education, health and other necessary expenditures are met out of these remittances, especially in poor rural families. Along with the household consumptions, the remittances are also an important source of investments as well as savings. It is also significant that the migrants have a home country bias because of which they prefer to send money to their families for consumption as well as investment . Their preferred destinations of investment in physical infrastructure and assets are their home countries. As explained in the literature review part of the paper, there are minority views which contradict this argument of positive impact of remittances on economic development. The oft repeated argument is of the moral hazard behaviors in the families of the migrants in the home countries. But it is important to find out that even these authors who are critical of the positive impacts of remittances, do support the view that there is a positive correlation between remittances, poverty alleviation and economic growth in the long run . They also agree that in the countries with developed banking systems the impacts of remittances are positive on economic growth . Furthermore, it is also important to mention that in Africa the remittances are worth around 24% of the financial flows . These are more stable and resilient source of financial flows and are immune from

domestic economic downturns thereby providing leverage to the recipient countries. Another way of analyzing the role of remittances is to look at them in comparison to the imports of the countries. In Gambia remittances are 40% of the imports while in Pakistan this is more than 30% of the imports and in Nigeria it is 26% therefore it can be very easily understood that they are an important source of external development finance.

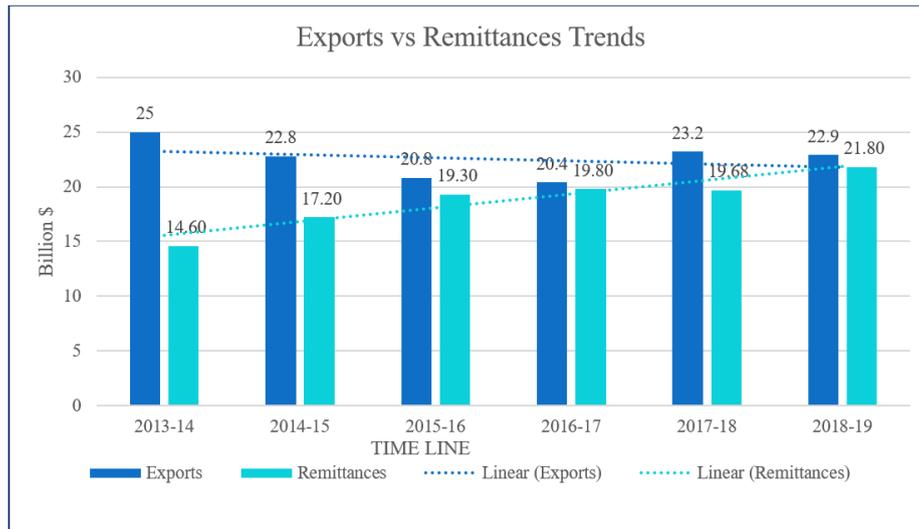
In nutshell, the key advantages of the remittances at the micro level are increase in disposable income for the families; increased spending on education and health; investments in land, seed, livestock, housing, equipment; safeguards against poverty and enhancing productivity. At the macro level, the balance of payments support, debt servicing, building foreign currency reserves, exchange rate stability, multiplier effect and GDP growth and economic development are the major advantages.

Role of Remittances in Economic Growth in Pakistan

Pakistan is one of the major recipients of the foreign remittances since 1970s. A report on Pakistan shows that remittances have a positive effect on education of children, healthcare and girls education . This argument can be understood in the social context of rural areas of Pakistan where the boys are preferred over the girls for education. The competing tendencies and tradeoffs between sending the girls to schools and making them work at homes are more pronounced in the poor families. The support provided by the remittances to the households for consumptions and education expenditures provide an opportunity for the education of girls from the rural and poverty struck population. Another interesting study was conducted for evaluating the impacts of remittances on the economic growth, especially the sources of growth like human capital, physical capital and total factor productivity (TFP) . In this research study, time series data from 1973 to 2013 was used for deducing the results. After conducting multiple analysis and regressions, the study claimed that there is a positive correlation between GDP growth and increase in remittances. The results of this study are indicative that the impact of remittances on GDP of Pakistan are positive and significant . It also states that one percent increase in foreign remittances will increase the GDP growth by 0.25 percent. In this study the authors stated that the foreign direct investment has positive but insignificant relation with GDP of Pakistan while the remittances have positive impact on economic development. Interestingly, these findings of this research report are consistent with the results of multiple studies conducted by the World Bank and IMF which conclude that the remittances have positive impact on growth by increasing aggregate demand, building the human and physical capital and complementing total factors of productivity .

Another significant feature emerged while analyzing the area wise composition of

the migrants which reveals that most of them are from the rural and less developed areas of the country and the majority of the families fall in the low and middle income groups of the countries . These migrants support their families by sending remittances which become their disposable income. The household consumptions, spending on the education and health of their families are major expenditure preferences. The increased demand creation by the remittances in these rural and less developed areas has its own economic multiplier effect leading to economic growth. In addition to these micro effects on families and local economies, the remittances also have impacts on the macro level like trade balance, monetary and economic indicators at the country level. There had been multiple studies conducted to find out the correlation between remittances and poverty reduction in Pakistan. The main findings of these studies are that remittances have positive impact on the economic growth through increase in aggregate demand and consumption, increasing investment, reduction in trade and current account deficit, reduction in external debt burden and reliance on foreign debts/assistance and increased spending by the households for improvement in education and health care facilities . In one report, it was clearly found out that the incidence of poverty in the districts having larger proportions of overseas migrants is less compared to those districts having less number of migrants and this was conducted in Punjab and Baluchistan . The trade deficit and balance of payments constraints are the crucial elements of overall economic landscape of the country which are met by the foreign remittances. Last year's trade deficit of \$ 37-38 billion had been partly financed and bridged by the \$22 billion remittances and it was impossible without this source of foreign reserves. On the monetary side, it is quite obvious that the Pak rupee which devalued up to 40% last year could have been subject to further devaluation and exchange rate pressures without the support and stability provided by the foreign remittances. The servicing of foreign debt liabilities during the last year was also impossible without this crucial factor of remittance. The remittances also reduced the reliance on external debts and assistance. According to senior officer of Finance Division, government of Pakistan, the factors; balance of payments support, debt servicing and exchange rate support; alone are indicative of the critical role played by the foreign remittances in bringing some stability in these markets averting any major economic catastrophe and default like conditions . Furthermore, it is also noticed from the data of the exports over last few years that it has almost stagnated. While the remittances are showing an increase over last two decades. The following chart displays the comparative growth trends between the two:



Source: State Bank of Pakistan and TDAP.

The above chart clearly shows a pattern of the growth trends of remittances and the exports. The exports are almost stagnant, and in some years declining over the period. On the contrary, the remittances are displaying a persistent growth over the period and interestingly, both are almost at the same level in the last year i.e. 2018-19. In the year 2013-14 the difference between exports and remittances was almost \$ 10.5 billion which has now been reduced to just \$ 01 billion in the year 2018-19. This trend is an important indicator that the remittances have become the single most important factor of foreign exchange reserves in the country. Hence it becomes imperative for the policy makers to cater to this significant contributor of foreign exchange when devising policies for incentivizing or facilitating the remittances and the migrant workforce.

The Global and National Challenges

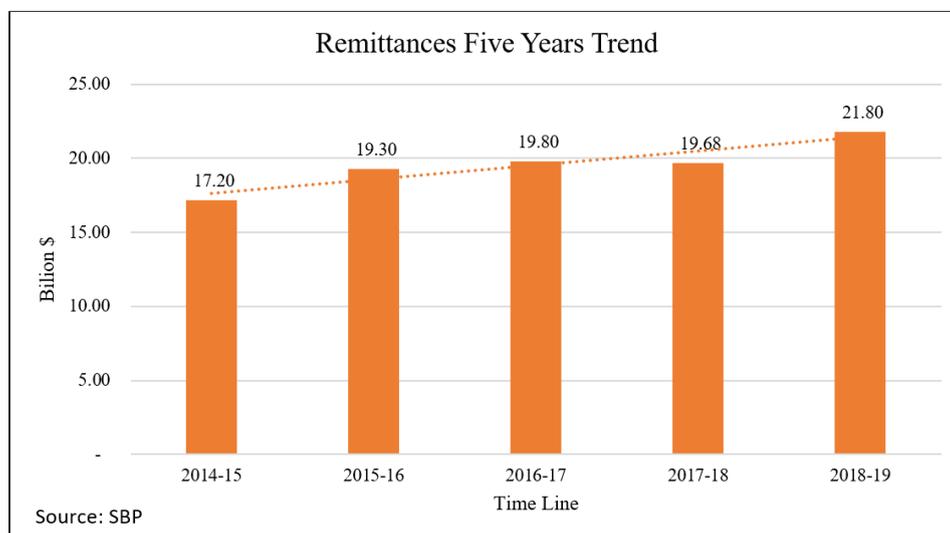
It was elaborated in the preceding parts of the paper that in the post 9/11 financial regulatory regimes in the USA and the other Western countries, the transfer of money through informal channels became difficult which resulted in the sharp increase in the remittances. The terror financing and money laundering are increasingly challenging the global financial controls on the transfer of money. The recent developments for the introduction of strict financial controls and know your customer (KYC) requirements for the financial institutions is likely to further enhance the controls over informal flow of money. The financial institutions are required to enforce strict controls over the transfer of money and the details and profile of the senders are also required to be monitored. These recent developments are likely to have two pronged implications. Firstly, the informal flow of remittances would become more difficult and the migrants will be forced to adopt the formal channels. This is a positive side of the story which will boost the strength

of financial sector and would also benefit the recipient countries as more and more remittances are likely to route through the financial institutions. Secondly, this development may have some negative repercussions as the cost of transfer of funds and remittances will increase for the migrant workers as the regular financial sector has high cost for the services provided for the remittances. This situation is also admitted by the World Bank's report discussing the prices for world-wide transfer of money i.e. the remittance prices data. This report elucidates that the cost of sending money to middle and low income countries is still around 7 % in 2018. The benchmark of 3% set out in the Sustainable Development Goals by 2030 still looks a far stretched target. The report of the Bank also highlighted that the cost in South Asia was 5.2 % which was the lowest when compared to the other regions of the world receiving the remittances but still it is much higher than the 3% target . The recent developments of the Financial Action Task Force (FATF) are also imposing stringent conditions for transfer of remittances. In this backdrop, it would be appropriate for the policy makers to keep in mind these trends and global financial regimes while devising the mechanisms and incentives for the migrant workers for sending the remittances.

Appraisal of the Current Remittances Regime in Pakistan

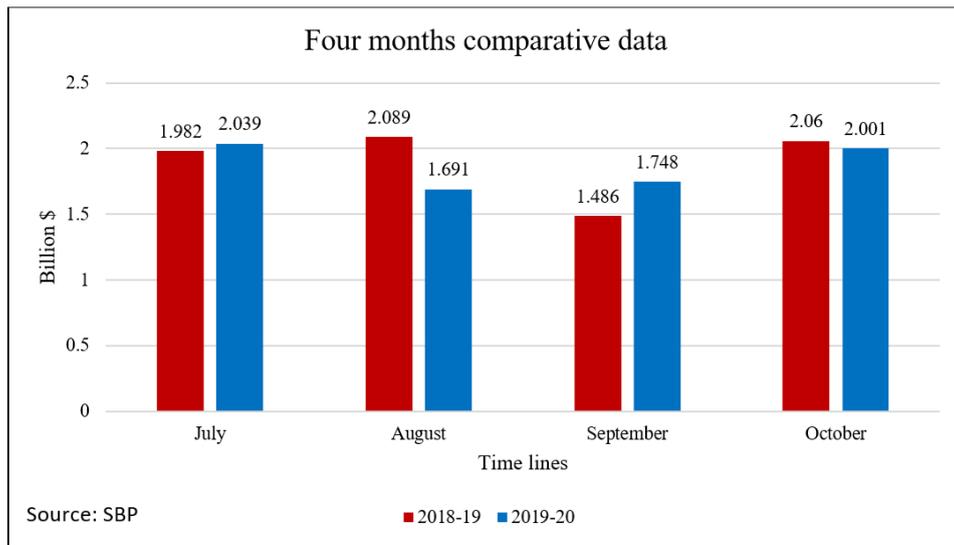
Evaluation of Current Scenario

The current position and trajectory of remittances from the data of last few years and the trends in the current year are given in the following chart:



The growth in remittances in last five years has been steady but the increase is not very steep as evident from the above chart . Although this chart presents a decent growth over the years but when this data is examined with comparison to the growth

of remittances in Philippines as shown in the preceding part of the paper it tells a different story. The steep rise in the recent years in case of Philippines is due to the skilled workforce of migrants, the systematic and research based and demand driven supply of the workforce by the government of Philippines. These factors need to be analyzed in case of Pakistan as most of the overseas workforce of the country is either unskilled or semi-skilled. Another aspect which warrants mention is that in the current year i.e. 2019-20 the first four months growth in remittances have been in negative when compared to the same period of last year. The following chart is a graphic depiction of the data of the first quarter of the current year in comparison to the last year:



The remittances in the recent months have shown declining trend against the comparative period of the last year as shown in the above chart . Overseas Pakistani workers have remitted \$ 7. 5 billion in the first four months of the current financial year compared to \$ 7. 6 billion received during the same period in the last year. In the first four months of the current year Pakistan received 1.3% less foreign remittances from overseas Pakistanis . The drop should be a cause for concern for economic managers as the target of remittances fixed this year is \$ 23.5 billion which would be hard to achieve if the current trend is not reversed. The reasons given for this decline are cited as the seasonal fluctuations due to Eid ul Aza . Some analysis suggests that the devaluation of local currency has its impact on decreasing trend as now less dollars are required by the families of the migrants for meeting their needs. Some reports suggest that the slowing of economy and layoffs of doctors and medical staff in KSA and GCC are some of the reasons for this slowdown. But it is important to highlight that the declining trend for the four months is alarming and it calls for urgent need to conduct research and explore the reasons for this decline and the remedial measures be undertaken.

Governmental Support Measures and Structure

In order to provide facilitation to the migrants the Ministry of Overseas and HR, government of Pakistan is working at the federal level. The Bureau of Emigration and Overseas Employment is the lead organization which conducts study of the labor markets demands and processes the recruitment of workforce through its regional offices and directorates in different cities. The bureau is working under the Emigration Ordinance 1979 and Emigration Rules 1979 . The main functions of the bureau are to promote emigration of Pakistani citizens; to look after the interest and welfare of the emigrants; to advise the federal government on emigration policies and procedures; monitoring and supervision of Overseas Employment Promoters through Protectorates of Emigrants Offices; processing of Overseas Employment Promoters (OEP) Licenses and pre-departure briefing to emigrants . It also enters into MOUs with the foreign countries for manpower export. It claims that since inception in 1971 more than 10 million emigrants have been provided overseas employment duly registered with the Bureau with a maximum of 946,571 in the year 2015 proceeding abroad and during the year 2019 (till October), 501,683 Pakistanis proceeded abroad for the purpose of employment . This bureau works under the Ministry of Overseas Pakistanis and Human Resource Development, which is the key division for handling the affairs of the emigrants at the federal level . These organizations are working for the facilitation of the workers but on the side of facilitation and improvement in remittances the Ministry of Finance, State Bank of Pakistan and the Ministry of Overseas Pakistanis had embarked upon a joint initiative named Pakistan Remittance Initiative (PRI) Government of Pakistan, in 2009, housed in State Bank of Pakistan Karachi . The prime objectives of the initiative are:

- a. Facilitating efficient and cheaper flow of remittance.
- b. Providing investment opportunities in Pakistan for the overseas Pakistanis.

The challenge for this initiative is to beat informal operators by achieving similar level of efficiency and by providing a more secure and credible payment mechanism . As evident from the objectives, this initiative is primarily focused on the remittances and the ways to improve the flow of money transfers in a competitive and easy way. The analysis of the initiative indicates that the processes of sending the money have been simplified to some extent. There are 25 partner banks with SBP for the initiative. The transactions are to be processed by the partner banks and 177 tie-ups of the PRI . Most of the tie ups are operating at the cost-free basis but their coverage and reach is not extensive. The services provided under the PRI are RTGS (Real Time Gross Settlement), IBFT (Inter Bank Fund Transfer) and COC (cash over counter) and the important products are Special NRP accounts (2011), Pardes Card (2011) and Internet Based Remittances . Out of these the COC

is a more popular mode of transferring the money and it can compete the informal channels in efficiency of timely transfers. PRI is of the view that this mode is creating more impact in remittances.

Analysis of Existing Mechanism and Improvement Potential

The analysis of the administrative structure and mechanism of migrants support and facilitation of remittances indicates that the institutional mechanism for the intensive market research and demand analysis in the destination countries is not done in the same way as it is done by POEA in Philippines. The POEA has a very comprehensive mechanism for placement of their workforce in the foreign countries. They start from a rigorous market research and the demand gaps are identified. Based on these demand patterns, the workforce is registered and is selected through a centralized system in a transparent manner. The negotiations, MOUs and agreements with the organizations and departments in the destination countries is also done by the POEA. The pre-departure specialized trainings and skill orientations are done on regular basis as per requirements of the employers. The agency is also engaged in the analysis of the working conditions of the workforce even after their placement in the overseas markets. The most of the demand of the work force is skilled and the trainings and recruitments are made accordingly by the POEA. Skilled workforce is better paid as compared to the unskilled workers. The working conditions of skilled workforce are also better than the unskilled labor who are subjected to difficult working conditions. Moreover, their working conditions are continuously monitored by the agency. This helps them design the interventions for the existing as well as the fresh cases for learning purpose also. It is also significant to mention that the agency is also monitoring the families of the overseas Filipino workers. In short, the whole design of POEA is very robust and effective as it covers all aspects of the overseas workers employments and the market conditions. On the contrary, the mechanism of support and facilitation to the migrant workers in case of Pakistan is a typical bureaucratic structure where decisions are hardly evidence based and the old practices of operating through protectorates and overseas promoters is adopted. In this system the major work is done by the promoters and the government organizations are only supervising and monitoring the work. The actual research of the market behaviors in the destination countries is hardly done either by the government or the promoters. Most of the work force is engaged by the promoters on their personal contacts and the MOUs and agreements are also done by them. The majority of the workforce is unskilled or semi-skilled which is not get well paid in the destination countries. This state of affairs calls for a comprehensive overhaul of the whole mechanism if some meaningful improvements are to be made by Pakistan.

Conclusion

In view of the foregoing, it is obvious that the remittances sent by the migrants is on the increase and the trend is likely to continue in the future due to the fact that the number of migrants is also increasing. The remittances, as source of external financing, have surpassed the foreign direct investment and the official direct assistance for the low and middle-income countries. There are many positive implications of remittances on the host as well as the recipient countries. Pakistan is also a major recipient of the foreign remittances and it is benefitting both at national and individual levels. Much needed foreign exchange for bridging the trade deficit and retirement of debt obligations can hardly be overemphasized. The trend in Pakistan indicates that the remittances have reached the level of exports and is expected to surpass in future. In 2013-14 exports were \$ 10.5 billion more than the remittances but in the last year i.e. 2018-19 both were almost at the same level. At the individual level, remittances are the real life line for millions of people in Pakistan and for them the consumption and basic needs are met from this income. Additionally, remittances also drive the local economies by enhancing consumption and encouraging economic growth. The case of Philippines reflect a different story altogether where the quantum of remittances has shown a much steep increase in comparison to Pakistan. Now this flow of remittances has reached almost \$ 34 billion in Philippines against \$ 21.8 billion in Pakistan. It has been a consistent increase but the pattern shows a slower increase over last few years in Pakistan. In order to understand the reasons for such a steep increasing trend this report has analyzed the institutional mechanism and the processes of recruitment of workers in Philippines. The POEA is the lead government agency to study the demand of human resource in the global markets and makes recruitment of the workforce accordingly. It takes lead in this whole system of overseas workforce without overlapping roles and responsibilities by any other department or agency. Their market analysis and research are very robust and the workforce is trained by imparting requisite skills in a very systematic method. The skilled workforce is then recruited for overseas employment. Over the last two decades, their overseas workforce has shifted from unskilled or semi-skilled to skilled and professional workforce. Another very striking difference is that the gender balance is very impressive and overseas female workforce is more than 50%. In case of Pakistan, there are multiple departments and agencies which are dealing with the overseas workforce recruitment. Resultantly, the overlapping roles of multiple agencies create more confusion and lack of ownership and the informal channels for sending people abroad are still substantial as against the pattern in Philippines where it is only done by POEA. In case of Pakistan mostly the informal channels are used by the overseas migrants who try to pull their relatives in case some employment opportunities emerge in the host countries. It is also important to note that the majority of Pakistani workers are in the Middle East and are mostly unskilled and semi-skilled as against the skilled and professional workforce of Philippines.

Another important aspect is the role of informal sector in the transfer of money by the migrants. The informal sector provides very cheap and quick transfer of money therefore its role is still significant despite some recent attempt by the government. The Pakistan Remittances Initiative has made the transfers easy and quick to a large extent but a large number of people still use informal channels as they are still working at very low cost for transfers. PRI does not have very wide coverage in host countries and it has limited access in rural areas of Pakistan.

Recommendations and Suggestions

In the back drop of the above analysis and conclusion, the report will now suggest the measures to improve the flow of remittances in Pakistan. The measures suggested in the report are short term as well as long term.

Short Term Measures

In the short term it is suggested that one organization or agency be given the lead role of handling overseas workers. The Bureau of Emigration and Employment is already working at the Federal level and it should be further strengthened and made the lead body. The Bureau should devise strategy of in-depth market analysis of the demand in the host countries. The market demand in the host countries should only be met by the formal selection and through the recruitment by the Bureau. The Bureau should also design short courses and trainings on permanent basis keeping in view the overseas demand. The language courses for the host countries may also be undertaken for the migrating workforce. The focus should be on skilled workforce and professional services caregivers, nursing services, medical, information technology, hoteling and hospitality services, technical education and skills and engineering services.

The second aspect which needs immediate attention is to initiate some strict action against the informal channels through which remittances are sent. The legal channels of money transfers cannot be preferred by the workforce unless they have some incentives attached. Apart from reducing the cost and minimizing the time for transfers, some special incentives be designed for the overseas workers who send money through formal channels like VIP lounge facility, preferences in medical and education facilities of the government etc. These measures have either no cost attached or very nominal cost but the benefits could be phenomenal if properly designed and implemented. In facilitation of remittances, the Pakistani missions and Counsellor offices can be utilized. The telecommunication companies and the banking operators should design simple applications for transfer of money as it is done locally like Easypaisa, Jazz-cash, PapPal etc. Similar innovative solutions and facilities can be provided to the overseas workers by engaging SBP and other financial institutions.

Long Term Measures

The majority of Pakistani emigrants are working as unskilled or semi-skilled laborers. The case of Philippines clearly demonstrates that the diversified, skilled and professionally trained workforce can fetch more remittances. Hence there is a need to impart specially designed training programs to the workers after demand analysis in the host countries. This should be made a regular feature by engaging technical education centers and other specialized institutes in both public and private sectors. The demand patterns and future projections can also be made and based on this the trainings be designed and planned.

The second aspect which needs focus should be the investment opportunities for the migrants in Pakistan. The long-term planning requires that the Bureau should shift focus to this important aspect. The creation of attractive investments opportunities will be the more significant factor for economic growth but it needs a well thought out and crafted strategy and action plans.

The third aspect which warrants consideration is the heavy reliance of Pakistan's workforce employed in GCC region. This region has its own issues and limitations; therefore, it is imperative to actively engage with western and far eastern countries. The demographic dividend may be used for filling the gaps in demand and supply of service providers in the countries facing shortage of young population. This requires their demand patterns and the training of workforce accordingly. The multiple language trainings and work ethics should be specially focused for these countries after analyzing their requirements.

The fourth intervention can be the provision of special awards for the education of the children of migrants using formal banking channels and providing them best education and health facilities. Creating gender balance is also important but in case of Pakistan it requires more work for training of health care professionals, caregivers, hospitality services etc. and recruiting them in such fields.

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