SAARCFINANCE Collaborative study on Reducing the Cost of Cross-border Remittances among SAARC Countries

SAARC

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The Research Team

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Abstract

This paper examines the intra-regional remittances, and its costs, scenario of SAARC Member countries and proposes several policy recommendations for lowering the remittance costs. Severe scarcity of reliable remittance cost related data is apparent in most of the countries which has been a major obstacle for the analysis. The study found that in several SAARC countries there is significant gap between the official remittance data and actual remittance flows due to the plausible presence of informal channels. Flow of remittances between SAARC countries is negligible, which is a major cause of relatively higher cost in some corridors. However, cost of remittance is reasonable from/to India, the major corridor within the region. The existing regulation (e.g. Maldives' tax on formal remittances and a higher cash carrying limit for international passengers) and rigid foreign exchange regime can also contribute to higher costs of remittances. The study asserts that in addition to encouraging technological innovation, promoting market competition and customer awareness; bilateral arrangements, opening bank branches/exchange houses and widening agent network in viable locations, adopting free send model and enacting expatriate friendly policies have effective scope of reducing remittance costs at regional and bilateral level.

Note: The views, thoughts, and opinions expressed in the report belong solely to the lead researchers, and not necessarily to the researchers' employer or organization. Any comments are welcome at sadrul.hasan@bb.org.bd;nimmikaul@rbi.org.in and moinuddin@sbp.org.pk

Background of the Study

The issue with regional cost of remittance attained the very first focus during the 33rdSAARCFINANCE Group Meeting, held in Washington, D.C. on 7 October 2016. During the meeting Dr. Azeema Adam, Governor of the Maldives Monetary Authority, opined[2] that most of the remittances that flow out of Maldives are to people who are in lower income brackets. However, the government of Maldives introduced an outward remittance tax of 3 per cent with effect from October 2016. Although this action enables Maldives to retain some amount of foreign exchange, it will adversely affect the foreign workers who worked hard for the country when they have to remit money to their home countries. This too is in addition to high fees and charges. With this backdrop, she also emphasized on the importance of working with other regional countries to make it easier to remit funds at lower costs.

Later on, during the 34thSAARCFINANCE Group Meeting, held in Colombo, Sri Lanka on 12 July 2017, it was decided by the forum that Bangladesh Bank would prepare a draft background paper on 'Reducing the cost of Cross-Border Remittances' and discuss the same in the upcoming 26thSAARCFINANCE Coordinators' Meeting[3].

Following the action plan of the 34thSAARCFINANCE Group Meeting BB prepared a background paper which was duly presented during the 26thSAARCFINANCE Coordinators' Meeting[4] held in Cox's Bazar, Bangladesh on 26 August 2017. On the background paper it was highlighted that the cost of cross-border remittances depends on several things. Remittance being sent from advanced countries, location of beneficiaries in rural and remote areas, and the presence of informal means of sending remittances can induce higher costs of remittance. On the other hand, higher number of migrants located in a certain country, competitiveness among remittance service providers, and higher number of exchange houses/drawing arrangements could play an effective role in lowering the costs. The background paper also suggested that several policy measures may be considered to reduce the costs of cross-border remittances within the SAARC region; such as - liberalizing regulations for wage earners, increased competition, promoting mobile banking for formal remittance services, providing incentive, and customer awareness. However, enhanced cooperation and coordination among SAARC countries is required to achieve such policy adjustments. Finally, it was asserted on the background paper that the SAARCFINANCE Network might constitute a 'Working Group/Expert Group' to review the issue of high costs of cross-border remittances in SAARC region.

The importance of reviewing flow and costs of remittances within SAARC region, as emphasized on the background paper, was acknowledged by the SAARCFINANCE Network during the 35thSAARCFINANCE Group Meeting[5], held in Washington, D.C. on 12 October 2017, with the adoption of the action plan that BB would lead the collaborative study on

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[2] Ref: Draft Summary of the Proceedings of the 33rd SAARCFINANCE Group Meeting; Sec: 12.2
[3] Ref: Draft Summary of the Proceedings of the 34thSAARCFINANCE Group Meeting; Sec: 7
[4] Ref: Draft Minutes of the 26th SAARCFINANCE Coordinators' Meeting; Sec: 9
[5] Ref: Draft Summary of the Proceedings of the 35thSAARCFINANCE Group Meeting; Sec: C.4

‘Reducing the Cost of Cross-border Remittances among SAARC countries’. It was also decided that any other central bank may voluntarily approach to jointly lead the mentioned study with BB. In response to BB’s open invitation both Reserve Bank of India (RBI) and State Bank of Pakistan (SBP) shown their interest to jointly lead the study alongside BB. Every other SAARC central banks nominated researchers to work with the lead researchers.

First Meeting of the Researchers of the joint study was held in 22 February 2019 in Dhaka. The research team members shared their individual country reports during the meeting. In addition to sharing country reports flow and costs of remittances related dada insufficiency and outline of the final paper was discussed.

This final report has been prepared by combining the extracts of country reports produced during the 1st Meeting of the Researchers, and by incorporating additional data analysis and inputs by the lead researchers.

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1. Introduction

SAARC is categorized as one of the top most remittance recipient regions of the world. SAARC region received 18.7% of the world's total remittances during 2017 (Table 1). Amongst SAARC countries, India has a dominating share of around 60% in total remittances to SAARC region. The bulk of remittances to SAARC region are received from Middle East, North America, Western Europe and Asia Pacific region.

Table 1: Home Remittances - Key Indicators of SAARC Region

Remittances received by SAARC as % of World	18.7%
Remittances received by India as % of World	11.0%
Remittances received by SAARC (excl. India) as % of World	7.7%
Outward remittances from SAARC as % of total World	2.1%
Outward by SAARC to SAARC countries as % of total O/w by SAARC	82.6%

Source: The World Bank

In sharp contrast to inward remittances, as per World Bank's estimates, total outward remittances amounted to around USD 11 billion in 2017 from SAARC countries, which is only 2.1% of the total global remittances. However, it is encouraging to note that out of total outward remittances by SAARC countries, 82.6% remittances were transacted within SAARC member countries in 2017. Further, we cannot rule out the possibility of substantial cross-border fund transfers through informal channels, particularly due to inconvenience and high cost of sending/receiving remittances through formal channels.

It is worth mentioning here that the cost of sending remittances is recognized as one of the key areas of policy intervention by various organizations including G20, World Bank, Financial Stability Board (FSB) and Financial Action Task Force on Money Laundering (FATF). This recognition is based on several reasons including the following:

- Cost is usually not an issue in large remittances (made for the purpose of trade or investment), because, as a percentage of the principal amount, it tends to be small. However, for small, personal transfers, cost of sending remittance is disproportionately high.
- According to World Bank, global average cost of sending remittance is 6.94% in Q3 2018.[6]The high remittance service fees relative to small amount of remittances place a financial burden on the migrant remitters and on the recipients, who receive much-needed funds sent by their family members. A weak competitive environment in the remittance market, lack of access to technology, supporting payment and settlement systems, and burdensome regulatory and compliance requirements all tend to keep fees high.
- The high cost of remittance service is a drain on the limited income of poor migrants and their families back home. World Bank data on cost and remittances imply that customers are paying a hefty USD 43 billion annually as implicit cost of remittance services.
- The high cost of sending remittances could be instrumental to encourage usage of informal channels, which are usually free. It is generally believed that the risk of diversion of

[6]Ref: World Bank, Remittance Price Worldwide, Issue-12, September 2018

remittances from formal to informal channels in SAARC member countries is high, therefore the present efforts to reduce cost of remittance services is a right step.

- An additional benefit of the reduction in cost of sending home remittances would be financial inclusion of poor in SAARC region.

In this backdrop, it is interesting to note that as per World Bank, "*South Asia (SA) remains the lowest cost receiving region, with an average cost of 5.40%*" in Q3-2018.[7] However, this number should be read with a number of caveats, for instance;

- the computation of average cost is based on simple arithmetic mean instead of weighted average for each corridor;
- a probable reason for the lowest cost of remittances to South Asia could be Pakistan's free send model as most remittance companies do not charge fee from Pakistani Diaspora;
- more importantly, the cost of sending remittances to some SAARC countries is significantly high, however, World Bank's cost of remittance database do not cover these countries.

The remainder of this paper is structured as follows— first, we review the existing literature on the subject. A review of remittance flow within SAARC region is presented thereafter. The costs of remittances are reviewed in the subsequent section. Thereafter, several impediments for lowering the cost of remittance within SAARC Region are discussed. The paper ends with a conclusion, containing policy recommendations for lowering the costs of cross-border remittances among SAARC countries, and suggestions regarding the future implications for the SAARVFINANCE network encompassing the findings of the study.

2. Review of Literature

The importance of home remittances was not well recognized prior to 1980s, therefore, home remittances could not receive much attention from most researchers. Most of the available literature was appeared after 1980s, when demand for expatriate workers and remittances in GCC region increased after oil price boom in 1970s. Within the subject of home remittances, social impacts of remittances were major focus of the earlier researched topics. The research on cost of remittance services caught attention of the researchers more recently; it was a neglected area until mid 2000s. The overall global negligence with respect to remittance is also evident from the fact that aggregated global remittance volumes are not available beyond 2003 [Chami, Barajas, Cosimano, Fullenkamp, Gapen and Montiel (2008)].

A large body of academic literature is available regarding the nexus between remittance and economic growth, development, poverty reduction and social factors. There also exist numerous studies on the determinants and the factors affecting the flow of workers' remittances. The initial research was more focused on international migration and its impact on development and unemployment, for instance [Grubel and Scott (1966), Berry and Rodriguex (1969) and Harris and Todaro (1970)], flow of remittance caught attention in subsequent decade. The leading research work on migration and impact of remittances was made by Kertz, Keely and Tomasi

[7] World Bank, Migration and RemittanceBrief various issues.

(1981). This study examined the role of labor migration in the development process and the impact of remittances on the labor exporting countries. Unlike other researchers, Looney (1990) was of the opinion that large volumes of remittances flow through unofficial, informal and even illegal channels and could not be tapped easily. He was of the opinion that in absence of accurate information of the magnitude of foreign exchange inflows in labor exporting countries, traditional monetary and exchange rate policies would be difficult to implement.

Siddique, Selvanathan and Selvanathan (2012) found that growth in remittances does lead to economic growth in Bangladesh. In India, no causal relationship between growth in remittances and economic growth was found by them[8]. However, in Sri Lanka, a two-way directional causality was found— namely economic growth influences growth in remittances and vice-versa. However, Paul, Uddin and Noman (2011) found that remittances do not appear to be a long-run forcing variable to the explanation of Bangladesh's output. Akter (2018) opined that there is a positive effect of remittances on gross savings for Bangladesh and Philippines although an insignificant negative effect for India. Bhadra (2007) and Pant (2008) found that remittances are potentially important stimuli to economic growth poverty reduction for a developing economy like Nepal.

There is a positive relationship between number of migrants and remittance received by a country (Kock and Sun, 2011). This straight argument also implies that increased competition among remittance service providers in the host country with significantly large number of immigrants is likely to reduce the cost of remittance (Beckand; Ratha, 2013). However, as mentioned above, cost of remittance services become increasingly important after a surge in remittances was observed post 9/11 mainly due to global awareness on documentation and due diligence of small remittance transfers. Freund and Spatafora (2005) made the pioneering work on cost of remittances and concluded that low cost of remittance services could help increase flow of remittances through formal channels. However, this study was based on only one-year (2005) data of transaction fee charged by Western Union only for US-UK corridor. With the inclusion of cost of sending USD 200 from US to UK by Money Gram and Western Union, Freund and Spatafora (2008) found statistically significant inverse relationship between remittances and cost of remittance and the possibility that reduction in cost of remittances may lead to divert remittances towards the formal sector. Ahmed and Martínez-Zarzoso (2016), and Freund and Spatafora (2008) argue that higher cost either induces lower flow to home country or increases fund transfer through informal sector.

Gibson, McKenzie and Rohorua (2006) estimated the elasticity of cost of remittances from New Zealand to Tonga and quantified the impact of reduction in cost on flow of remittances. Their study has found that there exists a negative elasticity between remittances and transaction costs. Their findings indicate that by reducing transaction fees of sending money, it is expected that migrant workers' remittances will increase to recipient countries. Offering discounts on remittance transaction fees will lead to large increase in remittances sent to countries. Their key

[8] However, Cooray(2012) argues that migrant remittances have a significant positive effect on economic growth in South Asian countries. The paper has detected a significant positive interactive effect of remittances on economic growth through education and financial sector development.

finding of a negative average elasticity of 0.22[9] implied that if cost of remittance from New Zealand to Tonga reduce by 65%, it would lead to a rise of 14.3% increase in amount remitted.

In a relatively broad-based study on cost of remittance services, Orozco (2006) included South American countries and remittance costs of large number of banks and MTOs in his work. He recommended that partnerships between financial institutions and MTOs would encourage financial inclusion, provide opportunities to explore the use of electronic transfers through card based instruments, and establish remittance literacy outreach.

The cost of remittance attained policy importance at the global scale after the adoption of "*Transforming our world: the 2030 Agenda for Sustainable Development*" in 2015 by the United Nations. Reducing the cost of remittance is included as *Goal-10.C* under "*Sustainable Development Goal 10: Reduce inequality within and among countries*" which implies— "*by 2030, reduce to less than 3 percent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 percent*" (UN, 2018). The World Bank monitors and estimates the cost of cross-border remittance for several selected corridors and reports through their *Remittance Prices Worldwide* database. The database reports that funding and disbursing remittance through bank accounts remains most expensive; while providing remittance services through mobile money is the least expensive medium.

The above research work, compilation of online cost of remittance resource by the World Bank,[10]adoption of 5x5 goal by G8 in 2009,[11] and its adoption by G20 in 2011 to reduce the cost of remittance service to 5% by 2014[12] were major milestones in realization of importance of cost of remittances and its welfare effect on customers.

In a more recent study on cost of remittances further reinforces the view that formal remittances are negatively associated with remittance transfer cost (Kakhkharov, Akimov, Rohde (2017). This study was based on an entirely different dataset and covered countries of the former Soviet Union from 2000 to 2014.

In view of significant findings of empirical research, analysis of cost of remittances appears to be important. This study is probably the first ever attempt to promote remittances and reduce cost of remittances between developing countries.

[9]It was as high as (-) 0.74 in sub-sample group of migrants.

[10]Source: https://remittanceprices.worldbank.org/en

[11] In the *"G8 Leaders Declaration: Responsible Leadership for a Sustainable Future"*, during the L´Aquila Summit, in July 2009, the G8 Heads of State made a pledge "given the development impact of remittance flows, we will facilitate a more efficient transfer and improved use of remittances and enhance cooperation between national and international organizations, in order to implement the recommendations of the 2007 Berlin G8 Conference and of the Global Remittances Working Group established in 2009 and coordinated by the World Bank. We will aim to make financial services more accessible to migrants and to those who receive remittances in the developing world. We will work to achieve in particular the objective of a reduction of the global average costs of transferring remittances from the present 10% to 5% in 5 years through enhanced information, transparency, competition and cooperation with partners, generating a significant net increase in income for migrants and their families in the developing world."

[12]G20-2011 Cannes Summit final declaration: "Building our common future: Renewed collective action for the benefit of all";https://in.ambafrance.org/IMG/pdf_Cannes_Summit_final_declaration.pdf?4507/8aa7bb503ad2b268a3f781b220c4cd4bbcfee9f4

3. Real Flows of Remittances in SAARC Region

As mentioned above, according to the World Bank, the size of SAARC home remittance market is around USD 11 billion (Table-2). The major sending corridors are India, Nepal and Sri Lanka, constituting of over 90% of total outward remittances within SAARC region. India has a dominating share of over 50% (USD 5,578 million) in 2017 followed by Nepal (28.2% or USD 3,087 million) and Sri Lanka (11.6% or USD 1,266 million). Similarly, three countries accounted for over 92% of remittances from SAARC countries. India remained at the top position with 42.7% share (USD 4,674 million) followed by Bangladesh (39.5% or USD 4,328 million) and Nepal (9.9% or USD 1,086 million) in 2017.

Table 2: Remittances in SAARC Countries 2018

(million USD)

Sending Countries	Receiving Countries									
	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	Total SAARC	World O/W
Afghanistan	-	-	-	-	-	-	119	-	119	182
Bangladesh	-	-	-	126	-	64	-	-	190	2,113
Bhutan	-	-	-	186	-	1	-	-	187	196
India	-	4,033	3	-	1	1,021	-	520	5,578	5,710
Maldives	-	67	-	81	-	-	-	28	176	188
Nepal	-	1	35	3,016	-	-	33	2	3,087	3,226
Pakistan	125	227	-	-	-	-	-	-	352	367
Sri Lanka	-	-	-	1,265	-	-	1	-	1,266	1,278
Total SAARC	125	4,328	38	4,674	1	1,086	153	550	10,955	13,260
World	**378**	**13,498**	**43**	**68,967**	**4**	**6,928**	**19,665**	**7,190**	**116,673**	**624,837**

Source: The World Bank

However, data compiled by the World Bank are estimates based on methodology given in World Bank's working paper No. 102 by Dilip Ratha and William Shaw, "South-South Migration and Remittances", World Bank released in 2007 (available at:http://elibrary.worldbank.org/doi/pdf/10.1596/978-0-8213-7072-8).Further, the World Bank also maintains migration stock data which is available at the following web-link: http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data. Since above methodology could not distinguish temporary migration for economic reasons and permanent migration due to religion/ethnicity, the estimated numbers are incorrect in a number of South Asian countries as the region witnessed permanent migrations during 1947 and 1971.

In order to capture the real flows of home remittances within SAARC region, member countries requested to provide their official statistics. Fortunately, four central banks (Bangladesh, India, Pakistan, and Sri Lanka[13]) provided the actual inward/outward remittances. Not surprisingly, after incorporating the actual inward/outward remittances, the intra-SAARC region remittances dropped from around USD 11 billion to between USD 371 million to USD 475million(Table 3).[14]This number is significantly lower than the estimates by the World Bank.

[13]Sri Lankan team collected country-wise data from banks for the first time, therefore, data compiled by Bangladesh, India and Pakistan on a regular basis have been used for these countries.

[14]Ideally, inward and outward data within SAARC region should be equal. However, different data sources, time and practices are resulted in inconsistent data. Total inward remittances received by SAARC countries from member countries were USD 474.1 million and outward remittances were recorded at USD 371 million during 2018.

Table 3: Inward and Outward Home Remittances in SAARC Region 2018

(million USD)

Country	Afghanistan * #		Bangladesh #		Bhutan * #		India #		Maldives * #		Nepal * #		Pakistan #		Sri Lanka #		Total	
	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out
Afghanistan			0.60	0.00	0.00	0.00	23.86	0.22	0.00	0.00	0.00	0.00	1.78	0.00	0.15	10.63	26.4	10.9
Bangladesh	0.0	0.6			0.08	0.10	16.64	1.61	0.00	25.50	64.00	1.00	0.94	0.01	3.15	0.80	84.8	29.6
Bhutan	0.0	0.0	0.10	0.08			37.88	0.01	0.00	0.00	0.02	1.00	0.00	0.00	0.69	0.42	38.7	1.5
India	1.6	23.9	5.00	22.03	0.01	37.88			0.08	1.28	0.27	0.94	0.19	0.08	5.20	18.93	12.4	105.0
Maldives	0.0	0.0	25.50	0.00	0.00	0.00	1.28	0.08			0.00	0.00	0.50	0.00	118.09	76.63	145.4	76.7
Nepal	0.0	0.0	1.00	0.02	35.00	1.00	0.94	0.27	0.00	0.00			0.17	0.00	9.99	3.82	47.1	5.1
Pakistan	0.0	1.78	1.30	1.40	0.00	0.00	6.14	0.14	0.00	0.50	0.00	0.17			0.05	0.417	7.4	5.1
Sri Lanka	10.6	0.2	0.80	3.15	0.42	0.69	18.93	5.20	76.63	118.09	3.82	9.99	0.37	0.05			111.6	137.4
Total	12.2	26.2	34.3	26.7	35.5	39.7	105.7	7.5	76.7	146.4	68.1	13.0	4.0	0.1	137.3	111.6	473.7	371.3

(*) World Bank's latest data available
(#) Data from the authorities
(@) Sri Lankan team collected country-wise data from banks for the first time, therefore, data compiled by Bangladesh, India and Pakistan on a regular basis have been used for these countries.
Highlighted data obtained from the corresponding authorities.

More importantly, a combination of data provided by authorities painted a more realistic picture. Maldives is the top remittance sending country in SAARC region with a dominating share of around 40% (USD 146.4 million) of total outward remittances to SAARC member countries, followed by Sri Lanka with a share of around 30% (USD 111.7 million). Contrary to outward remittances, inward remittances are more diversified and top three countries, India, Sri Lanka and Maldives accounted for around 53% (USD 319.7 million) of total inward remittances from SAARC countries.

The above analysis suggests that inward/outward remittance flows within SAARC member countries are insignificant relative to total inflows of home remittances from GCC, Western Europe and North America.

4. Cost of Sending Remittances within SAARC Region

It is well documented in literature that across banks and MTOs, costs are higher in corridors with a smaller number of migrants, higher levels of incomes and a higher participation of banks (Beck and Pería–2009). Two out of three factors (smaller number of migrants and a higher participation of banks) along with varied and relatively rigid foreign exchange regimes in member countries are the major impediments in lowering cost of remittances within SAARC region.

More importantly, non-availability of credible information on flow and cost of remittances

Table 4: Cost of Remittances

(In US dollars)

To	overall Average cost of sending			
	From India		From Pakistan	
	$200	**$500**	**$200**	**$500**
Afghanistan			26.84	29.22
Bangladesh	4.79	4.79	26.09	29.49
Nepal	3.09	3.20		
Pakistan	4.79	4.79		
Sri Lanka	4.79	4.79		
Average Cost	4.37	4.39	26.47	29.36

Source: World Bank

within SAARC region is the key factor, which is impeding (a) meaningful analysis of the existing situation, (b) cooperation among member countries, and (c) effective policy intervention by member countries to resolve the issues.

Unfortunately, World Bank's data on cost of sending remittances is available only for India and Pakistan (Table 4).The available statistics reveal that cost of sending remittance from India to other SAARC countries is already low. However, the cost of sending remittance from Pakistan to Afghanistan and Bangladesh is very high. The large variation in cost is probably attributed to two factors; (a) volume of remittance from Pakistan to other SAARC countries is insignificant (USD 0.002 million) that lead to diseconomies to conduct such business; and (b) India has relatively lower cost due to adequate branches of Indian banks in most SAARC countries.

In order to overcome the data constraints, SAARC member authorities were requested to provide cost of sending remittances to SAARC region. This data was compiled and provided by the researchers from Maldives, Pakistan and Sri Lanka. The data on cost of remittances compiled by the World Bank was used by other member countries in their country reports and presentations during SAARC meeting at Dhaka in February 2019.

Table 5: Cost of Sending Remittances within SAARC Region Q1-2019

(US Dollars)

Receiving Countries	Sending Countries								
	Maldives			**Pakistan**			**Sri Lanka**		
	Cost of sending USD 200			**Cost of sending USD 200**			**Cost of sending USD 200**		
	Overall Average	**Average Banks**	**Average MTOs**	**Overall Average**	**Average Banks**	**Average MTOs**	**Overall Average**	**Through Draft**	**Through TT**
Afghanistan	27.54	37.33	17.75	21.51	22.90	11.07	19.97	9.87	30.07
Bangladesh	20.79	37.33	4.25	21.23	22.07	14.96	19.39	9.87	28.91
Bhutan	-	-	-	21.28	22.07	15.42	19.97	9.87	30.07
India	17.75	31.17	4.33	21.86	22.73	15.34	19.48	9.87	29.08
Maldives	-	-	-	21.33	22.07	15.81	19.50	9.87	29.13
Nepal	-	37.33	-	21.27	22.07	15.33	19.97	9.87	30.07
Pakistan	22.67	37.33	8.00	-	-	-	19.19	9.87	28.50
Sri Lanka	21.00	37.33	4.67	21.26	22.07	15.18	-	-	-
Average	**21.95**	**36.30**	**7.80**	**21.39**	**22.28**	**14.73**	**19.64**	**9.87**	**29.40**

Source: Corresponding country papers (see *Background of the Study* for details)

Even this data is in conformity that cost of sending remittances through MTOs is relatively lower than the banks (Table 5). Since Maldives has significant outward remittance volumes, it is important to note that the cost of sending remittances of USD 200 by MTOs from Maldives is substantially lower (USD 7.80) viz-a-viz Pakistan (USD 14.73). Nonetheless, cost of sending USD 200 through banks is considerably lower in Pakistan (USD 22.28) than Maldives (USD 36.30) or Sri Lanka (USD 29.40) probably due to competition in large number of banks in Pakistan relative to Maldives and Sri Lanka. Moreover, Maldives also imposed a 3% tax on outward remittances by foreign employees in 2016. Therefore, effective cost of remittances from Maldives, the only country with sizeable expatriate workers of over 100,000, has further increased.

It is interesting to note that banks in Sri Lanka are offering remittance services through Draft at a relatively lower cost (USD 9.87). However, this method of transfer funds is inefficient and takes several weeks to conclude transaction.

The above data shows that cost of sending remittance in most SAARC member countries is high relatively to global averages. This could be one of the reasons for diverting remittance flows towards informal channels, including cash transfers within SAARC region. Although, flow of home remittances within SAARC member countries is low, there is a dire need to reduce the cost of remittances to facilitate senders and recipient families in the region. This could help divert informal remittances to formal and regulated channels.

5. Impact of AML/KYC/CFT Regimes on Cost of Remittances within SAARC Region

The cost of sending remittance consists of three parts; (a) direct fee charged by bank/MTO; (b) FX margins; and (c) float income. While remittance customers are generally know and concerned over the direct cost, financial intermediaries make money through hidden costs through FX margins and float income by retaining funds for extended period.

Table 6: AML/CFT regulations governing Home Remittance Channel

Country	Licensing Requirement to enter Home Remittance Services	Guidelines available on Home Remittance Arrangements	Mandatory screening of each transaction irrespective of threshold	Outward remittances through exchange companies/money transfer companies	System to file Suspicious Transaction Reporting (STR)	No of years for maintaining record of all Home Remittances transactions	Imposition of Monetary Penalty in cases of Violations
Afghanistan	Yes	Yes	Yes	Yes	Yes	4	Yes
Bangladesh	Yes	Yes	Yes	No	Yes	5	Yes
Bhutan	Yes	Yes	Yes	No	No	10	Yes
India	Yes	Yes	Yes	No	Yes	5	Yes
Maldives	Yes	Yes	Yes	Yes	Yes	5	Yes
Nepal	Yes	Yes	Yes	No	Yes	5	Yes
Pakistan	Yes	Yes	Yes	Allowed with restrictions	Yes	10	Yes
Sri Lanka	Yes	Yes	Yes	Yes	Yes	6	Yes

As a matter of fact financial institutions (FIs) have made significant investments in compliance systems in the global drive to strengthen AML/KYC/CFT regimes in recent years. FIs have also invested in capacity building for improving their compliance and audits. However, it is not clear that whether such investments led to increase in cost of sending remittances or not. There are a number of confounding factors, particularly increased competition, substantial improvement in technology and global awareness (as mentioned in Section-2 above) that actually helped reduce cost of sending remittances during recent years. Specifically, average global cost of sending

USD 200 has fallen from 9.8% in 2008 to 7.1% by 2017.[15] The decline in cost is a combined impact of reduction in direct fee of sending remittances as well as reduction in FX margins amidst awareness and better availability of information to customers.

However, it has been observed that most FIs retain remittance transactions for extended period (over two weeks in some cases) on the pretext of AML/KYC/CFT concerns. While FIs earn float income on such funds, it is a hidden cost to remittance customers. In this backdrop, this study tries to present AML/KYC/CFT regimes of SAARC member countries.

Table 6 provides a summary of AML related regulations across SAARC region. It is encouraging to note that all member countries are following best international practices related to AML/KYC with respect to home remittances/cross border transactions, with some qualitative and quantitative variations. For details on country specific AML/KYC/CFT regimes, country reports of the member countries are also annexed (See Appendix) with this study.

6. Impediments for Lowering the Cost of Remittance within SAARC Region

As mentioned on the literature review, remittance cost tends to be low in countries that hosts large number of immigrant worker. Remittance inflow to Bangladesh from SAARC region registers at USD 34.3 million compared to USD 15 billion of total remittance received during 2017-18. Such insignificant volume of remittance is actually a structural impediment to the plausible high cost.

The possible presence of informal channels of remittance in SAARC region also serves as a valid impediment. Informal channels make it difficult to calculate the actual volume of remittance flow and the level of costs involved. In case of Maldives, for instance, there is a significant data gaps for accurately identifying and recording workers' remittances. Significant numbers of undocumented migrant workers are operating in Maldives. It is highly unlikely that undocumented and illegal workers use official channels of remittances. As a result there has been a significant gap between total worker's remittance included in the BOP and transfers through official channels. The data for 2017 and estimates 2018 implies total worker's remittance is 3.6 times and 2.6 times higher respectively than the transfers through official channels. Similar issue has been found in case of Bhutan as well. Bhutan's export to Bangladesh registered USD 53.22 million for the year 2017[16]. However, Bhutan received only USD 47.78 million having the difference of 10%, which indicates the existences of informal remittance or "hawala" system. Absence of proper banking channel widens scope for non-regulated transfer systems. As in case of Afghanistan both formal and informal hawala systems are present in parallel.

The absence of regulation may also increase the scope for higher cost of remittance within the region. In the context of the Maldives, charges by banks and MTOs are not controlled by the MMA or any other government agency. There is no legal requirement for charges to be kept at a certain level; instead it is a commercial decision of the remittance service providing organizations.

[15] https://www.moneyandbanking.com/commentary/2018/2/18/the-stubbornly-high-cost-of-remittances
[16] Bhutan Trade Statistics 2017

Lack of financial infrastructure and absence of modern technology also affects cost of remittances as has been observed in the case of Afghanistan and Nepal. In India the non-bank entities who are able to reduce cost by using modern technology do not operate within SAARC region.

On the other hand, the foreign exchange regime and existing regulations oftentimes serves as an implicit barrier to flow of inward/outward remittance within the region. Higher integration and mobility within the region would thus enhance the opportunity to reduce remittance cost.

KYC/AML/CFT regulations and controls also tend to increase operational costs for banks who pass on these charges to their customers. For the migrants without identification documents sending remittances through the formal channels becomes impossible forcing them to use informal channels.

7. Conclusion and Policy Recommendations

The non-availability of uniform data both on remittance flows and cost of remittances is a major impediment in an objective analysis on the subject study. However, the available information led the group of researcher to meaningful conclusions as given below:

- The significantly low remittance volumes within SAARC region, rigid and controlled FX regimes, and inadequate banking network in most member countries are some key factors for high cost of sending remittances in the SAARC region.
- While compilation and regular dissemination of country wise remittance data by the World Bank is highly appreciated, it may be noted that the World Bank's data on bilateral remittance flows are estimates, which are based on a number of assumptions about migrant stock, per worker income, etc. Therefore, we found that actual flows of remittances between SAARC region are quite different than World Bank's estimated numbers.
- All SAARC member countries may exempt home remittance transactions by foreign employees from taxes, at least within SAARC region. Maldivian authorities may take lead in such initiative.
- Given the negligible remittance business volumes within SAARC region, other member countries may also introduce schemes in line with Pakistan's free send model. This would help reduce cost of remittance to close to zero.
- Existing exchange house and drawing arrangements in viable locations with considerable number of migrants has been an effective way to facilitate transfer of remittances[17]. The benefit of transfer of remittances may be further enhanced by expansion of agent network of those exchange houses. Expansion of agent network can play an effective role in terms of enhanced outreach. Such step is likely to reduce the real cost[18] of remittances in SAARC region and encourage flow of remittances through formal channels. However, such expansion

[17] The opening of an exchange house by National Bank Limited, a scheduled bank of Bangladesh, in Maldives for instance.

[18] In such case the service charge offered by the agent may be equal, or slightly higher, compared to that of offered by the bank/exchange house; due to the potential convenience and ease of transaction emerged from alternative vehicles of outreach of the service the real cost of remitting through agents is likely to be equal to banking channel, if not lower, for the remitters.

of agent network by banks/exchange houses are subject to regulatory approval and due diligence of receiving and host countries.

- A broad network of Western Union and Money Gram is available and performing inward home remittances in almost all SAARC countries. These money transfer companies may also be allowed to cater outward remittances in all SAARC jurisdictions with an agreed ceiling on remittance service fee and FX margins. MTOs, however, will consider financial viability before commencing operations. Given the low volumes, inter-SAARC remittance services may not be financially viable.
- SAARC member countries should encourage use of technology e.g. Mobile Wallet, block chain, for remittance transactions. This would help reduce cost and increase transparency.
- Mobility and migration have been increased within SAARC region. SAARC member countries need to come up with policy actions that can benefit the sender and beneficiary of remittances.
- According to the World Bank, during the third quarter of 2018, funding and disbursing remittance through mobile banking service was 2.54 percent and 1 percent lower respectively compared to funding and disbursing remittance through bank accounts[19]. With this perspective promoting mobile banking for remittance service has a scope of reducing costs.
- Providing direct or indirect incentives for sending remittance can induce money transfer through legal channel which in turn can help the market to reduce the transaction cost. SAARC countries may explore the possibility of introducing remittance incentive programs subject to their own interest and constraints. Sharing experience at the regional level may prove to be effective in this case.
- Customer awareness and promotion of available remittance services can help to reduce cost by allowing the consumers to choose among least costly and more convenient means of remittance. Customer awareness also helps to form a competitive market for remittance.
- To have customer education programs and create awareness among customers about the various remittance facilities so that they can take informed decisions and choose the right channel of remittance. RBI has been conducting financial literacy program in smaller towns and far-flung areas where Foreign Exchange Department participates and shares information on the various remittance facilities available to residents. Commercial banks also participate in such program as part of their business development endeavors. The information relating to various channels available for inward and outward can be made available to visitors during such financial literacy program.
- India to Nepal is one of the cheapest remittance corridor for remittances. However, this arrangement was possible due to the fact that all permissible transactions between India and Nepal can be freely undertaken in INR. Within SAARC, member countries could have bilateral arrangements and emulate the model. As this will be a political and economic issue, the countries will have to work out the modalities, political and economic, regarding the type of transactions that could be permitted and more importantly the currency to be used for such

[19] The World Bank, Remittance Prices Worldwide, available at http://remittanceprices.worldbank.org

bilateral arrangements. Therefore, this model would be more suitable for corridors with substantial remittance flows.

- While all the above measures will in a way bring down costs of remittances, it may be noted that these measures are not directly targeted at reducing costs of remittances. It has also been observed that there is very little transparency in the manner in which charges are levied by banks. As the remittances are largely by migrant semi-skilled or unskilled workers who remit small amounts, high cost of remittances is a cause of concern. In this backdrop it is felt some kind of regulatory prescription on upper ceiling on cost of remittances for amounts up to USD 500 could be considered in consultation with banks.
- All member countries may compile country-wise data on remittances on quarterly basis and cost of sending data on annual basis to review the situation. This information may also be shared with member countries for monitoring and effective coordination.

8. Way Forward

All SAARC member countries can consider the above recommendations and ensure implementation of effective policies to reduce cost of sending remittances, at least, within SAARC region, wherever applicable. SAARC central banks may be requested to share their opinion and thoughts regarding the recommendations of this collaborative study. If deemed relevant by the authorities– reviewing the cost of cross-border remittances may be included in the agenda of SAARCFINANCE Group Meetings and standardized data on remittance costs may be integrated within the existing SAARCFINANCE Database infrastructure as a very first regional attempt for establishing a reliable source of remittance cost statistics. Further, interested SAARC member countries may also coordinate for capacity building in the area of home remittances under technical assistance program.

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Appendix: Country Reports

This section contains the latest country reports prepared and as submitted by the nominated researchers from the SAARC member central banks/monetary authorities. Most of the country reports were submitted before the 1st Meeting of Researchers held in 22 February, 2019.

The views, thoughts, and opinions expressed in the country reports belong solely to the authors of the corresponding reports, and not necessarily to the authors' employer or organization. For further query regarding the country reports the following persons may be communicated—

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SAARCFINANCE Collaborative Study on

Reducing the Cost of Cross-Border Remittances

Afghanistan's Country Report

1. Introduction

The number of international migrants worldwide has continued to grow rapidly in recent years, reaching 258 million in 2017, up from 220 million in 2010 and 173 million in 2000 (UN,2017). Immigrants residing in foreign countries mostly send remittances to their countries of origin in order to address financial needs of their families. Most of the developing countries are receiving remittances. For example, in 2015, worldwide remittance streams were gauged to have surged $601 billion. Of that amount, developing countries were gauged to receive about $441 billion, which stands for almost three times the amount of official development assistance. The actual size of remittances, containing unrecorded flows through both formal and informal transfer channels, is believed to be substantially larger.[20] Between the years 2015 and 2030, an estimated 6.5 trillion USD in remittances will be sent to developing countries. Most of which will be used by remittance recipient families for their personal goals including better health, education, higher consumption, and etc. as, to a large extent it contributes to development of the country. Over the past decade the remittance flows have grown at an average rate of 4.2 percent annually, from USD 296 billion in 2007 to USD 445 billion in 2016 (IFAD,2017).

Remittances are, above all, private funds, but which also offer development possibilities for entire communities and countries. The term "remittance" has been defined differently by various institutions, experts and states. According to IOM, migrant's remittance is defined broadly as monetary transfers that a migrant makes to the country of origin. In other words, financial flows associated with migration (IOM). It plays an important role in improving the livelihood of the people by increasing their purchasing power and improving their access to better health facilities and education which further leads to an increase in aggregate demand and overall rise in aggregate production of the country. While, on other hand higher costs of remitting money still remains a major obstacle to these inflows to the receiving country which will in result weaken the impact it has on the overall economy of the country.

Migration in Afghanistan has been a relevant phenomenon in last several decades, driven by continues war, food insecurity and socioeconomic factors. Based on United Nation (UN) data

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[20] Migration and Remittances Factbook 2016 is also available online at http://www.knomad.org and http:// www.worldbank.org/prospects/migrationandremittances. The Web site provides updates of data and information on migration and remittances.

approximately, 4.8 million Afghans live abroad at the end of 2017, comprising 2.6 million economic migrants most of them in neighbouring countries like Iran and Pakistan. While prior waves of migrants consisted largely of refugees, in the last decade economic migrants increased significantly. According to the World Bank report on remittances in Afghanistan about 15 percent of rural households receive remittances from foreign countries, which cover around 20 percent of the daily expenditure of the families.[21]In the last quarter of 2017, the average cost of sending money to Afghanistan from Germany, Pakistan, Saudi Arabia, the UK and the US corridors was almost 10 percent of the amount transferred while other South Asian countries remained the cheapest receiving region, with an average cost of 5.40 percent.[22]High fees for remittance transactions reduce the amount of funds to be remitted and encourage remitters to use informal channels due to the lower costs of transfer, resulting in higher number of unrecorded transactions and further creating challenges such as money laundering and financing terrorism to financial markets of the country. Previous studies and a recent Da Afghanistan Bank's survey findings indicate that costs of remitting funds through informal channels are much lower than formal channels in Afghanistan.

Remittances flow to Afghanistan from many countries and different part of the world but it outflows to few countries, mostly to Pakistan. Banks, microfinance institutions, remittance specialized companies also called Money Transfer Organizations (MTOs) such as Western Union and MoneyGram, money service providers (MSPs) and foreign exchange dealers offer money transfer services in Afghanistan.

This study will review the previews researches, highlight the current flows of remittances to/from Afghanistan and analyzes costs associated with transfer of funds based on different corridors and channels. In addition, it will highlights the current remittance related rule and regulations imposed by Afghan authorities. At the end it will provide recommendations for policy implications.

2. Literature review

Maimbo (2003) by studying the Hawala system (officially Money Service providers or MSP) in Afghanistan has found that Hawaladars (individuals responsible for Hawala or transfer of funds) have a long history in Afghanistan by providing their customers reliable, convenient and inexpensive fund transferring services into Afghanistan and among its provinces. These

[21] World Bank data, 2005

[22]Remittance Prices Worldwide – An analysis of trends in cost of remittance services", The World Bank, 2017. Available at: https://remittanceprices.worldbank.org/sites/default/files/rpw_report_march_2017.pdf

Hawaladars offer wide range of financial and non-financial business services at local, regional and international level. The Hawala system emerged due to non-existing proper banking system and it has experienced growth because of many decades of conflict in the country which resulted in poor financial system but it also effectively transferred funds from NGOs to Afghanistan and suburb areas of the country. Hawala system works in simple way. When an individual in foreign country wants to send money to another individual in Afghanistan, he presents the amount and full details of both themselves (sender) and the other individual in Afghanistan (receiver). The Hawaladar gives a code to the sender to be presented by the receiving person and sends a message or call to the office in Afghanistan. The receiver goes personally to the Hawaladar in Afghanistan discloses the code, provides full details of the sender and his own proof of identity. If the information of both parties matches, the receiver will receive the money. There are two types of Hawala systems in Afghanistan formal and informal. Formal Hawala system which are authorized, have a license and report to Da Afghanistan Bank and informal Hawala system which do not have an official license and do not report to Da Afghanistan Bank. Monusutti (2004) in his study of remittances to Afghanistan has found that measuring the exact amount of remittances to Afghanistan is much more difficult due to the large use of informal channels for remitting money which is because of undocumented migrants in Iran and other neighbouring countries. As, the transfer of funds through formal channels such as banks and Western Union require identification card or any other official documents and papers. He explains that Hawaladars' activities are twofold, they provide money transferring services and at the same time they are also merchants and make profit by taking commission, exchange rate spread and sale of different merchandise purchased with the money received from migrants. The exact amount of funds transferred through this channel and the profit that Hawaladars make is difficult to estimate because most of the Hawaladars do not keep a proper record of their all transactions and also quick devaluation of different currencies makes it difficult to determine the profit these Hawaladars make in each of the transaction. Since 9/11 terrorist attacks the Hawala system has often been very negatively assessed and have even been criminalized. Yet it is misleading to consider Hawala system as a tool in the hands of only terrorists; it has been an efficient strategy for millions of Afghans striving for their survival.

Robert Holzmann (2018) discusses that Afghanistan's economic prospects are dim and estimate that in coming years this problem will lead Afghan economic migrants to neighbouring and beyond counties and they will send their income surplus to the Afghanistan through remittances which will be effective to higher economic growth. Ratha and Reidberg (2005) discussed some of the factors that influence the price of remittance services. They suggested that Money Service

Providers (MSPs) or remittance services should be an independent and separated industry from the banking services of the country, easing or simplifying the regulations and the procedure of remittances and permitting the smaller remittance service providers which will lead in a competition among the (MSPs) in the market which will further reduce the costs associated with the inflow and outflow of remittances. Lastly, they also suggested that the improvement in accessibility of undocumented migrants who remit money to their country of origin to formal remittance channels, such as banks and other transfer channels would greatly impact the prices of remittances and discouraging the large use of informal transfer channels. Similarly, in a paper Beck et al (2011) suggested that remittances are a main source of external financing for developing countries. Their research has shown that corridors with greater number of expatriates and higher competition among the service providers, fewer barriers to access banking services are found to have lower costs, whereas the cost of remittance is higher in rich corridors. In another related study, Ahmad and Marinez-Zarzoso (2015) explore the relative importance of the determinants which acts as a driving force to the volume of remittance flows to Pakistan with particularly focusing on transaction costs. The authors use bilateral remittances data for 23 major remittance sending countries and estimate a gravity model for ten-year time period (2001-2011). Their results indicate that recorded or formal remittance inflows increase with the increasing number of people migrating abroad. They have also found that financial system, bilateral exchange rate and more importantly, transaction costs are the major sources of influencing the size of remittance flows to Pakistan, suggesting that increase in access to financial services in remote areas by providing branchless banking will redirect the transactions from informal to formal channels. Bhupal's (2010) findings regarding workers' remittances to India indicates that by estimating error correction model the transaction cost and payment infrastructure are major factors affecting the remittance flows. They further estimate impulse response function and the findings disclose that favorable shocks to transaction fees and payment infrastructure facilitate formal inflow of remittances. Gibson et al. (2006) in their study have found that there exists a negative elasticity between remittances and transaction costs. Their findings indicate that by reducing transaction fees of sending money, it is expected that migrant workers' remittances will increase to recipient countries. Offering discounts on remittance transaction fees will lead to large increase in remittances sent to countries. Aycinena et al. (2010) by implementing randomized field experiment to test the impact of reduction in transaction fees of remitting money on the remittance decision-making. They found that reduction in remittance transaction fees effects positively the amounts of remittances sent to migrants' home countries, that increase happens in the form of frequency of transactions while the amounts remitted remain constant.

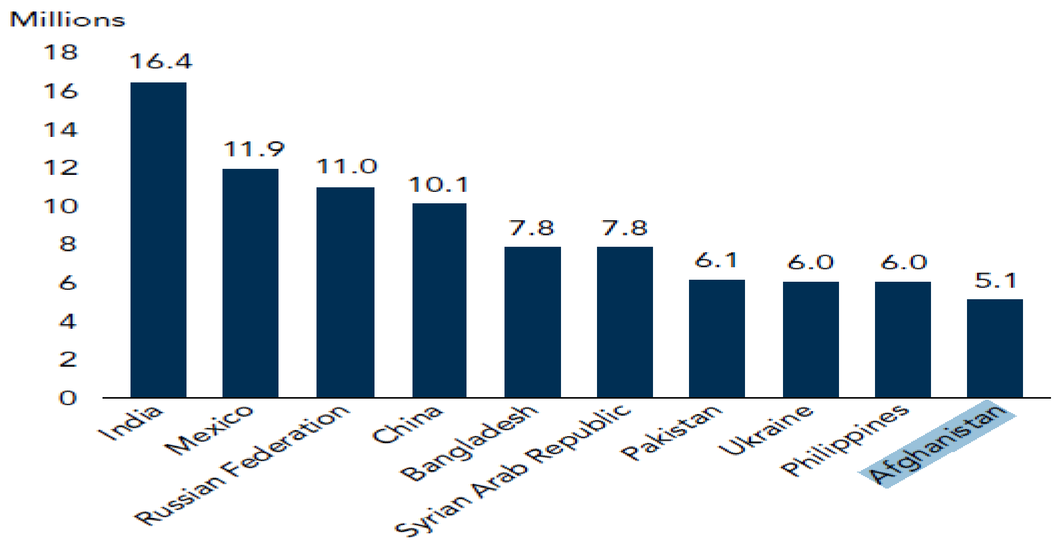
There is also growing literature on different channels of remitting money to countries, and the main focus is to increase the use of formal channels compared to informal channels. Based on the questionnaire survey of migrant workers, Kubo (2015) found that accessibility of payment points is an important determinant and the empirical results suggest there is a statistically significant influence of accessibility of payment points on migrants' choice. No paper has been found exploring the remittances between Afghanistan and SAARC countries.

3. The Migrants and remittances facts and figures in Afghanistan

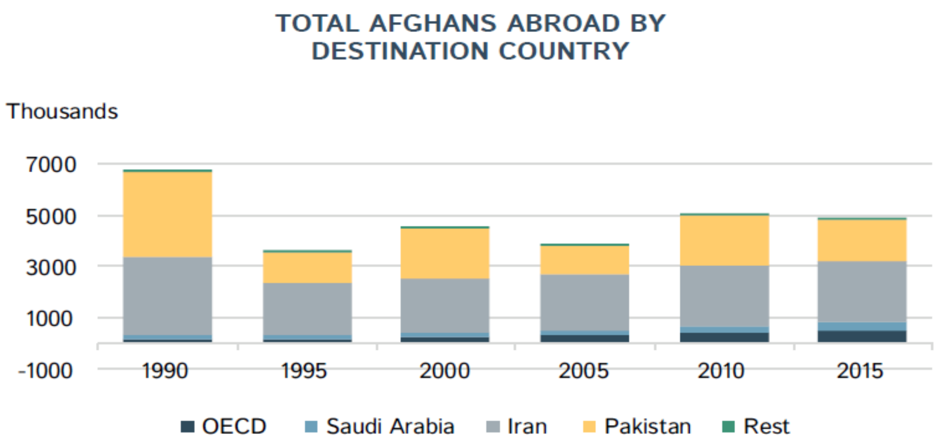
Remittances, the money sent from migrants living abroad to recipients in their countries of origin, represent an economic phenomenon that is difficult to accurately quantify (Orozco, 2007a). Official and unofficial remittance transfer channels each present unique constraint to the measurement of true remittance flows. Measurement of remittance flows can be complicated by a number of factors, the most basic of which include a lack of a consistent definition of remittances, limited and often ineffective monitoring of flows and limited data coordination among agencies (Orozco, 2006).

The most commonly accepted definition of remittances is provided by the International Monetary Fund (IMF) in the Balance of Payments Manual, 5th Edition (BPM5) (IMF, 1993). Within the BPM5 remittances are defined in terms of three components: workers' remittances, compensation of employees and migrant transfers. Workers' remittances include current transfers made between a migrant - a person who arrives in a new economy and has or is expected to remain in it for one year or more - and (often) related persons. This component includes only migrants who are employed in new economies and are considered as residents there. Compensation of employees includes wages, salaries and benefits earned by an individual for work performed in an economy in which that individual is not considered a resident. Migrants' transfers encompass goods and financial items - assets - that a migrant has transferred from one economy to another in the course of migration. Within the balance of payment (BOP) framework, both workers' remittances and compensation of employees are part of the current account, but the former is a component of current transfers and the latter is a component of income. In contrast, migrants' transfers are part of the capital account and are a component of capital transfers (Reinke, 2007).

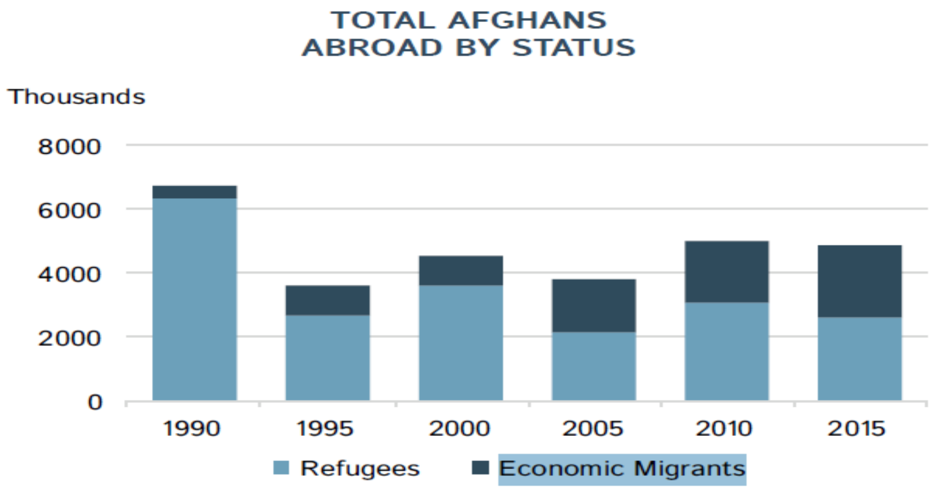
International experience and analysis suggest that remittance flows are shaped by a number of factors in both home and host countries, particularly the number of economic migrants (Clemens and McKenzie 2014), but also their earnings in the host country, the income generated, and the needs of their relatives and friends in the country of origin (Gupta 2005). The level of remittances also depends on personal characteristics of migrants (propensity to remit), among which are social ties and networks back in Afghanistan. In general, those that leave their country with their entire families will be less prone to remit money back home compared to individual migrants with their families in Afghanistan. Remittances are usually countercyclical, which means that they increase when economic conditions in the native country deteriorate (Daniel Garrote – Sanchez, 2017). The following figures exhibits the stock of Afghan migrants by country of destination and their status.



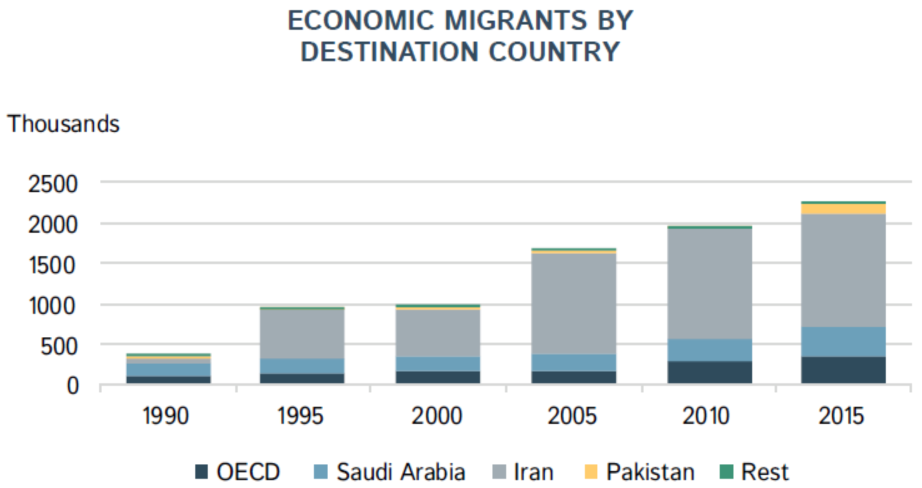
Source: Migration and development brief 29, WB, 2018



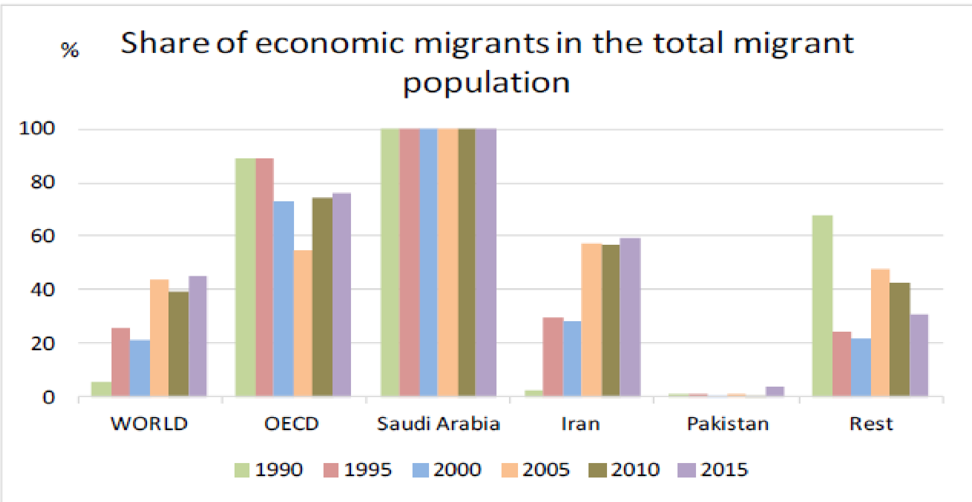
Source: UN DESA, 2015



Source: World Bank, 2018



Sources: UN DESA 2015, UNHCR 2015 and WB 2018



Sources: UN DESA 2015, UNHCR 2017 and WB 2018

Refugee outflows from Afghanistan begun in 1979 with the Soviet invasion. The outflows continued to increase during the Soviet occupation and internal war. In 1980 the prime goal of migrants were seeking asylum and protection mostly in two neighbouring countries Iran and Pakistan. But later as above data explains the flows of migrant for economic propose increased due to food insecurity, poverty and high unemployment level in Afghanistan. In 1990 Afghanistan had around 380,000 economic migrants, this number rose to close to 1 million in 2000 and to 2.25 million in 2015. This trend represents a net annual flow of 85,000 Afghans over the last 15 years.

By country of destination, Iran hosted 1.4 million labour migrants in 2015, nearly two-thirds of the total workers who migrated from Afghanistan in search of better economic opportunities. The other most important destinations for economic migrants were GCC countries (380,000 workers, mostly all in Saudi Arabia) and OECD countries (350,000 workers). Among the latter, the countries with the most Afghan economic migrants before the migration wave of 2015 were Germany (72,000), the United States (62,000), the United Kingdom (59,000), Canada (30,000), and the Netherlands (28,000). In some countries like the United States, these figures only count first-generation Afghan migrants, as those born in the country are considered nationals. This contrasts with GCC countries, Iran, and Pakistan, where Afghan migrants and their children barely obtain the nationality of the host country, and thus the second and third generations are still registered as Afghans (Robert Holzmann, WB, 2018)

It is very difficult to record and measure the real amount of inflow and outflow of remittances to and from Afghanistan. The persistence of conflict over the past four decades has resulted in a weak formal financial system characterized by limited functionality of banking system. The Afghan financial sector includes nine private owned banks, three state owned banks and three branches of foreign banks. Beside of banks few number of microfinance institutions, money service providers (MTOs), foreign exchange dealers and money service providers (MSPs) which are known as Hawaladars are active in financial system.

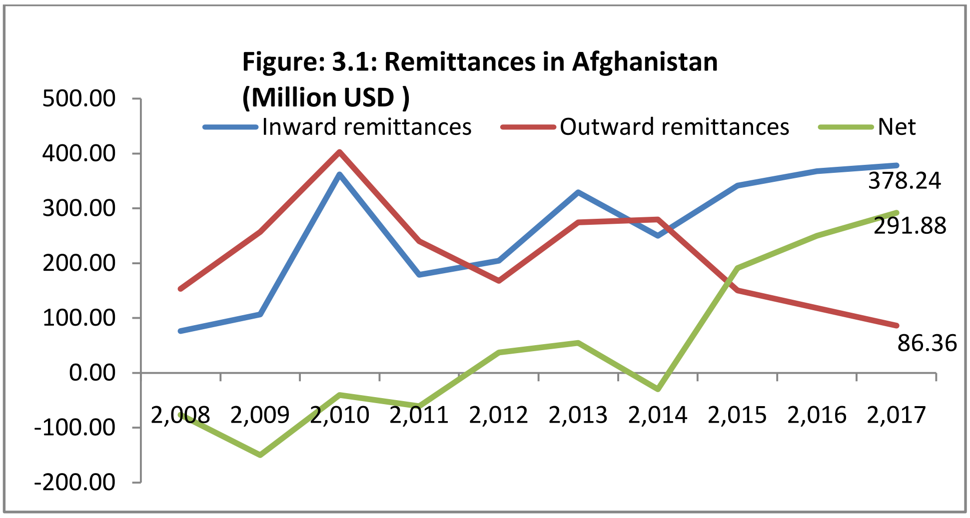
There is some information about remittances to and from Afghanistan that can be gleaned from official reporting sources but a significant portion of remittances transfers through Hawala system which is very popular in Afghanistan because of charging low transfers fees but many Hawala companies are not registered, monitored and included in official statistics of DAB. Remittance data derived from household surveys which has done by IS Academy and central statistics office (CSO) have their own shortages effected from conflict and insecurity. Mistrust is a persistent problem that has contributed to incomplete sharing of information in the course of household surveys, resulting in underestimation of the value of remittance flows on a household basis. Further, cultural norms may also play a role in Afghanistan in determining who shares information and how it may be shared, which in turn affects overall data quality. Women, for instance, may not be comfortable with sharing income information with interviewers (and indeed may not speak with male interviewers at all), which could lead to data loss if they are the most-knowledgeable respondents in the household (IOM, 2013). Hence it is obvious that official data has underestimated the real flows of remittances to and from the country.

Despite of challenges fortunately, Da Afghanistan Bank (DAB) compile remittances data based on international transactions reporting systems (ITRS) and registered remittances service providers. The data of remittances are available since second quarter of 2008 which is compiled by applying the two measures: workers' remittances and compensation of employees (Balance of Payment Secion, DAB). Table 3.1, Figure 3.1 and 3.2 exhibit the fact and trend of remittances in Afghanistan. In 2017, data from the central bank of Afghanistan or Da Afghanistan Bank estimate the inflows and outflows of remittances into Afghanistan at US$ 378.42 million and US$86.36 million respectively. Based on data remittance inflow in Afghanistan were volatile in last decades and shows the upward trend. Except 2014, Afghanistan is as a net remittance receiver since 2012 and net remittances shows a sharp increase from the mid 2014 till end of 2017. Remittances inflow, outflow and net amount show the percentage of 1.88, 0.43 and 1.45 respectively. Similar to remittance inflows the outflows shows volatility which has significantly decreased since 2014(BOP section data, DAB, 2018). 65% of the outflows streams to Pakistan which shows US$119 million in 2017. The main reason for increase of remittances inflows to Afghanistan might be the increase of economic migrants abroad during the last decade and the reason for lower outflow could be withdrawal of coalition forces from Afghanistan which decreased the international employees in Afghanistan.

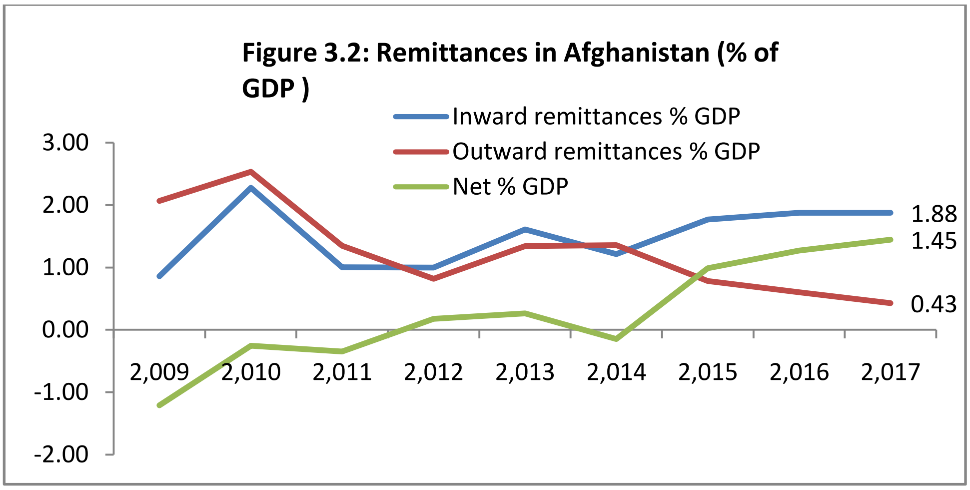
Beside DAB estimation many other estimates exist on the size of remittances to Afghanistan. The International Fund for Agricultural Development (IFAD) estimated the inflow of remittances in 2006 to be around US$2.5 billion, or 29.6 percent of GDP (Orozco 2007). In a similar analysis in 2012, IFAD estimated that remittances had increased to US$3.2 billion, although the rise was lower than that of nominal GDP growth, which reduced the ratio to 16.3 percent of GDP. These studies calculated remittances based on three estimates: the total number of migrants living abroad, the percentage of migrants who remit money, and the annual value of remittances sent per economic migrant based on household data. Another simple approximation can be done with data on the share of registered financial intermediaries. According to informal communication with representatives of Da Afghanistan Bank, around 200 Hawala dealers are registered out of an estimated total of 1900–2500 dealers. Under the strong assumption of similar levels and trends of transactions among the different dealers, this would imply that real remittances are 10 times the official figures, pointing again to around US$3–3.5 billion (or 15–18 percent of the Afghan GDP) (Robert Holzmann, 2018)

Table3.1:Remittances in Afghanistan	2,009	2,010	2,011	2,012	2,013	2,014	2,015	2,016	2,017
Inward remittances (mUSD)	106.80	362.01	178.95	204.43	329.23	249.79	341.31	368.03	378.24
Outward remittances(mUSD)	257.13	402.47	240.08	167.73	274.62	279.65	150.41	118.22	86.36
Net (mUSD)	-150.33	-40.46	-61.13	36.70	54.61	-29.86	190.90	249.81	291.88
Inward remittances % GDP	0.86	2.28	1.00	1.00	1.61	1.21	1.77	1.88	1.88
Outward remittances % GDP	2.07	2.53	1.35	0.82	1.34	1.36	0.78	0.60	0.43
Net % GDP	-1.21	-0.25	-0.34	0.18	0.27	-0.14	0.99	1.27	1.45

Source: BOP, DAB

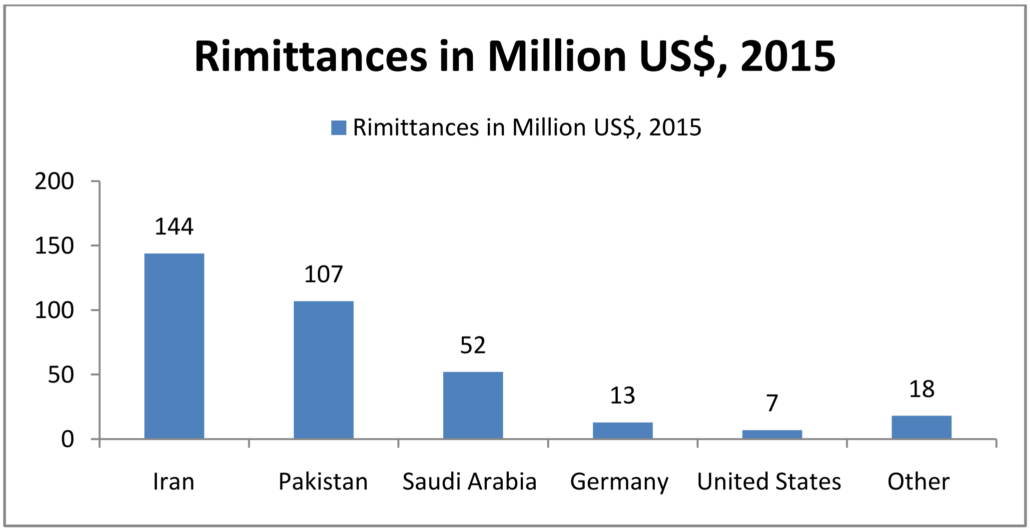


BOP,DAB

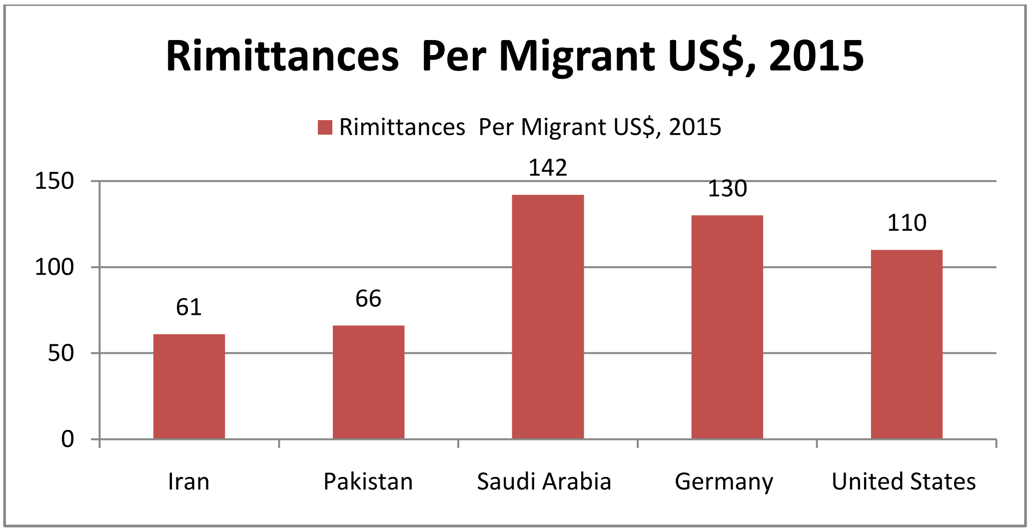


BOP,DAB

With a stock of 4.8 million Afghan migrants abroad, the amount of annual remittances per migrant stands at US$ 70. By county of origin, remittances to Afghanistan mostly come from Iran. In 2015, remittance from Iran accounted for US$144 million, or more than 40 percent of the total amount. Beside of Iran, Pakistan is also the main sender countries US$ 107 million in 2015 and US$ 119 million in 2017. (Daniel Garrote – Sanchez, 2017 and Author calculation, 2018). The other main sending countries are Saudi Arabia (US$52 million), Germany (US$13 million), and the United States (US$7 million). On a per capita basis, Afghans in Saudi Arabia send an average of US$142 per year, while in Germany and the United States they send about US$130 and US$110, respectively. This contrasts with much lower per capita figures in Iran and Pakistan (US$61 and US$66, respectively). This phenomenon can be linked to both the higher salaries earned in more developed countries and the higher share of young male labour migrants (versus refugee families) who migrate to those countries with a primary goal of saving money to send home(Daniel Garrote – Sanchez, 2017).



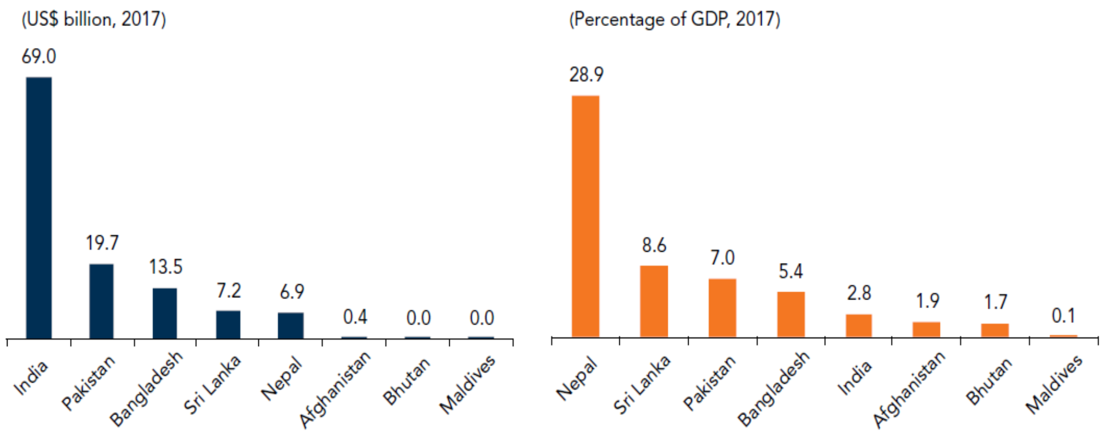
Source: Wold Bank Group, 2018 and author calculation.



Sources: Wold Bank Group, 2018 and author calculation.

In SAARC countries Afghanistan stands on number 6th and receives more remittances than Bhutan and Maldives.

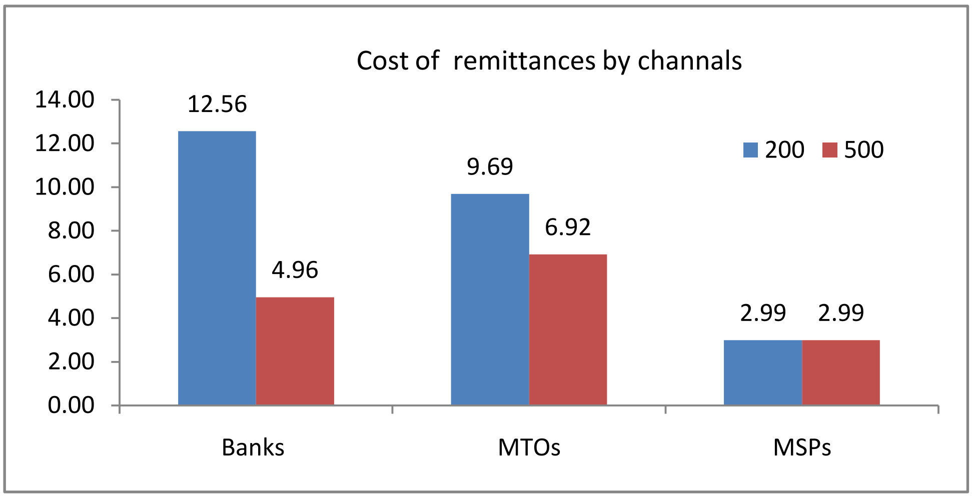
Remittance inflow into South Asian countries:



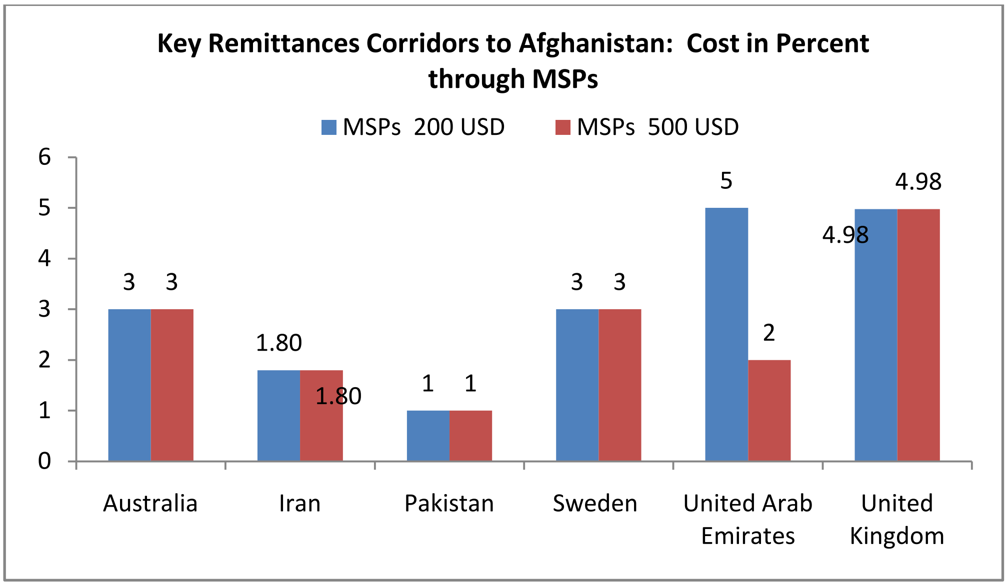
Sources: Migration and Development brief 29, Word Bank, April 2018

4. Cost of remittances in Afghanistan

Cost of remittances consists of fee and exchange rate margin loss which senders and receivers bares while sending and receiving remittances funds. Banks are the most expensive channel in remittances market with cost of more than 12 % for transferring US$200 while MSPs offers cheapest services charges 2.99 percent. In term of corridors the neighbouring countries have the lowest cost through MSPs channels but remittances cost is high on developed corridors, such UK and Australia. But based on World Bank studies the transfer cost of remittances through banks from Pakistan to Afghanistan is the most expensive option.



Source: Author Calculations based on WB and DAB data

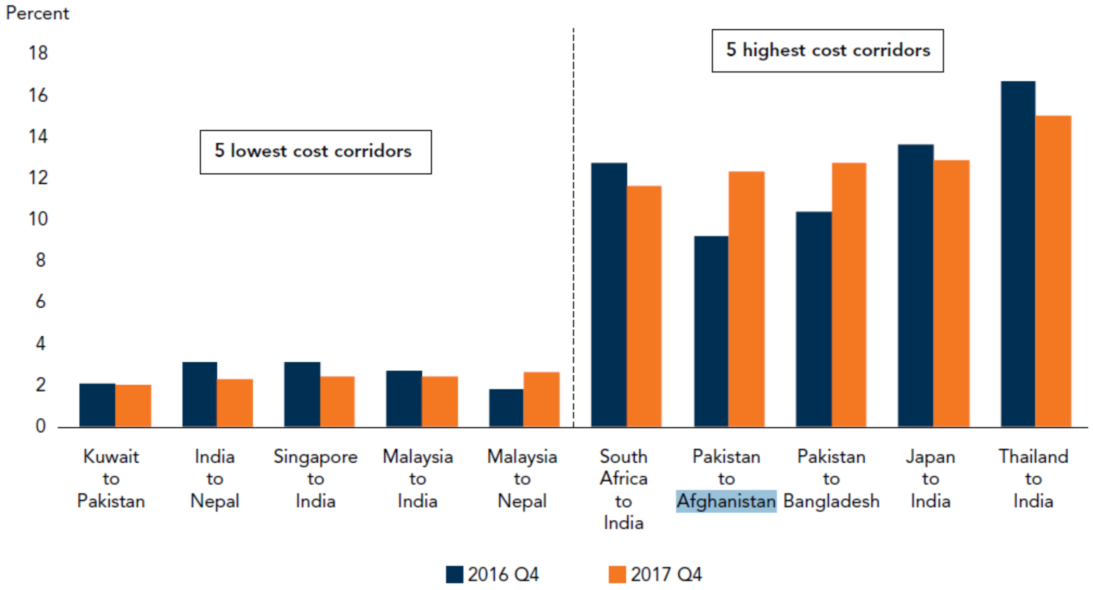


Source: Author Calculations based on WB and DAB data

Note: Data of remittance cost through MSPs for Germany and USA– Afghanistan are not available

South Asia experienced the lowest average remittances costs of any world region in the first quarter of 2018, which is 5.2 percent. Some of the lowest cost corridors in 2017 existed in Gulf Cooperation Council (GCC) and the Association of Southeast Asian Nations (ASEAN) countries which were below the target of three percent. But in highest cost corridors the cost of transferring remittances reached to ten percent (WB, 2018).

The cost of sending remittances: five highest and lowest cost corridors in South Asia



Source: WB staff estimate using the remittance price worldwide database.

5) Remittance related Laws and regulations in Afghanistan

Based on researches banking regulations and market environment where competition is in a low level, due to limited adoption and usage of technology foster high cost of remittance. For example, AML/CFT laws and regulations increase the risk profile of remittance services providers and thereby increase the cost of sending money to unstable and unsecure countries. In this section the author reviewed the remittance related laws and regulations in Afghanistan that my effect the cost of remittances. As most of laws and regulations remained the same the author mostly used the IOM review which has done in 2010 the author updated new and afterward changes and developments. The following seven laws and regulations, which are summarized in brief, are the most important lows and regulations related to remittance, its channels and market.

1) The Afghanistan Bank Law (2003)[23]:

This law Introduced in December of 2003 and enacted in February of 2004, the Law of Da Afghanistan Bank granted autonomy to Da Afghanistan Bank and outlined the specific responsibilities and obligations of DAB as the central bank of Afghanistan. This law further bolstered the capacity of DAB to perform banking oversight and monetary policy functions. The following key responsibilities of DAB are outlined in the Law: 1) to develop, adopt and implement monetary policy in Afghanistan, 2) to develop, adopt and implement foreign exchange policy and exchange arrangements, 3) to hold and manage Afghanistan's foreign exchange reserves, 4) to print and issue currency, 5) to act as the fiscal agent of the State, 6) to license, regulate and supervise banks, foreign exchange dealers, money service providers, payment system operators, securities service providers, securities transfer system operators and other financial actors required by law to be overseen by DAB and 7) to develop, maintain and promote systems for the clearing and settlement of payment and securities transfers.

2) Banking low of Afghanistan (2015)[24]:

(23)http://dab.gov.af/Content/Media/Documents/DABLaw1276201811345542655332532 5.pdf
([24])http://dab.gov.af/Content/Media/Documents/BankingLawofAfghanistanEnglishTranslation2276201811341492155332532 5.pdf

In 2003 the Law of Banking in Afghanistan established the legal framework for the operation of commercial banks in Afghanistan, it revised and updated in 2015 in order to meet the current needs of banking business in Afghanistan. It granted Da Afghanistan Bank (DAB) the authority to register, regulate and monitor commercial banking institutions, authorizing DAB to act as the central bank of Afghanistan responsible for overseeing the development and enactment of banking regulations. In addition, the law established the framework of licenses and permits required for legal establishment of a commercial banking institution, specified how banks should be organized, and established accounting and reporting guidelines for banks.

3) Afghanistan Anti-Money Laundering and Proceeds of Crime Law (2004)[25]:

This law was developed to bring Afghanistan into compliance with international treaties and conventions related to the monitoring and reporting of financial transactions. In so doing the Law on Anti-Money Laundering and the Proceeds of Crime sought to increase institutional capacities to protect the integrity of the Afghan financial system from potential misuse. The Law contains 75 articles, which importantly: 1) specify what constitutes a money laundering offence, 2) establish the institutions and professions subject to the law (namely financial institutions, DAB, lawyers, real estate agents), 3) establish a reporting framework related to the transfer of funds via financial institutions and electronic means, 4) establish standards for currency reporting at the border, 5) prohibit anonymous accounts, 6) specify standards for customer identification, 7) specify standards for monitoring of transactions and book-keeping and 8) establish standards for transaction reporting. The law further established the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA) as a financial intelligence unit (FIU) to support the detection of money laundering (IOM, 2010)

4) Afghanistan Law on Combating the Financing of Terrorism (2004)[26]:

Beside of Anti- Money Laundering law this law further specifies how abuse of the financial system via financing of terrorist activities will be treated and punished. Unlike the previous law, which provided extensive elaboration on supervision and monitoring frameworks, this law has few provisions that relate directly to reporting and documentation requirements of money service providers and other facilitators of remittances. Rather than fixing its focus exclusively on the financial system, this law is directed at individuals and organizations that provide financial support to terrorist activities. The law's 34 articles detail aspects such as scope and definitions, penalties and coercive measures for suspected financiers of terrorism (including provisions for confiscations and disposal of funds and properties), the jurisdiction of Afghanistan's courts, international cooperation and miscellaneous measures.

5) Regulation on Money Service Providers (2006)[27]:

The Regulation on Money Service Providers is the cornerstone of remittance channel regulation released by Da Afghanistan Bank. The regulation was first introduced in 2006 and has since been updated in 2009 and 2011, with

the latest amendments including specific provisions for electronic money institutions. The regulation, issued under the Law of Da Afghanistan Bank, is comprised of seven subsections: 1) authority, 2) issuance of license, 3) activities, 4) registry and supervision, 5) application

(25) http://dab.gov.af/Content/Media/Documents/AntiMoneyLaunderingandProceedsofCrimeLaw(last)304201895828593553325325.pdf
(26)http://dab.gov.af/Content/Media/Documents/CounterFinancingofTerrorismLaw(last)Old1572018135334801553325325.pdf
(27)
http://www.aba.org.af/pdf_view_server.php?file=./uploaded/pdf/regulations/Money%20Service%20Providers

requirements for an EMI license, 6) EMI operations and procedures and 7) EMI fees, charges and penalties. The 2011 update of the regulation introduced provisions explicitly for EMIs, which now make up half of the regulation.

The MSP regulation brought several important changes to the Afghan remittance market, the most obvious of which is a framework for formalization of traditional informal value transfer systems like *Hawala*. This regulation provided an explicit set of standards MSPsmust meet to acquire and maintain a license, which establishes the legal right for business operations. The regulation provides explicit guidance both on the criteria a business must meet to receive a license and on the reporting requirements MSPs face to maintain a license. This regulation incorporates elements of AML/CFT regulation, KYC requirements and other aspects of previous legislation and regulations into the MSP regulatory environment. The 2011 adjustments to this regulation saw the introduction of highly specific and restrictive requirements specifically for electronic money institutions. The second half of the regulation outlines the application, operational and reporting requirements levied on EMIs while specifying the penalties accompanying non-compliance.

6) **Regulation on Foreign Exchange Dealers (2008)[28]:**

This regulation provides explicit guidance for money exchange dealers through six parts: 1) general regulations and definitions, 2) issuance of licenses, 3) activities, 4) supervision, 5) enforcement and 6) miscellaneous and transitional provisions. Like the earlier MSP regulation, the regulation of FX dealers provides a list of criteria that a business must meet to obtain and keep a license. Within this regulation FX dealers are defined as any person who buys and sells foreign currencies, forward exchange contracts, options, swaps or other derivative contracts involving a foreign currency or who arranges for payment in a foreign currency. Based on recent changes of the regulation, FX dealers are allowed to carry the above mentioned narrow list of activities but Hawala business activities are wider and they are allowed to provide both money transfer services and foreign exchange dealing.

7) **Regulation on Domestic Payment Operations in Afghanistan (2010)[29]:**

The 2010 Regulation on Domestic Payment Operations in Afghanistan specifies how domestic payment operations in Afghanistan are facilitated and monitored, particularly through the interbank payment system (IPS) operated by DAB. This regulation establishes that the regulatory framework and regulatory oversight that applies to domestic payment systems is provided by DAB. As DAB operates the IPS, it is responsible for processing interbank payments, recording IPS transfers and reconciling interbank accounts, among other responsibilities. Within this regulation participation in the IPS is largely restricted to DAB and licensed banks, but other registered financial services can be included at the discretion of DAB. The regulation additionally specifies general provisions applying to domestic payment operations, specifications of IPS, payment by current and other bank accounts, payment services provided by the post office, risk management in the IPS and transitional provisions. As this regulation details the overall functioning of the domestic (interbank) payment system in Afghanistan, it has only limited implications for the transfer of remittances. While some transfers facilitated by the IPS may indeed be remittance transfers, registered banks are a small player in the remittance market and are generally not used by individual remitters.

([28]) http://www.aba.org.af/pdf_view_server.php?file=./uploaded/pdf/regulations/Foreign%20Exchange%20Dealers

([29])http://dab.gov.af/Content/Media/Documents/RegulationOndomesticpaymentoperationsinAfghanistan2422015143659115533253 25.pdf

Among all related laws and regulations the AML/CFT law and regulation on money service providers are most related to remittances. Impose of such laws need tight policies and procedures to be implanted by money service providers and Da Afghanistan Bank which increase the loads of managerial work and finally increase the cost of money transferring services. Most of money transfer service providers are based their offices on districts and they are not registered by DAB. They charge fewer fees than that Hawala business which are registered by DAB, because unregistered Hawala businesses don't provide monthly report to DAB and don't pay any cost if they cross the red line of rule and regulations. Therefore impose of most of rules and regulations are not applicable on most of Hawala businesses in Afghanistan. Due the rule and regulations don't put considerable impact on cost and flows of remittances outward and inward in Afghanistan.

6) The cost of remittance within SAARC region:

The author searched to find any papers or academic study on remittances from/to Afghanistan to/from SAARC member's countries and could not found any but based on personal communication with different channels there no exception or lower cost for sending and receiving remittances to these countries and general procedures are applicable. In Afghanistan no specific official step has been taken to reduce the cost of remittances yet but as data shows the corridor of Pakistan and Afghanistan is among the most expensive corridors of transferring fund through banks and MTOs.

7) Policy recommendations

- ✓ Key remittance corridors such Iran – Afghanistan, Pakistan – Afghanistan, and emerging remittance corridors such United Arab Emirates and Afghanistan and Saudi Arabia – Afghanistan should be explored to better understand potential volumes of incoming and outgoing remittance flows. It is also needed to understand better the remittances flows from developed countries such United States, Australia, New Zealand and European countries to Afghanistan. Although the remittances with SAARC finance countries except Pakistan is negligible but it worth to understand the potential and cost of remittances between Afghanistan and those countries and vise versa.
- ✓ AD Afghanistan Bank should plan and implement the policies to bring informal remittance service providers under monitoring although the security is a big challenge in this regard.
- ✓ Compliance of remittance and money s service providers with the introduced regulations should be investigated further in order to understand the effectiveness of the imposed rules and regulations.
- ✓ Money and remittance service providers currently record their transactions in conventional hard copy of notebooks which are designed by DA Afghanistan bank. They should be tracked in Software and electronic formats in order to be quick, transparent and easy for providing the required reports.
- ✓ In the last decade bilateral labour migration agreements signed by Afghan government and some of the gulf countries, Afghanistan should monitor how these

bilateralagreements affect economic migration and remittance flows. In addition, the possibilities for lowering the cost of remittances should be better take under consideration.

- ✓ Da Afghanistan Bank reports remittance information within the balance of payment, these data cover limited portion of remittance which flows through official channels while most of remittances transfers by unregistered Hawala business. Da Afghanistan should widen its coverage of data by registering of all unregistered Hawala business.
- ✓ By decreasing the inflow of aid and international financial assistance the remittances are the best substitute to ease dealing to the shortage of foreign currency, and poverty in Afghanistan therefore, government of Afghanistan should encourage Afghan migrants to send more remittances in Afghanistan through decreasing its cost and Afghan Diaspora focused information sharing and marketing.

Reducing the Cost of Cross-Border Remittances

in SAARC Region:

Bangladesh Country Report

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[This report has been prepared as part of the SAARCFINCANCE Collaborative Study on "Reducing the Cost of Cross-Border Remittances in SAARC Region"]

January, 2019

1. Introduction

In the context of Bangladesh, overseas employment and remittance earnings from its labor market has significantly played a dynamic role in boosting up the national economy. According to World Bank (2018), Bangladesh is ranked as eleventh in the world for remittance inflow based on the information of 2018 and the third largest remittance earner in South Asia. With some minor exceptions the inflow of remittances has always been on upward trend. In terms of remittance flows, similar to most of the developing countries, Bangladesh is a net receiver with most of the remittance is coming from Saudi Arabia, UAE, USA, Kuwait, Malaysia, and UK. During 1976 to 2018 nearly 12.2 million Bangladeshi overseas employees have sent 192 billion USD as workers' remittance (BMET, 2018). The United Nation statistics reports that in 2017 there were 7.5 million expatriats from Bangladesh were living in another country ("diaspora") compared to 5.4 million in 2000. Among South Asian countries Bangladesh has the second highest number of diaspora.

The remittance sent by the migrants and the overseas workers plays a vital role in the economy of Bangladesh. It serves as a robust source of foreign exchange, helps stabilizing the exchange rate movements and balance of payment. The reduced aid dependency in Bangladesh is oftentimes considered as an outcome of the sustained remittance growth. At micro level, remittance has a beneficial impact on household consumption, reducing poverty reduction and self employment. It also improves country's creditworthiness (Begum and Sutradhar 2012). Remittances have been more stable source of foreign earnings than both FDI and foreign aid.

Study (World Bank, 2018) implies that remittance sending costs are higher for bank-to-bank channels compared to MTO-to-bank models. For SAARC region except Maldives-Bangladesh corridor all the corridor transactions are done through bank-to-bank model and for that reason cost of sending remittances are pretty high. Bangladeshi banks have a significant numbers of remittance arrangements with MTOs of Middle East countries like KSA and UAE that created a greater competition amongst the MTOs to reduce the remittance costs. Remittance costs should continue to fall under the influence of increased competition and better technology. Large MTOs like Western Union, MoneyGram, and Ria may have considerable latitude to reduce fees while maintaining reasonable profit margins. But In corridors where costs are already low, further decline may be modest; but elsewhere there is scope for significant decline. Raising consumer awareness through financial literacy efforts and publicizing information on costs may strengthen competition among remittance service providers.

2. Literature Review

A large body of academic literature is available regarding the nexus between remittance and economic growth, development, poverty reduction and social factors. There also exist numerous studies on the determinants and the factors affecting the flow of workers' remittances.

Siddique, Selvanathan and Selvanathan (2012) found that growth in remittances does lead to economic growth in Bangladesh. In India, no causal relationship between growth in remittances and economic growth was found by them. But in Sri Lanka, a two-way directional causality was found— namely economic growth influences growth in remittances and vice-versa. However, Paul, Uddin and Noman (2011) found that remittances do not appear to be a long-run forcing variable to the explanation of Bangladesh's output. Akter (2018) opined that there is a positive effect of remittances on gross savings for Bangladesh and Philippines although an insignificant negative effect for India.

The cost of remittance attained policy importance at the global scale after the adoption of "*Transforming our world: the 2030 Agenda for Sustainable Development*" in 2015 by the United Nations. Reducing the cost of remittance is included as *Goal-10.C* under "*Sustainable Development Goal 10: Reduce inequality within and among countries*" which implies— "*by 2030, reduce to less than 3 percent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 percent*" (UN, 2018). The World Bank monitors and estimates the cost of cross-border remittance for several selected corridors and reports through their *Remittance Prices Worldwide* database. The database reports that funding and disbursing remittance through bank accounts remains most expensive; while providing remittance services through mobile money is the least expensive medium.

There is a positive relationship between number of migrants and remittance received by a country (Kock and Sun, 2011). This straight argument also implies that increased competition among remittance service providers in the host country with significantly large number of immigrants is likely to reduce the cost of remittance (Beck and Pería, 2011; Ratha, 2013). Ahmed and Martínez-Zarzoso (2016), and Freund and Spatafora (2005) argues that higher cost either induces lower flow to home country or increases fund transfer through informal sector.

The factors such as market competitiveness and number of migrant workers in the host country are mostly exogenous to the home country. Thus reducing cost of remittance oftentimes is difficult to reduce by the home country's sole initiatives. However, special initiatives in the host country may result in reducing the cost. For instance, after the onset of an exchange house in UK by a Bangladeshi bank has significantly reduced the cost and increased the amount of remittance flow from UK to Bangladesh.

3. Review of Remittance and Remittance Related AML/CFT Regulations

Bangladesh started manpower export since 1976 (BMET, 2018). Most of the manpower is exported in the Middle-East countries. More than half of the country's remittances come from the Middle-East countries. The flow of remittances increased by around 90% in last ten years. To keep these remittances in banking and legal channel, commercial banks and exchange houses are playing vital roles.

In order to ensure inward remittance flow, drawing arrangement between foreign exchange houses needs to be approved by Foreign Exchange Policy Department of Bangladesh Bank. With a view to ensuring close monitoring and more effectiveness of such drawing arrangements, Bangladesh Bank has formulated a conducive policy named "Policy regarding the establishment of Drawing Arrangement between the Exchange House abroad and the Bank operating in Bangladesh" published vide Circular Letter No.-FEPD (LDA-1)147/2007-1468, October 29, 2007.

Features of the policy:

A. <u>Eligibility of Exchange House:</u>

- The company must possess the license from the Central Bank or concerned regulatory authority of the country of origin to carry out money transfer business.

- The company must possess the necessary license/approval/certificate from other authorities' viz. ministry of commerce and industry, ministry of justice, chamber of commerce and industry, registrar of companies, municipality to carry out money transfer business.

- The name of company must reflect/signify its engagement with money transfer business viz. money transfer, exchange, remittance etc. Owner(s)/Director(s) of the exchange company must be the citizen (or Foreigner other than Bangladeshi) or be the permanent resident of that country.

- While considering approval, preference is considered. In order to prevent money laundering activities under legal cover of existing approved drawing arrangements, yearly limits have been prescribed.

B. <u>Compliance for Exchange Houses:</u>

- In order to remit money, the company must follow the exchange rate quoted by the Bank concerned.

- The company must confirm deposit of cover fund to NOSTRO account of the concerned Bank within 24 hours of the receipt of remittance from the remitters.

- The company must not use monogram of Bangladesh Bank or words viz. "approved by Bangladesh Bank" in its publicity campaign to attract remitters.

- The company is not allowed to carry out remittance business through sub-agent(s) appointed by company. Specific approval must be obtained in case of procurement of money for remittance from different countries under one drawing arrangement.

- The concern must strictly comply/follow with/the existing rules and regulations while transacting or sending remittance to Bangladesh.

C. <u>Compliance for Bank(s):</u>

- To establish drawing arrangement the bank must collect copy of license/approval letter issued by the Central Bank or from other relevant authority of the country, credit report from any reputed credit agency, 3 years audited financial statements, profile of directors/owners of the company, memorandum and articles of association etc to prove the eligibility of the company. Bank will collect comments/certificate/report (which must be found favorable) of the Embassy/High Commission of Bangladesh in the relevant country.

- After all the due diligence the concerned Bank may apply for the approval of Remittance Arrangement to Foreign Exchange Policy Department of Bangladesh Bank.
- The Bank should have an Agreement of Drawing Arrangement with the Exchange House in line with the terms and conditions outlined in the Letter of Approval/DA policy. That means the terms and conditions outlined in the Letter of Approval/DA policy should be incorporated in the Agreement.
- No such clause should be inserted in the Agreement which conflicts with the terms and conditions of the Letter of Approval/DA policy.
- Payment shall be made to the beneficiary by debiting the company's NRTA account only after confirmation of the deposit of cover fund with equivalent foreign currency against the remittance sent in the Bank's NOSTRO account.
- Under no circumstances, overdrawn facility would be allowed in the account of exchange house and no lead-time facility would be given.
- As the companies shall follow the exchange rate quoted by the bank for sending remittance, the bank must ensure intimation of the exchange rate regularly to the company. The remittance received through Drawing Arrangement should be disbursed within the prescribed time limit (i.e., two working days).
- The Bank must be cautious of strict compliance of rules and regulations relating to prevention of money laundering and maintain the standard of customer service.
- Reporting of statement(s) must be accurate and in time which should be ensured.

D. Security Deposit:

Considering extreme risk involvement, following amounts has been fixed as reasonable amount under different drawing arrangement systems:

Types of Security	Draft Drawing (DD/TT/etc)	Electronic Fund Transfer (EFT)	Pin Code
1) Bank Guarantee/ Cash Deposits (NRD A/C or Term Deposit)	USD 50,000/-	USD 10,000/-	USD 50,000/-
2) NRT A/C	BDT 1 mil	BDT 0.20 mil	USD 25,000/- equivalent BDT

E. Disbursement procedure:

- Existing disbursement procedure of inward remittance among beneficiary through the scheduled bank branches should be followed.
- Instant cash payment: Disbursement of remittances under instant cash payment must be pre-funded.

Outward Remittance:

Barring a few remittances of special nature, most outward remittances either in its entirety or upto a certain limit set by Bangladesh Bank may be approved by the Authorized Dealer banks, following declaration of Taka as convertible for current account payments from March, 1994. However, the limits of release of foreign exchange set forth are indicative; all bonafide requests beyond these indicative limits and payment transfer requests for a current international transaction not specifically included are accommodated by Bangladesh Bank upon establishing the bonafides of the expenses.

All remittances from Bangladesh to a foreign country or local currency credited to non-resident Taka accounts of foreign banks or convertible Taka account constitute outward remittances of foreign exchange. ADs must exercise utmost caution to ensure that foreign currencies remitted or released by them are used only for the purposes for which they are released; they should also maintain proper records for submission of returns to Bangladesh Bank as also for the latter's inspection from time to time.

Highlights on

Regulation and Institutional Infrastructures for Remittances in Bangladesh

- To facilitate the delivery of remittances Bangladesh Bank is encouraging the expansion of drawing arrangements between commercial banks and foreign exchange houses. BB has simplified the approval procedure of drawing arrangements between foreign exchange houses and domestic banks. Currently there are 1225 drawing arrangements between foreign exchange houses and domestic banks.
- In case of drawing arrangements through Electronic Fund Transfer (EFT) method the security deposit required for establishing drawing arrangements has been reduced from USD 25,000 to USD 10,000 and the required balance to maintain Nonresident Taka Account (NRTA) for exchange houses been reduced from BDT 500,000 to BDT 200,000 since December 2016. This policy change is likely to increase the emergence of new drawing arrangement and enhance the scope of remitting through formal channel.
- To reduce transfer fee and exchange rate margin commercial banks have been instructed to avoid any terms, while making agreements with international remittance service providers, that can induce monopoly and limit competition. Better competition is an important tool for reducing cost.
- 29 Bangladeshi bank owned MTOs are in operation in different countries for collecting remittances from the Non-Resident Bangladeshis.
- Decentralization of remittance service across the country can largely reduce the cost. Apart from banks 26 microfinance institutions (MFIs) and national postal agency have been given permission to provide remittance delivery service through their branches.

- Disbursing remittance is least expensive through mobile financial window. Till the date, 18 banks have started disbursing remittance through mobile banking accounts.
- To expedite the disbursement maximum time allowed to complete the remittance procedure under drawing arrangement has been reduced to 2 working days from 72 hours.
- Every scheduled bank has been instructed to setup a "Remittance Help Desk" in every branch.

AML/CFT Regulations

In Bangladesh anti-money laundering and combating financing of terrorism (AML/CFT) issues are dealt with *Money Laundering Prevention Act (MLPA) 2012* and *Anti Terrorism Act (ATA) 2009*. Bangladesh Bank's Bangladesh Financial Intelligence Unit (BFIU) is the AML/CFT regulator in the country. To comply with the international requirement and national laws BFIU frequently reviews the existing guidelines for the prevention of money laundering and terrorist financing through the financial system. In addition to the "*Guidelines on Money Laundering & Terrorist Financing Risk Management*", BFIU has separate "*Money Laundering and Terrorist Financing Risk Assessment Guidelines*" for the banks, financial institutions, designated non-financial businesses and professions, postal remittance business, capital market intermediaries, and NPO/NGO sector. The purposes of these guidances are to outline the legal and regulatory framework for AML/CFT requirements and systems across the financial services sector.

The bank-led remittance service market in Bangladesh serves as an indirect shield against AML/CFT risks involved in overseas money transfer. In case of bank-to-bank remittance transactions AML/CFT risks at the customer level are addressed with the help of proper implication of KYC and transaction profile norms. Identity of the beneficiary is verified at the time of disbursement of remittance when the transaction is made through MTO window. BFIU's surveillance is also in place to identify potential cases of money laundering and terrorist financing.

4. The Flow and Cost of Remittance Services in Bangladesh

Bangladesh joined in the 10 billion USD club of remittance inflow in FY10. Amount of remittance inflows in has risen nearly fourfold since 2005-06, reaching BDT 1,231.56 billion in 2017-18. Workers' Remittance to Bangladesh is heavily dependent on three Middle East countries— Saudi Arabia (KSA), the United Arab Emirates (UAE) and Kuwait. These three countries contributed to 42 percent of the wage earners' remittance to Bangladesh in 2017-18 (BB, 2018).

Table 1: Remittances inflow to Bangladesh

Fiscal Year	Amount (In billion taka)	Growth Rate (%)	Share in GDP (%)
2005-06	322.15		6.68
2006-07	412.99	28.2	7.51

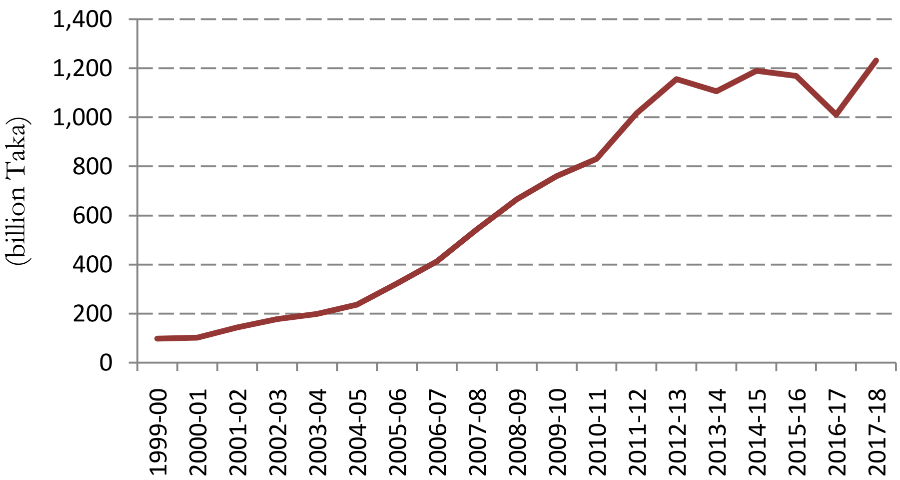
2007-08	542.95	31.5	8.64
2008-09	666.77	22.8	9.44
2009-10	760.11	14.0	9.52
2010-11	830.09	9.2	9.05
2011-12	1,015.92	22.4	9.63
2012-13	1,156.46	13.8	9.64
2013-14	1,105.82	-4.4	8.21
2014-15	1,189.82	7.6	7.87
2015-16	1,168.57	-1.8	6.76
2016-17	1,010.99	-13.5	5.12
2017-18	1,231.56	21.8	5.47

Source: Statistics Department, Bangladesh Bank

In the fiscal year 2017-18, the remittances sent to Bangladesh by its migrant workers were BDT 1,231.56 billion (see Table -1) which was 21.8% higher than the previous year.

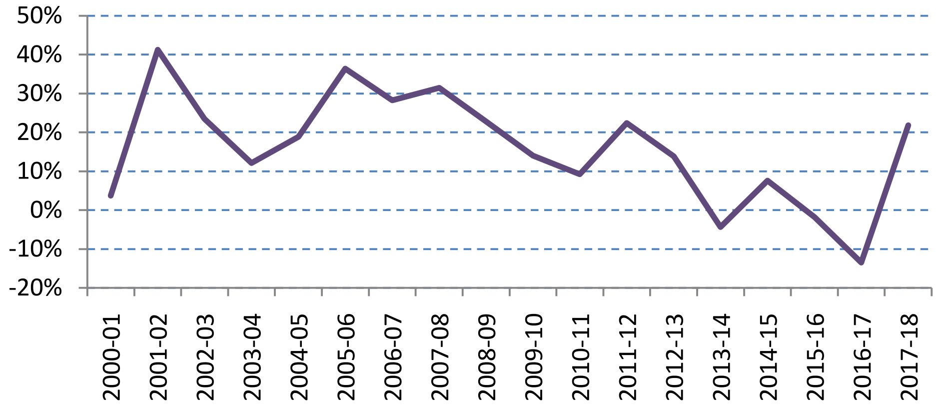
Due to political instability in some Middle East countries, increased use of informal channels, return of a large number of Bangladeshi expatriates, global economic recession that decreasing recruiting Bangladeshi workers and depreciation of Euro and British Pound after Brexit, etc. the growth rate of remittances of Bangladesh has been declined in last few years. However, it has rebounded in 2017-18. The trend in worker's remittance inflow and remittance growth rate are reflected in Figure 1 and Figure 2 consecutively.

Figure 1: Workers' Remittances to Bangladesh



Source: Statistics Department, Bangladesh Bank

Figure 2: Growth Rate of Workers' Remittances to Bangladesh



Source: Statistics Department, Bangladesh Bank

The remittance inflows gradually increased its share in GDP in Bangladesh. We can observe in Table-1 that remittances' share in GDP was 6.68 percent in 2005-06 which reached the peak in 2012-13 at 9.64 percent. However, in 2015-16, the share of remittance inflow in GDP declined to 6.76 percent. In 2016-17 the share of remittance inflow in GDP further declined to 5.12 percent which rebounded slightly in 2017-18.

Large part of net current transfer in Bangladesh consists of workers' remittance. As we can observe in Table-2 that worker's remittances as percentage of net current transfer has always remained over 90 percent since 2006-07. This robust share of workers' remittance in current transfer signifies remittances' contribution in balance of payment in Bangladesh.

Table-2: Worker's Remittances as percentage of Total Current Transfer

(in billion Taka)

Fiscal Year	Net Current Transfers			Workers' Remittances	Worker's remittances as percentage of net current transfer
	Official	Private	Total		
2001-02	18.90	143.77	162.67	143.64	88.3%
2002-03	21.58	177.29	198.87	177.29	89.1%
2003-04	21.44	198.47	219.91	198.74	90.4%
2004-05	27.07	238.44	265.51	236.25	89.0%
2005-06	36.68	321.96	358.64	322.15	89.8%
2006-07	40.04	412.70	452.74	412.99	91.2%
2007-08	40.18	542.97	583.15	542.95	93.1%
2008-09	2.52	677.16	679.68	666.77	98.1%
2009-10	8.65	780.01	788.66	760.11	96.4%
2010-11	10.47	840.13	850.60	830.09	97.6%
2011-12	8.29	1,019.83	1,028.12	1,015.92	98.8%
2012-13	5.17	1,195.20	1,200.37	1,156.46	96.3%
2013-14	6.15	1,154.25	1,160.40	1,105.82	95.3%
2014-15	5.95	1,228.89	1,234.83	1,189.82	96.4%
2015-16	5.32	1,195.73	1,201.05	1,168.57	97.3%
2016-17	3.438	1,051.72	1,055.16	1,010.99	95.8%
2017-18	5.126	1,269.18	1,274.30	1,231.56	96.6%

Source: Statistics Department, Bangladesh Bank

Remittance Inflows from SAARC countries

Remittances sent by Bangladeshi workers employed in other SAARC countries for past five fiscal years have shown in Table-3. The highest amount of remittances was sent from Maldives throughout the previous calculated years. The total amount of remittances received by Bangladesh from SAARC countries increased gradually from USD 48.8 million in 2011-12 to USD 79.4 million in 2015-16 and showed decline in 2016-17 and 2017-18. The total amount of remittances received by Bangladesh from SAARC countries is very small compared to the remittances received from rest of the world which explains the low dependency of Bangladesh toward the region in terms of remittances. Figure 3 exhibits the share of remittances received from SAARC region compared to the total volume of remittances received by Bangladesh from 2011-12 through 2017-18. The remittance received by Bangladesh from all SAARC countries as a percentage of total remittance received registered highest at 0.53 percent in 2015-16.

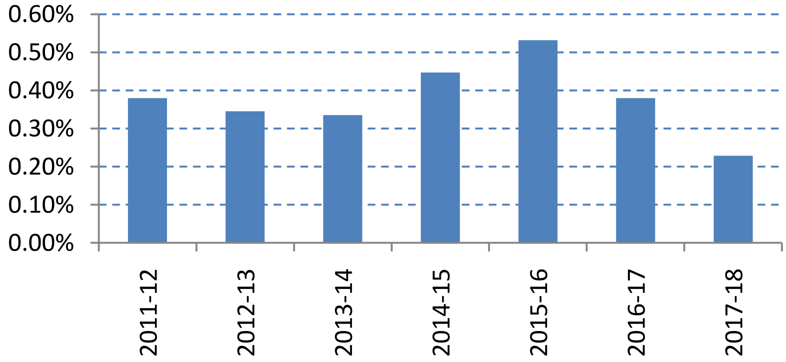
Table-3: Inward Remittances (Wage Earner's) from SAARC Countries

(million USD)

SAARC Countries	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Afghanistan	1.8	1.6	1.4	0.8	1.1	0.7	0.6
Bhutan	0.1	0.1	0.1	0.0	0.1	0.1	0.1
India	3.2	3.8	5.2	6.4	3.9	3.8	5.0
Maldives	39.6	38.2	39.0	58.9	65.1	40.3	25.5
Nepal	0.3	0.9	0.3	0.8	5.8	1.7	1.0
Pakistan	3.1	4.7	1.1	1.3	2.8	1.4	1.3
Sri Lanka	0.7	0.6	0.6	0.3	0.6	0.5	0.8
Total	48.8	49.9	47.7	68.5	79.4	48.5	34.3

Source: Statistics Department, Bangladesh Bank

Figure 3: Remittance from SAARC Countries as Percentage of Total Remittance Received



Source: Statistics Department, Bangladesh Bank

Table-4: Outward Remittances (Wage Earner's) to SAARC Countries

(million USD)

SAARC Countries	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Afghanistan	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bhutan	0.0	0.0	0.04	0.04	0.05	0.07	0.08
India	4.2	0.9	8.39	10.50	13.91	17.96	22.03
Maldives	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nepal	0.0	0.0	0.02	0.00	0.03	0.03	0.02
Pakistan	0.8	0.0	1.04	1.16	1.56	1.47	1.40
Sri Lanka	0.4	0.0	1.20	1.65	3.33	3.14	3.15
Total	5.4	0.9	10.7	13.4	18.9	22.7	26.7

Source: Statistics Department, Bangladesh Bank

Remittance Outflows to SAARC countries

Despite every other SAARC countries are net receivers of remittances, remittance outflows from Bangladesh to its SAARC neighbors are very small compared to what the country receives from the region. Among SAARC countries India and Sri Lanka capture most of the remittance outflow from Bangladesh while Afghanistan, Maldives and Nepal register no or negligible amount of outward remittance received over the period from 2011-12 to 2017-18 (see Table-4).

The Cost of Remittances to Bangladesh

With an attempt to compare remittance cost Table-5 furnishes the cost of remitting every USD 200 and USD 500 from India and Pakistan— two of Bangladesh’s South Asian neighbors, and Saudi Arabia and Malaysia— two of the main sources of workers’ remittance in Middle East and East Asia using the World Bank data. The data presented in the Remittance Prices Worldwide database of World Bank includes several aspects of remittance costs. In this section total average fee has been included for the analysis and exchange rate margin has not been considered.

Cost of Remittances from India: The cost of remittances for every USD 200 and USD 500 sent from India to Bangladesh increased until second quarter of 2017 and showed a steady decline in the successive two quarters. In the second quarter of 2016 the cost of sending remittances from India for every USD 200 and USD 500 was USD 7.91 and USD 8.28 US dollar consecutively. The cost of sending per USD 200 and USD 500 as remittance has decreased to USD 5.26 respectively in third quarter of 2018. The relative cost of sending per USD 200 from India to Bangladesh has always been higher compared to that of the cost of sending USD 500.

Cost of Remittances from Pakistan: The cost of sending remittances from Pakistan is highest in Table-5. Each quarter of the year 2016 through 2017 showed that the cost of sending remittances from Pakistan has increased. The cost registered USD 20.95 and 21.39 in the third quarter of

2016 for sending every USD 200 and USD 500 respectively; which increased gradually to USD 25.58 and USD 26.84 in fourth quarter of 2017. The cost reduced slightly to USD 23.41 and USD 25.17 in the third quarter of 2018 for sending every USD 200 and USD 500 respectively.

*Cost of Remittances from Saudi Arabia:*The costs associatedwith the remittances received from Saudi Arabia remained stable over the period in Table-5. Initially the cost of remittances remained roughly the same first four quarters (Q2, 2016-Q1, 2017). In the second quarter of 2016 the cost of sending remittances from Saudi Arabia for every USD 200 and USD 500 was USD 4.70 and USD 4.71 respectively. In the second quarter of 2017 cost of sending the same amount of remittances increased to USD 5.00 and USD 5.01 respectively. In third quarter of 2018 the cost reduced to USD 4.52 and USD 4.53 respectively for remitting USD 200 and USD 500. The relative cost associated with sending USD 200 is substantially higher compared to that of sending USD 500 from Saudi Arabia.

*Cost of Remittances from Malaysia:*The costs of remitting USD 200 and that of USD 500 also showed a gradually declining pattern increasing pattern in Table-5. In the second quarter of 2016 the cost of sending remittances from Malaysia for every USD 200 and USD 500 was USD 4.96 and USD 5.81 respectively; which registered USD 4.41 and USD 5.03 in the third quarter of 2018.

Table-5: Remittance Cost to Bangladesh per USD 200 and USD 500

(in USD)

Period	India		Pakistan		Saudi Arabia		Malaysia	
	$200	$500	$200	$500	$200	$500	$200	$500
Q2,2016	7.91	8.28	18.48	-	4.70	4.71	4.96	5.81
Q3,2016	8.40	8.39	20.95	21.39	4.67	4.68	4.96	5.83
Q4,2016	8.40	8.39	20.78	21.01	4.67	4.68	4.96	5.83
Q1,2017	8.87	8.86	21.15	23.46	4.67	4.68	4.81	5.62
Q2,2017	9.62	8.86	21.75	24.01	5.00	5.01	4.81	5.62
Q3, 2017	6.47	6.46	23.79	25.55	5.00	5.01	4.59	5.38
Q4, 2017	6.47	6.46	25.58	26.84	4.23	4.24	4.25	4.93
Q1, 2018	8.47	8.46	21.64	23.40	4.48	4.49	4.27	4.95
Q2, 2018	4.79	4.79	21.64	23.40	4.52	4.53	4.45	5.16
Q3, 2018	5.26	5.26	23.41	25.17	4.52	4.53	4.41	5.03

Source: The World Bank, Remittance Prices Worldwide, available at http://remittanceprices.worldbank.org

Both Saudi Arabia and Malaysia hosts large number of Bangladeshi migrant workers and several Bangladeshi exchange houses are operating under drawing arrangement in those countries. Such exchange houses play an active role in bringing the cost down by offering low fees and low (sometimes negative) exchange rate margin.

5. The Impediments for Lowering the Cost of Remittance within SAARC Region

As mentioned on the literature review, remittance cost tends to be low in countries that hosts large number of immigrant worker. Remittance inflow to Bangladesh from SAARC region registers at USD 34.3 million compared to USD 15 billion of total remittance received during 2017-18. Such insignificant volume of remittance is actually a structural impediment to the plausible high cost. On the other hand the foreign exchange regime and existing regulations oftentimes serves as implicit barriers to flow of inward/outward remittance within the region. Higher integration and mobility within the region would thus enhance the opportunity to reduce remittance cost.

6. Steps Taken by Bangladesh for Reducing the Cost of Cross-Border Remittance

Considering average costs across all types of institutions, it is found that corridors with larger numbers of migrants and more competition among remittances service providers exhibit lower costs. On the other hand, remittance costs are higher in richer corridors and in corridors with greater bank participation and highly regulated remittance market. The new corridors where the number of MTOs existence is less, remittance costs tend to be high and it reduces as new remittance arrangements come into place. It has been mentioned earlier that receiving countries have limited scope of reducing the cost of cross-border remittance since most of the cost is added at point of transfer, i.e. in the host country. However, to promote a wage-earner friendly remittance services in the country Bangladesh Bank has taken several initiatives which are described below—

Competition in the remittance market could be increased by lowering capital requirements on remittance services and opening up postal, banking, and retail networks to nonexclusive partnerships with remittance agencies. Bangladesh Bank has reduced the security deposit requirement for the exchange houses abroad to establish drawing arrangement with local banks. For better control on the remittance collection and reduction of sending costs, Bangladeshi banks have established a large number of MTOs as their subsidiaries abroad.

An exclusive arrangement between MTOs and individual banks is another barrier for competitive remittance service market. In Bangladesh banks are strictly prohibited to make exclusive arrangements with MTOs. To spread the service microfinance institutions (MFIs) are being encouraged to provide remittance services. Bangladeshi banks are now using the branch networks of the MFIs and Post Offices as the sub-agent for remittance distribution. Remittances are also distributed through Agent Banking like Singer Bangladesh Limited outlets.

Disseminating data on remittance fees and establishing a voluntary code of conduct for fair transfers would improve transparency in all tend to keep fees high remittance transactions. Bangladesh Bank through its website disseminates the latest information about the MTOs tied with Bangladeshi Banks for remittance facilities.

In countries with exchange controls, efforts to align the official and the market exchange rates would reduce the foreign-exchange spread in remittance transactions. Although Bangladesh is under the floating exchange rate regime, Bangladesh Bank regularly monitors its currency value to protect the remitters' interest.

Lack of access to technology-supporting payment and settlement systems can facilitate high cost of remittance services. In addition to the bank branches Bank ATM booths are now being used to withdraw remittance. Mobile Financial Services are also available for distribution of remittances. Technology driven online remittance platforms are being encouraged by the central bank.

7. Policy Recommendations

According to the World Bank published report titled "*Remittance Prices Worldwide, Issue 27, September 2018*" the global average remittance price was 6.94 percent in the third quarter of 2018. However, South Asia remains the cheapest receiving region, with an average cost of 5.40 percent. Clearly there is no room for complacency in attempts to achieve the SDGs' targets for reducing remittance costs. Remittances to South Asia are projected to increase by 13.5 percent in 2018, a faster pace than the 5.7 percent growth seen in 2017 (World Bank (2018)). Banking regulations (related to AML/CFT) raise the risk profile of remittance service providers and thereby increase costs for countries such as Afghanistan (World Bank (2018)).

Considering the economic status of South Asian remitters such average cost is still an issue. The flow of remittance between several SAARC countries is very low compared to their total amount and the costs of cross-border remittance tend to be high as well. There are certain aspects that SAARC counties can work on to reduce the cost of cross-border remittance, such as—

Liberalizing cross-border remittance regulations for wage earners:

Mobility and migration have been increased within SAARC region. SAARC member countries need to come up with policy actions that can benefit the sender and beneficiary of remittances.

Bilateral Arrangements:

Bilateral agreements and arrangements might help to reduce the cost of cross-border remittance within SAARC region. In case of high-volume and high-cost corridors within the SAARC region, countries can enact bilateral arrangements to cope with the remittance service demand. Bilateral arrangements can be made by means of regulatory exemption or relaxation, opening new exchange houses and introducing convenient payment options.

Increased competition:

Allowing more drawing arrangements to be operated and policies that help to reduce monopolization will lower the cost of cross-border remittance to an acceptable level.

Promoting mobile banking for remittance service:

According to the World Bank, during the third quarter of 2018, funding and disbursing remittance through mobile banking service was 2.54 percent and 1 percent lower respectively compared to funding and disbursing remittance through bank accounts[30]. With this perspective promoting mobile banking for remittance service has a scope of reducing costs.

Providing incentive:

Providing direct or indirect incentives for sending remittance can induce money transfer through legal channel which in turn can help the market to reduce the transaction cost.

Customer awareness:

Customer awareness and promotion of available remittance services can help to reduce cost by allowing the consumers to choose among least costly and more convenient means of remittance. Customer awareness also helps to form a competitive market for remittance.

[30] The World Bank, Remittance Prices Worldwide, available at http://remittanceprices.worldbank.org

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Country report on Cross Border Remittance (Bhutan)

Introduction

The global remittance was recorded at US $ 613 billion for the year 2017 (World Bank, 2018) and the international migrants (including refugees) was estimated at 258 million. The remittance from migrants are growing and it has helped in elevating poverty for number of countries. As remittance depends on the flow of people that are more stable than the capital flows in money market, remittance are expected to be more stable and the stabilizing component of external resources received by the developing countries. The sustainability of remittance depends on the migration pressure of the supplying countries and the evolution of migration policies from the demanding countries (Solimano, 2003).

However, the remittance in Bhutan includes foreign aids, grants, etc. initially received from the first five year plan (1961). It has been less than a decade since the country started received remittance from migrants. There is significant number of labour migrants from neighboring countries working in Bhutan who sends remittance mostly in cash. A cash transaction is prevalent with the neighboring country (India), but with the advancement in financial technologies, people are migrating from cash based society to digital banking that could change the remittance scenario in the country. (Jamtsho, 2018)

Remittance highly depends on the cost aside from other factors such as access to banks and money transfer operator (MTO). No official record can be presented on the informal remittance received from abroad by individuals and entities. The majority of the remittance cost is determined by those country from where the remittance originates. The migrants with high level job from advanced economy are channeling through banks for remittance than those employed in emerging and gulf countries. Bhutan's share of remittance among SAARC[31] nation will be less than a hundred thousand dollars ($ 100,000/-) if only remittance from migrants is to be considered.

[31] SAARC: South Asian Association for Regional Co-operation.

This report focus on the overall fund flows and specifically with the SAARC member's countries to better understand the volume of remittance per year. It further explains the cost involved in remittance and the associated channels for remittance.

Related Literature

Remittance by definition is understood as a sum of money sent or received as a payment or gift. Remittance is mostly determined by the demand and supply of labour and flow of migrants towards the developed and Gulf countries. Yoshino, Hesary, & Otsukan (2017) has studied that 1% increase in international remittance as a percentage of the GDP can lead to decline in poverty gap ratio of 22.6% and 16.0% of poverty severity ratio based on the 10 Asian developing countries from 1981 to 2014.

The flow and cost in remittance highly depends on the volume of remitter. Remittance in Pakistan is largely contributed by increase in work migration that boost the remittance (Kock & Sun, 2011). The important and distinct channel for spillover effects from global economy to emerging and developing countries are presented through remittance (Barajas, Chami, Ebeke, & Tapsoba, 2012). The remittance increase in responds to adverse exogenous shocks such as natural disaster or large decline in trade of the recipient countries, however, it is negatively correlated with the business cycle (Bettin, Presbitero, & Spatafora, 2017). Nepalese remittance account nearly 30% of the GDP for 2015 (Spohn, 2016) from the overseas after it was hit by earthquake.

The informal remittances among the developing countries account for 35-37 percent of the official remittance due to cost of the transaction that is systematically related to concentration in banking sector and volatility of exchange rate. (Freund & Spatafora, 2005).World Bank (2018), reports that the remittance cost remains flat at 7.1 percent for the first quarter of 2018 among the Low and Middle income Countries (LMIC), but the cost in Southeast Asian countries is recorded lowest with 5.2 percent among the LMIC. It was observed by Beck & Pería (2011) that the cost of remittance is lower in those corridors with large number of migrants and where there is more competition among the remittance service providers. Ahmed & Martínez-Zarzoso (2016) found that the effect of transaction cost on remittance flows is negative and significant, it was concluded that the higher cost will either refrain migrant's from remitting money back to their home or to channel through informal sector.

It was surveyed by Martinez (2005) that the scope of reducing remittance cost in developing countries is limited since larger part of the fees are set by those countries where transaction originates, moreover only few countries measures the informal channeling of remittance. It was understood from the literature on how the remittance in developing countries are routed due to higher concentration on financial institution. Begum & Sutradhar (2012) have drawn a positive relationship between regulatory and institutional arrangement to bring the flow of remittance from informal to formal channels in Bangladesh. The dependence on informal remittance in south Asia has been a concern to the government and regulators in preventing money laundering and illegal activities, it also hinders the effective promotion of productive financial intermediaries (Ozaki, 2012).

Increased competition among the money transfer services has resulted in substantial progress in reducing cost in high-volume remittance corridors, the price remain high in low volume corridors (Ratha, 2013). The relative rise in remittance fees might be the expenses incurred for implementing AML/CFT regulation by the financial institutions and money transfer agents. Moreover, there exist an important driver in determining the choice of payment channels, personal characteristics, country specific factor, cost, ease of use and the availability of remittance options(Kosse & Vermeulen, 2014).

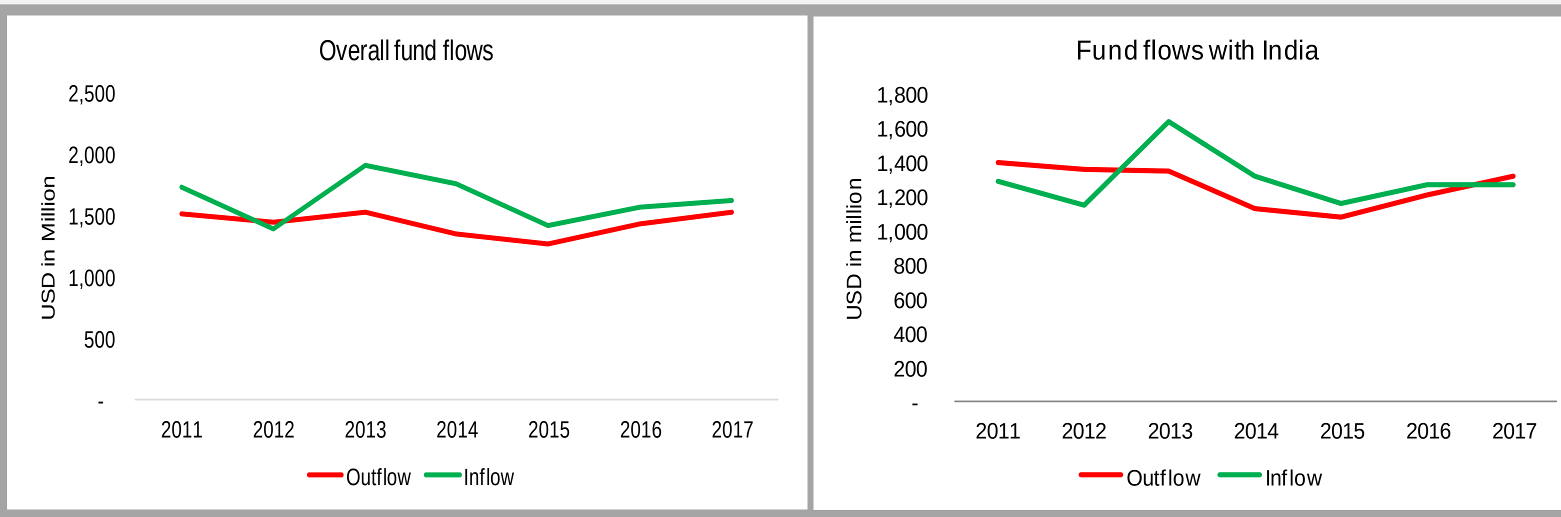
Review of AML/CFT Regulation.

Anti-Money Laundering and Combating the Financing of Terrorism rules and regulation 2018 was implemented under the power conferred by section 183 of the Anti-Money Laundering and Countering of Financing of Terrorism Act of Bhutan 2018. Under this regulation, the financial institution and Money Transfer Operator (MTO) have to duly fulfill the Customer Due Diligence (CDD) in recognizing the remitter or beneficiary, their source of fund and purpose of transfers. There is no threshold on remittance, however, the remitter or beneficiary have to maintain bank account in case of fund transferring/receiving via a banking channel. Money Transfer Operators have to maintain a record of the remitter or the receivers to ensure the compliance of Know Your Customer (KYC).

Data analysis

The report is based on the overall remittance data (including trade remittance) for the past seven years. The data was further segregated for SAARC remittance to better understand the flow and cost. Remittance from migrants for three years has been showed to indicate the growth over years. The major remittance comes in hydropower projects followed by grants, trade, etc. The individual remittance account 13% of the total remittance for the year 2017.

Figure 1: Overall Fund Flow



Source: Royal Monetary Authority of Bhutan

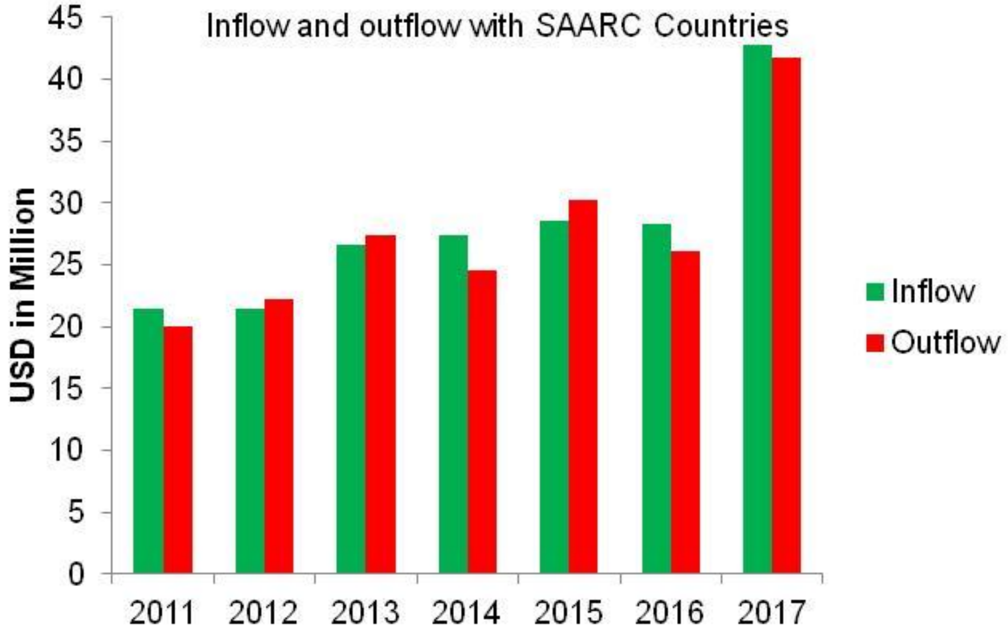
The overall fund flows illustrates the trend of inflow and outflow from and to Bhutan. In 2017, the total inflow was recorded at USD 1.62 billion up by 3% or USD 47.85 million from the previous year and the outflow of USD 1.53 billion. The overall fund flows has significant relationship with the funds flow with India. The highest inflow was received in 2013 of USD 1.92 billion of which 85% (USD 1.63[32] billion) of the total inflow was contributed by inward remittance from India in the form of aids, grants, etc. followed by USD 1.76 billion in 2014. The country also shares 80% of the trade transaction with India and the overall inwards remittance account 79% with outward remittance of 88%.

On an average, the inflow was recorded at USD 1.63 billion with decline rate of 18%. The negative growth rate indicates the withdrawal of foreign development partners from the country. The outflow remains less with USD 1.44 billion yearly, and the demand on foreign goods and services gradually declines on an average rate of 1%. Since, the

[32] Refer Exchange rate in table 5

inward remittance highly depends on foreign aids and grants, these inflows are uncertain in nature. In 2012, there was 25% (less USD 351.71 million) dropped in inflow compared to 2011 (USD 1.71 billion) and in 2013 it appreciates with 28% mainly due to the implementation of 11th Five Year plan in Bhutan.

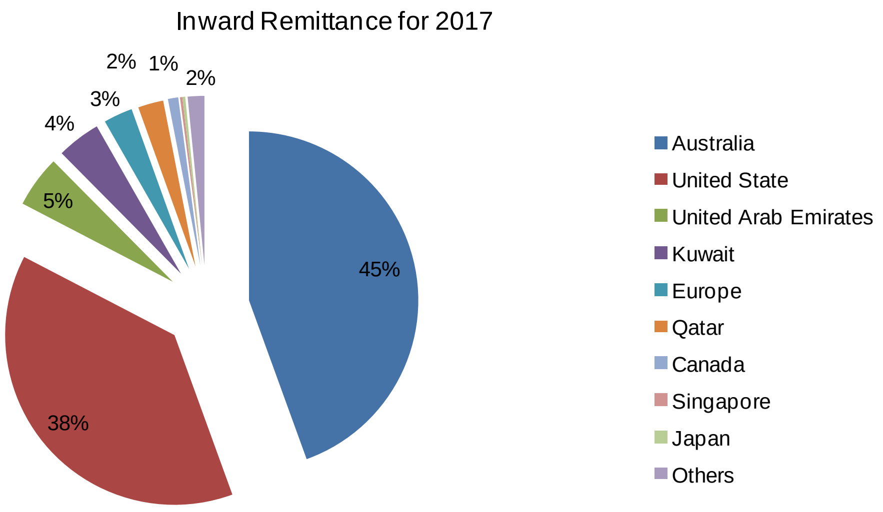
Figure 2: Fund flow with SAARC Countries.



Source: Royal Monetary Authority of Bhutan.

The transaction with the SAARC countries mostly comprises of payments and receipts for import and export of goods and services. Based on the above figure 2, the trade transaction with the neighbor countries are increasing. In 2011, the total inflow of USD 21.39 million was received against the export of goods and had imported a goods and services worth USD 20.07 million. In 2017, Bhutan paid USD 41.80 million which was recorded to be the highest and on the same year, it received an inflow of USD 42.82 million. The average inflow and outflow of USD 28.08 and USD 27.48 was received and transferred respectively. The SAARC funds flows share only 2% of the total outflow and 1% of the overall inflow. Bhutan's overall trade with Bangladesh stands at USD 58.61 million and is the highest in 2017 among SAARC countries other than India, followed by trade with Nepal that was recorded at 6.58 million.

Figure 3. Inward remittance.

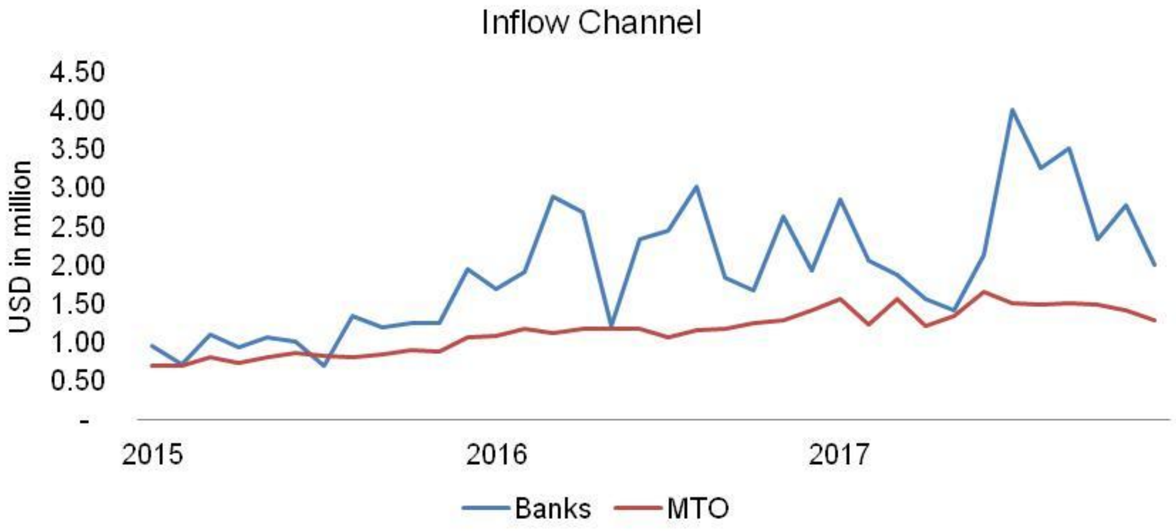


Source: Royal Monetary Authority of Bhutan.

Inward Remittance from Australia with a share of 44% (refer table 5) for three year is the maximum inflow received from the migrants, followed by the remittance from USA. Remittance from gulf nation has increase from USD 1.29 million to USD 3.08 million in 2016, which was 58% increase in remittance from the base year. There is a positive relationship between the migrants and the remittance received. In 2017, the individual remittance was increased with 14% from 2016. Inward remittance from United Arab Emirates (UAE) account 5% (refer Figure 3) in 2017, with the average growth rate of 39% and the highest after Australia (45%) and United State (38%).

The channels of remittances to Bhutan are routed through banking channels and MTO. The trend in figure 3 explains that the, remitter with major remittance are through banks compared to the MTO. However, the remittances transferred through banks are more volatile in trends than the remittance received via MTO (monthly data), even then the channeling via a bank has been increasing on an average rate of 30%, whereas MTO pick up at 24% on an average.

Figure 4. Transfer channel to Bhutan



Source; Royal Monetary Authority of Bhutan.

Cost of remittance remains the sharing topic among the remitter and is the determinant factor for development of informal remittance channel. Remittance charges by the financial institution has been set by central bank at a reasonable rate of 1% that is below Sustainable Development Goal (SDG) to reduce remittance cost to 3% by year 2030. An individual remitting abroad a sum of USD 500 has to bear a cost of USD 5 excluding the corresponding fees/charges. The exact cost of remittance to and from Bhutan cannot be ascertain due to the involvement of corresponding banks with different fees structure in place. Inward remittance cost was comparatively less to only 0.5% till 2016 and no charge is levied thereafter.

The volume of fund flows from and to SAARC nation is never determined by the cost rather, it depends on the urgency and needy of the remitter and the beneficiary. However, all the remittance are routed through Asian Clearing Unit (ACU) and the overall cost of remittance is believed to be less. The demand on remittance depends on the trade volume with the member countries and has no significant relationship with the cost. With establishment of corresponding banking relationships, it has removed the intermediaries cost and reduced the time of transferring. A financial institution in India, Bangladesh, Nepal, etc. has a banking relationship with commercial banks of Bhutan that brought reduction in cost of fund transfers.

Remittance issue within SAARC members.

Bhutan shares 12% (World Bank, 2018) of total GDP among the SAARC member countries and have least migrants leaving country for better opportunities abroad. The only worry is how to address the informal remittance channel used both by the traders and individuals within SAARC countries. Ozaki (2012) has pointed out that it is difficult to estimate the amount of informal remittance if otherwise the total remittance would be far greater than the official record.

There is no official record maintained by the government agencies on informal remittance practices by Bhutanese, but it's certain that, such practices still exist in business world. For an example, Bhutan's export to Bangladesh a goods worth of USD 53.22 million for the year 2017 (Bhutan Trade Statistics 2017) but received only USD 47.78 million having the difference of 10%, which indicates the existences of informal remittance or hawala[33] system. These system neither falls under AML/CFT regulation radar nor monitored by tax authority. The International Monetary Fund (2009) argued that, if remittances made through informal channels are also considered, worldwide remittances may increase by 50%.

The impediments for lowering cost is limited to the frequency of the remittance. Bhutan has not surveyed and studied on the cost over remittance due to the volume and frequency of the remittance with SAARC countries. If the remittance with the member countries grows at the substantial level, then the reduction in remittance cost would be appropriate. The consideration of cost over remittance won't create a vast difference in the remittance market at current size of remitter and beneficiaries.

The regulations supports the remittance through banking channels and adds no cost on the remittance. Most of the remittance cost depends on, from where the remittance originates and the relationship with the beneficiary banks. The central Bank of Bhutan (RMAB) has introduced the "inward remittance rules and regulation 2016" and reducing the inward remittance cost to zero, and also there are incentivized to maintain Foreign currency account in order to mitigate the risk of exchange rate.

[33] The hawala system is a situation where the money is transferred from migrant workers to recipients in migrant workers' home countries without physical transfer of currencies.

Conclusion.

The remittance has helped to increase household consumptions and contributed in balancing the payments to meet the foreign currency obligation. Somehow, given the demographic size of the country, the remittance volume cannot developed in parallel with neighboring SAARC countries but the trends will increase over the year based on current migrants leaving the nation.

The relationship between the volume of remittance and the cost has little significance in case of Bhutan, but the remittance channel depends on the costs for those who remit back to Bhutan. Most of the remittances are sent back in the form of cash through friends, relatives and through informal channels. Remittances among the SAARC countries are increasing on an account of import and export of goods and services. Remittance market has gained little attention due to the volume of the fund and the frequency of the remitter.

Educating the common people on financial scenario of their own country and others would enrich them with the basic concept of finance and need to have an access to banking facilities. The SAARC member countries need to develop a platform where one nation can share an information on unauthorized remittance originating or receiving by individual and entities to further stop the illegal movement of funds.

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Annexure I: Tables

Table1. Overall Fund flow

			USD in Million
Year	**Outflow**	**Inflow**	**net fund flows**
2011	1,512	1,741	228.68
2012	1,454	1,389	(64.86)
2013	1,532	1,921	388.96
2014	1,349	1,763	413.91
2015	1,278	1,426	148.41
2016	1,431	1,573	141.91
2017	1,532	1,621	88.67
Total	**10,087.61**	**11,433.30**	**1,345.69**

Table 2. Fund Flow with India.

			USD in Million
Year	**Outflow**	**Inflow**	**net fund flows**
2011	1,393.97	1,285.83	(108.15)
2012	1,356.86	1,147.56	(209.31)
2013	1,349.86	1,636.02	286.16
2014	1,130.41	1,311.09	180.69
2015	1,079.55	1,155.98	76.43
2016	1,202.35	1,265.29	62.94
2017	1,316.33	1,261.62	(54.72)
Total	**8,829.33**	**9,063.38**	**234.05**

Table 3: Fund flow with SAARC member countries.

			USD in Million
Year	**Outflow**	**Inflow**	**net fund flows**
2011	20.07	21.39	1.32
2012	22.21	21.49	(0.71)
2013	27.43	26.61	(0.82)
2014	24.56	27.34	2.79
2015	30.19	28.57	(1.62)
2016	26.09	28.34	2.25
2017	41.80	42.82	1.02
Total	**192.34**	**196.57**	**4.23**

Table 4. Country wise remittance

Currency of Inward Remittance							*USD in million*
Sl.No	Country	**Currency**	**2015**	**2016**	**2017**	**Total**	%
1	Australia	AUD	7.69	19.86	20.94	48.49	44%
2	United State	USD	12.94	15.47	17.98	46.40	42%
3	United Arab Emirates	AED	0.83	1.72	2.33	4.87	4%
4	Kuwait	KWD	0.15	0.81	1.96	2.92	3%
5	Europe	EUR	0.66	0.90	1.30	2.86	3%
6	Qatar	QAR	0.32	0.55	1.14	2.01	2%
7	Canada	CAD	0.29	0.40	0.46	1.16	1%
8	Singapore	SGD	0.09	0.09	0.11	0.28	0%
9	Japan	JPY	0.04	0.10	0.13	0.27	0%
10	Others	Others	0.40	0.56	0.75	1.71	2%
		Total	**23.40**	**40.46**	**47.10**	**110.96**	**100%**

Table 5: Remittance Channel

					USD in Million	
Months	**2015**		**2016**		**2017**	
	Banks	**MTO**	**Banks**	**MTO**	**Banks**	**MTO**
Jan	0.96	0.69	1.69	1.08	2.84	1.57
Feb	0.71	0.70	1.91	1.18	2.05	1.24
Mar	1.11	0.80	2.89	1.13	1.88	1.57
Apr	0.93	0.74	2.69	1.18	1.56	1.22
May	1.06	0.81	1.20	1.17	1.41	1.35
Jun	1.02	0.87	2.33	1.17	2.14	1.65
Jul	0.70	0.84	2.45	1.06	4.01	1.51
Aug	1.34	0.80	3.01	1.15	3.25	1.49
Sep	1.20	0.85	1.84	1.17	3.52	1.52
Oct	1.25	0.89	1.67	1.26	2.34	1.49
Nov	1.25	0.89	2.63	1.28	2.77	1.41
Dec	1.96	1.07	1.92	1.41	2.01	1.29
Total	**13.47**	**9.96**	**26.26**	**14.23**	**29.79**	**17.31**

Table 6: Exchange rate

EXCHANGE RATE, NGULTRUM/US DOLLAR

Period	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Jan	45.39	51.35	54.31	62.08	62.14	67.29	68.09
Feb	45.44	49.16	53.75	62.25	62.03	68.24	66.74
Mar	44.99	50.32	54.39	61.01	62.45	67.02	65.92
Apr	44.37	51.80	54.38	60.36	62.75	66.47	64.51
May	44.90	54.47	55.03	59.31	63.81	66.89	64.41
Jun	44.85	56.03	58.33	59.73	63.86	67.30	64.44
Jul	44.42	55.50	59.78	60.06	63.65	67.22	64.44
Aug	45.28	55.56	63.21	60.90	65.07	66.94	63.97
Sep	47.64	54.61	63.64	60.88	66.19	66.74	64.46
Oct	49.26	53.02	61.63	61.35	65.08	66.76	65.09
Nov	50.84	54.78	62.71	61.68	66.05	67.53	64.87
Dec	52.67	54.65	61.95	62.71	66.60	67.90	64.24
Calendar year average	46.67	53.44	58.59	61.03	64.14	67.19	65.10

Source: RMAB Monthly Statistics bulletin

SAARCFINANCE Collaborative Study on
Reducing the Cost of Cross-Border Remittances
Country Report - India

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&
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1. Introduction

Remittances flows are an important source of financing for any developing or emerging economy having positive implications on the welfare of the country. These remittances are largely flow of funds received at periodical intervals from migrant workers overseas for the purpose of family maintenance. Further these inflows are preferable to debt and equity as there is no obligation to repay or service as in the case of debt and equity flows. Such flows not only impact the economy of the country but also have an impact on welfare of the country like poverty alleviation, improving education, health care etc.

India has a sizable workforce skilled and unskilled in the Gulf Countries since more than three decades and remittances from the gulf countries have remained an important source of inflows since the last three decades. Remittance flows to low- and middle-income countries are estimated to be $528 billion in 2018, an increase of 10.8 percent over 2017(World Bank). Of this India was the top receiver of remittances with USD 80 billion. These flows not only constitute a major component of India's invisible receipts, but have also exhibited a stable trend over the years as in the case of many other developing countries. Even during the global financial crisis of 2008, remittances remained relatively significant, unlike capital flows.

However cross border personal remittances are a costly affair. Despite advances in technology remittances continue to be expensive. It is less expensive to send larger amounts, with the global average cost of sending $500 at just under 5% (World Bank 2017). Even so, the aggregate cost of sending remittances in 2017 was about $30 billion, roughly equivalent to the total non-military foreign aid budget of the US **(Stephen Cecchetti, Kim Schoenholtz** 27 March 2018)

2. Literature Review

Remittances from migrant workers and cost of remittances has been subject of interest of many studies and surveys. There are several surveys conducted on the subject of remittance inflows into countries and the cost of remittances for the remitters. The Reserve Bank of India has been conducting such surveys periodically. In the survey conducted in 2013 it was observed that the exchange rates applied for conversion into domestic funds were reasonably transparent and did not constitute the cost in any significant measure. Remittances from the Gulf countries were remitted mainly through exchange houses and conversion into rupees was done at the point of origin and hence the recipient in India did not bear any cost of converting foreign exchange into rupee. The size and frequency of remittances reflected the utilisation pattern, with frequent remittances of lesser amounts mostly for family maintenance. However, less frequent and high size of remittances may be towards investment purposes. The share of transactions with average size of individual remittance of INR one lakh and above was relatively higher and accounted for 45 per cent of the total value of remittances and remittances with an average size of less than INR 50 thousand constituted 37 per cent of the total remittances These trends seemed to suggest that over the years, a higher proportion of remittances were being used for investment purposes

In the recent survey conducted by Reserve Bank of India in 2018 it was found that 82 per cent of the total remittances received by India originated from seven countries, viz., the United Arab Emirates (UAE), the United States (US), Saudi Arabia, Qatar, Kuwait, the United Kingdom (UK) and Oman. With over 90 per cent of overseas Indians working in the Gulf region and South East Asia (ILO, 2018) – mostly semi-skilled and unskilled workers – the Gulf Cooperation Council (GCC) countries accounted for more than 50 per cent of total remittances received in 2016-17, despite decline in oil prices and taxation on companies hiring migrant workers in some countries. The Indian diaspora in the US, characterised by high skills and high earnings, was the second largest contributor.

Today, remittance flows are three times of what they were in 2000 and five times of what they were I 1990. Further, the economic importance of inward remittances ha increased for low and middle income countries, increasing from an average of 1.2% of GDP in 1990 to 1.6% of GDP. However, decrease in costs have been gradual. Across all corridors, remittance costs averaged 10.2% and average costs was higher in case of banks than the average cost for money transfer operators. (Cecchetti and SchoenholtzBruegel). Globally, banks are not the preferred choice for retail customers to remit funds due to steep fixed costs and compliance needs (Chandramouli, 2012)

In 2011, the G20 leaders committed to reducing the global average cost of sending remittances to 5% (from 9.30% in mid-2011) and in 2016, the G20 set a target to reduce the average cost of remittances to less than 3% and to eliminate remittance corridors with costs higher than 5% by 2030 under Sustainable Development Goal 10. The average cost of sending US$200 was 7.1 percent in the first quarter of 2018, more than twice the Sustainable Development Goal (SDG) target of 3 per cent to be achieved by 2030 (World Bank, 2018).

Cost of Remittances are high for many reasons which include inadequate financial infrastructure in some countries (both sending and receiving countries), limited competition, lack of transparency, regulatory obstacles, lack of access to the banking sector by remittance senders and/or receivers, difficulties for migrants to obtain the necessary identification documentation to enter the financial mainstream.(World Bank)

3. Review of Remittance and Remittance Related AML/CFT Regulations

Foreign Exchange transactions in India are governed by the Foreign Exchange Management Act 1999, in terms of which foreign exchange transactions in India can be handled by any entity licensed by RBI to function as an authorized person. Further different categories of Authorised persons have been licenced to handle different types of foreign exchange transactions. An Authorised Dealer Category I (commercial bank) can handle all types of permissible capital and current account transactions. Authorised dealers category II (urban cooperative banks, regional rural banks, small finance banks, payment banks, upgraded Full Fledged Money Changers) are allowed to handle only non-trade current account transactions while a Full Fledged Money Changer (FFMC) is allowed to handle only sale and purchase of foreign exchange and remittances for private and business travel. However AD category II and FFMCs have to route all their transactions through AD category I except in cases where AD Category II have been allowed to maintain Nostro accounts.

Further, the Liberalised Remittance Scheme (LRS) issued under the Foreign Exchange Management Act., 1999, is quite liberal for making remittances from India to any overseas country, except for some transactions which are prohibited. Accordingly, residents are allowed to remit USD 250,000 per year for any permissible current account or capital account transaction. These remittances could be for purposes like education, medical expenses, gifts, maintenance of relatives etc.

The remittances from /to India can be through various channels as detailed below.

A. INWARD REMITTANCE

(i) Rupee Drawing Arrangements (RDA)

Business Arrangements

An Authorised Dealer bank in India ties up with an overseas Exchange House (EH). The EH sources the funds from the remitter and the Indian bank disburses the funds in India using its or other banks' branch network.

The EH purchases INR by crediting foreign currency in the nostro account of the Indian bank. The Indian bank in turn credits the rupee equivalent to the Vostro account of the EH maintained in India and thereafter passes on the funds to the beneficiaries' accounts.

Licence/Authorisation

The EH has to be licenced by the regulator of the country from where it wants to source the remittance. Though no authorisation is required from the RBI for the tie up with the EH, however, the Board of the Indian bank has to approve the RDA.

Source of remittances

It has to be ensured that remittances are sourced only from FATF compliant country

Nature of Remittances and limits

The type of remittances permitted under RDA are generally personal remittances, payments to the accounts of various service providers (telephone, insurance, electricity, etc) and for investment in mutual funds. There is no limit on the quantum and number of transactions. Small value (upto INR 15 lakh) trade transactions are also permitted to be received through RDA. However, remittances have to be received by credit to beneficiary's account i.e. cash disbursements are not permitted.

(ii) Money Transfer Service Scheme (MTSS)

Business Arrangement

An overseas Money Transfer Operator (known as overseas principal) ties up with AD Cat-I banks, AD Cat-II entities and FFMCs (Indian agents) in India. The Indian agents in turn can appoint sub-agents. The MTO sources funds from the remitters overseas and remits to its Indian agent. The remittee can collect the funds in cash or it can be credited to the account of the remittee. Under this scheme the Indian agents first make the pay-outs and then claim reimbursement. The MTO either funds the nostro accounts of the AD Cat-I banks or credits the INR accounts of the Indian agents. Since these are not pre-funded the MTOs place collaterals in favour of the Indian agents.

License/Authorization

It is mandatory that the MTO has a licence from the regulator of the country of its origin. The MTOs can operate in India only after they are granted authorisation by our Department of Payment and Settlement (DPSS) under the Payment and Settlement Act. The MTOs are subjected to the PMLA also.

Nature of Remittances and limits

Only personal remittance for family maintenance and remittances favouring foreign tourists visiting India are permissible and can be arranged through MTSS. The number of transactions are restricted to 30 per year for a beneficiary and the upper limit for each transaction is fixed at USD 2,500. The beneficiary can receive the remittance either in cash upto INR 50,000 or by credit to the account.

B. OUTWARD REMITTANCES

Presently all outward Remittances by AD category II and FFMCs are required to be effected through Authorised Dealer Category I banks except in cases where AD category II have been allowed to maintain Nostro accounts.

C. Recent Initiatives by RBI

(i) Indo Nepal Remittance Scheme

Indo-Nepal Remittance Facility is a cross-border remittance scheme to transfer funds from India to Nepal, enabled under the NEFT Scheme. The scheme was launched to provide a safe and cost-efficient avenue to migrant Nepalese workers in India to remit money back to their families in Nepal. A remitter can transfer funds up to Indian Rupees 50,000 (maximum permissible amount) from any of the NEFT-enabled branches in

India. The beneficiary would receive funds in Nepalese Rupees. The remitter and the beneficiary need not maintain an account to receive remittance under this scheme.

Transaction flow

Remittances under the scheme for transfer of funds from India to Nepal can be originated from any of the NEFT-enabled branches in India. The bank branches originating the Indo-Nepal remittance transactions under the NEFT will process it like any other NEFT transaction, the only difference being that these transactions will subsequently be pooled / collected at the designated branch of State Bank of India (SBI) in India. At the end of the day, the remittance information is conveyed electronically by SBI in a secured mode to Nepal SBI Bank Ltd. (NSBL). NSBL then makes arrangements for credit to the bank account of the beneficiary if the beneficiary is an account holder of NSBL. Else, NSBL disburses funds in cash to the beneficiary through the authorised money transfer company (Prabhu Money Transfer). The beneficiary has to approach the local branch of the money transfer company, furnish the unique transaction number (the number that uniquely identifies a transaction in the NEFT system that can be obtained from the remitter), and produce a photo identity document (generally Nepal Citizenship Certificate) to prove his identity.

If the beneficiary does not approach the money transfer company within a week from the date of the transaction, the money transfer company would make arrangements for return of the remittance to the originator.

Cost of remittance

As the facility is targeted at the migrant Nepali workers in India, concessional charges are envisaged for transfer of funds under the scheme. The charges are as under–

- Originating bank branch in India – Maximum Rs. 5 per transaction.
- State Bank of India in India – Rs. 20 per transaction if the beneficiary maintains an account with Nepal SBI Ltd. (NSBL). State Bank of India shares this amount equally with NSBL. NSBL would not charge any additional amount for crediting the account of the beneficiary.
- In case the beneficiary does not maintain an account with NSBL, an additional amount of Rs.50 would be charged for remittances up to Rs. 5,000 and Rs. 75 for remittances above Rs. 5,000.

The charges would, thus, be a minimum of Rs. 25 or a maximum of Rs. 100 depending on the value of transaction and the manner in which credit is afforded to the beneficiary.Originating bank branches have been advised to recover the entire charges from the remitter as per the structure detailed above and pass on the appropriate amount to SBI after retaining their share (of Rs. 5)

Restriction

An originator in India is allowed to remit a maximum of 12 remittances in a year under the scheme.

(ii)Allowing non-bank entities (aggregators) to make remittances

Recognising the need for newer players to make the remittances more smooth, cost-effective and accessible to the customers in India the Operating framework for facilitating Outward Remittance services by non-bank entities (aggregators) through Authorized Dealer (Category I) banks in India was introduced in June 2017. The Authorized Dealer (Category I) bank through which the service is offered is responsible for ensuring that each outward remittance transaction is in compliance with the provisions of governing regulations in India. The remittances facilitated under this model comprise certain small value current account transactions, in the nature of personal remittances, not exceeding USD 5000 per transaction (except overseas education where USD 10000 is permitted). Reportedly some overseas educational institutions abroad have identified aggregators to collect fees on their behalf hence the limit for overseas education was enhanced to USD 10000. The aggregators by using latest technology are able to considerably reduce the cost of remittances. Two such aggregators who have commenced operations have reported that their costs are about 15% and 6.6% lower for USD 200 and 500 respectively as compared to the cost of remittance through banks and FFMCs.

(iii) Authorising Small Finance and Payments Banks to make remittances

Reserve Bank of India has granted licences to set up Payment banks and Small Finance banks which would be directed at small savers and could help transform the remittances market in India. Small Finance banks would be subject to regulatory requirements that limit credit risk but would be subject to lighter prudential norms .The payments banks would have simplified Know-Your-Customer (KYC)/Anti Money Laundering (AML)/ Countering Financing of Terrorism (CFT) norms commensurate with the small accounts and bottom of the pyramid customers they are expected to handle. The payments banks are permitted to provide remittance services, including through mobile telephones, and many of the approved entities are mobile operators. The entry of new players is likely to increase competition, lower remittance costs, and extend the formal market for remittances

KYC /AML Regulations

The Prevention of Money Laundering Act and Rules form the legal framework of the country founded on FATF recommendations (as a full-fledged member of FATF, India is fully committed to the implementation of its Recommendations). PMLA and the Rules notified there under came into force with effect from July 1, 2005. In terms of the provisions of Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, Regulated Entities (REs) (in our case banks and remittance service providers) are required to follow certain customer due diligence procedures while undertaking a transaction either by establishing an account-based relationship or otherwise and monitor their transactions. Reserve Bank has issued directions for KYC which apply to every entity regulated by RBI which includes banks financial institutions, Non-banking companies, payment system providers, authorized persons and agents of MTSS.

Every regulated entity is required to have a Know Your Customer (KYC) policy duly approved by the Board of Directors of REs or any committee of the Board to which power has been delegated. The KYC policy includes Customer Acceptance Policy; Risk Management; Customer Identification Procedures (CIP); and Monitoring of Transactions. REs have to ensure that decision-making functions of determining compliance with KYC norms are not outsourced. The KYC/AML guidelines are applicable to remittances as well. Though under the Foreign Exchange Management Act the Authorised Person can seek any information or document to satisfy himself about the eligibility/permissibility of the transaction the Authorised person is required to undertake the transaction only after ensuring adherence to KYC/AML regulations. Further the onus of adherence and compliance with KYC/AML guidelines is with the entity undertaking the transaction i.e. AD category I, AD category II or FFMCs. Adherence and compliance with KYC/AML guidelines,as detailed below, is an important factor adding to the cost of remittances.

i) Identification of customers

In the context of remittances, REs have to undertake identification of customers in the following cases:

a. Carrying out any international money transfer operations for a person who is not an account holder of the bank.
b. When there is a doubt about the authenticity or adequacy of the customer identification data it has obtained.
c. Selling third party products as agents, selling their own products, payment of dues of credit cards/sale and reloading of prepaid/travel cards and any other product for more than rupees fifty thousand.
d. Carrying out transactions for a non-account based customer, that is a walk-in customer, where the amount involved is equal to or exceeds rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected.
e. When an RE has reason to believe that a customer (account- based or walk-in) is intentionally structuring a transaction into a series of transactions below the threshold of rupees fifty thousand.

ii) Maintenance of Records

Further REs have to take steps for maintenance, preservation and reporting of customer account information, with reference to provisions of PML Act and Rules. Accordingly REs shall,

(a) maintain all necessary records of transactions between the RE and the customer, both domestic and international, for at least five years from the date of transaction;
(b) preserve the records pertaining to the identification of the customers and their addresses obtained while opening the account and during the course of business relationship, for at least five years after the business relationship is ended;
(c) make available the identification records and transaction data to the competent authorities upon request;

(d) introduce a system of maintaining proper record of transactions prescribed under Rule 3 of Prevention of Money Laundering (Maintenance of Records) Rules, 2005 (PML Rules, 2005);
(e) maintain all necessary information in respect of the nature of the transactions; the amount of the transaction and the currency in which it was denominated;the date on which the transaction was conducted; and the parties to the transaction.
(f) evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities;
(g) maintain records of the identity and address of their customer, and records in respect of transactions referred to in Rule 3 in hard or soft format.
(h) file a report with FIU-IND for suspicious transactions

iii) Guidelines for Correspondent Banks

Banks shall have a policy approved by their Boards, or by a committee headed by the Chairman/CEO/MD to lay down parameters for approving correspondent banking relationships subject to the following conditions:

a. Sufficient information in relation to the nature of business of the bank including information on management, major business activities, level of AML/CFT compliance, purpose of opening the account, identity of any third party entities that will use the correspondent banking services, and regulatory/supervisory framework in the bank’s home country shall be gathered.
b. Post facto approval of the Board at its next meeting shall be obtained for the proposals approved by the Committee.
c. The responsibilities of each bank with whom correspondent banking relationship is established shall be clearly documented.
d. In the case of payable-through-accounts, the correspondent bank shall be satisfied that the respondent bank has verified the identity of the customers having direct access to the accounts and is undertaking on-going 'due diligence' on them.
e. The correspondent bank shall ensure that the respondent bank is able to provide the relevant customer identification data immediately on request.
f. Correspondent relationship shall not be entered into with a shell bank.
g. It shall be ensured that the correspondent banks do not permit their accounts to be used by shell banks.
h. Banks shall be cautious with correspondent banks located in jurisdictions which have strategic deficiencies or have not made sufficient progress in implementation of FATF Recommendations.
i. Banks shall ensure that respondent banks have KYC/AML policies and procedures in place and apply enhanced 'due diligence' procedures for transactions carried out through the correspondent accounts.

iv) Guidelines for Wire transfer

REs shall ensure the following while effecting wire transfer:

a. All cross-border wire transfers including transactions using credit or debit card shall be accompanied by accurate and meaningful originator information such as name, address and account number or a unique reference number, as prevalent in the country concerned in the absence of account.

   Exception: Interbank transfers and settlements where both the originator and beneficiary are banks or financial institutions shall be exempt from the above requirements.

b. Domestic wire transfers of rupees fifty thousand and above shall be accompanied by originator information such as name, address and account number.
c. Customer Identification shall be made if a customer is intentionally structuring wire transfer below rupees fifty thousand to avoid reporting or monitoring. In case of non-cooperation from the customer, efforts shall be made to establish his identity and STR shall be made to FIU-IND.
d. Complete originator information relating to qualifying wire transfers shall be preserved at least for a period of five years by the ordering bank.
e. A bank processing as an intermediary element of a chain of wire transfers shall ensure that all originator information accompanying a wire transfer is retained with the transfer.
f. The receiving intermediary bank shall transfer full originator information accompanying a cross-border wire transfer and preserve the same for at least five years if the same cannot be sent with a related domestic wire transfer, due to technical limitations.
g. All the information on the originator of wire transfers shall be immediately made available to appropriate law enforcement and/or prosecutorial authorities on receiving such requests.
h. Effective risk-based procedures to identify wire transfers lacking complete originator information shall be in place at a beneficiary bank.
i. Beneficiary bank shall report transaction lacking complete originator information to FIU-IND as a suspicious transaction.
j. The beneficiary bank shall seek detailed information of the fund remitter with the ordering bank and if the ordering bank fails to furnish information on the remitter, the beneficiary shall consider restricting or terminating its business relationship with the ordering bank.

Recent Initiative - Setting up of Central KYC Record Registry

The Central KYC Records Registry (CKYCR) is a recent initiative by RBI envisaged as a centralised digital repository of the KYC records obtained, uploaded by and accessible to the Regulated Entities (REs) across the financial sector at a very minimal cost. A common KYC template capturing relevant information of the account holder has been finalized followed by registration of REs. The data is being uploaded in the Registry. However, once operationalized it is expected to reduce costs for transactions and remittances.

4.Flow and cost of Remittances in India

i) Trends in remittance inflows to India

India has been one of the largest recipients of remittances (Table I) over the years. This is largely due to the presence of skilled, semi-skilled and unskilled migrant workers spread in various countries across the globe. As per a study conducted by RBI in 2017 three countries UAE, Saudi Arabia and USA accounted for 61.4% of the remittances to India.

The inflows analysed since the year 2010 indicate an increasing trend except for slight reduction in the years 2015 and 2016. The inflow of USD 53.48 billion in 2010 has increased to USD 79.45 billlion in 2018. There is an increase of more than USD 10 billion during the year 2018. However, the share of remittances as a percentage of GDP has decreased from 3.23% to 2.8 % over the period 2010 - 2018.

Table I- Trends in Remittance Inflows to India

Year	GDP in USD bn	Remittances in USD bn	% to GDP
2010	**1656.62**	**53.48**	**3.23**
2011	**1823.05**	**62.50**	**3.43**
2012	**1827.64**	**68.82**	**3.77**
2013	**1856.72**	**69.97**	**3.77**
2014	**2039.1**	**70.39**	**3.45**
2015	**2102.4**	**68.91**	**3.28**
2016	**2274.2**	**62.74**	**2.76**
2017	**2597.49**	**68.97**	**2.66**
2018	**2837.5**	**79.45**	**2.8**

(Source World Bank)

Comparing total outflows and inflows with outflows and inflows on account of personal remittances since the year 2014 to 2018 (Table- II) indicates that inflows on account of personal remittances have constituted 5 to 7 % of the total inflows for India. However, outflows of personal remittances have been much lower (0.40% to 0.57%) for the same period.

Table II– Total Outflows and Inflows from all countries

USD bn

Calendar Year	Total outflows for all purposes	*Total outflows for personal remittances (% to outflows)	Total Inflows for all purposes	*Total inflows for personal remittances (% to inflows)
2014	952.819	3.879 (0.41%)	933.515	47.196 (5.06%)
2015	955.549	3.748 (0.40%)	925.694	53.883 (5.82%)
2016	966.278	4.754 (0.49%)	912.874	55.120 (6.04%)
2017	1155.158	6.619 (0.57%)	1117.829	62.687 (5.61%)
2018	1235.844	6.848 (0.55%)	1106.915	76.488 (6.9%)

** personal remittances include remittances for maintenance, savings, gifts, donations, transfer of personal effects*

As has been the experience in other countries, MTSS and RDA is the preferred model for receiving personal remittances in India.(Table III). This is on account of lower costs associated with these services. Remittances for trade transactions upto INR 150,000 (about USD 2150 as per current USD –INR exchange rate) can also be received through Exchange Houses i.e. RDA channel.

Table III- Inflows through MTSS and RDA channel

Calendar Year	MTSS		RDA	
	USD bn	% Inc (+)/Dec (-)	USD bn	% Inc (+)/Dec (-)
2011	10.30	18.73	24.89	32.71
2012	10.54	2.33	27.57	10.77
2013	10.66	1.13	33.28	20.71
2014	9.70	(-)9.00	33.75	1.41
2015	9.53	(-)1.75	40.05	18.67
2016	9.02	(-)5.35	50.25	25.46
2017	7.75	(-)14.07	58.75	16.91

ii) Outflows and Inflows from SAARC countries

For India, inflows and out flows from and to SAARC countries has to be studied taking into account the fact that India has bilateral agreements with Nepal and Bhutan which allow trade and other remittances to be freely made in INR. These flows in INR are not captured in the data for remittances.Further, flow of remittances originating from other than SAARC countries on behalf of remitters or beneficiaries within SAARC countries will also not be captured in the data.

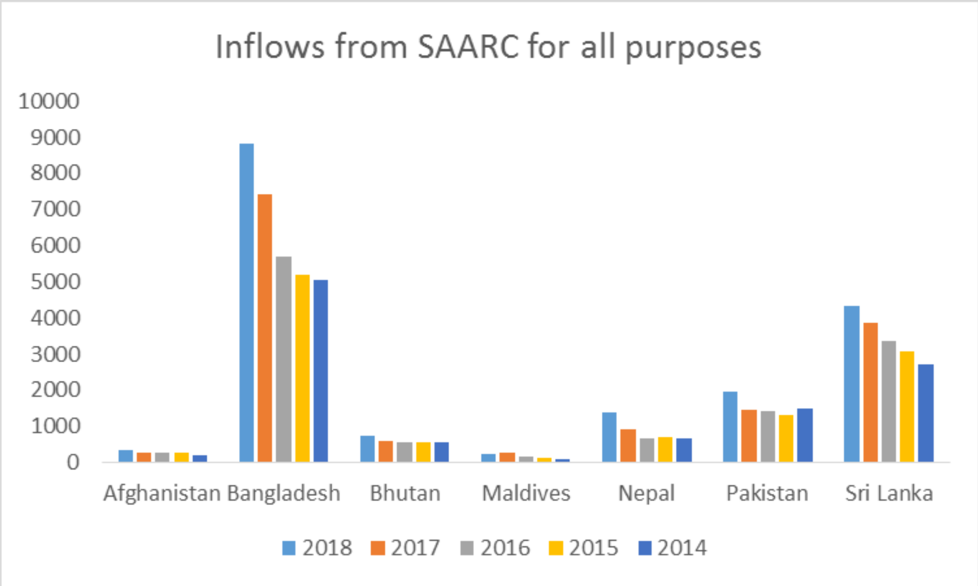
The inflows during the period 2014 to 2018 (Table IV) indicates that India receives major inflows,largely trade remittances, from Bangladesh, Sri Lanka and Pakistan. Total inflows from Bangladesh have increased from USD 5 billion in 2014 to USD 8.8 billion in 2018. Similarly total inflows from Sri Lanka have increased from USD 2.7 billion to USD 4.3 billion during the same period**.**

Table IV– Total inflows from SAARC countries

USD mn

Country	2014	2015	2016	2017	2018
Afghanistan	201.66	259.51	259.87	267.07	334.84
Bangladesh	5056.06	5176.53	5714.29	7417.23	8817.06
Bhutan	564.04	566.53	552.31	609.47	721.23
Maldives	107.73	134.14	160.59	270.59	241.21
Nepal	649.94	712.57	662.93	914.16	1387.55
Pakistan	1498.35	1310.45	1403.44	1459.02	1966.79
Sri Lanka	2731.93	3084.12	3355.35	3862.76	4329.30

Source :Department of Statistics and Information Management



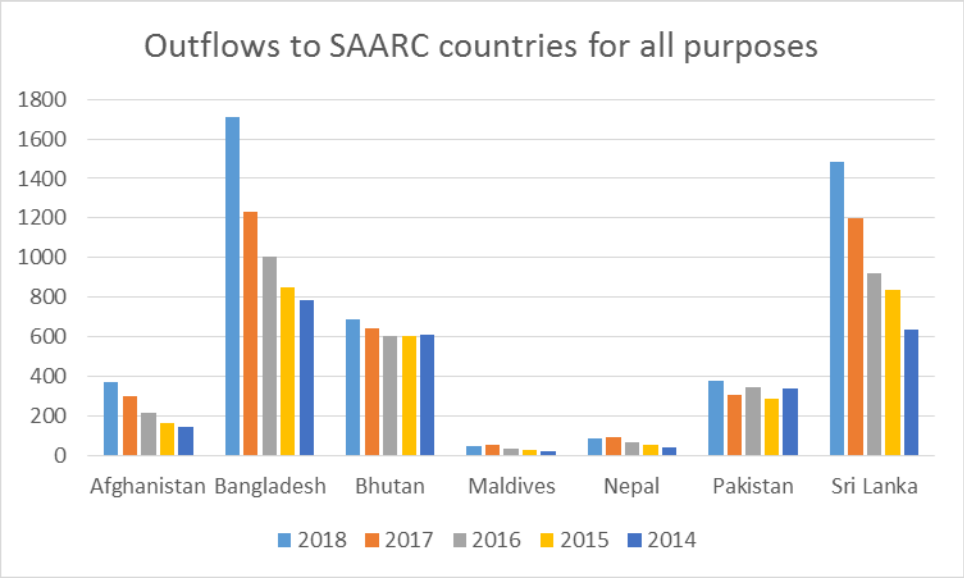
India's total outflows to countries in SAARC (Table V) has been largely to Bangladesh, Bhutan and Sri Lanka. In case of Bangladesh total outflows have been growing and have increased from USD 788.23 mn in 2014 to USD 1.71 bn dollars in 2018. Similarly, flows to Sri Lanka have increased from USD 634.93 mn to USD 1.49 bn during the same period. However outflows on account of personal remittances have been insignificant to all the countries in SAARC region.

Table V– Total outflows to SAARC countries

USD mn

Country	2014	2015	2016	2017	2018
Afghanistan	147.05	164.49	216.06	297.90	371.27
Bangladesh	788.23	847.59	1005.58	1232.70	1713.17
Bhutan	608.00	604.53	602.30	643.35	686.10
Maldives	20.83	30.91	36.46	53.13	45.47
Nepal	40.77	54.49	69.12	94.46	88.04
Pakistan	336.02	289.67	345.67	305.94	380.74
Sri Lanka	634.93	835.14	920.21	1196.83	1485.25

Source :Department of Statistics and Information Management



Inflow of personal remittances (Table VI) from SAARC countries is miniscule and not significant as compared to the total inflows on account of personal remittances received by India. This is understandable as presence of migrant population from India to SAARC countries is not significant and not comparable to the presence of migrant population to Gulf countries and other developed countries. However, as compared to outflows, the inflows from SAARC countries (Afghanistan, Bangladesh, Bhutan and Sri Lanka) are much higher (Table VII). This may be on account of remittances received in connection with projects being undertaken by India in these countries and also due to presence of skilled labour from India in these countries.

Table VI- Inflow of Personal Remittances from SAARC countries

USD mn

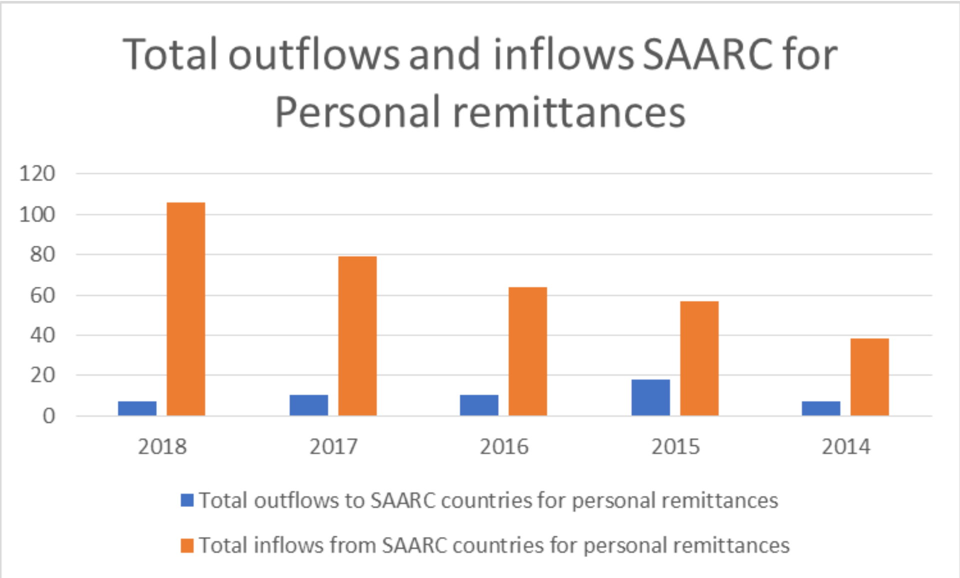
Country	**2014**	**2015**	**2016**	**2017**	**2018**
Afghanistan	9.54	18.38	20.16	22.31	23.86
Bangladesh	9.75	9.97	9.45	14.79	16.64
Bhutan	7.44	13.65	15.92	23.75	37.88
Maldives	2.98	3.08	2.8	1.19	1.28
Nepal	0.61	0.3	0.72	0.7	0.94
Pakistan	0.78	0.75	0.34	0.69	6.14
Sri Lanka	7.14	10.87	14.66	15.83	18.93

Source :Department of Statistics and Information Management

Table VII- Outflow of Personal Remittances to SAARC countries
USD mn

Country	2014	2015	2016	2017	2018
Afghanistan	0.12	0.06	0.40	0.41	0.22
Bangladesh	1.90	0.50	0.71	2.23	1.61
Bhutan	0.47	12.79	0.07	0.03	0.01
Maldives	0.66	0.02	0.13	0.05	0.08
Nepal	1.37	3.08	0.22	0.35	0.27
Pakistan	0.32	0.34	3.40	0.21	0.14
Sri Lanka	2.40	1.44	5.51	7.34	5.20

Source :Department of Statistics and Information Management



The graph above succinctly depicts the wide gap between inflows and outflows on account of personal remittances between India and other SAARC members.

iii) Cost of Remittances

For the purpose of this study information relating to cost of remittances from SAARC countries to India was not available. RBI had conducted a survey in 2018 for studying cost of remittances to India in 2016-17. Major Public Sector, Private Sector and Foreign banks were covered for the study. The findings of this study have been included in this paper.

The study in 2018 (Table VIII) revealed that remittances to India cost 0 to 22.7% for USD 200 depending upon the mode of remittance. For USD 500 the cost was lower in the range of 0 to 14.1%. It was observed that remittance through direct transfer to account was cheapest while remittance through SWIFT was most expensive.

Table VIII : Cost of Sending US$200 and US$500 to India						
						Per cent
	US$200			US$500		
Bank Type/Mode	**Public Sector Banks**	**Private Sector Banks**	**Foreign Banks**	**Public Sector Banks**	**Private Sector Banks**	**Foreign Banks**
Direct Transfer to Bank Account/Electronic Wire	0-6.7	0-4.0	0-2.1	0-5.5	0-1.7	0-3.1
SWIFT	0-21.3	0-22.7	0-12.7	0-8.6	0-9.2	0-7.7
RDA/Vostro Account	0-13.5	0-11.8	0-8.5	0-5.5	0-4.8	0-14.1

Source :India's Inward Remittance Survey 2016-17

The RDA channel was cheapest for remittances from Gulf countries as against remittances from other countries. It was also more cost efficient to remit USD 500 as compared to USD 200.

Table IX : Cost for remitter				
	US$200		US$500	
Instrument	**Gulf Countries**	**Non-Gulf Countries**	**Gulf Countries**	**Non-Gulf Countries**
RDA/Vostro Account	4.4	13.5	1.9	5.5
Note: Based on information available from top 10 recipient banks.				

Source :India's Inward Remittance Survey 2016-17

The World Bank (Remittance Prices Worldwide) publication covers the India –SAARC corridor only for remittances from India to Nepal , Bangladesh, Sri Lanka and Pakistan.The average cost of remittances from India to Nepal was the lowest while for Bangladesh, Pakistan and Sri Lanka the average cost of remittance was the same for USD 200 as well as USD 500.

Table X– Average cost of remittances

Remittances from India to	Average cost (%) First Quarter of 2018		Average cost (%) Last Quarter of 2018	
	USD 200	USD 500	USD 200	USD 500
Bangladesh	2.4	0.96	3.41	1.36
Nepal	1.55	0.64	2.13	0.87
Pakistan	2.4	0.96	3.41	1.36
Sri Lanka	2.4	0.96	3.41	1.36

Source: The World Bank, Remittance Prices Worldwide

For this paper, data relating to cost of remittances from public sector banks, private sector banks and foreign banks was considered (Table XI) and it was reported by all the banks that the costs levied in INR terms have remained unchanged since 2014. The Table exhibits the wide range within which costs are levied by banks. Charges for remitting USD 200 start from INR 175 (1.25%) for public sector banks and INR 350 (2.5%) for both private sector and foreign banks. The maximum amount charged by public sector banks is INR 850 (6.0%) while private sector banks charge maximum INR 1000(7.1%). For remittance of USD 500 the cost charged were in the range of INR 250 (0.7%) to INR 2000 (5.7%). The charges by two of the largest foreign banks having presence in almost every country were INR 350 for remitting USD 200 as well as USD 500. Transfer of funds through branch overseas network was cheaper than transfer through Nostro accounts.

Table XI -Cost of Remittances from India

	USD 200			USD 500		
	Cost in INR	Cost in USD	% to USD 200	Cost in INR	Cost in USD	% to USD 500
Public sector	175 – 850	2.5- 12.15	1.25 -6.0	250 -1050	3.60 - 15.0	0.7 – 3.0
Private sector	350 – 1000	5.00 -14.29	2.5 -7.1	500 -2000	7.14-28.57	1.4 – 5.7
Foreign Banks	350 – 825	5..00- 11.79	2.5 – 5.9	350 - 1500	5.00 - 21.43	1.0 -4.3

Source: Information obtained from banks

Lack of transparency is stated to be one of the factors for high cost of remittances. In India there is complete transparency in exchange rates and margins applied by banks due to the requirement of displaying these charges in the branches. Despite this there is a wide variation in cost of remittances by different banks.High costs is largely due to limited presence of overseas branches and hence the need to use Nostro accounts for remittances.

5. The Impediments for Lowering the Cost of Remittance within SAARC Region

In almost every study or survey it has been stated that corridors where the volumes are high the costs tend to be lower as compared to corridors where volumes are lower. The volumes in certain corridors e.g. India-Saudi Arabia are high and hence cost is lower. In SAARC region since volumes are not significant costs tend to be higher. Increase in volumes can happen if trade and investment within the SAARC countries increase.Lack of financial infrastructure and absence of modern technology also affects cost of remittances as has been observed in the case of Afghanistan. In India the non-bank entities who are able to reduce cost by using modern technology do not operate within SAARC region. Restrictive foreign exchange regimes also is an important factor in determining cost of remittances. Though India has a liberal foreign exchange regime, the same may not be true for other countries with regard to ease of sending remittances.

KYC/AML/CFT regulations and controls also tend to increase operational costs for banks who pass on these charges to their customers.For the migrants without identification documents sending remittances through the formal channels becomes impossible forcing them to use informal channels.

6. Steps Taken by India for Reducing the Cost of Cross-Border Remittance

As has been discussed above volumes play a very important role in determining cost of remittances. The data as studied clearly points to lack of volumes between SAARC countries which impacts cost of remittances within the region. This is further compounded by the fact that MTOs and Exchange Houses are not operating in this region due to lack of volumes. Also the Regulatory requirements as regards charges that can be levied by banks impacts cost of services. In India banks have been allowed by RBI to levy reasonable charges on the services rendered by them to their customers. Hence banks levy charges based on their commercial considerations.

India has,however, taken several measures for easing remittances which have impacted cost of remittances.

(i) Indo Nepal Remittance Scheme

The scheme enables Nepalese migrants to transfer funds from India to Nepal in a safe and cost-efficient manner. A remitter can transfer funds up to Indian Rupees 50,000 equivalent to USD 714 (maximum permissible amount) from any of the NEFT-enabled branches in India. The beneficiary would receive funds in Nepalese Rupees. The remitter and the beneficiary are not required to maintain any account to receive remittance under this scheme. The remitter can remit 12 times in a year.

The charges are a minimum of INR 25 (USD 0.4) or a maximum of INR 100 (USD 1.43) depending on the value of transaction and the manner in which payment is made to the beneficiary.

(ii)Authorising non-bank entities (aggregators) to make remittances

Reserve Bank has encouraged technology driven remittance service providers to operate in the country. In the recent past RBI has authorized non-bank entities (aggregators)to undertake small personal remittances as these entities are able to use latest technology and expertise in this area to provide cost effective and efficient services. It has been reported by two major aggregators that they are able to reduce costs by about 15% for USD 200 and 6.6% for USD 500 as compared to the cost of remitting through banks and FFMCs. These aggregators, however, operate mainly in USA and Europe corridors. Further they are required to make remittances through the banking channel without compromising on KYC/AML requirements.

(iii) Authorising Small Finance and Payments Banks to make remittances

Payment banks and Small Finance banks which have been granted banking licence have also been authorized to undertake personal remittances. As these banks cater to small savers and borrowers it is expected that these entities would by use of technology help in reducing cost of remittances. The payments banks are permitted to provide remittance services, including through mobile telephones, and many of the approved entities are mobile operators. This will increase competition and lower remittance costs.

(iv) Non-bank Finance Companies to undertake foreign exchange business

In the last Monetary Policy announced in April 2019, it has been decided to allow a class of non- bank finance companies (NBFCs) to undertake limited foriegn exchange business. These NBFCs will be granted authorization to operate as Authorised Dealer category II and make personal remittances and other non-trade current account transactions. This will increase competition and lead to cost effective services.

(v) Central KYC Record Registry

The Central KYC Records Registry (CKYCR) is a centralised digital repository of the KYC records obtained, uploaded by and accessible to the Regulated Entities (REs) across the financial sector at a very minimal cost.

7. Policy Recommendations

As per the latest issue of the World Bank published report titled “Remittance Prices Worldwide, March 2019” average cost of sending remittance from India to G- 20 countries is 5.47% which is lower than the global average remittance price of 6.94 percent. UN SDGs have indicated a target of 3% by 2030 to be achieved by countries. Despite India being a top recipient of remittances, the flow of remittances to and from SAARC countries is extremely small in volumes and hence costs for remittances remain high.

The measures which could be considered to reduce cost of cross-border remittance within SAARC are:-

i) Customer awareness and Education

To have customer education programmes and create awareness among customers about the various remittance facilities so that they can take informed decisions and choose the right channel of remittance. RBI has been conducting financial literacy programmes in smaller towns and far flung areas where Foreign Exchange Department participates and shares information on the various remittance facilities available to residents. Commercial banks also participate in such programmes as part of their business development endeavours. The information relating to various channels available for inward and outward can be made available to visitors during such financial literacy programmes.

ii) Bilateral Initiatives – Replicating Indo-Nepal Remittance Scheme

As has been detailed in the report, this is the cheapest mode of remittance available for remittance to Nepal. However,this arrangement was possible due to the fact that all permissible transactions between India and Nepal can be freely undertaken in INR. Within SAARC, countries could have bilateral arrangements and emulate the model. As this will be a political and economic issue, the countries will have to work out the modalities,political and economic, regarding the type of transactions that could be permitted and more importantly the currency to be used for suchbilateral arrangements.

iii) MTSS model

The MTSS model (Western Union, Moneygram) is presently active in US, Europe and Gulf sectors and available only for inward remittances. Similar models could be considered within SAARC. MTSS operators, however, will consider financial viability before commencing operations which given the low volumes may be difficult.

iv) Increase Competition

Allowing more players to operate and increasing competition is an effective way of providing services at reasonable costs and improving efficiency. India has already allowed more entities to provide remittance services by authorising Small Finance banks, Payment banks and aggregators to undertake personal remittance services. In the latest Monetary Policy RBI has announced that we will allow and authorize a class of non-bank finance companies to undertake limited foreign exchange business for personal and non-trade current account remittances.

v) Regulatory Prescription

While all the above measures will in a way bring down costs of remittances it may be noted that these measures are not directly targeted at reducing costs of remittances. It has also been observed that there is very little transparency in the manner in which charges are levied by banks. As the remittances are largely by migrant semi-skilled or unskilled workers who remit small amounts, high cost of remittances is a cause of concern. In this backdrop it is felt some kind of regulatory prescription on upper ceiling on cost of remittances for amounts upto USD 500 could be considered in consultation with banks.

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Maldives - Country Report

SAARCFINANCE Collaborative Study on Reducing the Cost of Cross-Border Remittances

By: Mohamed Amdhan[34]

Introduction

The Maldives is small island economy with a very small population dispersed into hundreds of islands. The small population means that the shortfall in the local workforce is covered by a huge population of resident expatriate workers in almost all areas of the economy. In 2018, official estimates of the National Bureau of Statistics (NBS) places the resident population[35] of the Maldives at 512,038 people of which 145,862 or 28% are resident foreigners. It is also estimated this proportion will increase in the future and reach 41% by year 2050. The latest available Household Income and Expenditure Survey (HIES) 2016 suggest that around 45% of the foreign workforce resident in the Maldives are the low-skilled workers, mainly concentrated in the construction industry (NBS, 2018b).

Literature Review

In the context of the Maldives, remittances are almost entirely outflows and therefore, the focus of policy makers usually on the increasing size of the foreign workforce.Mohamed (2014) explored the benefits and costs of the ever increasing size of the expatriate workforce in the economy of the Maldives. In this regards, Mohamed (2014) stated that the resident workforce has contributed positively to the growth of the communications industry with positive correlation between the number of expatriate workforce and the revenue of the telecommunication industry during the review period of study. On the downside, Mohamed (2014) highlights significant outflows in the Balance of Payments (BOP) and the pressure created by the resident foreign workers on the demand foreign currency and the crowding out of the local labour force.

However, studies and academic articles in the area of remittance and cost of remittance in the international context have highlighted some important points to consider with regard to remittance costs. Freund and Spatafora (2008) concludes that with more developed financial systems, transfer cost of remittances tend to be lower. The same study also gives important insight with regard to the prevalent use of the informal channels for remittances. In this regards, Freund and Spatafora (2008) concludes that high transaction costs leads for migrant workers to either abstain from sending money or use informal channels and lower costs will steer remittances to be channeled through formal platforms. Beck and Peria (2009) explored the factors that impacted the cost of remittances using the data from 119 countries. According to

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[34] The author is from the Balance of Payments Section/Statistics Division of the MMMA. The author would like to acknowledge the support from the staff of the Statistics Division, Banking Supervision Division and the Other Financial Institutions Division of the MMA.

[35]Projected mid-year population of the Maldives (NBS, 2018a).

the findings of Beck and Peria (2009)number of workers is negatively related to remittance transaction costs, implying that the volume of transactions is a deciding factor in determining costs. It is also deduced that costs are higher if the sending and receiving countries have a higher income per capita; costs are lower with more competition among service providers, however higher if banks are more dominant in service provision (Beck and Peria, 2009). All these factors are relatable when considering the cost of remittances in the Maldives and may be the same in the case of other SAARC nations.

Regulatory framework in the Maldives

Under the Maldives Monetary Authority (MMA) Act 1981 (Law no. 6/81), the financial services sector, i.e. banks, insurance companies and other financial institutions are licensed, supervised and regulated by the MMA. Services provided by banks are defined in the Maldives Banking Act (Law no. 24/2010), and this includes providing settlements and transfer of money.

Money transfer operators (MTOs) which are the main avenues of remittances from the Maldives are governed by the Regulation on Remittance Businesses issued by the MMA under the purview of the MMA Act 1981. The Regulation on Remittance Businesses specifies terms and conditions for application for a remittance business and specifies instances when such a business can be suspended. More importantly it provides for the safe and prudent operation of such businesses and supervision related provisions as well. In this regards, minimum paid up capital requirements, security deposits at the MMA (to be used for compensation for customers if licence of such a business is revoked is specified in the Regulation on Remittance Businesses. As a measure for safeguarding the customers seeking to use the services of remittance businesses customer’s funds are required to be kept in a separate account which is solely used for settlement of inward and outward transactions.

Under the Prevention of Money Laundering and Financing of Terrorism Act (Law no. 10/2014) and the subsequent regulations which comes under the purview of this Act, all banks and MTOs are required to report to the Financial Intelligence Unit (FIU) on a weekly basis, all transactions of MVR200,000 or equivalent(approximately US$12,970) in a foreign currency. Moreover, the Regulation of Cross Border Cash Declaration Amount states that transporting US$30,000 or more in cash, or its equivalent in MVR or foreign currency, shall be required to report to the Maldives Customs Service under the Prevention of Money Laundering and Financing of Terrorism Act. While this is an obligation to declare, this is not a restriction to carry cash in and out of the Maldives as such. In addition, the reporting threshold for the banks and MTOs and cash declaration amount is much higher than it can be considered remittances as remittances are usually associated with very small amounts of money sent and received by migrant workers and their families, respectively.

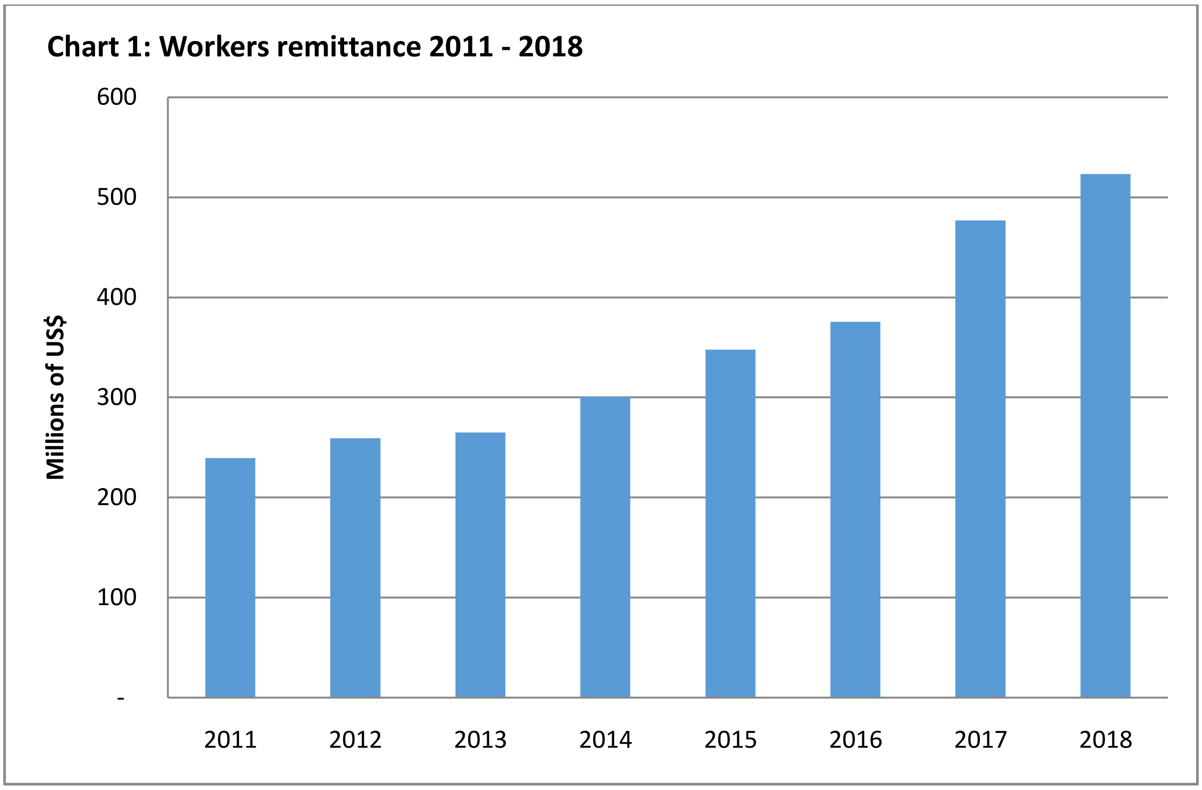
There are no provisions in the laws or in any of the regulations in the Maldives that set any standard limit or threshold on the charges that can be charged by banks or MTOs. Such decisions are left to the discretions of banks and MTOs, as it is related directly to their commercial operations.

In 2016, the government of the Maldives enacted an amendment to the Employment Act (Law no. 22/2016) which imposed a 3% tax on all remittances by foreigners employed in the Maldives. Under this amendment, banks and MTOs are responsible for collecting the tax at the time of transaction. The tax is collected by the Maldives Inland Revenue Authority (MIRA) on a monthly basis.

Remittances flows and costs in the Maldives

Historical information of remittances from banks and MTOs are available from 2011 onwards, which is when a standard data reporting template was introduced by the MMA. The template is submitted on a monthly basis by banks and MTOs. As mentioned in the onset, the Maldives has significant outward remittances and for this reason the data presented in this paper refers to outflow of remittances from the Maldives.

Workers remittances are one of the major outflows of the Maldives' current account. Chart 1 shows the trends in Maldives' workers remittance outflows from 2011 onwards. It can be observed that the workers remittance is on an increasing trend, which is in line with the increase in foreign workers due to the scaling up of infrastructure projects by the government for the past 5 years. In this regards, it is estimated that workers remittances increased by 10% and reached US$523 million in 2018, compared to US$477 million in 2017.



For the purpose of this paper, information on the charges imposed by banks and MTOs were collected for every US$200 and every US$500, in-line with the World Bank benchmark[36] of presenting remittance cost. The information collected (presented in Appendix 1) represents the charges which currently apply in the Maldives to remit funds to SAARC member countries.

For MTOs, the charges applicable for US$200 range from between US$4 and US$18 while for every US$500 charges vary between US$5 and US$42. In terms of country specific charges by MTOs, the highest charges are levied on transfers to Afghanistan and Pakistan while charges for Bangladesh, Nepal, India and Sri Lanka are much lower. It is important to note that there is an MTO established in the Maldives which only transfers money to Bangladesh.

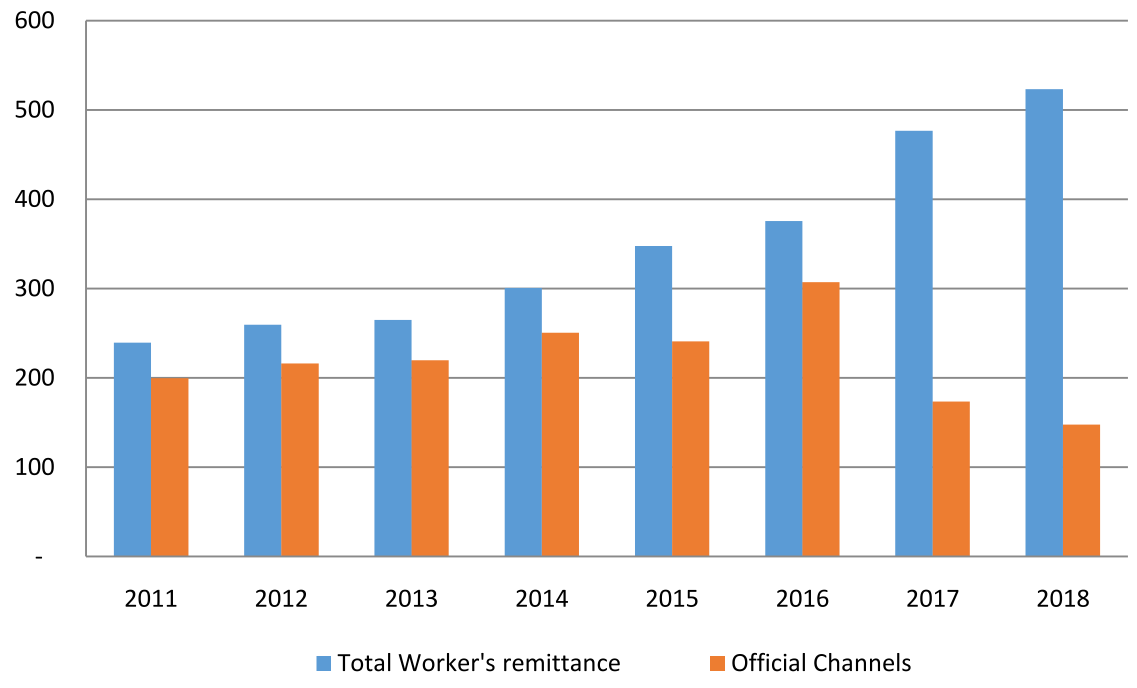
Charges for cross-border transaction through banks operating in the Maldives are very high. As shown in Appendix 1, charges most SAARC countries range from between US$20 and US$45 for both benchmarks. There are a few exceptions where charges by specific banks to specific countries are different, based on their operations. For instance, charges by the State bank of India (SBI) to transfer money to India are lower than charges for other countries. Some of the transaction and wire charges are waived-off because the transfers are processed through an internal system of the banks.

Remittance through unofficial channels

[36] https://remittanceprices.worldbank.org

In the case of the Maldives, it is important to highlight that there are significant data gaps for accurately identifying and recording workers remittances. In this regards, while the official figures places the total population of foreign workers at 76,342 as of 2017 (NBS, 2018c), it has been reported that actual documented workers may be around 100,000 while an additional 60,000 workers may be residing in the country undocumented (Maldives Independent, 2018). The very recent case of a 1,000 undocumented workers working at a single resort construction site which was inspected by the Labour Relations Authority of the Maldives (The Edition, 2018) shows the prevalence of this problem in the Maldives. It becomes relevant in the context of this study as it is highly unlikely that undocumented and illegal workers use official channels of remittances. Chart 2 depicts a comparison of total worker's remittance included in the BOP and transfers through official channels. The difference between the two variables was not very significant from 2011 to 2016; however, from data for 2017 and estimates for 2018 shows significant variations between total worker's remittance and transfer of money through official channels.

Chart 2: Total worker's remittance vs. transfers thorugh official channels 2011-2018



Taking into account the fact that there is no accurate head-count of registered and unregistered workers in the country the large variation between transfer through official channels and the estimates made by the MMA in its BOP statistics may not necessarily be linked to the cost of remittances, but rather the lack of proper documentation, which forces workers to use informal channels for remittances. Moreover, cash declaration threshold set at US$30,000 may be providing further reinforcement to the use of unofficial channels; especially this threshold being a solely for declaration, and not a restriction. In addition to this, in the case of the Maldives the remittance tax of 3% levied on all transfers by foreign workers is an additional burden on workers and may be a reason for deterring official channels of transfer.There is no indication at this point in time that this measure will be revoked or abolished in the foreseeable future.

Challenges and Way Forward

In the context of the Maldives, charges by banks and MTOs are not controlled by the MMA or any other government agency. There is no legal requirement for charges to be kept at a certain level; instead it is a commercial decision of businesses which provide such services. This may be the case in almost all countries in the SAARC. It is unlikely that an intervention of the MMA can be imposed on the charges by banks and MTOs; it is not something that comes under the purview of any laws and regulations related to financial institutions.

The volume of transaction has been found to have an impact on the charges by service providers, according to the study conducted by Beck and Peria (2009). One of the major differences in the case of the Maldives is that the population of foreign workers is relatively low compared to other SAARC countries and thus the volume of transactions maynotbe sufficient to enjoy economies of scale. The number of workers depends on the level of activities, especially in areas which are heavily dependent on foreign workers such as the construction industry.

Any work to reduce the cost of cross border remittances need to be addressed in a manner that it first addresses the major data gaps in accurately recording the workers remittances in the Maldives. First and foremost, it is imperative to gauge the total number of officially registered workers and undocumented workers. Secondly, the use of official channels for transferring funds need to be monitored more robustly to appropriately gauge the volume of transactions through official channels and to form a better understanding of the informal channels. The MMA's plan for implementing a more comprehensive International Transaction Reporting System (ITRS) for recording cross-border transactions through banks and MTOs will be one of the avenues that can potentially improve the data deficiencies in this area.

APPENDIX 1

MTOs	Afghanistan	Bangladesh	Nepal	India	Srilanka	Pakistan
NBL						
$200	n/a	$4	n/a	n/a	n/a	n/a
$500	n/a	$4	n/a	n/a	n/a	n/a
Western Union						
$200	$13-$30	$4	$4	$4	$5	$10
$500	$30-$42	$4	$4	$5	$5	$10
Xpress Money						
$200	$10-$18	$4	$4	$4	$4	$9
$500	$10-$18	$4	$4	$4	$4	$9
Money Gram						
$200	n/a	$5	$5	$5	$5	$5
$500	n/a	$5	$5	$5	$5	$5

BANKS	Afghanistan	Bangladesh	Nepal	India	Srilanka	Pakistan
CBM						
$200	$20	$4	$20	$20	$3	$20
$500	$20	$4	$20	$20	$3	$20
BOC						
$200	$20	$20	$20	$20	$20	$20
$500	$20	$20	$20	$20	$20	$20
BML						
$200	$37	$37	$37	$37	$37	$37
$500	$37	$37	$37	$37	$37	$37
SBI						
$200	$40	$40	$40	$3	$40	$40
$500	$40	$40	$40	$5-$8	$40	$40
MCB						
$200	$45	$45	$45	$45	$45	$45
$500	$45	$45	$45	$45	$45	$45
MIB						
$200	$22	$22	$22	$22	$22	$22
$500	$22	$22	$22	$22	$22	$22
HBL						
$200	$40	$40	$40	$40	$40	$10
$500	$40	$40	$40	$40	$40	$10
HSBC						
$200	$40	$40	$40	$40	$40	$40
$500	$40	$40	$40	$40	$40	$40

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Reducing the Cost of Cross-Border Remittances: Nepal's Experience

Introduction:

Remittances contribute a largest share in the total foreign exchange receipts and current account balance in Nepal. In 2015/16, remittance shares 57.6 percent in foreign exchange receipts and 64 percent of the current account receipt. Moreover, it has strengthened the external sector stability and gross national saving of Nepal. Remittance has strengthened the social sector indicators through the reduction in domestic unemployment and poverty, enhanced the access in education and health services, expansion of urbanization, among others.

Till date Nepal has been allowing approval to work its citizen different in 108 countries for foreign employment. The main destinations of Nepalese workers for foreign employment for are India, Malaysia, Qatar, Saudi Arabia, UAE, Kuwait, and Bahrain. These countries are also the main sources of remittances to Nepal. The historical trend of workers migration from Nepal is systematically available since 1993/94, however, the workers migrated to India has not been recorded till date. Because of open boarder with India, people of these two countries travel freely across the border and which is not recorded systematically. The migrated workers send remittances trough various channels, where the money transfer companies are the main means of transferring remittances in Nepal.

Literature review:

Though there are not found any research study conducted systematically related to reducing the cost of remittance sending cross-border. However, literature reviews of few research studies that are relevant to our area of interest are as below:

Bhadra,(2007) carried out a research on *"International Labor Migration of Nepalese Women: The Impact of Their Remittances on Poverty Reduction."* and concluded that Poverty incidence in urban areas has been assessed to have declined by more than half (from 22 per cent in 1995/96 to 10 per cent in 2003/04), which is by almost 7 percent annually. The decrease in rural poverty was modest, from 43 percent in 1995/96 to about 35 percent in 2003/04, or 2.5 percent each year during the eight years between the surveys.[37]

Pant (2008) carried out a research *on "Remittance Inflows to Nepal: Economic Impact and Policy Options."* The objectives of the study was to find the impact and uses of remittance to reduce poverty and create economic security for the household and community and found out that

[37] https://www.unescap.org/sites/default/files/AWP%20No.%2044.pdf

Remittances are potentially important stimuli to economic growth. Despite the lack of accurate data on the real volume of funds transferred, there is ample evidence that remittance flows are substantial, stable relative to other forms of development finance, and well-targeted to vulnerable families, both as support during a crisis and as an income smoothing mechanism.[38]

Acharya, Chakra. Leon-Gonzalez, Roberto (2012) investigated on *"The Impact of Remittance on Poverty and Inequality: A Micro-Simulation Study for Nepal"* came to conclude that , the national-level simulations indicate that remittance decreases the head count poverty by 2.3 percent and 3.3 percent in the first round of the survey, and between 4.6 percent and 7.6 percent in the second round. It reduces even further the depth (at least 3.4 percent and at most 10.5 percent) and severity (at least 4.3 percent and at most 12.5 percent) of poverty. Although overall remittance increases inequality, this is less so in the second round of the survey.

Devkota (2014) carried out an investigation on *"Impact of Migrants' Remittances on Poverty and Inequality in Nepal"* and came up with the result that, the probability of receiving remittances is higher in richer households than poorer households. Remittances contribute twenty percentages of total poverty headcount ratio reduction in Nepal. The role of international remittance is greater than that of internal remittance in decreasing the poverty headcount, the poverty gap and the squared poverty gap. However, remittances widen inequality in Nepal.[39]

Review of existing remittance and remittance related AML/CFT regulations:

Nepal Rastra Bank, the central bank of Nepal, is responsible body for supervising and regulating the remit company in the country.Therefore, under Section 10(3) of the Asset (Money) Laundering Prevention Act, 2008 and Rule 7 of the Asset (Money) Laundering Prevention Rules, 2009, the FIU has issued the directives to Money Remitter /Money Transfer licensed by Nepal Rastra Bank.[40] The major issues to be fulfilled by money transfers are as follows:

a) **Customer to be clearly identified and records thereof maintained.**

   Money remitter/ money transfer companies shall, while receiving and paying money to the customer for the purpose of remitting and transferring money, obtain documents and particulars that establish the clear identity of the customers.

b) **Particulars to be provided by the customers:**

[38] https://www.nrb.org.np/ecorev/pdffiles/vol18_art2.pdf
[39] file:///C:/Users/B00585/Downloads/03.pdf
[40] *https://www.nrb.org.np/fiu/pdffiles/AML_Directives_to_Money%20_Remitters_and_Transferor_english.pdf*

It shall be the obligation on the part of the concerned customers to provide the particulars as requested by money remitter/money transferor. Money remitter or money transferor shall have the right to instantly decline to conduct any transaction or establish business relationship with those customers who fail to provide or is not able to provide the particulars for whatsoever reason.

c) Transaction of threshold amount and threshold exceeding amount to be reported:

Transaction of ten hundred thousand rupees or more, whether remitted to or transferred to a single person at a single transaction or series of transactions in a day.

Transaction of transferring or payment of ten hundred thousand rupees or more by a single person in a day, whether at a transaction or series of transactions.

Transaction of threshold amount or amount more or less than threshold shall be reported as suspicious transaction if such transaction appears to be suspicious.

d) Suspicious transaction to be reported:

Money remitter/money transferor shall immediately provide information to the Financial Information Unit as per the format specified in Schedule 3 in case the following circumstances exist in the customer or his behaviours.

- If the customer does not give required particulars or gives false information or is not willing to give the particulars.
- If the customer attempts to send or receive the amount that is incompatible with the particulars furnished to the money remitter/money transferor.
- If no source of the money is mentioned or the satisfactory source is not given.
- If the customer does not mention the purpose of sending or receiving money or searched to transact that hides the purpose.
- If transactions of sending, receiving, regularly or of huge amount were made only through particular country, place or institutions without certain reasons or such amount is readily transferred to other place.
- If the amount is found sent or received differently from business purpose or sent or received in a different place.
- If the amount is sent or received time by time below than threshold amount or such act is found to have been done by mutual compromise of two parties.
- If the transaction done or attempted to be done does not correspond to the general economic status of the customer.
- Transactions of or relating to individual or organization who has been declared by Nepal government as 'Individual or organizations involved in terrorist or criminal activities' or that relating to individual or organizations placed in the list of terrorist or criminal by the United Nations through adoption of various resolutions or any transaction that appears to

be directly or indirectly facilitating any type of terrorist activity, terrorist organization or any criminal activity.

- Transaction that is likely to be directly or indirectly associated with individual or organization involved in terrorist activities or criminal activities or any other related individual.
- Any transaction that appears to be suspicious or the transaction that is carried out or appears to be carried out with the purpose of money laundering or encouraging terrorist or criminal activities.
- Transaction that appears to be suspicious or abnormal by any aspects or such behaviours of the customer.
- Transaction of individual or organization attempting suspicious transaction.

E) Penalty and Actions:

The Financial Information Unit may impose fine to money remitter/money transferor those who do not furnish information to the Financial Information Unit as per the requirement of Money Laundering Prevention Act, and the Rules, By laws, directives or order formulated and issued under the said Act.

The flow remittance service:

Nepal Rastra Bank (NRB) regularly (monthly basis) publishes the aggregated figure of workers' remittances as one of the components in the Balance of Payments (BoP) presentation. The worker's remittance data are available since 2000/01, prior to that it was included in private inward transfer in the BoP presentation. In 2015/16, the 95 percent of the people flew overseas for foreign employment went to Malaysia, Qatar, Saudi Arabia, UAE, Kuwait, Bahrain and Oman. Likewise, out of total remittance inflows 70 percent of the remittances to Nepal flow from only 6 countries i.e. Malaysia, Qatar, Saudi Arabia, UAE, Bahrain and Kuwait. The cost and quantity of remittances are affected by the destination countries economic condition and immigration policy as well as the foreign employment policy of Nepal.

The workers' remittance has been increasing year by year in absolute term and in relative to the size of GDP of Nepal. During 2000/01 to 2017/18, workers' remittance increased 15.99 times from Rs. 47.2 billion to Rs. 755.1 billion in 2015/16 (Table 1 and Figure 1). The biggest absolute change of Rs. 108.6 billion compared to previous year was observed in 2013/14. The growth rate of remittances has been decelerating in between 2015/16 to 2016/17, however it has rebound in year 2017/18 (Table 1). In relative to GDP size the workers' remittance is in decreasing trend.

Table: 1 Status of Workers' Remittances

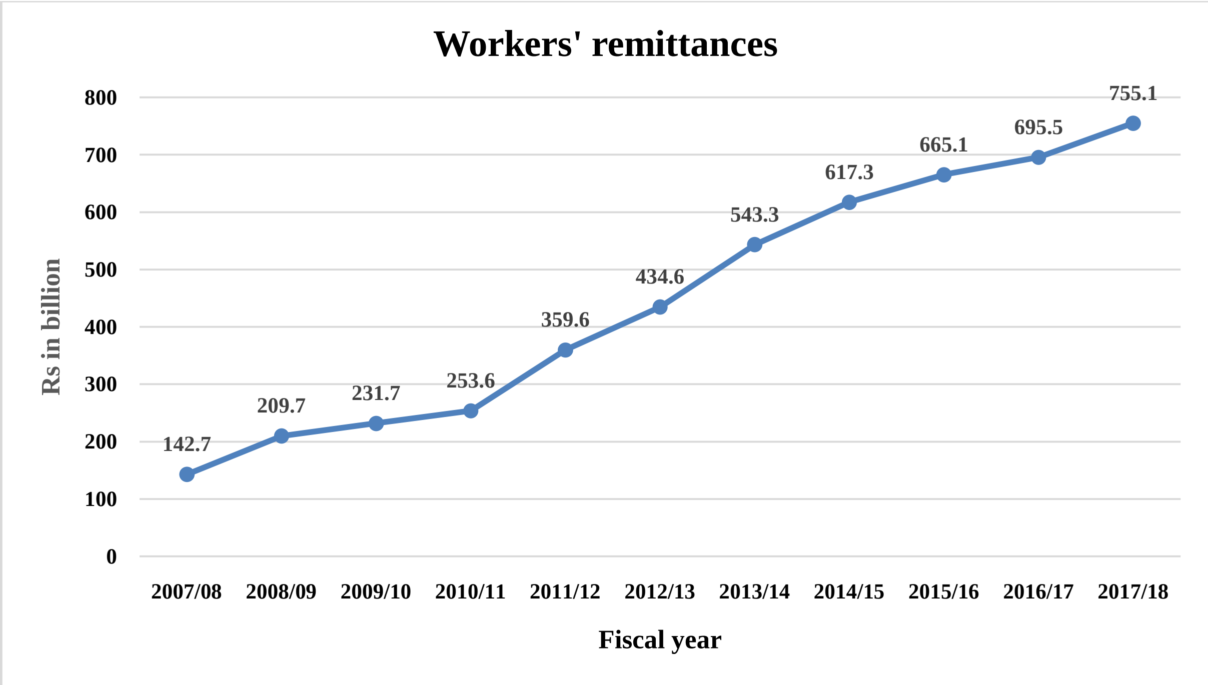
Rs in Billion

Fiscal Year	Workers' remittances	Annual change %	Ration in GDP
2000/01	47.2	-	11.4
2001/02	47.5	0.7	10.3
2002/03	54.2	14	11.0
2003/04	58.6	8.1	10.9
2004/05	65.5	11.9	11.1
2005/06	97.7	49	14.9
2006/07	100.1	2.5	13.8
2007/08	142.7	42.5	17.5
2008/09	209.7	47	21.2
2009/10	231.7	10.5	19.4
2010/11	253.6	9.4	18.5
2011/12	359.6	41.8	23.5
2012/13	434.6	20.9	25.6
2013/14	543.3	25	27.7
2014/15	617.3	13.6	29.1
2015/16	665.1	7.7	29.6
2016/17	695.5	4.6	26.3
2017/18	755.1	8.6	25.1

Source: Nepal Rastra Bank

Figure: 1 Workers' Remittance flows to Nepal

Rs in Billions



Remittance Outflows from Nepal:

The current transfer debit, which contains mostly the remittance outflows, reflects the outflow of remittance which is shown in (Table 2). The current transfer's outflow was 4.2 billion in 2006/07, 3.3 billion in 2010/11 and 5.8 billion in 2015/16.

Table: 2 Trends of current transfer from Nepal

Rs in billion

Fiscal Year	Workers' remittances	Annual change %
2006/07	4.20	-
2007/08	2.65	-36.9
2008/09	7.97	200.8
2009/10	5.12	-35.8
2010/11	3.30	-35.5
2011/12	5.03	52.4
2012/13	7.37	46.5
2013/14	3.35	-54.5
2014/15	2.57	-23.3
2015/16	3.80	47.9
2016/17	3.91	2.9
2017/18	5.80	48.3

Source: Nepal Rastra Bank

Table 3: Country-wise remittance inflows in current fiscal year:

Country	2017/18	Percent
United States	14702.0	19.5
Saudi Arabia	10280.8	13.6
India	10105.6	13.4

Malaysia	8845.0	11.7
Qatar	8760.0	11.6
United Arab Emirates	8066.0	10.7
Japan	5725.0	7.6
Bahrain	2203.0	2.9
South Korea	1935.0	2.6
Kuwait	1533.2	2.0
United Kingdom	592.7	0.8
Australia	486.1	0.6
Canada	280.1	0.4
Israel	45.2	0.1
Lebanon	32.2	0.0
Others	1914.1	2.5
Total	**75505.9**	**100.0**

Source: Nepal Rastra Bank

The cost of remittance sending:

The remittance business is globally distributed and mostly flows toward developing countries. Cost of remittances varies as per the country and the region. According to World Bank report titled Migration and Development Brief, April 2018, worldwide remittances is projected to be USD 613 billion in 2017compared to USD 573 billion in 2016. Out of this total remittance, US $117 billion (19.1%) was remitted to the South Asian countries.

Global Average Cost:

According to the report of World Bank, In Q3 2018, the Global Average cost for sending remittances was 6.94 percent, just slightly below the value recorded in Q2 2018 (6.99 percent). The data shows the price of sending the remittance is declining over the period time as there is advancement is technology and increasing in the number of transactions.

South Asia Region Average Cost:

In the same quarter of 2018, compare to global cost of sending remittance, the South Asia remains the less-expensive region, with an average cost of 5.4 percent as per the remittance price sending data of World Bank. In contrast to that, Sub-Saharan Africa remained the most costly region to send the remittance.

Cost of remittances from United States to Nepal:

Throughout the fiscal year 2017/18, Nepal received highest amount remittance from United States than any others. In last fiscal year 2017/18, Nepal received Rs 14.7 billion remittance from United States. According to World Bank remittance price data for third quarter 2018 the average cost of sending USD 200 from United States to Nepal is USD 5.46. Likewise, for sending the

USD 500 from United States to Nepal is 3.79 percent. Remitting the money from United States to Nepal is relatively cheaper.

Cost of remittances from Saudi Arabia to Nepal:

The cost of sending remittances from Saudi Arabia to Nepal is slightly spiked in third quarter of 2018 compare to second quarter. In the third quarter of 2018, the average cost of sending USD 200 is 5.35 percent and for remitting USD 500 from Saudi Arabia to Nepal is 3.8 percent.

Cost of remittances from India to Nepal:

The cost of sending remittances from India to Nepal has is in decreasing trend compare to previous quarter. In the third quarter of 2018, the average cost of sending USD 200 is USD 3.36 and for remitting USD 500 from India to Nepal is USD 3.46.

Cost of remittances from Qatar to Nepal:

Qatar is one of the major destinations of the people seeking for foreign employment from Nepal. In the third quarter of 2018, the average cost of sending USD 200 from Qatar to Nepal is 4.42 percent which is slightly lower than compare to second quarter. And for remitting USD 500 from Saudi Arabia to Nepal is 2.96 percent which is also decreased from 4.8 percent compare to previous quarter.

Special remittance issues with SAARC member countries:

Following are the issues related to remittance flows.

(1) **Still a large chunk of remittance lie outside the formal and regulated banking and financial sector**, which is known as "hundi" systems of money transfer which can cost half or less than formal banking and other channels in terms of commission. According to the recent study by NRB, over 70 percent of total remittance sent from South Korea enters through the informal channel which hinders the reliable estimation of the actual remittance inflows in the country thereby affecting the policies and strategies.

(2) **Productive use of remittance has been lacking**. According to the study by NRB, the remittance recipients save only 28 percent which is less than one-third of the total money the migrant workers send annually. The rest of the money goes on repayment of the loan borrowed, health, education of the family members and consumption.

(3) **Another significant issue of remittance is its sustainability**. With more dependency on remittance largely based on unskilled workers, it raises serious concern of the remittance

sustainability. The stability of remittance in case of external shock is questionable which can have far reaching consequence.

(4) More importantly, because of remittance income, family members tend to work less at home, resulting in labour shortage in the economy. Nepal has been witnessing the growth of goods and services after the remittance started inflowing the countries.

The impediments for lowering the cost of remittance within SAARC region:

Lack of banking access to people: In South-Asia region, the percentage of population living in rural area is about 65 percent. In most of the cases the presence of banks and financial institutions in rural area is very low. Therefore it is difficult to banks and financial institutions to provide the remittance service at lower cost.

Regulatory obstacles**:** Remittance money is the highly concerned matter from the policy makers to security authorities. Remittance sending process scrutinizes various agencies such as Ministry of Finance, Central Bank, Anti money laundering authority etc. In turn remittance business to adhere of regulations with multiple regulatory body. Therefore a regulatory obstacle is one of the major hurdles to drag down the cost of sending the remittances.

Lack of payment related infrastructure: Due to lack of infrastructure related to payment and settlement among the SAARC member countries is also impeding to lower the cost of sending the remittances. The payment system in the home country of migrants workers are not well developed is also impeding the cost of sending the remittances.

The nexus between remittance regulations and cost:

Though there is no formal study to find the nexus in remittance regulation and cost but it is unanimous agreed that regulation such as KYC, AML/CFT are adding extra cost of remittance sending from one place to another.

In Nepal too, the remitting company and the banks are mandatory to fill the KYC form and other related information while sending and receiving the remittances. It increases the some paper works and also the cost of sending the remittances.

Steps taken for reducing the cost of cross-border remittance:

Ways to reduce the remittance cost:

The data shows on average 7.45 percent cost should be borne by money transferee out of his hard earned remittances. The transferring fees are relatively high and most mostly affect the people of developing countries. Reduction in the cost of remittance transfer fees would significantly increase annual remittance flows to developing countries, especially to the poorest recipients. In context of South Asia as a whole, it will be highly beneficial to the migrants to send to their respective home country. Following could be the possible ways to reduce the cost of remittance cost in this region.

a) **Customer awareness:** Consumers are only likely to use a specific remittance if they are aware of it. It can be assumed that the consumer will choose between the available whichever option is best, taking into account the price and the service provided. While the consumer generally is informed of the transfer fee, the awareness of the cost of the foreign exchange is unknown.
b) **Improve remittance channels:** The Nepalese government or financial institutions such as World Bank could also facilitate remittances generally by providing loans for projects supporting the development and installation of technologies used for the payment of remittances in developing countries. Quite often, the level of technical equipment in rural areas is very basic, which limits the possibilities of paying remittances in these areas. The extension of banking services and mobile money transfer to rural areas could significantly reduce remittance costs in rural areas.
c) **Financial inclusion and access to financial institutions:** This plays an important role in reducing the cost of remittances to Nepal. Especially, in context to Nepal, where there is a high share of rural population receiving the remittance, it is very necessary for them to be aware of financial inclusions.

Policy recommendations:

Lack of competitive environment in the remittance market, insufficient access to financial technology supporting the payment and settlement activities and adhering with multiple regulatory and compliance problems. Due to these above mentioned problems foreign workers' compel to send remittance from cheaper means of payments and less regulated means such as *Hawala or Hundi* etc. Due to this, the home country of migrants' workers' could not receive the actual benefits. In this regards, the appropriate policy measure should be intervene or to take to minimize this problems in the SAARC region.

In sending the remittance among the SAARC countries there should be designed and make agreement to implement the simplified KYC form in order to minimize this common problem faced by all SAARC member countries.

Reducing the Cost of Cross-Border Remittances within SAARC Region Pakistan's Perspective

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1. Introduction

As with most of other developing countries, home remittances are an important source of foreign exchange earnings for Pakistan. Although remittances into Pakistan have been strong since 9/11, the pace was further accelerated since FY 2008-09 (Fiscal Year is July-June) after the launch of Pakistan Remittance Initiative (PRI). More specifically, home remittances rose from US$ 6.45 billion in FY 2007-08 to US$ 19.62 billion in FY 2017-18 after touching a peak of US$ 19.92 billion in FY 2015-16.

Consistently strong remittances have provided Pakistan much-need FX comfort in recent years, as the trade deficit continue to remain high. Putting the volume of remittances in perspective, such inflows have financed one-third of the country's import bill; equivalent to over 84% of country's exports, over half of the overall trade deficit, and contributed over 6 percent in Pakistan's national income (GNP) in FY 2017-18.

According to World Bank's data released in December 2018, compared to other top remittance-recipient countries, Pakistan ranked 7th in terms of absolute remittance inflows during 2018. Interestingly, in terms of GDP, Pakistan's performance was much above compared with high-volume countries like China, India and Mexico.

2. Literature Review

The importance of home remittances was not well recognized prior to 1980s, therefore, home remittances could not receive much attention from most researchers. Most of the available literature was appeared after 1980s, when demand for expatriate workers and remittances in GCC region increased after oil price boom in 1970s. Within the subject of home remittances, social impacts of remittances were major focus of the earlier researched topics. The research on cost of remittance services caught attention of the researchers more recently; it was a neglected area until mid 2000s. The overall global negligence with respect to remittance is also evident from the fact that aggregated global remittance volumes are not available beyond 2003 Chami, Barajas, Cosimano, Fullenkamp, Gapen and Montiel (2008).

The initial research was more focused on international migration and its impact on development and unemployment, for instance [Grubel and Scott (1966), Berry and Rodriguex (1969) and Harris and Todaro (1970)], flow of remittance caught attention in subsequent decade. The leading research work on migration and impact of remittances was made by Kertz, Keely and Tomasi (1981). Thisstudy examined the role of labor migration in the development process and the impact of remittances on the labor exporting countries. Unlike other researchers, Looney (1990) was of the opinion that large volumes of remittances flow through unofficial, informal and even illegal channels and could not be tapped easily. He was of the opinion that in absence of accurate information of the magnitude of foreign exchange inflows in labor exporting countries, traditional monetary and exchange rate policies would be difficult to implement.

A similar trend is observed in case of Pakistan, preliminary researchers analyzed the socio-economic impacts of international migration with little discussion on remittances e.g., Gilani, Khan and Iqbal (1981) and Abbasi and Irfan (1983). It was not surprising as the cushion provided by the inflows of home remittances to most labor exporting countries was hidden until early 1980s. Amjad (1986) and (1989) did pioneering work on remittances with respect to Pakistan when remittances started declining after reaching to a peak of US$ 2.9 billion in FY 1982-83.

Since mid-1980s, a considerable research had been done in a number of countries on the significant and positive impact of remittances on economic development along a number of socio-economic variables particularly poverty alleviation, education, entrepreneurship, infant mortality, and financial development. Beck and Piera (2009) well documented such studies.[41]

However, as mentioned above, cost of remittance services become increasingly important after a surge in remittances was observed post 9/11 mainly due to global awareness on documentation and due diligence of small remittance transfers. FreundandSpatafora (2005) made the pioneering work on cost of remittances and concluded that low cost of remittance services could help increase flow of remittances through formal channels. However, this study was based on only one-year (2005) data of transaction fee charged by Western Union only for US-UK corridor. With the inclusion of cost of sending US$ 200 from US to UK by Money Gram and Western Union, Freund and Spatafora (2008) found statistically significant inverse relationship between remittances and cost of remittance and the possibility that reduction in cost of remittances may lead to divert remittances towards the formal sector.

Gibson, McKenzie and Rohorua (2006) estimated the elasticity of cost of remittances from New Zealand to Tonga and quantified the impact of reduction in cost on flow of remittances. Their key finding of a negative average elasticity of 0.22[42] implied that if cost of remittance from New Zealand to Tonga reduce by 65%, it would lead to a rise of 14.3% increase in amount remitted.

In a relatively broad-based study on cost of remittance services, Orozco (2006) included South American countries and remittance costs of large number of banks and MTOs in his work. He recommended that partnerships between financial institutions and MTOs would encourage financial inclusion, provide opportunities to explore the use of electronic transfers through card based instruments, and establish remittance literacy outreach.

The above research work, compilation of online cost of remittance resource by the World Bank,[43] adoption of 5x5 goal by G8 in 2009,[44] and its adoption by G20 in 2011 to reduce the cost of remittance service to 5% by 2014[45] were major milestones in realization of importance of cost of remittances and its welfare effect on customers.

[41]Adams and Page (2003), Adams (2005), IMF (2005), Lopez-Córdova (2005), Maimbo and Ratha (2005), and Taylor, Mora, and Adams (2005) for studies on the impact of remittances on poverty. Studies such as Cox-Edwards and Ureta (2003), Hanson and Woodruff (2003), López-Córdova (2005), and Yang (2005) find that by helping to relax household constraints, remittances are associated with improved schooling outcomes for children. Remittances have also been shown to promote entrepreneurship (see Massey and Parrado, 1998; Maimbo and Ratha, 2005, Yang, 2005; Woodruff and Zenteno, 2006). Furthermore, a number of studies on infant mortality and birth weight have documented that, at least in the Mexican case, migration and remittances help lower infant mortality and are associated with higher birth weight among children in households that receive remittances (see Kanaiaupuni and Donato, 1999; Hildebrandt and McKenzie, 2005; Duryea et al., 2005; and López-Córdova, 2005). Aggarwal, Demirguc-Kunt, and Martinez Peria (2006) show that remittances can have a positive impact on financial development.

[42]It was as high as (-) 0.74 in sub-sample group of migrants.

[43]https://remittanceprices.worldbank.org/en

[44]In the *"G8 Leaders Declaration: Responsible Leadership for a Sustainable Future"*, during the L´Aquila Summit, in July 2009, the G8 Heads of State made a pledge "given the development impact of remittance flows, we will facilitate a more efficient transfer and improved use of remittances and enhance cooperation between national and international organizations, in order to implement the recommendations of the 2007 Berlin G8 Conference and of the Global Remittances Working Group established in 2009 and coordinated by the World Bank. We will aim to make financial services more accessible to migrants and to those who receive remittances in the developing world. We will work to achieve in particular the objective of a reduction of the global average costs of transferring remittances from the present 10% to 5% in 5 years through enhanced information, transparency, competition and cooperation with partners, generating a significant net increase in income for migrants and their families in the developing world."

[45]G20-2011 Cannes Summit final declaration: "Buildingour common future: Renewed collective action for the benefit of all";https://in.ambafrance.org/IMG/pdf_Cannes_Summit_final_declaration.pdf?4507/8aa7bb503ad2b268a3f781b220c4cd4bbcfee9f4

In a more recent study on cost of remittances further reinforces the view that formal remittances are negatively associated with remittance transfer cost (Kakhkharov, Akimov, Rohde (2017). This study was based on an entirely different dataset and covered countries of the former Soviet Union from 2000 to 2014.

In the background of significant and important findings of empirical research, analysis of cost of remittances within SAARC region seems useful. This study is probably the first ever attempt to promote remittances and reduce cost of remittances between developing countries.

3. Review of existing remittance and remittance related AML/CFT regulations of Pakistan

- **i.Objectives**

The objectives of the regulatory instructions on home remittances are to:

a) Provide minimum standards and requirements for home remittance services in Pakistan in line with international best practices;

b) Specify delivery channels for offering inward home remittance transactions in a cost effective manner;

c) Provide an enabling environment for banks, microfinance banks and exchange companies; and

d) Provide broad guidelines for implementation of processes and flows of home remittances, from initiation to delivery.

- **ii. Licensing Requirements to enter Home Remittance Services**

a) No financial institution shall conductforeign exchange business in Pakistan (including home remittance services) unless duly licensed/authorized by the State Bank of Pakistan (SBP) under Foreign Exchange Regulations Act 1947 (FERA 1947).
b) Authorized Dealers (banks) and Exchange Companies (A category) are allowed to engage in home remittance business when they are issued the respective license as per regulations mentioned in Foreign Exchange Manual, 2018 and Exchange Companies Manual, 2017 respectively.
c) Microfinance banks are granted ‘Restricted Authorization to Deal in Home Remittances’ upon request to the Director, Exchange Policy Department, State Bank of Pakistan.

- **iii. Home Remittance Agency Requirements**

A financial institution (bank/microfinance bank/exchange company) who wishes to enter into agency arrangement with foreign correspondent entities for mobilization of home remittances shall obtain regulatory input/advice from the Exchange Policy Department, State Bank of Pakistan.

The following conditions shall apply to the overseas correspondent entities in line with FATF recommendations and international best practices:

a) Be a registered entity, licensed by the relevant supervisory/oversight authorities in a jurisdiction to carry on money transfer services.

b) Have proper AML/CFT policies and procedures in place for its customers including CDD, record keeping, reporting of suspicious transactions etc.

c) Give assurance to make efforts to enhance home remittances flows through formal channels.

d) Should be well established in the money transfer business, preferably with a track record of operations, adequate volume of business and a sizeable outreach.

e) Have an MOU that clearly delineates liabilities in the event of disputes and/or process failures.

f) Risk-based approach should be adopted if continuing relationships with entity located in jurisdictions that have poor KYC standards or have been identified by Financial Action Task Force (FATF) as being "non-cooperative" in the fight against money laundering.

g) Agreement should be made with the principal company and not with any of its agents/sub-agents.

h) All negotiations/communications should be made/addressed to authorized person(s) of the counter-party.

- **iv. Documentary Requirements to engage in Home Remittance Agency Agreement**

In order to make an assessment of correspondent entity, all requests for agency arrangements shall be accompanied with necessary documents and information related to the entity, directors and shareholders (**Box 3.1**).

Box 3.1: Necessary Documents/Information Requirements with respect to Overseas Tie-ups

a) Foreign entity's valid License issued by the relevant financial regulator
b) Commercial/Trading License
c) List of Shareholders and Authorized Signatories
d) Shareholding structure of the Company
e) Attested Identity/Passport Copies of Shareholders/Owners
f) Profiles of the Board and Management of the Company including but not limited to CVs, functional contact e-mails and telephone numbers, ownership, governance and management structure
g) Board of director's approval to offer money transfer services.
h) Copy of the certificate of incorporation
i) Memorandum & Articles of Association (certified copy), of which the primary object clause shall indicate provision of Money Transfer Services.
j) Business Plan, to include:
   - Nature of the Business
   - Features of the money transfer services model
   - Internal control systems and monitoring procedures
   - AML/CFT and KYC/CDD Policies of the MSB
   - Laws & regulations related to overseas agency arrangements
   - Rules governing remittance transactions

k) Consumer Protection and Dispute Resolution Mechanism
l) Third Party Agents Policy
m) Draft agreement with the foreign correspondent entity (explicitly mentioning rebate sharing ratio, if services on Free Send Model)
n) Any other information as may be required by the SBP from time to time.

- **v. Essentials of the Agency Agreement:**

a) It is non-exclusive meaning it should not restrict domestic financial institutions, directly or indirectly, to offer similar competing services under other agency arrangements.
b) It gives ownership rights of all related accounting/book-keeping and other record to banks and the same is maintained for a minimum period of ten years from completion of the transaction.
c) It does not contain clauses, which give blanket approval to foreign entity to assign or transfer their part of the agreement or any right or duty thereof, to any third party without prior approval of SBP.
d) It is in compliance with all the regulations, instructions, directives, circulars and other communications issued by the State Bank and contains provision of incorporating any amendments made therein from time to time.
e) It is in compliance with all the Government laws/rules/regulations.
f) It ensures compliance of prudent practices and standard policies related to Internal Controls, Information Technology, Anti Money Laundering and Know Your Customer etc.

g) It does not compromise State Bank's right to revoke the agreement at any time.

- **vi. Permissible Transactions**

ADs, Restricted ADs and EC-A shall be allowed to accept inbound home remittance transactions only under agency agreements. Such transactions shall be inclusive of person to person (P2P), customer to business (C2B) and business to customer (B2C) transactions, as defined by the SBP. These agreements shall be for payment of home remittances to beneficiaries in PKR only.

- **vii. Non Permissible Activities**

Home remittance channel shall not be used to cater following transactions:

a) Business to business (B2B) or institutional transfers, which are not explicitly allowed by the SBP; and

b) Outward remittance from Pakistan unless explicit permission has been obtained;

- **viii. Transfer Limits and Mechanism**

a) No outward transactions shall be allowed through home remittance channel.
b) All inward home remittances shall only be disbursed to beneficiaries through formal channel.
c) Where the beneficiary does not have a bank account or mobile money wallet, cash-over-counter shall only be made upon completing KYC/CDD.

- **ix. Transactions through Bank accounts**

a) Foreign Correspondent entities are allowed to handle home remittance related foreign currency through non-resident foreign currency (NR FCY) accounts with commercial banks in Pakistan.
b) All funds against home remittances are received in advance in foreign entity's Non-Resident PKR/NOSTRO account maintained with scheduled banks in Pakistan.
c) Funds from NR FCY accounts are converted into Pak Rupees from these accounts at inter-bank market and transferred into non-resident PKR accounts.
d) The pre-funded accounts have to be replenished to maintain it at a threshold level as per tie-ups daily business volume.
e) The foreign exchange mobilized against home remittance transactions have to be transferred to Pakistan through banking channels, under no circumstances, netting off inflows and outflows is not allowed.
f) All B2C and C2B transactions are account credit only and shall be disbursed in PKR only. Cash disbursement is not permissible for any of these transactions.
g) Transactions received on behalf of foreign entities may be transferred from one AD to another AD through MT-102[46]/RTGS without prior approval of SBP. In order to facilitate banks, SBP exempted home remittance related inter-bank transfer without usual charges for using MT-102/RTGS. This helps contain cost of remittance transactions.

- **x. Delivery of Home Remittances to Beneficiary**

a) In case where the beneficiary is maintaining its account within the same bank, the amount of remittance will be credited to the beneficiary's account instantly.

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[46]**MT 102 (Multiple Credit Transfers):** Single Debit and multiple credit (up to 10 instructions having minimum 100,000 per instruction, in the same bank), MT 102 is used for customer transfers where the sender wants to send multiple transfers to different customers of the same bank.

MT 103 (Single Credit Transfers): Single Debit and Single Credit (For payments above Rs. 1 Million), MT 103 is used for customer transfers and is done on one-on-one basis and is usually used by corporations.

b) In case where the beneficiary is maintaining its account with bank other than the recipient bank, the recipient bank will intimate and give credit of the same to the other bank within 24 hours of the receipt of funds. The bank maintaining the account of the beneficiary, after receiving intimation and funds from the recipient bank, will give credit to the beneficiary's account instantly.
c) In case where the payment is required to be made through Pay Order/Demand Draft to the beneficiary, the bank will issue and dispatch the same within the 24 hours of the receipt of funds by the bank.
d) In case where the banks are offering the facility of cash over the counter to the beneficiary, the banks shall ensure the availability of the funds instantly.

- **xi. Penalties**

- In case where the amount of remittance is not credited as given in parax(b) above, the beneficiary shall be entitled to a return of sixty five (65) paisa per thousand rupees per day for the number of days credit/payment on account of remittance was delayed. The banks are, therefore, directed to ensure that the amount of remittances is credited/ paid to the beneficiary within 24 hours. In case of delays over 24 hours in the crediting/ making payment of remittance amount, they shall remunerate the beneficiaries at the rate given above**.**

- **xii. Other Benefits to Beneficiaries**

Automatic delivery of home remittances in beneficiary account/over the counter system in real time; generating confirmation SMS to remitter and the beneficiary.

Home remittances received through banking channels are exempted from tax. Banks issue Proceed Realization Certificates (PRCs), which are acceptable by the tax authorities as proof of income.

- **xiii. AML/CFT regulations governing Home Remittance Channel**

a) **Ordering Institutions** shall include the meaningful information in the message or payment instruction, which should remain with the funds/wire transfer throughout the payment chain. The information should include but not limited to the following:
    - name of the originator;
    - originator's account number (or unique reference number which permits traceability of the transaction);
    - name of the beneficiary; and
    - beneficiary's account number (or unique reference number, which permits traceability of the transaction).

b) **Intermediary Institutions** should ensure that all originator and beneficiary information that accompanies a home remittance transaction is retained with it under the related rules. In case home remittance transaction lacks such information then intermediary institutions should have risk-based policies and procedures to determine whether such transfers should be executed, rejected, or suspended.

c) **Beneficiary Institutions** shall adopt risk-based internal policies, procedures and controls for identifying and handling incoming home remittance transactions that are not accompanied by complete originator information. The incomplete originator information may be considered as a factor in assessing whether the transaction is suspicious and merits reporting to Financial Monitoring Unit (FMU) or termination thereof.

d) Banks should not execute the home remittance transfer if it does not comply with the requirements specified above at criterion xiii(a) above.

e) Financial institutions and their overseas correspondents shall be fully responsible to conduct scrutiny of all transactions from AML/CFT/KYC perspective and ensure that each transaction is as per laws/regulations of respective jurisdictions.

f) Financial institutions should not execute transactions, which fail to fulfill KYC/CDD/CFT/AML requirements and develop systems/controls to determine whether an STR has to be filed with FMU or not as per existing defined procedures.

g) ADs have to ensure screening against relevant resolutions of United Nations Security Council (UNSC), Schedules of Anti- Terrorism Act, 1997 etc.

- **xiv. Reimbursement of T.T Charges against Home Remittance**

Banks and their foreign correspondent entities are incentivized by the GoP through 'Reimbursement of TT Charges Scheme'. The salient features, terms, and conditions of the scheme are given in the following:

a) **<u>Eligible Transactions</u>**

Home Remittance transactions shall be eligible for Reimbursement of TT Charges subject to the following conditions:

- The bank and the correspondent entity have not charged their customers any fee or other charges at any stage for sending or receiving the Home Remittances.
- The amount of Home Remittance transaction is not below USD 200/- or equivalent in other currencies.
- Only one transaction shall be eligible for the Reimbursement of TT Charges irrespective of the number of transactions sent from the same remitter to same beneficiary on the same day.
- The transaction contains accurate identity of both remitter and beneficiary.

c) **<u>Reimbursement Rate</u>**

The Reimbursement rate per eligible Home Remittance transaction is Saudi Riyal 20/-.

- **xv. Record Keeping**

The agency agreement gives ownership rights of all related accounting/book-keeping and other record to domestic financial institutions and the same is maintained for a minimum period of ten years from execution of the transactions.

- **xvi. Complaint Resolution**

a) Each bank has been advised to establish a dedicated Complaints Management Unit to resolve complaints or disputes submitted by beneficiaries/remitters.
b) Pakistan Remittance Initiative (PRI) has also a dedicated helpline to address home remittance related complaints of remitters or beneficiaries. Further, PRI also receive complaints through e-mail and its website.
c) State Bank has a department Banking Conduct & Consumer Protection Department to address all sorts of complaints regarding the banks.
d) Office of the Banking Ombudsman is also available for resolution, if complaint could not be resolvedby banks/PRI/SBP.

- **xvii. Remedial Measures**

If an AD, restricted AD, exchange companies fail to comply with home remittance rules and regulations, the SBP can take corrective action, which may include imposition of monetary penalty against them as allowed under Section 23K of Foreign Exchange Regulation Act, 1947.

4. A compartaive analysis on the flow and cost of remittance service in Pakistan[47]

4.aTrends in remittances in Pakistan

Inflow of home remittances witnessed a sharp rise since FY 2008-09 (**Figure 1**). This performance is also remarkable in comparison to other remittance recipient countries. For instance, Pakistan achieved the highest 'compound annual average growth rates' amongst top 20 remittance recipient countries in 2009-2014and retained this position until 2009-2017. Consequently, Pakistan's share in global remittance reached 3.0% in 2018 compared with 2.1% in 2010.

It is important to mention here that establishment of Pakistan Remittance Initiative (PRI) in 2009 was further augment the efforts of Government of Pakistan and the central bank. As per one estimate PRI helps reduce use of Hawala by 34% by remittance recipients in Pakistan (Javaeria2016) - (see **Box-4.1** for details on PRI).

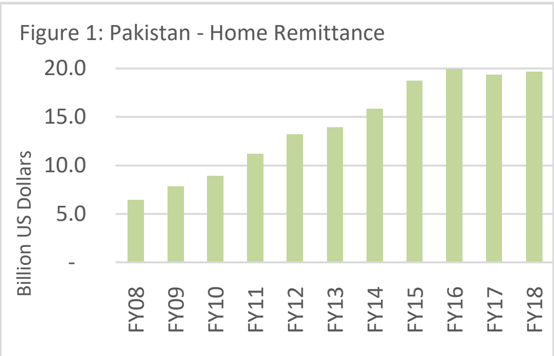
Box 4.1: Pakistan Remittance Initiative

The objective of PRI is to create efficiency and to support faster, cheaper, convenient flow of remittances through formal channels. Prior to PRI, only few domestic and overseas players were active in remittance market and banks were offering only account credit facility. In case beneficiary had account with another bank, the remittance receiving banks used to issue Demand Draft, which was dispatched to beneficiary's address. Beneficiary had to wait for 7 to 10 days for clearing after the checque deposited by the beneficiary.

In this backdrop, PRI took various measures to improve efficiency and facilitation for the remittance customers. Some of major steps taken by PRI since inception are given below:

- *Realization of Business Case for Banks*
- *Competitiveness*
- Initially only *5 banks* were active. Now *25 banks* at various stages of business development.
- *Placement of Bank representatives in Overseas*
- Automated delivery in beneficiary account
- Cash-Over-Counter Payments by banks
- Settlements Through RTGS/MT 102 and MT103
- Inter Bank Fund Transfer through ATM switches
- *Dedicated Cells for Home Remittances*
- *Call Center of banks – Complaint Resolution*
- PRI's own Call Centre
- SMS
- PRI Pardes Cards
- M Wallet Scheme
- Incentive Scheme for banks
- Pre-Departure Briefing Program at Protectorate of Emigrant Office.

However, growth has been slowed downin recent years as average growth during last three years (2015-2017) dropped to only 4.7%. In perspective, growth in home remittances though increased marginally by 1.4 percent to US$ 19.6 billion in FY 2017-18, remained short of the peak inflows of US$ 19.9 billion recorded in FY 2015-16. The marginal increase in FY18 shows



[47]This section is largely based on Annual Report, State Bank of Paki

that the downward trend that resulted in 2.8 percent decline in inflows in FY 2016-17, has reversed. Various factors may have contributed to this trend reversal.

First, the movement in oil prices played a key role. Not surprisingly, the increase in the GCC countries share in Pakistan's remittances inflows coincided with the increase in oil prices. Although oil prices peaked in FY 2013-14, remittance inflows from the GCC continued to increase until FY 2015-16. Only after FY 2015-16, when low oil prices resulted in fiscal imbalances in the GCC countries, did inflows from these economies decline.

As a result, in response to increasing external and fiscal imbalances, the GCC countries adopted various fiscal consolidation measures since then, including but not limited to, imposing value added tax (VAT) that particularly squeezed the savings of the low-income unskilled foreign workers, and introducing job nationalization programs through substitution of foreign workers with domestic labor force. These measures were more prominent in Saudi Arabia, which imposed various taxes on hiring and stay of expatriate workers and their families in the Kingdom. Consequently, remittances from the GCC have been declining since FY 2015-16.

Low oil prices, at the same time, also contributed to the ongoing recovery in the advanced economies, specifically the USA, UK and European Union. Therefore, the remittances inflow gained momentum from these economies at a time when inflows from most GCC corridors, started declining. Increase in share of the non-GCC countries in the Pakistan's remittances inflow is a good omen, as higher diversification lowers the risk of sudden drop in these inflows.

4.bRemittances from Pakistan to Other SAARC Countries

According to the World Bank's data, total outward remittances from Pakistan to SAARC countries were recorded at US$ 367 million in 2017, out of which 95.7% (US$ 352 million) sent to Afghanistan (US$ 125 million) and Bangladesh (US$ 227 million). As per the same data source, Pakistan received US$ 153 million during 2017 as home remittances from Afghanistan (US$ 119 million), Nepal (US$ 33 million) and Sri Lanka (US$ 1 million).

In sharp contrast, Balance of Payment statistics compiled by State Bank of Pakistan recorded total inward remittances from SAARC countries only at US$ 3.95 million in 2017 (**Table 1**) relative to US$ 153 million reported by the World Bank. Similarly, only US$ 0.13 million of outward remittances recorded during 2017. The outward remittances sent to India (US$ 0.08 million), Sri Lanka (US$ 0.05 million) and Bangladesh (US$ 0.01 million). It is important to highlight here that the World Bank data are estimates, which are largely based on an empirical study (**Box 4.2**).

Table 1: Flow of Remittances to and from Pakistan - 2017

Million US$

	Inward Remittances	Outward

Box 4.2: Discrepancy in data - World Bank viz a viz SBP

World Bank is the only source for a global statistics on migration and home remittances. While availability of country wise remittance data is appreciable, it must be noted that the World Bank's data on bilateral remittance flows are estimates (not the actual flows), which are based on a number of assumptions about migrant stock, per worker income, etc. These estimates are based on methodology given in World Bank's working paper No. 102 by Ratha and Shaw, "South-South Migration and Remittances", World Bank released in 2007 (available at: http://elibrary.worldbank.org/doi/pdf/10.1596/978-0-8213-7072-8). In case of Pakistan, Balance of Payment data compiled by the central bank and bilateral remittance data by World Bank reveal substantial discrepancy (**Table 1**). This comparison suggests that the World Bank bilateral data on remittances should be used with caution.

The insignificant flows of home remittances between Pakistan and other SAARC countries probably highlight to ease the relevant foreign exchange regulations by all SAARC member countries to facilitate flows of inward/ outward remittances. It is expected that increased business activities would help reduce the cost of sending remittances by the key service providers. Further, there is a need for increased cooperation and support from central banks/authorities to provide official data to the World Bank so that a more credible global country-wise data on remittances could be compiled. It would certainly help targeted intervention by the authorities, where required, and policy formulation to facilitate the flow of remittances.

4.c*Cost of Sending Remittances within SAARC Region*

From Pakistan to SAARC Region

The World Bank's database on cost of remittances has limited coverage and provide cost of sending remittances from Pakistan to Afghanistan and Bangladesh only. The precise reason for limited data availability is correspond to remittances data from Pakistan to these two SAARC countries. To put in perspective, it is interesting to note that total outward remittances from Pakistan were recorded at US$ 367 million in 2017, out of which 95.7% (US$ 352 million) sent to Afghanistan (US$ 125 million) and Bangladesh (US$ 227 million).

It is important to mention here that there is no retsriction on sending remittances from Pakistan to other SAARC countries and both banks and two major global MTOs (Western Union and Money Gram) are offering their services for outward remittances from Pakistan to all SAARC counrtries.

According to the World Bank's data, the cost for sending US$ 200 is exacerbately high at an average of 12.1% of the amount of remittance, though the cost of sending US$ 500 is 4.7%. Given the shallow market for MTOs and generally high cost of wire transfers through banks, the high cost of remittances from Pakistan to other SAARC countries is not surprising.

On the same trend, the data collected from domestic banks and MTOs (Western Union and Money Gram) largely in confirmity with the World Bank's data. However, cost of sending remittances through MTOs appears to be much lower than the remittances through banks (**Table 2**). In particular, the cost of sending remittances to Afghanistan through MTOs is significantly lower than other SAARC countries, though there is a large variation in the charges of WU and MG.[48]

Table 2: Cost of Sending Remittances from Pakistan

In US Dollars

Receiving Country	**Data collected from banks/MTOs***			**World Bank Data****	
	Cost of sending US$ 200 in FY18			**Average cost in 2018**	
	Overall Average	**Average Banks**	**Average MTOs**	**For US$ 200**	**For US$ 500**
Afghanistan	21.51	22.90	11.07	25.12	24.81
Bangladesh	21.23	22.07	14.96	23.16	24.55
Bhutan	21.28	22.07	15.42		
India	21.86	22.73	15.34		
Maldives	21.33	22.07	15.81		
Nepal	21.27	22.07	15.33		
Sri Lanka	21.26	22.07	15.18		
Average	**21.39**	**22.28**	**14.73**	**24.14**	**24.68**

Source: (*) Compiled by the author. (**) The World Bank.

Table 3: Cost of Remittances from India

(In US dollars)

[48]WU is charging a flat fee of US$ 5.11 for sending US$ 200 or US$ 500 remittance from Pakistan to Afghanistan. In contrast, MG is charging a fee of US$ 17.02 for sending US$ 200, which is increasing with the amount of remittance.

From India to SAARC Region

Available data for SAARC region show that the cost of sending remittances from India is lower relative to Pakistan (**Table 3**). A relatively low cost of remittance from India is probably a function of Indian bank branches in *most* of the recipient countries.

To	overall Average cost of sending	
	$200	**$500**
Bangladesh	5.26	5.25
Nepal	3.36	3.46
Pakistan	5.26	5.25
Sri Lanka	5.26	5.25
Average Cost	**4.79**	**4.80**
Source: World Bank Q3-2018		

It is indeed a source of comfort that 50% of intra-SAARC region remittances has an average cost of less than 2.5% even for tranfer of small amount from India to other countries. which is not only lower than the global average of 6.94% but also well below than the average cost of 5.4% for global remittances to South Asia.

5. The impediments for lowering the cost of remittance within SAARC region

It is well documented in literature that across banks and MTOs, costs are higher in corridors with a smaller number of migrants, higher levels of incomes and a higher participation of banks (Beck and Pería – 2009). Two out of three factors (smaller number of migrants and a higher participation of banks) alongwith varied and relatively rigid foreign exchnage regimes in member countries are the major impediments in lowering cost of remittances within SAARC region.

More importantly, non-availability of credible information on flow and cost of remittances within SAARC region is the key factor, which is impeding (a) cooperation among member countries, (b) meaningful analysis of the existing situation, and (c) effective policy intervention by member countries to resolve the issues.

6. Nexus between remittance regulations and cost within SAARC region

Foreign exchange regimes in almost all SAARC member countries are traditioally restrictive in nature. The reason of such rigid regimes is large external account imbalances in most countries and/or adoption of a cautious policy to avoid the risks of currency crises. The certain regulatory restrictions are instrumental in pushing up the cost of remittances from most SAARC member countries. For instance, MTOs are not allowed to effect outward remittances in some member countries and such transfers can only be sent through banks. The wire transfer through bank is an expensive product for transfering small remittance amounts. This product could be advantageous if wide network of bank branches of member countries is operational in other member countries, which is, unfortunately, not the case.

7. Review of Steps taken to reduce the cost of cross-border remittance within SAARC region

As mentioned above, Pakistan has introduced 'Reimbursement of TT Charges Scheme' in 1985, much earlierthan the remittance cost identified as a discouraging factor for using formal remittance channels. Under this scheme, Government of Pakistan, through SBP, reimburse the transaction cost of remittances to domestic banks. Domestic banks make payments to their overseas tie-ups under the scheme as per their agreed shares. Both remitter and beneficiary do not pay any charges/fee for remittances services. The scheme is offered globally. It simply implies that cost of remittances from any SAARC member country to Pakistan could practically be brought down to ***zero***, if banks(or other financial institutions) of member countries enter in agreementswith Pakistani banks.

8. Policy recommendations

Some of the preliminary policy recommendations are given below:

- Given the negligible business volumes within SAARC region, other member countries may also intrduced schemes in line with Pakistan's free send model. This would help reduce cost of remittance to close to zero.
- All SAARC member countries should encourage opening oftheir bank branches in other SAARC countries on reciprocal basis to promote trade, remittance and investment activities. These bank branchesshould be assigned the task to facilitate small size home remittance transactions at low fees and zero FX margin. This step would not only help in reducing cost of remittances in SAARC region and encouraging for flow of remittances through formal channels, it would also promote trade and finance in the region.
- A broad network of Western Union and Money Gramis available and performing inward home remittances in almost all SAARC countries. These money transfer companies may also be allowed to cater outward remittances in all SAARC jurisdictions with an *agreed* ceiling on remittance service fee and FX margins.
- While non-availability of consistent data for all countries is a major source of disquiet, it provides an opportunity to member countries to coordinate to develop statistics on flow of remittances and cost of sending remittances through banks/MTOs.
- Last but not least, use of technology may help reduce the cost of remittance service providers. SAARC member countries may designate bank(s) to offer low cost remittance services by using advanc etechnology such as blockchain as a special initiative.

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SAARCFINANCE Collaborative Study on

Reducing the Cost of Cross-Border Remittances

Sri Lanka Country Report

Main researcher/author: KanchanaAmbagahawita[49]

Assisted by: ChanakaGanepola

1. Introduction

The cost of cross border remittances has been an emerging issue of discussion (Ratha, 2006). While foreign remittance constitutes the largest single foreign exchange source for Sri Lanka the understanding of the underlying cost structure to enable remittance is low. This report provides a description of Sri Lanka cross border remittance framework and serves as one of the first reports with primary data pertaining to cross border remittance costs.

Despite the importance of remittances, there is a scarcity of studies exploring and analysing the cost of remittances in Sri Lanka. Therefore, this paper would be an early study in this area with regards to Sri Lanka. The knowledge with regard to the SAARC region is less as the remittance flows to the SAARC region have been relatively low. However, with growing regional cooperation and regional interest in the issue, this provides a timely analysis for a future step of collaborative work in the SAARC region to reduce the cost of remittances. The paper broadly introduces the patterns of remittance flows of Sri Lanka and proceeds to presents different aspects of inward and outward remittance.

The paper will be structured as follows: It will begin by providing a brief introduction to remittances flows of Sri Lanka by reviewing existing theoretical and empirical literature as well as primary and secondary sources. Prior to addressing the main issue of this paper, it will briefly

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[49]KanchanaAmbagahawita, Senior Assistant Director, Payments and Settlements Department (PSD), Central Bank of Sri Lanka (CBSL). I extend my gratitude to Mr. D Kumaratunge, Director, PSD and the Central Bank for nominating me for this research. A special thanks to my colleague Dr. ChanakaGanepola, Assistant Director, PSD, for assisting me in compiling and analyzing the primary data collected for this paper. I also thank my colleagues at the Economic Research Department, Foreign Exchange Department and the Financial Intelligence Unit of CBSL, in providing necessary information and guidance in the preparation of this broad report. I am grateful to Mrs. Inoka De Silva - Head/Policy and Oversight Division of PSD for sharing her knowledge and Ms. ShakeelaWickramage of PSD for her assistance in data collection. The cooperation of the Licensed Commercial Banks of Sri Lanka and mobile money operators in providing data and sharing their knowledge in a timely manner is appreciated, without which this research would not have been possible.

describe the methodology for data collection and analysis. It will then proceed to review the main issues highlighted in this paper by describing methods of remitting foreign exchange in Sri Lanka, the legal and non-legal factors that affect the cost of remittances in general, analytical presentation of remittance and, cost associated with inward and outward remittances to the SAARC region followed by the conclusions that can be drawn from the analysis.

2 Background and related literature into remittance flows in Sri Lanka

Sri Lanka's inward remittances have been increasing on average despite 2019 showing 0.9 per cent decline. As depicted in Figure 1 inward remittances amounting to USD 6-7 bn was received each year. This is approximately 40 per cent of the export income. Therefore, inward worker remittances have been instrumental in reducing the current account deficit. According to the most recent Central Bank annual report, inward worker remittances in 2017 amounted to USD 7.1 bn. Historically, these earnings have been generated by low skilled workers and housemaids mainly employed in the Middle East. While around 90 per cent of Sri Lanka's migrant labour were employed in the Middle East in 2017, changes to Sri Lanka's socio-economic environment and geo-political developments in the Middle East appear to be influencing a change in these historical trends and patterns.

The increase in exports has resulted in the remittance to export ratio declining in the recent years.

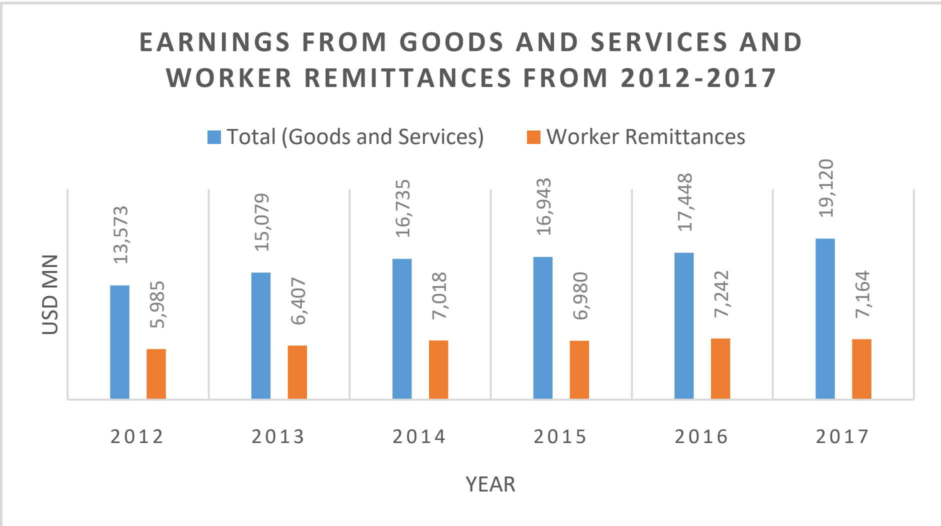


Figure 1: Earnings from Goods and Services and Worker Remittances from 2012-2017. Source: Central Bank of Sri Lanka annual reports

In a comparative study, Siddique, Selvanathan and Selvanathan (2012) found that Sri Lanka's remittance to export ratio is lower than Bangladesh but higher than India[50]. This could be as a result of the slower growth rate of remittances when compared to export growth. The slower

[50] Between 2002 and 2006, Remittances to Exports ratio was 45.6 per cent while in India it was 32.8 per cent.

growth in remittances could also be linked to the decline in Sri Lankan migrant workers seeking employment in traditional destinations due to geopolitical uncertainties and the risks involved in low skilled labour and being housemaids.

According the Sri Lanka Bureau of Foreign Employment (SLBFE), there has been a 12 per cent decline in the recruitment of men and 13 per cent decline of women in 2016. Sri Lanka's migrant workers are categorised as Professional, Middle Level, Clerical and related, Semi-Skilled, Unskilled and Housemaid (SLBFE, 2017) Of these categories that largest segment is formed by semi- to unskilled labour and housemaids (See Appendix A.1). However, as shown in appendix A.1 this composition has been gradually changing in the past two decades. The percentage of semi, unskilled and housemaids has significantly declined in the last two decades and the skilled and professional percentages have been on an increasingtrend.However, it must be noted that even though the percentages of house maids and unskilled workers have been declining (Samaratunga et al. 2012; Karunaratne 2018), these numbers still amount to about 55 per cent of the total migrant labour.Overall, Sri Lanka has been experiencing a decline in worker migration due to the political situation in key destinations such as the Middle East where most housemaid and semi-skilled workers are employed, increased female education, late marriage and increased awareness of the risks[51] of migrant employment (Karunaratne 2018, SLBFE, 2017, Mackenzie, 2005).

Similar to other high remittance earning countries in the Asia Pacific, Sri Lanka too is high dependent on its citizens who remit foreign earning to the countries. However, while migrant workers have reduce poverty in the country, studies have shown that the nature of work i.e. the proportions between Professional to skilled and semi-skilled and the geographical dispersion of workers of different skill levels have led to an overall increase in income inequality (Karunaratne 2008). Adams(2003) explains how employee migration has led to brain drain in labour exporting countries. While the United States prefer tertiary-educated labour migration from neighbouring countries, countries of Organisation for Economic Co-operation and Development (OECD) do not have such preference. Sri Lanka which is quite a distance from any OECD countries is in fact contributes to a larger proportion of tertiary-educated migrants.

Further, the increase of migrant workers have had a negative impact on Agriculture as there is less labour to work in agriculture (Samaratunga et al. 2012) however, there has been an increase

[51]Following Abu-habib (1998) and Jureidini and Moukarbel, (2004) violence and abuse in the Middle Eastern region could be one of the factors that affected labour migration. According to the SLBFE 291 deaths of migrant workers were reported in 2017.

in the use of rented machinery for agriculture using remittance income to substitute the loss of labour. This phenomena is confirmed by Siddique, Selvanathan and Selvanathan(2012). According to them, between Bangladesh, India and Sri Lanka, Sri Lanka is the only country with bi-directional causality, implying foreign remittances cause economic growth and vice versa.

2.1 Key worker destinations

As it is common in many Asian migrant worker pattern, Middle East is the main destination for Sri Lankan migrant workers. While historically this was due to the demand for housemaids, this pattern has changed over the last few years with increased migration of skilled and semi-skilled workers who mainly go as manpower for industries such as construction (SLBFE, 2017). While the Middle East employs a higher number, other destinations employ professionals and labour of higher skills (as depicted in Appendix A.2). Thus, the nature of the skills and type of work also impact the remittance patterns.

The demand for labour in the Middle East has resulted in the Middle East leading as the major source region for inward remittances with a 51.8 per cent share of the total inward worker remittances, followed by 18.3 per cent of the worker remittances originating from the European Union and 11.5 per cent originating from Far East Asia. 29.9 per cent from other countries (see Figure 2). These contributions have been fairly consistent over a period of time from 2013-2017. (Central Bank of Sri Lanka, 2018).

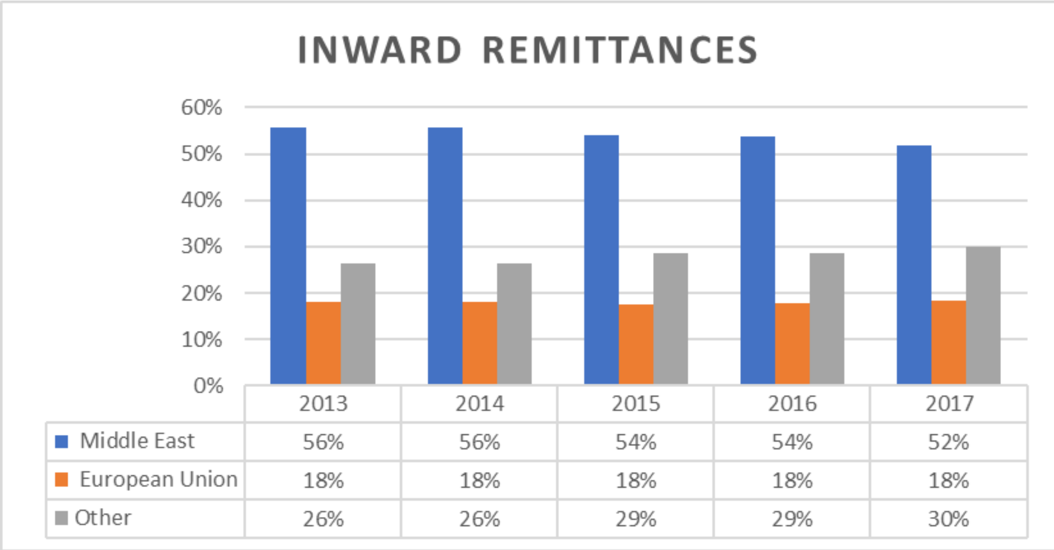


Figure 2: This graph presents the remittance flows from; 1) the Middle east, 2) the European Union and other regions as a percentage of total inward remittances to Sri Lanka.

2.2 Remittance methods

There are multiple methods used in Sri Lanka to send and receive remittances. However, these methods require licensing or approval under the Foreign Exchange Act No 12 of 2017. Accordingly, all Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs) and other authorised dealers can engage in foreign exchange remittance services. Another authorised dealer in Sri Lanka is the national post office. International money transfer services such as Western Union provide services through local agencies that have license to deal as authorised foreign exchange dealers. These methods generally channel remittances via banking channels. Of these methods, LCBs remain the most popular among all migrant workers. All authorised dealers either have a relationship with a foreign bank or remittance agents that allow workers to receive and send foreign exchange through the local authorised dealer network. In addition to these traditional channels, inward remittances are allowed through mobile money wallets. These new methods allow greater financial inclusion as those without bank accounts are able to receive remittances by alternative mechanisms. However, unlike bank accounts, mobile money wallets operated by telecommunication companies (Telcos) (mobile money operators) they can only operate in Sri Lanka Rupee (LKR). Further, as the remittance is received LKR it has to be within the normal wallet capacities stipulated by the Central Bank. Remittances channelled to mobile money wallets are routed through the banking channel to enable the remittances to meet regulatory requirements. This reduces the complexity of the transaction to the mobile money operator and is intended to encourage these alternative methods while maintaining regulatory compliance. There were 26 LCBs, 3 LSBs and 2 mobile money operators engaged in remittance transfers by the end of 2018. LCBs are the main channel for remittances as migrant workers and their families are known to trust the banking system and LCBs provide more services for the remittance account holders.

Remitting through banking channels have other advantages such as multiple usage options. Apart from withdrawing in local currency, under the Foreign Exchange Act No.12 of 2017 (FEA) there are several types of foreign accounts that can be used to hold currency that can be later used for specified purposes without converting into local currency. Further, foreign remittance can be invested in several high interest government bond schemes that are also available when remittances are channelled through the banking system. In addition, according to commercial banks, culturally Sri Lankan find prestige in channelling funds through banks rather than alternative means. Therefore, banks remain the most popular modes of remittance transfers.

The existence informal channels have been mentioned in some studies (Lasagabaster, Maimbo and Hulugalle, 2005) . However, as these are by nature informal, there is no verifiable data pertaining to their popularity and costs. While informal methods may exist, the amount leaked from the formal system is unclear or widely cited as an issue.

Overall, remittances have historically remained vital for the Sri Lankan economy. However changing education systems and work patterns are leading to a decline in migrant worker departures as well as earnings. Regardless of this decline the migrant workers of Sri Lanka continued to make a valuable contribution to the economy. Nevertheless, with regard to the SAARC region, the biggest issue remains the lack data.

3 Data Collection Method

This report is large structured around the terms of reference of the SAARC regional collaborative study group. Due to scarcity of data and research on the issue of remittance costs as well as remittance flows within the SAARC region, much of this report comprise of data that was especially gathered for this report. The methodology adopted to obtain the data is described in this section.

The available data relating to the SAARC region remittances is very limited and the writing of this report initiated a compilation of data from primary sources in order to meet the guidelines of the report. The complete data series relating SAARC remittance are the departures and the types of work published by the SLBFE (see appendix A.1 and A.2,). However, there was neither region specific remittance data nor cost related data readily available.

Therefore, SAARC country level remittance data as well as costs of inward and outward remittances were gathered from Licensed Commercial banks (LCBs) following the specified guidelines of the report, that followed Ratha (2006). Accordingly the following data was requested by LCBs: Total remittance flows between SAARC countries and Sri Lanka; the cost of remitting USD 200 and USD 500 (values as per report guidelines and (Ratha 2006); different transfer methods used e.g. Telegraphic transfer, e-money etc , including amounts remitted under each and fees charged under different categories. Although there were a few other channels that engaged in remittance activities, LCBs provide comparable data as they are the most used formal channel of remittance flows to the country.

All LCBs responded by providing available data. While data was requested from 2000 onwards to compile historical data, many banks only maintained data of 6 years, as it was the statutory requirements. Further, the added complication of identifying remittance data is that remittances made in common currencies such as USD are difficult to be traced back to the country of origin. However, fees related data was easier to compile as many banks as maintained records of the fees charged across years. Banks with large remittance operation were able to provide historical data. Nevertheless, it was decided to use data from 2012-2018 to make the data as comparable for analysis purposes. Banks that were unable to provide complete data for this period were removed, however as all the banks used for remittances has reported the full period, removal of incomplete data sets improved the quality of the data. However, it is important to note that this data is indicative and provisional.

Further major remittance servicing LCBs were contacted to find out the issues that the public faced in remitting to and from Sri Lanka to the SAARC region and trends that the data revealed.

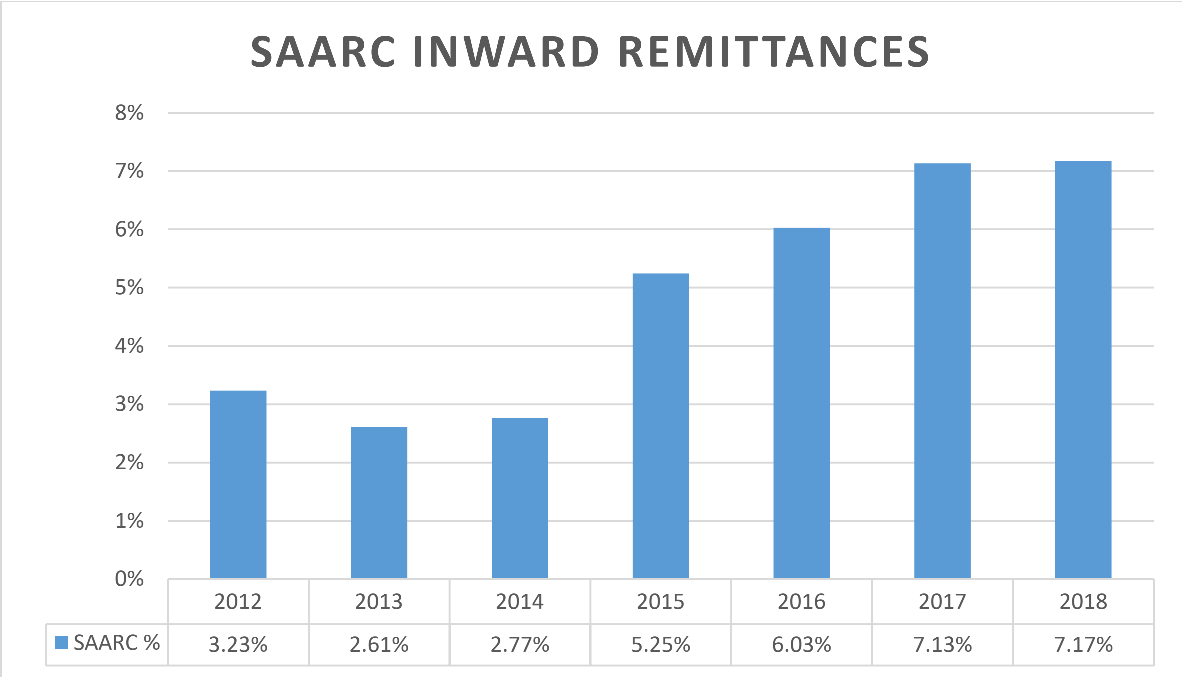


Figure 3: Inward remittances from the SAARC region to Sri Lanka as a percentage of total inward remittances.

While the data is largely indicative all measures were taken to minimise errors so that it provide a reasonable indication that reflects the number of local migrants in the region. The fees related data was available with banks as they were mostly flat rates given to customers.

4 Analysis of Remittance flows in SAARC region

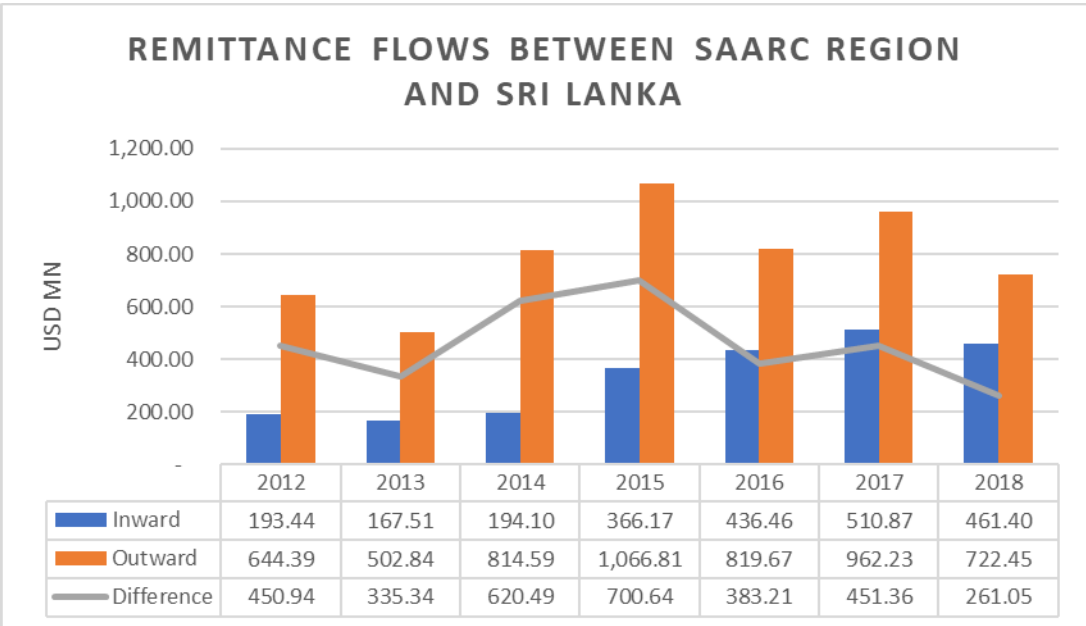


Figure 4: This graph presents the inward and outward remittances to/from Sri Lanka from/to SAARC region and the difference between outward and inward remittances in USD millions.

Remittance flows with Sri Lanka and the rest of the SAARC region are relatively low due to the low migrant flows. As Sri Lankans predominantly seek employment outside the SAARC region, knowledge of remittance flows within the SAARC region is relatively low. Therefore, this study embarked on a primary level investigation to identify the trends and remittance cost related information relating to the SAARC region.

Among the other sources of inward remittances, remittances from the SAARC region has been relatively low prior to 2014 in comparison to the total of inward remittance flows (see figure 3). However, there has been a substantial improvement of inward remittances in 2015, that amounts to 5.25 per cent. In later years from 2016-2018, remittance flows to Sri Lanka from SAARC as a percentage of total remittances increased by approximately 2 per cent compared to 2015.

Figure 4 highlights the difference between inward and outward remittance flows from/to SAARC region to/from Sri Lanka. During the period of observation, outward remittances have dominatedthe inward remittances, especially from 2012-2014. Both inward and outward remittances increase up to 2015 and gradually decrease afterwards. However, the inward remittances have increased at a faster rate in comparison to outward remittances in the later half. The maximum difference between inward and outward remittances is USD 700.64 mn, and it reduced to a minimum of USD 261.05 mn in 2018.

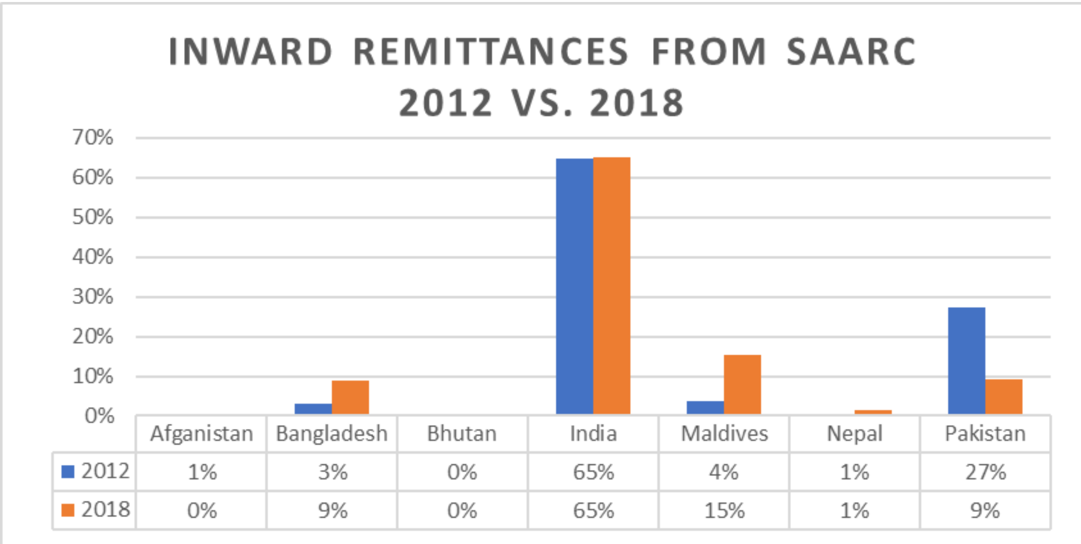
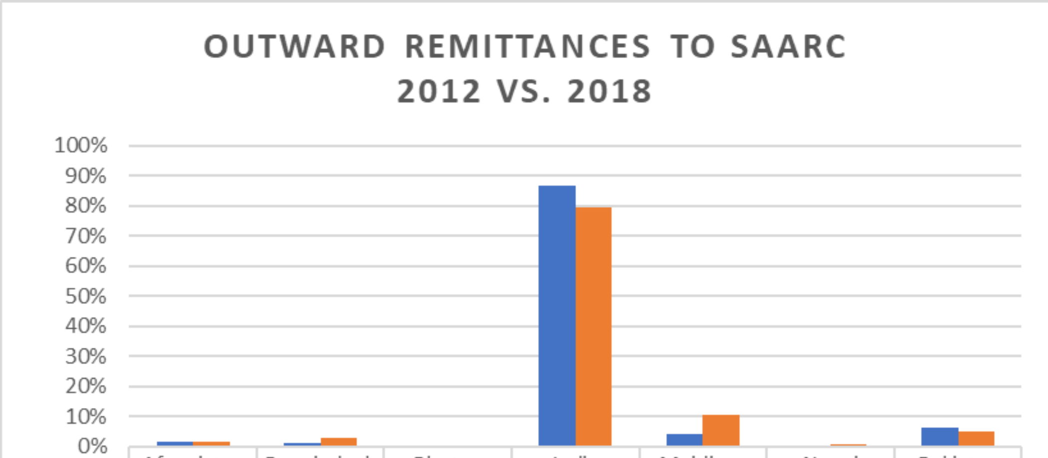


Figure 5: This graph presents an overtime comparison of the decomposition of total inward remittances from the SAARC region to Sri Lanka.

Figure 5 shows a comparison of remittance flows from the SAARC region to Sri Lanka. Largest contributor to inward remittance flow from SAARC region is India. A substantial stake of 65 per cent of SAARC inward remittances originates in India. This proportion remains consistent over the six-year period under observation. Inward remittances from Maldives and Bangladesh contributed to 4 per cent and 3 per cent of total SAARC remittances respectively in 2012. These proportions significantly increased to 15 per cent and 9 per cent respectively, within the six-year period. On the contrary, inward remittances from Pakistan dropped from 27 per cent to 9 per cent



	Afganistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan
2012	1%	1%	0%	87%	4%	0%	6%
2018	1%	3%	0%	80%	11%	1%	5%

Figure 6: Comparison of the decomposition of total outward remittances to the SAARC region from Sri Lanka 2012 vs 2018.

over the period of six years.

According to Figure 6, India dominate all other SAARC countries in terms of outward remittances from Sri Lanka. A major proportion of 80 to 90 per cent of outward remittances from Sri Lanka to the SAARC region heads towards India. In 2012, the percentage of outward remittances was 87 per cent and it decreased to 80 per cent by 2018. In contrast both Bangladesh and Maldives increased their share of outward remittances from 1 to 3 per cent and 4 to 11 per cent, respectively.

4.1 Main methods used for remittance transfers

LCBs indicated two major methods of remittance transfers, these were Telegraphic Transfers (TTs) and Drafts. In addition, there were e-money transfers through transfer agents abroad such as Western Union. As depicted in tables 1 and 2 TTs are the most popular mode of remittance transfers. According to table 1, almost all remittance transfers to Sri Lanka from Bangladesh, Bhutan, India, Nepal and Pakistan are done through TTs. Sri Lankans employed in Afghanistan and Maldives also used money transfer services such as Western Union to transfer remittances to

Sri Lanka. On average, 98 per cent of inward remittances are TTs. The remaining 2 per centis transferred using money transfer services. Remittance transfers through Drafts are negligible in comparison to TTs.

Table 1: Inward Remittances Sri Lanka as a percentage of total inward remittances from SAARC region using different transfer methods.

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	All SAARC
TT	92%	100%	100%	100%	90%	100%	100%	98%
Draft	0%	0%	0%	0%	0%	0%	0%	0%
Transfer Services	8%	0%	0%	0%	10%	0%	0%	2%

Banks identified that other methods were mostly used by freelance workers while migrant workers used traditional channels as they are remitting larger amounts.

Table 2: Outward remittances from Sri Lanka as a percentage of total outward remittances to SAARC region using different methods.

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	All SAARC
TT	100%	100%	100%	100%	100%	100%	100%	100%
Draft	0%	0%	0%	0%	0%	0%	0%	0%

4.2. Cost of remittances

With regard to cost of remittances, the cost of transferring USD 200 and USD 500 to/from Sri Lanka from/to SAARC region did not vary significantly. Given the low volumes, it appeared that banks had not provided special rates for the SAARC region. Further rates changed depending on the contract that banks had with the correspondent bank or the agent. For example, Indian banks had no charges for outward remittances to India. Table 3 reports average costs for inward remittances from the SAARC and other regions. As shown in this table, the cost of inward remittance in SAARC region averages USD 4.04 for TTs and USD 8.23 for drafts. On average, charges in Middles East for inward remittances is USD 6.91 and in Europe its USD 7.30. These figures are slightly higher compared to the inward remittance charges for the SAARC region. Further, remittance charges from 2011 to 2018 has not changed much in the SAARC region.

SLBFE also reports the country wise number of Sri Lankans employed overseas, as a percentage of to total employed overseas (see appendix A.3). On the one hand, Maldives employs 2.96 per cent of the total foreign employment which is the most in SAARC region. On the other hand, bank charges relevant for inward remittances has reduced over-time in the context of Maldives. This could be due to banks encouraging workers employed in Maldives to transfer money through formal channels. Further, figure 5 above shows that the largest volume of inward remittances is received from India. However, the remittance transfer charge through TTs from India is similar to any other minor inward remittance contributors such as Bhutan and Nepal.

Table 4 reports the outward remittance charges to send money from Sri Lanka to the SAARC region. The charges for outward remittances was significantly higher than to receive remittances. The charge for TTs is more than two times the charge for a draft to transfer an equivalent amount of money. Charges levied on customer for outward remittance on average wasapproximatelyUSD 10 or higher. Outward remittance charges are similar throughout the SAARC region despite the volume of remittances. Interestingly, some Indian banks in Sri Lanka offered free transfers of outward remittances to India.

Table 3: Inward remittance charges to send USD 200/USD 500 from different regions[52] of the world to Sri Lanka. (USD).

Middle East	Europe	Americas

[52]Remittance transfer charges associated with the Middle East, Europe and Americas were obtained from the world bank sponsored website, remittance prices worldwide (https://remittanceprices.worldbank.org/en).

Year	Saudi Arabia	Qatar	Oman	UAE	UK	Italy	Switzerland	Canada
2011				6.87	11.79	13.10	11.79	
2012				6.35	11.73	12.15	13.47	
2013				6.29	14.27	11.35	19.84	
2014				6.40	11.08	10.56	18.00	
2015	7.54	15.99		6.83	12.00	9.47	18.50	10.25
2016	5.03	9.16	7.72	5.72	10.61	11.46	19.58	10.00
2017	8.64	8.92	7.37	7.57	9.93	10.90	9.42	10.00
2018	5.24	5.43	9.90	7.06	7.79	7.65	6.45	10.33
SAARC region								
	TTs							
Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	All SAARC
2011	4.02	4.02	4.02	4.02	4.02	4.02	4.02	4.02
2012	3.86	3.86	3.86	3.86	3.86	3.86	3.86	3.86
2013	3.97	3.97	3.97	3.97	3.97	3.97	3.97	3.97
2014	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39
2015	4.13	4.13	4.13	4.13	4.13	4.13	4.13	4.13
2016	4.12	4.12	4.12	4.12	3.69	4.12	4.12	4.06
2017	4.11	4.11	4.11	4.11	3.69	4.11	4.11	4.05
2018	4.10	4.10	4.10	4.10	3.70	4.10	4.10	4.04
	Drafts							
Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	All SAARC
2011	8.48	8.48	8.48	8.48	8.48	8.48	8.48	8.48
2012	8.45	8.45	8.45	8.45	8.45	8.45	8.45	8.45
2013	8.44	8.44	8.44	8.44	8.44	8.44	8.44	8.44
2014	8.44	8.44	8.44	8.44	8.44	8.44	8.44	8.44
2015	8.43	8.43	8.43	8.43	8.43	8.43	8.43	8.43
2016	8.42	8.42	8.42	7.02	8.42	8.42	8.42	8.22
2017	8.41	8.41	8.41	7.46	8.41	8.41	8.41	8.28
2018	8.40	8.40	8.40	7.16	8.40	8.40	8.40	8.23

Table 4: Outward remittance charges to send USD 200/USD 500 from Sri Lanka to the SAARC region. (USD).

SAARC region								
	TTs							
Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	All SAARC
2011	23.39	23.39	23.39	23.39	23.39	23.39	23.39	23.39
2012	22.78	22.78	22.78	22.78	22.78	22.78	22.78	22.78

2013	23.77	22.83	23.77	24.09	23.77	23.77	22.33	23.47
2014	23.92	23.09	23.92	24.19	23.92	23.92	22.66	23.66
2015	24.72	23.83	24.72	24.93	24.72	24.72	23.40	24.43
2016	26.63	26.23	26.63	25.60	25.90	26.63	25.28	26.13
2017	26.51	26.13	26.51	26.23	27.98	26.51	25.17	26.43
2018	30.07	28.91	30.07	29.08	29.13	30.07	28.50	29.40
Drafts								
Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	All SAARC
2011	10.09	10.09	10.09	10.09	10.09	10.09	10.09	10.09
2012	9.94	9.94	9.94	9.94	9.94	9.94	9.94	9.94
2013	9.91	9.91	9.91	9.91	9.91	9.91	9.91	9.91
2014	9.88	9.88	9.88	9.88	9.88	9.88	9.88	9.88
2015	9.77	9.77	9.77	9.77	9.77	9.77	9.77	9.77
2016	9.80	9.80	9.80	9.80	9.80	9.80	9.80	9.80
2017	9.70	9.70	9.70	9.70	9.70	9.70	9.70	9.70
2018	9.87	9.87	9.87	9.87	9.87	9.87	9.87	9.87

4.3 Mobile Money based inward remittance

Mobile money operators had fixed charges with their transfer agents. The low USD amount of the wallet limit meant that transferring smaller values were not cost effective with fixed charges. However, as wallet limits were for local currency transactions, there is no mechanism to identify if the rupees were from remittances. Therefore, the general wallet limits apply.

5 Review of existing remittance and remittance related AML/CFT regulations

Cross border remittances in Sri Lankaare regulated by the Foreign Exchange Act No.12 of 2017 (FEA)and AML and CFT requirements are regulated under the Financial Transactions Reporting Act, No.6 of 2006. The subsequent section will review the existing laws pertaining foreign exchange and AML/CFT. Both foreign exchange management and financial intelligence services are agency services of the Central Bank of Sri Lanka (CBSL).

5.1 Regulation related to Foreign Exchange.

Foreign Exchange in Sri Lanka is regulated by the**FEA.** FEA repealed and replaced theExchange Control Act No 24 of 1953. The FEA falls under the Ministry of Finance and its provisions are carried out as an agency function of the Central Bank of Sri Lanka (CBSL) by its Department of

Foreign Exchange. With regard to the regime for cross-border remittances, FEA remained relatively similar to the previous Act. As cross border remittances fall under the current account transactions, the general laws to current account transactions apply in terms of foreign exchange. A current transaction under the FEA Section 33 refers to any international transaction necessitating a transfer of foreign exchange into or from Sri Lanka, and referred to in paragraph (d) of Article XXX of the Articles of the International Monetary Fund set out in the Schedule to this Act

Sri Lanka has traditionally encouraged inward foreign remittances and have gradually relaxed regulations on outward remittance throughout the exchange control regime and moved into a foreign exchange management regime.

Inward remittances

According to Section 6 of the FEA, any Sri Lankan citizen resident in Sri Lanka was permitted to remit to Sri Lanka any foreign exchange which are not the property in respect of which proceedings are pending in a court of law or an order has been made by a court of law under the Prevention of Money Laundering Act, No. 5 of 2006, Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 or the Bribery Act (Chapter 26), subject to a remittance fee of 1 per cent if such remittance exceeds US dollars 1 million. (Central Bank of Sri Lanka, 2017).

Three types of entities can be authorized under Section 6 of the FEA to provide remittance services. These are Licensed Commercial banks (LCBs), Licensed Specialized Banks (LSBs), entities that are neither LSBs or LCBs but are specifically authorized to provide remittance services e.g. Sri Lanka Post. While there maybe Hawala styles remittance mechanisms in Sri Lanka, they remain unauthorized.

Authorized dealers operate under the Directions No.01 of 2017 under the FEA, which has been issued to authorized dealers on current transactions. The authorized dealer is permitted to facilitate any bona fide remittances without restriction. In order to ascertain the bona fide of the transaction the dealer should request information or documentsor a declaration as reasonably necessary in order to satisfy himself that the requirement is in relation to the remittance is in conformity with any other laws regulating such transactions e.g. AML/CFT regulations. Authorized dealers are permitted to refuse current account transactions where the dealer is not satisfied with the bona fide of the transaction or where the remitter has not complied with request for information. The authorized dealer shall communicate to the relevant departments in writing if requested by the remitter and the aggrieved party could appeal to Central Bank.Authorized dealers are required to maintain 6 years of records for inspection if needed

There is no limitation to the amounts that can remitted inwards except the 1 per cent tax of remittances over USD 1 million.

Outward remittances

Regulations pertaining to outward current remittances from Sri Lanka remain without restriction and can be facilitated by authorised dealers subject to being satisfied of the bone fide of the transaction.

Both inward and outward current remittances are unrestricted subject to them fulfilling bona fide requirements. Thus, most of the regulations on remittances are related to AML/CFT.

5.2 Anti-Money Laundering and Countering the Financing of Terrorism Regulations

Sri Lanka's AML/CFT regime comprises of three pieces of legislations;

1. Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSTFA)
2. Prevention of Money Laundering Act, No. 05 of 2006 (PMLA)
3. Financial Transactions Reporting Act, No. 06 of 2006 (FTRA)

These three laws form the pillars of the AML/CFT regulations in Sri Lanka and relevant regulations, directions and guidelines under these Acts widely cover areas related to cross-border remittances. Provisions of these laws are carried out by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka, which operates as an independent unit. The effect of the AML/CFT regulations poses MVTS with added responsibility as well as complexity to the remittance procedures. However, these are mitigated by the introduction of the risk-based approach where MVTSs are responsible for managing their risk functions. Nevertheless, this would add to the cost of remittance services as it requires certain investment into administration and technological systems. The regulations have thus evolved to ease the experience for the customer and yet the burden on the MVTS has increased.

At a general level, countering of financing of terrorism which is covered under CSTFA, provides that a person is considered guilty if he/she directly or indirectly, unlawfully and wilfully provides or collects funds, with the intention to cause death or injury to any person who is not involved in an armed conflict. CSTFA has provisions for freezing of terrorist financing related assets (section 4) and forfeiture of such assets (section 5).

With regard to anti-money laundering, a person is considered guilty under PMLA if he/she engages in transactions or transfers, locally or internationally from the proceeds of any unlawful activity. Further, a person should immediately inform the Financial Intelligence Unit (FIU) if one believes he/she was involved in any transaction that is associated with unlawful earnings. Non-disclosure of such instance is considered as an act of money laundering. PMLA has provisions to fight money laundering such as freezing of property (section 7), property tracking and forfeiture of assets related to money laundering (section 12). The PMLA was further amended in 2011.

These two laws provide the basis for the FTRA reporting requirement. Thus, authorised dealers of foreign exchange are required to conduct customer due diligence to capture suspicious transactions as well as report to the FIU as required. Authorised dealers are categorised under Money or Value Transfer Services (MVTS) and have to comply with FTRA requirements.

Accordingly, Section 4 of the FTRA requires reporting institutions to maintain and retain records of relevant transactions and correspondences, and records of identity obtained, for a period of six years. This is in line with Direction No 1 of 2017 of FEA, where authorised dealers have to be satisfied with the bona fide of the remittance and obtain necessary documents as required by any law. Customer Due Diligence (CDD) Rules 2016 under FTRA further specifies requirements for Financial Intermediaries (FIs) and MVTS. Among these, every ordering FI is required to maintain all originator and beneficiary information collected in accordance with the FTRA (Rule 75). Moreover, FIs are also required to preserve SWIFT messages associated with inwards remittance.

CCD Rules 2016 requires that all MVTS should maintain records of all its agents. Similar to FIs, MVTS should also comply with the provisions applicable for CCD in wire transfers. Due to high vulnerability of informal money transmission services to money laundering and terrorist financing, CCD Rules 2016 recommend precautionary measures to clearly distinguish between formal and informal money transfer services.

The Guidelines onAML / CFT Compliance Obligations for Money or Value Transfer Service Providers, No. 01 of 2017, sets out the detailed AML/CFT related provision that MVTSs need to comply. These guidelines are to be read together with the Financial Transactions Reporting Act, No. 06 of 2006 and the Financial Institutions (Customer Due Diligence) Rules, No. 01 of 2016. Similar to other AML/CFT regulations, any violation or non- compliance of any provision of these guidelines will be subject to penalties, sanctions and actions identified under the FTRA. The guidelines are applicable to any institution carrying on money or value transfer services business as permitted under the Exchange Control Act, No. 24 of 1953 and subsequently the FEA No. 12 of 2017.

Following FATF standards, MVTSs have adopt the "Risk Based Approach", the intensity and extensiveness of risk management functions shall be proportionate to the nature, scale and complexity of the MVTS provider's activities and ML/TF risk profile. Accordingly, MVTS providers are required to apply CDD requirements to customers on the basis of materiality and risk. However, this means that authorized dealers have to adopt more discretion and engagement with customers. MVTS providers have to identify beneficial owner if it appears to be one and be mindful go linked transactions as far as practicable.

As reporting requirements MVTS providers have to report cash transactions and/or electronic funds transfers of an amount exceeding rupees one million (Rs. 1,000,000), or its equivalent in any foreign currency to the FIU. This is a daily cap, where if the total remitted on a day exceeds USD 5,200 at current exchange rate, then it has to reported to the FIU. Further, if there are reasonable grounds that a transaction is suspicious then that too has to be reported to the FIU. MVTS provider has to have systems to maintain unusual transactions and report accordingly. MVTS providers have the responsibility to not misuse any technological innovation to circumvent KYC/CDD rules and the MVTS providers have to ensure that their foreign agents, sub agents and/or merchants, the service provider comply to AML/CFT requirements set out in Sri Lankan laws and rules and regulations issued under such laws. Further, if the minimum AML/CFT requirements of a foreign jurisdiction is less stringent than those of Sri Lanka, the MVTS provider must apply AML/CFT requirements under the Sri Lankan jurisdiction.

6. Issues in remitting

The lack of volume within the SAARC region has resulted in less focus on the cost of remitting within the region. These low volumes further have generated fewer incidence to identify issues. However, as Sri Lanka increases investment and service provision within the region, the importance of intra-regional remittances will increase.

Some of the issues highlighted by banks pertained to cost increasing to the customer after it leaves the Sri Lankan banks. E.g. if a bank in a SAARC country is very rural then correspondent banks has to issue a bank draft and needs to be processed separately. This increases both time and cost of the transfer.

7. Major findings and Conclusion

The cost of remittance flows between the SAARC region and Sri Lanka have been a very low share of Sri Lanka's overall remittance flows. This is due to the low demand for remittances has the intra-regional employment is low. As this has resulted in lower incidence of remittance related issues, complains on cost and consequently less policy focus to reduce cost of remittances. Further, these reasons have also resulted in a lack of quality data to make informed decisions regarding lowering the cost of remittances. This country report is one of the initial studies that have delved into this issue. While there have been several shortcomings in the data, the available provided some important insights for future policy decisions and regional collaborations.

The analysis of the cost structures for remittances of USD 200 and USD 500 show that Sri Lankan LCBs charge a lower fee for inward remittances and a higher charge for outward remittances. Banks charge a relatively lower fee for inward transfers originating from Maldives. This could be due to the fact that Maldives is the largest overseas employer of Sri Lankans in the SAARC region. It is also observed that some LCBs of SAARC origin offer to transfer remittances from Sri Lanka to the corresponding home country free of charge.Therefore, a deeper study needs to be undertaken to understand the causes of these rates and the actual effect it has on the public that remits within the SAARC region. This could lead to subsequent regional cooperation to reduce the cost remittances within the region.

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Appendix A.1

Total Departures for Foreign Employment by Manpower Level 1994 - 2017*															
Year	**Professional Level**		**Middle Level**		**Clerical & Related**		**Skilled**		**Semi-Skilled**		**Unskilled**		Housemaid		Total
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	
1994	262	0.44	833	1.38	1,559	2.59	12,586	20.92	-	-	8,824	14.67	36,104	60.01	60,168
1995	878	0.51	2,495	1.45	4,594	2.66	27,165	15.75	-	-	23,497	13.62	113,860	66.01	172,489
1996	599	0.37	1,944	1.20	3,371	2.07	24,254	14.92	-	-	21,929	13.49	110,479	67.96	162,576
1997	573	0.38	1,635	1.09	3,579	2.38	24,502	16.30	-	-	20,565	13.68	99,429	66.16	150,283
1998	695	0.43	2,823	1.77	4,896	3.06	31,749	19.87	-	-	34,304	21.46	85,349	53.40	159,816
1999	1,253	0.70	3,161	1.76	6,210	3.46	37,277	20.74	-	-	43,771	24.35	88,063	49.00	179,735
2000	935	0.51	3,781	2.08	5,825	3.20	36,475	20.02	-	-	35,759	19.63	99,413	54.57	182,188
2001	1,218	0.66	3,776	2.05	6,015	3.27	36,763	19.98	-	-	33,385	18.14	102,850	55.89	184,007
2002	1,481	0.73	4,555	2.24	7,239	3.55	45,478	22.32	-	-	36,485	17.90	108,535	53.26	203,773
2003	1,541	0.73	7,507	3.58	6,779	3.23	47,744	22.75	-	-	44,264	21.09	102,011	48.61	209,846
2004	1,827	0.85	6,561	3.06	6,679	3.11	45,926	21.39	-	-	43,204	20.12	110,512	51.47	214,709
2005	1,421	0.61	8,042	3.48	7,742	3.35	46,688	20.19	-	-	41,904	18.12	125,493	54.26	231,290
2006	1,713	0.85	6,638	3.29	7,911	3.92	45,063	22.31	-	-	40,912	20.26	99,711	49.37	201,948
2007	1,653	0.76	3,962	1.81	4,551	2.08	50,263	23.01	3,499	1.60	52,176	23.88	102,355	46.85	218,459
2008	2,835	1.13	8,667	3.46	6,791	2.71	59,718	23.84	5,326	2.13	59,239	23.65	107,923	43.08	250,499
2009	2,832	1.15	6,388	2.58	6,719	2.72	61,321	24.81	6,015	2.43	50,173	20.30	113,678	46.00	247,126
2010	3,057	1.14	6,884	2.57	7,923	2.96	71,537	26.74	4,932	1.84	60,422	22.59	112,752	42.15	267,507
2011	3,844	1.46	6,134	2.33	9,906	3.77	67,726	25.76	4,180	1.59	63,680	24.22	107,491	40.88	262,961
2012	4,448	1.57	9,280	3.29	16,184	5.73	67,150	23.77	3,467	1.23	62,907	22.27	119,011	42.14	282,447
2013	5,151	1.76	16,510	5.63	26,561	9.06	73,707	25.14	3,412	1.16	70,977	24.21	96,900	33.05	293,218
2014	5,372	1.79	20,778	6.91	29,267	9.73	73,162	24.33	3,977	1.32	79,519	26.44	88,628	29.47	300,703
2015	6,251	2.37	6,951	2.64	12,501	4.75	81,682	31.01	4,847	1.84	77,985	29.60	73,226	27.80	263,443
2016	6,578	2.71	8,234	3.39	10,862	4.47	76,545	31.52	3,926	1.62	71,656	29.51	65,015	26.78	242,816
2017*	6,371	3.00	7,124	3.36	9,265	4.37	68,993	32.52	3,295	1.55	61,057	28.78	56,057	26.42	212,162

Source: Sri Lanka Bureau of Foreign Employment

Appendix A.2

Total Departures for Foreign Employment by Country & Manpower Level 2016

Country	Professional	Middle	Clerical	Skilled	Semiskilled	Unskilled	Housemaid	Total
Saudi Arabia	717	832	928	17,559	607	18,290	24,360	63,293
Qatar	1,668	2,791	4,049	28,718	721	18,762	2,814	59,523
U.A.E.	1,630	2,611	4,015	10,536	1,827	11,767	7,731	40,117
Kuwait	116	246	557	9,338	295	4,088	17,760	32,400
Oman	445	504	290	1,405	104	820	6,161	9,729
South Korea	9	5	7	183	17	8,407	2	8,630
Maldives	619	484	380	2,697	127	1,654	155	6,116
Jordan	24	91	142	2,528	50	136	896	3,867
Bahrain	198	188	212	909	68	519	1,131	3,225
Malaysia	103	40	29	790	9	1,695	248	2,914
Lebanon	1	-	3	34	2	534	2,070	2,644
Israel	1	5	1	19	1	2,148	96	2,271
Cyprus	2	1	-	37	2	1,234	778	2,054
Singapore	401	133	30	195	15	715	352	1,841
Hong Kong	16	4	9	18	1	187	339	574
Seychelles	63	46	58	421	23	87	4	702
Kurdistan	5	3	4	34	9	145	22	222
Bangladesh	271	74	28	117	8	75	-	573
Afghanistan	2	8	5	56	7	50	-	128
Mauritius	-	-	2	246	-	2	-	250
Romania	-	7	5	119	5	1	2	139
India	57	27	19	63	3	18	1	188
Iraq	7	9	20	60	12	62	1	171
Japan	11	3	1	110	1	18	-	144
Italy	-	-	-	4	-	66	2	72
Egypt	7	3	2	9	-	14	33	68
Pakistan	12	5	-	8	-	6	22	53
Uganda	13	6	5	31	-	-	-	55
Papua New Guinea	28	13	5	22	1	3	-	72
Malta	1	4	4	7	-	-	-	16
Canada	-	-	-	2	-	6	-	8
Australia	4	2	-	3	-	-	-	9
South Africa	2	2	1	2	-	1	1	9
Botswana	4	1	1	5	-	-	-	11
Lithuania	-	-	-	49	-	2	-	51
New Zealand	21	13	13	51	1	29	-	128
Greece	-	2	1	3	1	6	18	31
Ethiopia	20	28	7	31	1	-	-	87
Vietnam	5	3	-	4	-	1	-	13
Kenya	11	7	12	24	-	4	1	59
Myanmar	9	-	-	2	-	-	-	11
Fiji	11	4	1	3	-	1	-	20
Indonesia	9	3	-	4	-	4	-	20
Malawi	5	-	1	3	-	-	-	9

Brunei	3	5	2	2	-	2	-	14
Turkey	-	-	-	2	-	71	-	73
Somalia	-	1	1	-	-	-	-	2
Sudan	1	2	1	9	-	3	-	16
Tanzania	5	1	-	2	1	-	2	11
United Kingdom	2	1	1	1	-	1	2	8
Others	39	16	10	70	7	22	11	175
Total	6,578	8,234	10,862	76,545	3,926	71,656	65,015	242,816

Source: Sri Lanka Bureau of Foreign Employment

Appendix A.3

Total Departures for Foreign Employment through all sources by Country 2013 - 2017*

Country	2013		2014		2015		2016		2017*	
	No.	%	No.	%	No.	%	No.	%	No.	%
Saudi Arabia	80,887	27.59	80,480	26.76	74,894	28.43	63,293	26.07	37,900	17.86
Qatar	80,724	27.53	84,622	28.14	65,139	24.73	59,523	24.51	56,644	26.70
U.A.E.	48,502	16.54	50,347	16.74	43,666	16.58	40,117	16.52	36,657	17.28
Kuwait	42,740	14.58	43,552	14.48	38,473	14.60	32,400	13.34	37,420	17.64
Oman	5,317	1.81	5,759	1.92	7,082	2.69	9,729	4.01	8,872	4.18
South Korea	5,402	1.84	6,686	2.22	6,967	2.64	8,630	3.55	5,805	2.74
Maldives	3,485	1.19	4,511	1.50	4,813	1.83	6,116	2.52	6,279	2.96
Jordan	7,060	2.41	6,197	2.06	4,809	1.83	3,867	1.59	3,929	1.85
Bahrain	4,547	1.55	3,979	1.32	3,722	1.41	3,225	1.33	3,002	1.41
Malaysia	3,297	1.12	3,312	1.10	3,239	1.23	2,914	1.20	1,995	0.94
Lebanon	3,537	1.21	3,058	1.02	2,604	0.99	2,644	1.09	2,408	1.13
Israel	1,944	0.66	2,012	0.67	1,990	0.76	2,271	0.94	2,498	1.18
Cyprus	1,607	0.55	1,656	0.55	1,578	0.60	2,054	0.85	2,111	0.99
Singapore	1,265	0.43	1,470	0.49	1,461	0.55	1,841	0.76	1,789	0.84
Seychelles	315	0.11	536	0.18	464	0.18	702	0.29	851	0.40
Hong Kong	513	0.17	468	0.16	493	0.19	574	0.24	635	0.30
Bangladesh	206	0.07	242	0.08	283	0.11	573	0.24	519	0.24
Mauritius	382	0.13	129	0.04	196	0.07	250	0.10	140	0.07
Kurdistan	221	0.08	445	0.15	288	0.11	222	0.09	186	0.09
India	111	0.04	141	0.05	123	0.05	188	0.08	157	0.07
Iraq	74	0.03	78	0.03	110	0.04	171	0.07	162	0.08
Japan	118	0.04	88	0.03	106	0.04	144	0.06	402	0.19
Rumania	-	-	3	-	128	0.05	139	0.06	225	0.11
Afghanistan	332	0.11	196	0.07	224	0.09	128	0.05	156	0.07
New Zealand	7	-	22	0.01	17	0.01	128	0.05	233	0.11
Ethiopia	3	-	3	-	13	-	87	0.04	95	0.04
Turkey	-	-	-	-	1	-	73	0.03	110	0.05
Papua New Guinea	14	-	16	0.01	28	0.01	72	0.03	41	0.02
Italy	5	-	58	0.02	78	0.03	72	0.03	36	0.02
Egypt	32	0.01	40	0.01	52	0.02	68	0.03	76	0.04
Kenya	15	0.01	28	0.01	12	-	59	0.02	31	0.01
Uganda	3	-	12	-	34	0.01	55	0.02	136	0.06
Pakistan	35	0.01	28	0.01	34	0.01	53	0.02	48	0.02
Lithuania	52	0.02	33	0.01	17	0.01	51	0.02	65	0.03
Greece	24	0.01	31	0.01	14	0.01	31	0.01	39	0.02
Indonesia	-	-	-	-	-	-	20	0.01	21	0.01
Fiji	-	-	-	-	11	-	20	0.01	27	0.01
Sudan	46	0.02	23	0.01	11	-	16	0.01	10	-
Somalia	-	-	-	-	-	-	16	0.01	19	0.01
Malta	-	-	-	-	-	-	16	0.01	14	0.01
Brunei	15	0.01	12	-	9	-	14	0.01	9	-
Vietnam	1	-	6	-	13	-	13	0.01	20	0.01
Myanmar	0	-	0	-	0	-	11	-	20	0.01
Thailand	2	-	5	-	6	-	11	-	16	0.01
Botswana	12	-	11	-	17	0.01	11	-	17	0.01
Malawi	-	-	0	-	11	-	9	-	13	0.01
Australia	6	-	7	-	8	-	9	-	5	-
South Africa	5	-	26	0.01	7	-	9	-	8	-
United Kingdom	4	-	9	-	10	-	8	-	12	0.01
Canada	4	-	7	-	6	-	8	-	8	-

Libya	103	0.04	24	0.01	-	-	7	-	2	-
Senegal	23	0.01	21	0.01	9	-	6	-	3	-
China	2	-	5	-	11	-	6	-	10	-
Djibouti	0	-	10	-	12	-	5	-	23	0.01
Yemen	22	0.01	32	0.01	7	-	4	-	2	-
Tanzania	-	-	-	-	10	-	11	-	13	0.01
Rwanda	-	-	-	-	-	-	-	-	25	-
Nigeria	-	-	-	-	-	-	6	-	18	-
Comoros	15	0.01	40	0.01	11	-	-	-	-	-
Equatorial Guinea	30	0.01	6	-	11	-	1	-	1	-
Others	141	0.05	221	0.07	111	0.04	115	0.05	194	0.09
Total	293,207	100.00	300,703	100.00	263,443	100.00	242,816	100.00	212,162	100.00

Source: Sri Lanka Bureau of Foreign Employment