

State Bank of Pakistan

# Comprehensive Assessment of Impediments in Home Remittances

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## Executive Summary

Home remittances are important for Pakistan's macroeconomic stability, serving as the primary source of foreign exchange to support balance of payment position. In addition to this significant role, these inflows play a transformative role in poverty reduction and providing access to education and healthcare to the family members of remitters. Under the oversight of the State Bank of Pakistan (SBP) and Pakistan Remittance Initiative (PRI), remittances reached a historic level of USD 38.3 billion in FY25, reflecting a substantial 27 percent year-on-year growth. This surge of approximately USD 8 billion in a single year was instrumental in achieving Pakistan's first current account surplus during the last 14 years.

While this unprecedented growth in remittances is significant, it has led to a corresponding increase in the fiscal cost of the Government's Home Remittance Incentive Schemes (HRIS). Accordingly, there is a need to develop and institutionalize market-based mechanisms for reducing reliance on Government support and at the same time ensuring long-term sustainability of home remittances.

To this end, a strategic framework has been proposed in this report following comprehensive stakeholder surveys, industry feedback from global and domestic financial institutions, and empirical research. The study has identified specific bottlenecks hindering a seamless transition to a market-driven model. To transition towards a sustainable, non-fiscal-dependent model, the framework suggests a multi-pronged strategy to tackle these bottlenecks, covering:

- **Regional Connectivity:** Integrating Pakistan's RAST with the Arab regional payment system (BUNA) and exploring similar integration with other key remittance sending corridors.
- **Digital Solutions:** Encourage financial institutions in Pakistan and their counterparts abroad to provide digital solutions to overseas Pakistanis to send remittances to Pakistan.
- **Enforcement:** Continued prioritization of law enforcement actions against illegal foreign exchange market to thwart attempts to shift remittances back to unregulated channels.
- **Gradual Incentive Phase-Out:** To avoid a sharp contraction in inflows, a calibrated multi-year plan for the gradual withdrawal of government-sponsored incentives is recommended.
- **Non-Monetary Incentives:** Strengthening loyalty through non-cash benefits, such as Green Channels for fast-track airport facilitation, special courts for resolving diaspora legal issues, and a dedicated online portal for prompt redressal of their grievances.

## 1. Introduction and Objective

### 1.1. Introduction

Home remittances have established themselves as a cornerstone of Pakistan's macroeconomic stability, serving as the primary source of foreign exchange and a vital cushion against external shocks. Beyond economic benefits, remittances play a transformative role in improving the quality of life for recipients by reducing poverty, enhancing access to education and healthcare, and fostering community development.

Considering their importance, the Government of Pakistan (GoP) has been implementing various Home Remittance Incentive Schemes (HRIS) through SBP and PRI to facilitate and encourage the flow of remittances through formal channels. Due to the collaborative efforts of financial institutions, oversight of SBP/PRI and the support of GoP, Pakistan has witnessed appreciable growth in home remittances during the past two fiscal years. Remittances surged to USD 30.3 billion in FY24 (YoY 11 percent growth) and increased further to USD 38.3 billion in FY25 (YoY 27 percent growth), reflecting a cumulative year-on-year growth of around 40 percent. The rise in remittances of around USD 8 billion in FY25 alone has played a key role in achieving current account surplus for the first time during the last 14 years.

With this unprecedented surge in remittances, the fiscal cost of the Government has also increased. Considering this, there is a need to embark on a strategy to reduce reliance on monetary incentives to reduce the cost to the national exchequer, while at the same time, ensuring minimum disruption in remittance flows. This assessment report is an endeavour to identify the key bottlenecks in the remittance ecosystem and suggest possible solutions so that reliance on monetary incentives could be reduced.

### 1.2. Objective

The core objectives of this assessment are to:

- Identify impediments that inflate the cost of formal cross-border payments
- Mobilize remittances sustainably without permanent reliance on fiscal support
- Develop an action plan to reduce the fiscal burden while institutionalizing market-based mechanisms for long-term resilience

## 2. Background & Related Research

### 2.1. Identification of Cost-Driving Bottlenecks

Extant literature consistently identifies high transaction costs as the primary deterrent to formalizing remittance flows globally<sup>1</sup>. In addition, various studies emphasize that these costs are not merely administrative but are rooted in structural frictions.

Following key factors have been identified in this respect:

#### 2.1.1. Economies of scale and Information Frictions

Corridors with higher emigrant concentration and deeper economic ties (trade volume) exhibit lower costs due to increased competition and returns on scale. Conversely, geographical distance and population distributions drive fees upward due to higher infrastructural costs.

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<sup>1</sup> [What explains the Price of Remittances? An Examination Across 119 Country Corridors](#)- World Bank Publication  
[Sending money home: Transaction cost and remittances to developing countries](#)-The World Economy

### 2.1.2. Digital vs. Non-Digital Costs

Global benchmarks indicate that digital remittance services are consistently cheaper (averaging ~5 percent) than non-digital, cash-based methods (~7 percent).

### 2.1.3. Market Structure Impact

Corridors dominated by traditional banks generally charge higher fees (averaging 12-14.5 percent) compared to Money Transfer Operators (MTOs) (5-5.5 percent). MTOs are found to be more responsive to competitive pressures, whereas bank fees remain "sticky" regardless of market player volume.

### 2.1.4. Geographic Access

A more rural population in the sending country is associated with higher fees, likely due to the higher operational costs of physical infrastructure (branches and agents) compared to digital channels.

## 2.2. Sensitivity of Remittance Inflows to Transaction Costs

Empirical evidence from the Pakistan Institute of Development Economics (PIDE) and the SBP suggests a high elasticity of remittances to cost. A one percent decrease in the cost of remitting USD 200 is associated with a 1.6 percent increase in formal remittance inflows. This suggests that reducing the global average cost from the current around 7 percent to the Sustainable Development Goal (SDG) target of 3 percent could potentially increase manifold the volume of formal remittances globally.

## 3. Review of Global Remittance Landscape

### 3.1. Global Remittance Market

Global remittances constitute one of the most stable sources of external financing for developing economies. In CY24, remittance flows to low- and middle-income countries (LMICs) reached an estimated USD 656 billion, supporting nearly 800 million beneficiaries worldwide. Remittances have demonstrated strong resilience compared to Foreign Direct Investment (FDI) and Official Development Assistance (ODA) and exceed their combined inflows for many developing countries.

In 2024, major recipient countries included India (USD 129 billion), Mexico (USD 68 billion), China (USD 48 billion), Philippines (USD 40 billion), and Pakistan (USD 33 billion). On the sending side, the United States, Saudi Arabia, and Switzerland remain key source countries. For several small economies, remittances account for up to 40 percent of GDP, playing a critical role in household welfare, balance-of-payments support, and external sector stability.

### 3.2. Cross-Country Cost Analysis

Despite its importance, the costs of remittances remain elevated globally. The global average cost stood at 6.49 percent in Q1 2025, more than double the SDG target of 3 percent. Significant regional disparities persist, with South Asia recording the lowest average cost at 4.8 percent and Sub-Saharan Africa the highest at 8.78 percent.

Cost variations are also provider-specific such as banks remain the most expensive channel with 14.55 percent while MTOs at 5.04 percent and mobile-based services at 4.97 percent, are relatively cheaper. Digital channels consistently outperform cash-based methods. High-volume corridors operate more efficiently, whereas low-competition corridors can exhibit extreme pricing. These trends highlight the importance of competition, transparency, and digitization in reducing remittance costs.

### 3.3. Global Practices to Incentivize Remittances

Internationally, countries provide cash and non-cash-based incentives, whereas data indicates that cash-based incentives are typically temporary in nature that is introduced during periods of acute FX stress. Countries such as Sri Lanka, Bangladesh, and Nigeria have implemented time-bound cash

incentives, while others such as Egypt and India, focus on non-resident foreign currency accounts.

#### 4. Review of Home Remittance Incentive Schemes & Ecosystem

Historically, though large number of Pakistanis resided overseas, home remittances, however, remained subdued and were not commensurate with the diaspora living abroad. This was due to a variety of challenges, which mainly included: limited number of financial institutions (FIs) both on the send and receive sides collaborating with each other, attraction and convenience of informal channels of remittances, lack of marketing and awareness efforts to promote the use of formal channels among remitters, etc. To address these impediments and to bolster home remittance inflow to Pakistan, the need for a structured framework was strongly felt. Accordingly, in 2009, the Ministry of Finance (MoF), the SBP, and the Ministry of Overseas Pakistanis & Human Resource Development (MOP&HRD) jointly launched the Pakistan Remittances Initiative (PRI). The key objectives of PRI are: Facilitate and ensure faster, cheaper, convenient and efficient flow of remittances to the country; and provide domestic investment opportunities to Overseas Pakistanis.

Since then, the PRI has been working towards enhancement of home remittances through formal channels in Pakistan. As a result of active engagements with FIs, over 50 conventional banks, Islamic banks, microfinance banks, Exchange Companies (ECs) and Electronic Money Institutions (EMIs) are now part of the domestic remittance ecosystem. The vast majority of the international entities now have direct connections with Pakistani financial institutions for remittance distribution. The number of international entities has increased from around 45 in 2009 to around 500 at present. Notably, the following key structural and digital reforms have helped in modernizing the remittance infrastructure:

- **Infrastructure Upgrades:** The implementation of the **PRISM (RTGS) system** and the **RAAST (Instant Payment System)** has enabled faster settlement of remittance payments.
- **API and Digital Integration:** Direct **API integration** between overseas sending entities and domestic receiving FIs now enables instant credit to beneficiary bank accounts.
- **Mandatory Bank Accounts:** In collaboration with the Bureau of Emigration and Overseas Employment (BE&OE), it has been made mandatory for intending overseas workers to open a domestic bank account before departure.
- **IBAN Implementation:** The adoption of International Bank Account Numbers (IBAN) has reduced transaction returns caused by incomplete account information.

##### 4.1. Financial Inclusion & Consumer Protection

Policy measures have increasingly focused on protecting the interests of remitters and their families while integrating them into the formal financial sector. These include:

- **Consumer Redressal:** The PRI operates a dedicated Call Centre and helpline to resolve complaints and provide feedback for remitters and recipients. Further, an online complaint registration and resolution platform 'Sunwai' has been implemented by SBP for better complaint redressal.
- **Roshan Digital Account (RDA):** This digital initiative provides a comprehensive lifestyle banking solution to non-resident Pakistanis, allowing them to remotely open their account, do banking transactions, invest in real estate, stock market, and Naya Pakistan Certificates (NPCs). As of April 2026, over 927,000 RDAs have been opened with funds inflow in these accounts crossing USD 12.74 billion.
- **Awareness and Outreach:** Alongside domestic and international awareness & outreach drives by FIs, a comprehensive pre-departure briefing program has been in place that has benefitted around 500,000 intending workers, educating them on the risks of informal channels and the benefits of using regulated FIs.

- **Transparency Requirements:** In line with international standards and best practices, SBP mandates that regulated entities run ongoing awareness campaigns and provide full disclosure regarding charges and the expected time for fund delivery.
- **Digital onboarding:** Regulatory and compliance processes have also been streamlined through digitized customer verification using NADRA and other digital identity platforms, enabling faster and lower-cost onboarding while maintaining security standards.
- **Inclusive Products:** Banks have been encouraged to offer tailored products, such as life insurance, Hajj/Umrah packages, and lucky draws for remittance beneficiaries to enhance their quality of life.
- **Regulatory Sandbox:** SBP has introduced a Regulatory Sandbox to provide a supervised testing environment for FinTechs and financial institutions to pilot innovative digital remittance and cross-border payment solutions with controlled regulatory flexibility. This framework may further support development of faster, lower-cost and more transparent inward remittance models while preserving consumer protection and risk controls.

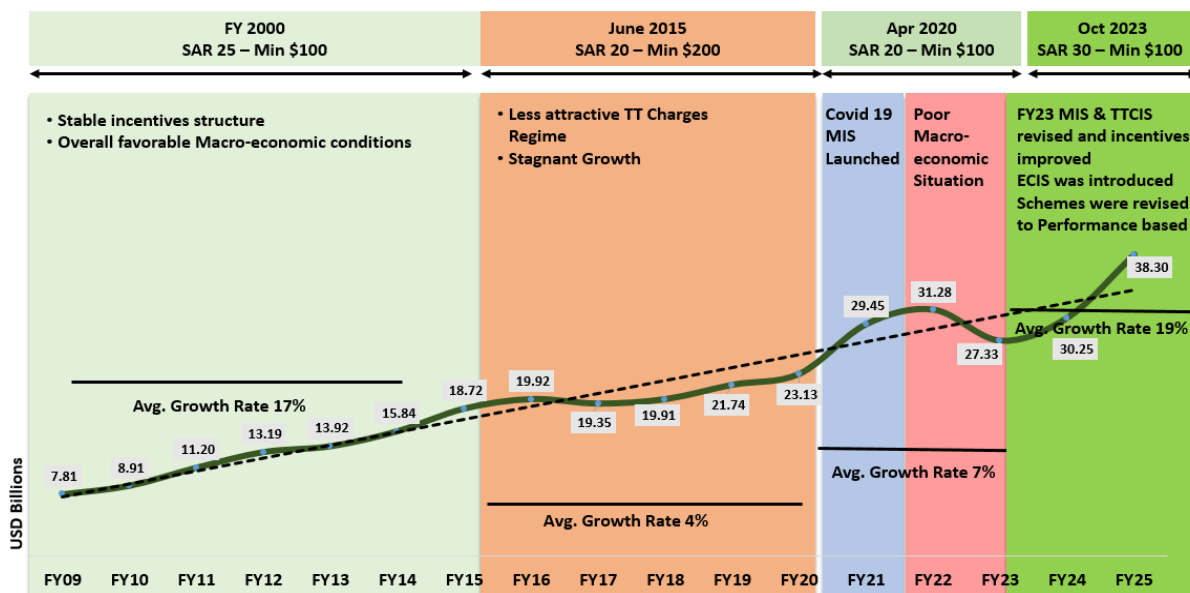
## 5. Government’s Home Remittance Incentive Schemes and their Impact

The Government of Pakistan, in coordination with SBP, is currently implementing two Home Remittance Incentive Schemes (HRIS): 1) **TT Charges Incentive Scheme (TTCIS)** and, 2) the **Sohni Dharti Remittance Program (SDRP)**. The TTCIS operates on “free-send basis” through reimbursement of transaction costs of an inward transaction of USD 200 and above currently, while SDRP provides loyalty-based points to remitters which can be subsequently redeemed for availing free of cost services at leading Public Sector entities. Together, these schemes aim to reduce costs of remittances and promote sustained use of formal channels.

### 5.1. Temporal Assessment of Policy Changes

The performance of home remittances in Pakistan shows a clear correlation with shifts in policy frameworks over the last two decades. A summary of the historical revisions to the TTCIS, especially, and its impact on home remittances is provided in below figure:

*Historical Trends of Home Remittances and their Growth w.r.t Policy Changes in TTCIS*



### 5.2. Quantitative Analysis of Home Remittances w.r.t Incentive Schemes

Keeping current HRIS structure in consideration, empirical analysis conducted by SBP confirms a

statistically significant relationship between incentives and formal remittance inflows. The findings suggest:

- Reductions in the cost of remittance have a positive impact on inflows.
- A one percent reduction in incentives leads to a 0.29–0.33 percent decline in remittances.

In FY25, HRIS helped in mobilizing an estimated USD 8 billion in additional remittances, generating significant fiscal savings in comparison to if similar amounts were borrowed from commercial sources. Further, model simulations indicated that under a “continuation scenario”, remittances could reach around USD 42 billion by FY27. Whereas a gradual phase-out of incentives would result in a measurable decline, while an abrupt withdrawal could cause a sharp contraction in formal inflows.

## 6. Identification of Impediments in Remittance Ecosystem

Based on comprehensive stakeholder survey outcomes, industry feedback from global and domestic FIs, and global empirical research, this section identifies the multi-layered bottlenecks currently hindering the cost-efficiency and formalization of remittances to Pakistan.

SBP conducted a detailed survey to obtain feedback from the relevant stakeholders. For this purpose, questionnaire was shared with international remittance partners, all leading domestic commercial banks and Exchange Companies (ECs). They were asked to assess impediments and operational challenges in the remittance ecosystem.

The questionnaire broadly sought stakeholders’ input on structural, regulatory and operational inefficiencies affecting remittance flows that may have been subsided to an extent through the incentive schemes. Specific questions were included regarding implications of drivers such as fees, FX spreads, compliance burden, onboarding friction, competition from informal players, Pakistan-specific constraints and comparative cost positioning against peer corridors. It further inquired about the impact of informal channels, interbank market delays and compliance frictions on customer experience along with pricing behavior in absence of incentives (TT charges scheme). Additionally, it covered digital infrastructure upgrades and potential non-fiscal policy formulation.

The responses received from stakeholders regarding the challenges indicated few key factors such as: elevated remittance costs due to multi-layered fee structures, stringent country specific compliance requirements, and competition from informal channels. The stakeholders recommended enhanced digitalization, regulatory easing for low-value transactions, broadening of financial inclusion, creation of awareness about pitfalls of using informal channels to enhance competitiveness and adoption of formal channels.

The identified impediments/challenges have been broadly grouped into two categories, i.e. Send Side and Receive Side.

### 6.1. Send-Side (Remitters)

#### 6.1.1. High Cost of Remittance Services

Remittance service fees and FX margins in certain corridors remain elevated due to limited competition, and compliance costs borne by the Overseas Correspondent Entities (OCEs)<sup>2</sup>. Higher costs ultimately reduce the price competitiveness of formal channels as compared to informal channels, incentivizing migrants to use informal mechanisms (i.e. hawala/hundi). This fact was also duly validated by the responses received under SBP’s survey from stakeholders. Saudi Arabia is the leading corridor for inward remittances to Pakistan; hence it has been used as a point of reference to analyse the cost of remittance. As outlined in the table below, the sending cost for smaller, typical migrant transfers of USD 200/- (equivalent to SAR 750) varies in the range of SAR 20.5 to SAR 105 per

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<sup>2</sup> [Remittance Prices Worldwide | Remittance](#)- World Bank

transaction, making it prohibitive for the blue-collar remitters. This observation is also noted in an article published in the IMF’s F&D magazine which pointed out that typical cost for sending small remittances averages 10 percent or more and can reach up to 15 percent–20 percent in certain corridors<sup>3</sup>, highlighting the price disadvantage for low-value transactions at formal providers.

## Remittance Cost (Saudi Arabia → Pakistan)

For Sending Amount SAR 750 Equivalent to USD 200/-

OCE	Payment Instrument	Access Point	Transfer Speed	Fee (SAR)	FX Margin (percent)	Total Cost (percent)	Total Cost (SAR)
FinTech	Agent	Medium	Medium	15.00	0.72	2.72	20.4
MTO A	Agent	High	High	17.25	0.98	3.28	24.6
MTO B	Agent	High	High	17	2.1	4.37	32.78
Bank A	Bank branch	Medium	Medium	75	1.16	11.16	83.7
Bank B	Bank branch	Medium	Low	75	1.22	11.22	84.15
Bank C	Bank branch	Medium	Medium	86.25	2.45	13.95	104.63

Further, according to the World Bank’s Remittance Prices Worldwide (RPW) database, the global average cost for sending USD 200 stood at 6.49 percent (USD 13) in early 2025, far exceeding the SDG target, which aims to reduce transaction costs to less than 3 percent.

### 6.1.2. Limited Access to Formal Channels for Migrant Workers

A significant proportion of overseas Pakistanis particularly low-income workers in GCC countries, face barriers such as lack of bank accounts, documentation gaps, or employer-controlled wage disbursement systems. Restricted access constrains onboarding into regulated remittance channels and limits scalability of digital remittance solutions. As per UNCDF report:

*“85 percent of UAE’s population constitutes migrants, accounting for billions of dollars in outward remittances whereas close to 60 percent of these migrants constitute low-income, or blue-collar, workers, earning less than the minimum requirement to open a UAE bank account.”<sup>4</sup>*

Further, the labour class mostly resides in specialised work zones that follow strict work-leisure schedules. This restricted movement also limits the access to formal channels.

### 6.1.3. Enhanced AML/CFT and KYC Requirements

While due diligence requirements are strictly followed in all cross-border transactions including remittances, some jurisdictions require enhanced due diligence of transactions even for low-value payments to countries which remained in the FATF watchlists, such as Pakistan. The remittance transactions undergo additional checks as the EDD thresholds are lower due to legacy FATF sensitivity. Though necessary for financial integrity, these requirements create friction at initiation points. The survey responses from stakeholders confirmed that the operational delays and rejection risks reduce user convenience and confidence, prompting a shift towards informal alternatives.

### 6.1.4. Limited Awareness of Digital and Incentivized Channels

Limited awareness of formal digital remittance channels and educational/financial literacy constraints, which especially prevail among blue-collar workers in the GCC region, continue to act as

<sup>3</sup> [Remittances: Funds for the Folks Back Home](#)- IMF Publication

<sup>4</sup> [Financial Inclusion of Blue-collar Migrants in the UAE: The Case of RAKBANK and Edenred](#)

a structural constraint on remittance inflows to Pakistan. Many such workers possess limited formal education and have low exposure to digital financial services. Thus, procedural requirements, user interfaces and terminology associated with digital remittance platforms appear complex and intimidating, discouraging adoption even when these channels are demonstrably cheaper, faster, and more secure. Instead, their decision-making is frequently guided by peer networks, labor intermediaries or informal community agents who act as de facto financial advisors.

Further, a significant segment of overseas Pakistanis, particularly first-generation migrants and low-income workers, remain either unaware of or insufficiently informed about low-cost, fully digital remittance options facilitated jointly by overseas financial institutions and Pakistani banks for non-resident Pakistanis.

### 6.1.5. Informal Channels

The informal channels are usually perceived as convenient and flexible, which significantly influence remittance behaviour among low-income migrant workers in GCC corridors. Such channels offer low cost, convenient delivery at doorstep, lack of documentation with flexible hours that cater to urgency, convenience and ease of use usually required by blue collar remitters.

These attributes of the parallel market play a decisive role in shaping remitters expectations regarding the value, ultimately received by beneficiaries. Therefore, even a modest gap between interbank and parallel market can generate disproportionate behavioural responses<sup>5</sup>. Thus, overseas Pakistanis are incentivized to divert remittance flows from formal channels to informal channels resultantly weakening the effectiveness of formal channels.

Based on the World Bank’s Remittance Prices Worldwide (RPW) report, the following table summarises some of the key advantages and disadvantages of sending remittances via the formal and informal channels:

Remittance Channel	Service Provider	Advantages	Disadvantages	Accessibility	Cost
<b>Formal</b>	<b>MTOs</b>	Accessible in urban areas, Fast, Reliable	Limited accessibility in rural areas, High cost	High	Medium
	<b>Commercial Banks</b>	Reliable, often cheapest for large transactions	Limited Accessibility, Account maintenance required, High cost	Medium / Low	High
	<b>Post Offices</b>	Accessible, often cheaper than other formal RSPs	Slow, delays due to liquidity constraints, Low service quality	High/ Medium	Medium/ Low
	<b>FinTech</b>	Fast, low-cost, and transparent digital transfers	Limited cash-out reach, digital literacy gaps	High	Low
<b>Informal</b>	<b>Hawala/Hundi</b>	Trust-based, door-to-door service	Costs may be higher than formal services	High	Medium / Low
	<b>Self / Relatives / Friends</b>	Operate where formal services are unavailable, no direct costs	Risk of loss of funds	Medium	Low

Note: Accessibility Ratings, **High:** Widespread Availability, **Medium:** Generally Available, **Low:** Limited Availability

<sup>5</sup> Leveraging Diaspora Finances for Private Capital Mobilization- [World Bank Document](#)

## 6.2. Receive-Side (Beneficiaries)

The domestic efficiency of the remittance-receiving environment is equally critical in determining the "last-mile" success of formalization efforts. The following impediments/ challenges have been identified at receiving side in case of Pakistan.

### 6.2.1. Institutional Costs

**Significant internal processing cost is incurred** by domestic financial institutions, which directly impacts the sustainability of remittance inflows. These costs are driven by substantial investments in *AML/CFT compliance technology, cybersecurity, and operational overheads*. Unlike informal channels that bypass regulatory scrutiny, formal institutions must bear the cost of screening transactions against global and local sanctions lists.

Another driver of elevated domestic costs is the persistent demand of **Cash-Over-Counter (OTC) disbursements**. The physical infrastructure required for OTC includes logistics; vault management, security and insurance are prohibitively expensive. The World Migration Report of International Organisation for Migration (IOM) notes that in countries with large rural migrant-sending communities, the lack of merchant acceptance for digital payments forces a "cash-out" culture. This physical dependency creates a pricing floor that prevents transaction costs from descending toward the 3 percent SDG benchmark.

### 6.2.2. Literacy of Beneficiaries

Financial literacy remains an important barrier to digital formalization. Pakistan's **financial literacy rate stands at 26 percent**,<sup>6</sup> notably lower than the global average of 33 percent. The beneficiaries of remittances, often from low-to-middle-income households, usually exhibit a trust deficit toward formal digital platforms. This leads families to rely on local **Hawaladars** (informal agents) who have provided perceived "reliable" service for generations. As highlighted by **UNCDF**, without targeted education on the ease and security of formal digital services, the behavioural shift required to abandon informal channels remains elusive.

### 6.2.3. Financial Inclusion

The **financial inclusion index in Pakistan stands at 58.1**<sup>7</sup>, and while this reflects significant progress, access to financial services in remote and rural areas remains fragmented. Many "remittance-rich" corridors, such as the rural districts of Northern Pakistan, are characterized by a dearth of physical bank branches. This "banking desert" effect forces beneficiaries to travel long distances or revert to informal agents who offer door-to-door delivery. Aligning with **IOM and World Bank** benchmarks, expanding the reach of microfinance institutions and branchless banking agents in these regions is paramount to integrating these communities into the formal net.

### 6.2.4. General Perception of using Formal Sector

The general public's perception regarding the formalities involved in formal channels and the fear of taxation is another impediment for the use of formal channels. Informal agents often propagate the false perception that funds received via formal channels are subject to heavy taxation or will trigger intrusive investigations by law enforcement agencies. This coupled with overall low financial literacy deters less-informed populations from using formal channels.

### 6.2.5. High Reliance on Worker Remittances for Balance of Payments

Pakistan's macroeconomic structure is characterized by a high dependence on worker remittances to finance the Balance of Payments needs, which is a challenge from policy perspective. While other growth engines such as exports, private investment and net foreign direct investment have remained

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<sup>6</sup> National Financial Education Roadmap 2025-2029 - NFER- 2025

<sup>7</sup> SBP – Pakistan Financial Inclusion Index - [PFI-paper.pdf](#)

subdued, worker's remittances have proved to be a stable and progressive source of FX reserves. This segment constitutes roughly **8–9 percent of GDP of Pakistan**, representing a material pillar of external sector stability. This structural reliance substantiates the need for Government to incentivize the remittances flow through formal channels by fiscal measures.

## 7. Proposed Action Plan

While the impediments identified on the receive side can be directly addressed through domestic policy interventions, the challenges on the send-side are largely beyond the domestic policy ambit and cannot be addressed directly. However, the following targeted measures are expected to influence the impediments, both on the send and receive sides, and assist in overcoming the same:

- **UN- SDGs:** The on-going efforts by global bodies like BIS and G-20 to reduce the cost of cross-border remittances need to be expedited. If these efforts aiming at reducing the transaction costs below 3 percent are successful globally, especially in the major remittance corridors (GCC, Europe, and North America), it would make cross border remittances through formal channels more affordable to all developing countries including Pakistan.
- **Structural Reforms to improve BoP:** Modifying the underlying structure of the Balance of Payments (BoP) is a fundamental prerequisite for long-term macroeconomic/external stability. This necessitates a calibrated strategic shift from reliance on inward remittances to an export and investment led paradigm. Consequently, a concerted effort is required from the government to bolster high-value exports, attract productive foreign investment, and observe rigorous fiscal discipline to achieve a sustainable current account. Ultimately, this will reduce the economy's over-reliance on remittances and lessen the need for fiscal incentive schemes to sustain or increase the remittances flows.
- **National Drive to improve Financial Literacy:** A comprehensive national strategy for enhancing financial literacy and awareness must prioritize the expansion of pre-departure briefing programs to bridge the significant awareness and capability gaps prevalent among first-generation migrants and low-income workers. Drawing upon the successful collaborative model currently executed by the PRI, commercial banks, and the Bureau of Emigration & Overseas Employment, which has already benefitted around 500,000 intending workers, these programs should be scaled up to provide standardized education on the security and efficiency of regulated financial institutions. By integrating these briefings into the mandatory protectorate process, the state can systematically dismantle the "trust deficit" and the psychological fear of excessive taxation or regulatory harassment that currently drives families toward local hawaladars. Moreover, post departure trainings and drives to encourage formal remittances may also be designed with relevant government officials/embassies in key remittance corridors for sustained progress.
- **Payment System's Regional Connectivity:** SBP is actively pursuing integration with cross-border payment systems to further enhance remittance efficiency, cost transparency, and digital adoption.

In this connection, the BUNA–RAAST integration project initiated by SBP and the Arab Monetary Fund (AMF) would enable instant, low-cost, and fully digital cross-border remittances between Arab countries and Pakistan, where transactions received in Pakistan through RAAST are credited to beneficiaries in real time with zero charges on the receiving side. However, on the sending side via BUNA, a tiered platform fee structure including any additional bank charges levied by sending institutions, might apply. It may be kept in perspective that most of the financial institutions from Arab region partnering with Pakistani

FIs are currently on Free-send model under the TT charges incentive scheme and are not charging the remitters. However, in the absence of the incentive scheme, it is expected that these sending institutions might collect fees from customers, further adding to the total cost of sending remittances through BUNA.

- **To discourage the use of informal channels** for remittance, the following measures may be considered:
  - Further enhance the share of direct account credit of remittances and reduce cash transactions through digitalisation. It will reduce the logistics and security costs passed on to the ecosystem, fostering a more competitive environment where digital channels consistently outperform cash-based methods.
  - The concerted and sustained efforts of Government authorities and Law Enforcement Agencies will help in curbing the illegal hawala/hundi activities. Effective actions i.e. tracking and tracing their network and confiscating their remittance proceeds, will discourage the flow of funds through these channels.
  - Implementation of SBP's recently issued customer onboarding framework will address the regulatory friction and documentation gaps that currently impede low-income migrant workers' ability to open domestic bank accounts efficiently.
  
- **Gradual Phase-out Plan:** To control fiscal cost to the exchequer, instead of an abrupt cessation of incentive schemes, a gradual phasing out plan has been envisaged and agreed upon by the Government to reduce the load on public exchequer. According to this plan, SDRP is to be discontinued from the start of FY27 and the TTCIS charge is to be taken off the exchequer gradually. In order to ensure market preparedness, SBP and the Government may consider an appropriate communication strategy to inform the market well in advance.
  
- **Exploring HRIS Cost-sharing Mechanism with PBA:** To curtail the fiscal burden of HRIS for the Government, SBP and Pakistan Banks Association (PBA) are exploring the options of fully or partially sharing the financial cost of the incentive schemes by the industry. Under such an arrangement, the banking industry may share the cost of remittance incentives.
  
- **Expanding Tie-up Arrangements:** Considering that utilization of digital platforms may help reduce transaction costs and enhance efficiency, domestic financial institutions will be encouraged to establish partnerships with foreign entities having lower remittance costs such as fintechs.
  
- **Non-Monetary Incentives:** In addition, non-monetary interventions and market-based strategies to sustain and further formalize remittance inflows can be deployed.
  
- **Customized Products & Services:** The FIs to develop tailored products & services, not only meeting customers' needs but also thwarting the influence of informal channels. For example, 'doorstep' delivery of remittances may provide convenience to certain beneficiaries, not able to visit bank branches. A couple of FIs have already started this initiative with approval of SBP; however, others also need to explore offering such services.

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