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**Initiatives for Remitters: Incentives to Boost Formal Remittance Flows and Support  
Diaspora Welfare in Pakistan**

By

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The opinions expressed in this article are those of the author and do not necessarily reflect the views of the organization.

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## 1. Introduction

Pakistan remains one of the world's largest recipients of workers' remittances, which have evolved into a critical macroeconomic stabilizer and household support mechanism. In FY25 (July 2024–June 2025), inflows reached a record US\$38.3 billion, reflecting a 26.6% increase over FY24 and contributing significantly to foreign exchange reserves, current account management, and poverty alleviation among recipient families (State Bank of Pakistan [SBP], 2025). The momentum has accelerated further in FY26: cumulative remittances during July–January stood at US\$23.2 billion, marking an 11.3% year-on-year growth compared to the same period in FY25. January 2026 alone recorded approximately US\$3.5 billion (with slight variations across reports between US\$3.46–3.5 billion), a robust 15.4% increase over January 2025, positioning full-year FY26 inflows to approach or exceed US\$41–42 billion according to SBP projections and recent monetary policy assessments (SBP Monetary Policy Report, February 2026; Dawn, February 2026; Business Recorder, February 2026).

This surge underscores the growing role of formal channels in remittance transmission. Initiatives such as the Roshan Digital Account (RDA), launched in 2020, have facilitated easier banking access for overseas Pakistanis, attracting cumulative inflows exceeding US\$11.7 billion by December 2025 and channeling a rising share into formal banking and investment products (Profit Pakistan Today, January 2026). Digital platforms, competitive exchange rates, and policy incentives have reduced reliance on informal hawala systems, enhancing transparency, reserve management, and overall economic stability.

Despite these gains, significant challenges persist for remitters themselves—the predominantly lower- and middle-income overseas Pakistanis (largely from Saudi Arabia, UAE, UK, and US) who send money home. Many face heightened vulnerabilities: occupational hazards and health risks in host countries, financial pressures on families left behind, and barriers to reintegration upon return, including unemployment, lack of entrepreneurial opportunities, or inadequate social security. These factors can discourage maximized remittances through formal channels or limit the personal welfare benefits of migration. While remittances fulfill immediate consumption needs (food, education, health, debt repayment) and generate spillover effects in local economies, studies continue to highlight that remitters often prioritize safety, familiarity, and tangible benefits over purely financial returns (e.g., updated surveys on diaspora preferences post-RDA).

A decade ago, a proposal in Rehman (2017) argued for targeted, non-cashable incentives to boost formal inflows while providing direct welfare support to remitters and their families. The mechanism involved a modest subsidy/premium on formal remittances—split between health/life insurance coverage and a welfare/entrepreneurship fund withdrawable upon return or for business startup—

offering goodwill, peace of mind, and reduced returnee unemployment burdens without risking arbitrage or currency pressures.

This paper revives and refines that proposal in light of contemporary realities. With formal inflows now stronger and remittances at historic highs, such incentives could amplify benefits: higher formal volumes for macroeconomic stability, enhanced personal security for remitters (especially in lower-income cohorts), and smoother transitions for return migrants through entrepreneurship support. Unlike broad macro-level reforms, these initiatives focus on the remitter as the primary agent, addressing micro-level vulnerabilities that influence remittance behavior and magnitude.

The paper addresses key gaps in the literature. While extensive research examines remittances' macroeconomic impacts (e.g., current account financing, exchange rate management) and utilization patterns (consumption vs. investment bias), fewer studies explore remitter-targeted policies that incentivize formal flows and welfare gains (exceptions include global models like the Philippines' OWWA insurance schemes or select Indian diaspora programs). Post-2017 evidence on RDA success and persistent informal residuals highlights the potential for targeted interventions to further formalize and humanize remittance ecosystems.

The structure is as follows. Section 2 reviews relevant literature on remittance channels, remitter vulnerabilities, and incentive-based policies. Section 3 presents updated trends in formal vs. informal flows and remitter profiles using SBP data through early FY26. Section 4 details the proposed initiatives: the premium subsidy mechanism, insurance and welfare fund components, eligibility/withdrawal rules, and implementation via existing infrastructure. Section 5 discusses expected impacts (macro and micro), feasibility, risks/mitigations, and complementarities with broader productive investment channels. Section 6 concludes with policy recommendations and a phased roadmap for piloting.

By focusing on remitters' welfare and formal-channel incentives, this work contributes a practical, low-cost policy tool to sustain Pakistan's remittance momentum while aligning it more closely with diaspora needs and national development goals.

## **2. Literature Review and Rationale**

The literature on international remittances has expanded significantly since the mid-2010s, with a growing emphasis on their macroeconomic stabilization role, household-level impacts, and pathways to formalization. In Pakistan's context, remittances serve as a lifeline for balance-of-payments support, poverty reduction, and household consumption, but persistent challenges in formal-channel utilization and remitter welfare highlight the need for targeted incentives. This section synthesizes key global and Pakistan-specific studies post-2017, focusing on formal vs. informal channels, remitter vulnerabilities, and incentive-based policies, while identifying gaps that the proposed initiatives address.

## **2.1. Remittances, Formal Channels, and Formalization Efforts**

Remittances to low- and middle-income countries reached an estimated US\$685–700 billion through formal channels in 2024, surpassing foreign direct investment (FDI) and official development assistance (ODA) combined (World Bank, 2025). In Pakistan, formal inflows have surged due to policy interventions. The Roshan Digital Account (RDA), launched in 2020, has mobilized over US\$11.7 billion in cumulative inflows by late 2025, contributing to reserve stabilization and shifting flows from informal hawala/hundi systems (Profit Pakistan Today, 2026; SBP reports). The Pakistan Remittance Initiative (PRI), expanded since 2009 to include over 50 financial institutions and ~400 international entities by 2024–2025, has incentivized banks and exchange companies through performance-based rewards, narrowing formal-informal exchange rate differentials and boosting transparency (SBP Annual Report FY25; Business Recorder, 2025).

Recent data underscore this shift: FY25 inflows hit US\$38.3 billion (up 26.6% YoY), with FY26 cumulative July–January at US\$23.2 billion (+11.3% YoY) and January 2026 at ~US\$3.5 billion (+15.4% YoY), driven by manpower exports, exchange rate stability, and incentives (SBP, 2026; Dawn, 2026; Topline Securities analyses). Studies attribute growth to regulatory reforms, digital platforms, and crackdowns on informal markets (IOM Displacement Tracking Matrix, 2025; Ministry of Planning reports). However, informal channels persist in some corridors due to lower costs, speed, or trust issues, though their share has declined markedly post-RDA (World Bank KNOMAD estimates; various 2024–2025 reports).

## **2.2. Remitter Vulnerabilities and Welfare Needs**

Remitters—often lower- and middle-income workers in GCC countries (Saudi Arabia, UAE dominant), UK, and US—face multifaceted risks. Occupational hazards, health issues abroad, family support burdens, and return challenges (unemployment, skill mismatches, lack of entrepreneurial capital) undermine migration benefits (World Bank, 2018; updated in post-2020 studies). Return migration remains integral to Pakistan's temporary labor system, yet reintegration support is limited, with returnees contributing modestly to development despite skills acquired abroad (ICMPD Policy Brief on National Emigration and Welfare Policy, ~2020s; BEOE data).

Global literature highlights remittances' role in informal social protection: smoothing consumption, funding education/health, and building resilience against shocks (e.g., countercyclical increases during crises; Yang & Choi, 2007; Ratha et al., 2020). In South Asia, remittances reduce multidimensional poverty by enabling access to basic services (Raihan et al., 2009; updated in Neupane & Bhandari, 2025). However, reliance on informal mechanisms exposes remitters to exploitation, lacks institutional safeguards, and limits long-term mobility (Thapa & Acharya, 2017; Rahman & Fee, 2012).

Pakistan-specific studies post-2017 reinforce that while remittances improve household welfare (e.g.,

poverty reduction, education/health investments; Irfan, 2011 updates; Shair et al., 2024 proxies), remitters' personal vulnerabilities receive less attention. The Overseas Pakistanis Foundation (OPF) provides some welfare (e.g., via mandatory contributions), but coverage gaps persist for health, disability, and returnee entrepreneurship (OPF reports; National Emigration Policy discussions).

### 2.3. Incentive-Based Policies and Global Models

While macro-level formalization (RDA, PRI) has advanced, the literature reveals a relative neglect of **remitter-specific micro-incentives** that tie formal flows directly to personal welfare and reintegration support. Globally, however, a few mature models demonstrate that modest, structured benefits can significantly boost formal participation while protecting migrants.

**Table 1: Comparative Overview of Global Models for Remitter Incentives and Welfare Schemes**

Country/Program	Key Features	Primary Benefits	Funding/Source	Impact/Outcomes (Recent Evidence)	Relevance to Formal Channels/Welfare
<b>Philippines – OWWA (Overseas Workers Welfare Administration)</b>	Membership-based (US\$25 contribution); compulsory/voluntary for OFWs. Core programs: repatriation, health/life insurance, worker assistance.	Life/accident insurance, disability/death benefits, medical aid, reintegration training, emergency loans.	Migrant contributions + government support	Covers millions of OFWs; strong during crises (e.g., COVID-19 repatriation); reduces distress, encourages formal participation.	High: Ties welfare to formal deployment; promotes secure remittances.
<b>India – ICWF (Indian Community Welfare)</b>	Established 2009; extended to all missions; means-tested aid for	Boarding/lodging, emergency medical care, legal aid,	Government budget + consular fees	Assists thousands annually; broadened scope in 2017	Medium: Focuses on distress support; complements

<b>Country/Program</b>	<b>Key Features</b>	<b>Primary Benefits</b>	<b>Funding/Source</b>	<b>Impact/Outcomes (Recent Evidence)</b>	<b>Relevance to Formal Channels/Welfare</b>
<b>Fund)</b>	distressed nationals.	repatriation, air passage, mortal remains handling.		for community welfare.	formal banking incentives.
<b>Bangladesh – 2.5% Cash Incentive</b>	Cash rebate on formal remittances (e.g., via official channels).	Direct financial incentive (e.g., extra payout on transfers).	Government subsidy	Boosted formal inflows significantly (e.g., post-2022 averages >US\$100M weekly); reduced informality.	High: Directly incentivizes formal channels.
<b>Mexico – 3x1 Program for Migrants</b>	Matching funds: US\$3 government (federal/state/local) per US\$1 from diaspora associations for community projects.	Community infrastructure (schools, clinics, roads).	Government matching + diaspora funds	Financed rural development; empowered hometown associations.	Medium: Channels remittances to productive uses via formal associations.
<b>Sri Lanka – Migrant</b>	Self-financed fund; services	Counseling, shelter,	Migrant/employer fees	High per-worker	High: Funds on-site

Country/Program	Key Features	Primary Benefits	Funding/Source	Impact/Outcomes (Recent Evidence)	Relevance to Formal Channels/Welfare
<b>Welfare Fund</b>	via Bureau of Foreign Employment.	repatriation, legal aid.		spending; supports vulnerable groups (e.g., domestic workers).	protection, encouraging formal outflows.

Sources: OWWA official programs (2025 updates); MEA/ICWF guidelines (2017 revisions); World Bank/ILO reports (2020–2025); UNDP/ADB analyses (2023–2025); various policy evaluations.

Among these, the **Philippines’ Overseas Workers Welfare Administration (OWWA)** stands out as the most comprehensive benchmark. OWWA’s membership-based fund (USD 25 contribution, valid 2 years) finances life/accident/disability insurance, medical aid, repatriation, emergency loans, and reintegration training/livelihood grants. Recent data (2025–2026) show ~2.6 million active members, a trust fund exceeding PHP 21.3 billion (~USD 368 million), and expanded scholarships (10,000 new slots in 2026). The model ties welfare benefits explicitly to formal deployment channels, reducing distress, encouraging sustained formal remittances, and easing returnee entrepreneurship—precisely the dual protection + empowerment goal of the present proposal.

**India’s Pravasi Bharatiya Sahayata Kendra (PBSK)**, renamed from OWRC in 2018, offers a complementary approach. PBSK operates as a single-window facilitation network with 24x7 helplines (e.g., 1800-11-3090 in India; country-specific toll-frees in GCC), emergency repatriation, legal/medical aid, pre-departure guidance, and grievance redressal. It complements the Indian Community Welfare Fund (ICWF) for distress support and has expanded outreach in GCC missions (Dubai, Riyadh, Jeddah). PBSK demonstrates how low-cost, accessible services build trust in formal migration systems without heavy fiscal outlay—lessons directly applicable to scaling trust in Pakistan’s RDA-linked remittances.

Other models reinforce the case: Bangladesh’s 2.5% cash rebate has sharply increased formal inflows, while Mexico’s 3x1 matching fund channels diaspora contributions productively. These examples collectively show that welfare-linked incentives—whether insurance-heavy (OWWA) or facilitation-focused (PBSK)—can raise formal volumes, reduce vulnerabilities, and support reintegration without

creating arbitrage or depreciation risks.

In Pakistan, Rehman (2017) had already proposed a non-cashable premium subsidy split between health/life insurance and a welfare/entrepreneurship fund to achieve similar ends. The present paper refines that idea by explicitly drawing on OWWA's proven insurance + reintegration combination and PBSK's accessible, trust-building services, while adapting them to Pakistan's voluntary, digital-first ecosystem (RDA, PRI). Post-2017 literature confirms a clear gap: most studies focus on macro impacts or channel formalisation but pay little attention to remitter-specific micro-incentives. This paper fills that gap.

These models demonstrate that welfare-linked incentives (e.g., OWWA insurance) enhance security and formal flows without fiscal strain, while cash/matching schemes (Bangladesh, Mexico) boost volumes and productive use. In Pakistan, Rehman (2017) proposed a non-cashable premium subsidy (split between health/life insurance and welfare/entrepreneurship fund) to boost formal inflows, provide goodwill/peace of mind, and ease return/business startup—avoiding arbitrage and depreciation risks. Post-2017 literature gaps include limited evaluation of such micro-incentives; most focus on macro impacts or channel formalization (e.g., PRI/RDA success) without addressing remitter vulnerabilities directly (e.g., no major studies on diaspora insurance-linked schemes in Pakistan).

## **2.5. Theoretical Underpinnings**

The proposed incentive mechanism rests on three complementary strands of migration and development theory, each explaining why non-cashable, welfare-linked subsidies should increase formal remittance flows and improve diaspora welfare without arbitrage or fiscal leakage.

First, **portfolio-choice theory** applied to distant investors (Dustmann & Mestres, 2010; Dustmann & Görlach, 2016) argues that remitters exhibit high risk aversion due to information asymmetry, geographic distance, and weak enforcement of property rights. They prefer tangible, familiar assets (real estate, consumption) even when more productive alternatives exist domestically. A government-backed, non-cashable subsidy reduces perceived risk by offering guaranteed insurance (immediate protection) and conditional returnee capital (long-term empowerment), effectively lowering the "distance discount" and shifting portfolios toward formal channels.

Second, the **migration-as-insurance** framework (Yang & Choi, 2007; Ratha et al., 2020) views remittances as informal insurance against shocks in origin households. Formal welfare incentives can crowd in — rather than crowd out — this function by providing credible, institutionalised protection. OWWA's success in the Philippines illustrates this: insurance and reintegration benefits reduce distress, encourage sustained formal participation, and ease returnee entrepreneurship. The Pakistani proposal adapts this logic by tying the subsidy to formal inflows, creating a virtuous cycle of security and higher volumes.

Third, **institutional trust theory** (North, 1990; Williamson, 1993) emphasises that distant agents require credible commitment devices to overcome opportunism and weak enforcement. PBSK's low-cost facilitation services in India show how accessible, transparent support (helplines, emergency aid, pre-departure guidance) builds trust in formal systems. By leveraging RDA/PRI infrastructure and SBP oversight, the mechanism provides such a device — automated allocation, audited funds, and verifiable withdrawal rules — addressing the trust deficit that keeps some flows informal.

These theories collectively predict that the proposed subsidy will raise formal remittances, enhance welfare, and support reintegration without creating arbitrage (non-cashable design) or dollar leakage (rupee-only payment on converted amounts). They also generate testable hypotheses for future empirical work, such as whether formalisation increases with perceived institutional credibility.

## **2.4. Rationale and Gaps**

The literature demonstrates remittances' countercyclical resilience and household benefits but underscores vulnerabilities in informal reliance and return challenges. Formalization progress (RDA, PRI) creates a foundation, yet remitter-focused policies remain underexplored. Global precedents (e.g., OWWA's comprehensive coverage) suggest welfare-linked incentives can enhance security and formal flows. This paper fills the gap by refining the 2017 proposal for contemporary high-inflow contexts, offering a low-cost, non-arbitrage mechanism to align diaspora welfare with national goals.

## **3. Updated Trends in Remittance Channels and Remitter Profiles**

This section presents recent empirical trends in Pakistan's remittance inflows, emphasizing the shift toward formal channels and the demographic profile of remitters. Data are drawn primarily from the State Bank of Pakistan (SBP) releases through February 2026, highlighting the momentum in formalization post-Roshan Digital Account (RDA) and other reforms. These trends provide the foundation for the incentive-based initiatives proposed in this paper, as they demonstrate both successes in channel formalization and remaining gaps in remitter welfare.

### **3.1. Growth and Composition of Remittances (2020–2026)**

Workers' remittances have shown remarkable resilience and acceleration, particularly through formal channels. After a brief dip during the early COVID-19 period, inflows rebounded strongly from FY21 onward, driven by digital platforms, exchange rate incentives, and policy measures like the Pakistan Remittance Initiative (PRI). Formal inflows now dominate, with informal channels' share declining due to competitive rates, faster digital transfers, and regulatory enforcement.

Key recent figures underscore this trend:

- FY25 (July 2024–June 2025) recorded a record US\$38.3 billion, up 26.6% year-on-year (YoY) from FY24.

- In FY26 (July 2025–June 2026), cumulative inflows for July–January reached US\$23.2 billion, marking an 11.3% YoY increase compared to US\$20.9 billion in the same period of FY25 (SBP data, released February 2026).
- January 2026 inflows stood at approximately US\$3.46–3.5 billion (reports vary slightly between US\$3.46 billion per SBP provisional data and rounded US\$3.5 billion in media summaries), reflecting a robust 15.4% YoY growth over January 2025 (US\$3.0 billion). This made January 2026 the highest-ever remittance month on record for January, though slightly below December 2025's US\$3.59 billion (SBP, 2026; Business Recorder, February 2026; Geo News, February 2026).
- SBP projections suggest full FY26 inflows could reach US\$41–42 billion, supported by Eid-related surges and ongoing digital integration (SBP Monetary Policy Report, February 2026).

These figures indicate sustained momentum, with formal channels capturing the bulk of growth. The RDA alone has attracted cumulative inflows exceeding US\$11.7 billion by late 2025, channeling diaspora funds into banking, investments, and government securities (Profit Pakistan Today, January 2026).

### **3.2. Shift from Informal to Formal Channels**

The formalization trend is evident in the narrowing gap between formal and informal estimates. Pre-2020 studies (e.g., Arif, 2009) suggested informal channels accounted for up to 60% of total flows. Recent improvements—RDA, PRI performance rewards for banks/exchange companies, digital wallets, and crackdowns on hawala—have reversed this. Informal residuals persist in some GCC corridors due to speed/cost advantages, but formal share has risen markedly.

- Post-RDA (2020 onward): Formal inflows accelerated, with digital platforms reducing informal reliance (IOM Displacement Tracking Matrix, 2025).
- Current estimates: Informal flows are now a minority, with formal channels benefiting from near-competitive rates and added services (World Bank KNOMAD, 2025 updates).

This shift enhances macroeconomic benefits (better reserve management, transparency) but leaves remitters without personalized welfare incentives tied to formal usage.

### **3.3. Remitter Profiles and Vulnerabilities**

Pakistan's remitter base consists predominantly of temporary migrant workers in low- to middle-skill occupations:

- Major sources: Saudi Arabia (~US\$740 million in January 2026), UAE (~US\$694 million), UK (~US\$572 million), and USA (~US\$295 million) (SBP country-wise data, January 2026).

- **Demographics:** Mostly lower- and middle-income males aged 25–45, in construction, services, and manufacturing; family support is primary motive (BEOE labor migration reports; World Bank, 2018–2025 updates).
- **Vulnerabilities:** Health/occupational risks abroad, high family dependency, and return challenges (unemployment, entrepreneurial barriers). Returnees often lack reintegration support, limiting contributions despite acquired skills (ICMPD Policy Brief, 2020s; OPF reports).

These profiles highlight why incentives must be simple, secure, and welfare-oriented: remitters prioritize family protection and return planning over complex investments.

**Table 2: Key Remittance Trends (FY24–FY26, Selected Periods)**

Period	Inflows (US\$ billion)	YoY Growth (%)	Notes/Key Drivers
FY24 (full year)	~30.0 (approx.)	–	Baseline pre-surge
FY25 (full year)	38.3	+26.6	Record high; RDA/digital push
FY26 Jul–Jan	23.2	+11.3	Cumulative 7 months; steady momentum
January 2026	3.46–3.5	+15.4	Highest January on record; Eid anticipation
Projected FY26 full	41–42	+7–10	SBP forecast; potential record

Sources: SBP data releases (February 2026); Business Recorder, Geo News, Dawn reports.

These trends confirm formal channels' success but reveal untapped potential: targeted incentives could further boost volumes while addressing remitter vulnerabilities (health risks, return barriers). The next section details the refined proposal to achieve this.

#### 4. Proposed Initiatives for Remitters

Building on the updated trends in formal remittance channels and the persistent vulnerabilities faced by remitters, this section refines the incentive mechanism originally proposed in Rehman (2017). The core idea is to introduce a modest, non-cashable premium subsidy on formal inflows to encourage

greater use of official channels while directly addressing remitters' personal and long-term welfare needs. This approach avoids direct cash handouts (which could be arbitrated or lead to currency pressures), focuses on tangible benefits like health security and returnee entrepreneurship, and leverages existing infrastructure such as the Roshan Digital Account (RDA) and banking networks.

#### **4.1. Core Mechanism: Non-Cashable Premium Subsidy**

The initiative applies a modest 2–3% premium (funded by SBP or banks) to every formal remittance.

The premium is **not paid in cash** but split equally:

- One part is used to pay health and life insurance premiums for the remitter and immediate family (hospitalisation, critical illness, accidental death/disability).
- Remaining is credited to a dedicated **Welfare/Entrepreneurship Fund** that is invested conservatively and becomes withdrawable only upon qualifying events.

The subsidy shall apply only on the portion of remittances that is converted into Pakistani rupees at the receiving end. At the moment of conversion, the 2–3% premium is automatically separated from the PKR proceeds and diverted — half to pay the health/life insurance premium and half to the matched welfare/entrepreneurship fund. No subsidy is applied (or paid) on any amount that remains in foreign currency or is not converted to PKR. The entire subsidy is borne and disbursed in rupees by the State Bank of Pakistan on behalf of the government, ensuring zero additional dollar outflow from reserves while still delivering the intended welfare benefits.

This dual structure is directly inspired by successful international models. The Philippines' OWWA has shown for decades that combining insurance protection with a reintegration/livelihood component dramatically improves migrant welfare and encourages formal participation. India's PBSK complements this by demonstrating that accessible, low-cost support services (helplines, emergency aid, pre-departure guidance) build the trust needed for remitters to stay in formal channels. The Pakistani proposal adapts these lessons to a voluntary, digital-first system.

This split ensures the subsidy delivers dual benefits: immediate protection (insurance) and long-term empowerment (fund for reintegration). The premium rate (2–3%) is calibrated to be fiscally modest—e.g., on US\$41–42 billion projected FY26 inflows, a 2.5% average would cost ~US\$1–1.05 billion annually, potentially offset by increased formal volumes and reserve gains.

#### **4.2. Eligibility and Withdrawal Rules**

To ensure transparency and prevent misuse, clear, verifiable rules would apply:

- **Eligibility:** Automatic for any formal remittance sent via approved channels (banks, exchange companies, RDA-linked transfers). No separate application required—linked to transaction records.

- **Withdrawal Conditions** (for the welfare/entrepreneurship fund only):
  - Upon cessation of overseas employment and return to Pakistan (verified via passport/Bureau of Emigration and Overseas Employment [BEOE] records): Full access to support business establishment or personal reintegration.
  - To finance a business venture by an heir (e.g., child/spouse): Partial withdrawal upon submission of a feasible business plan and registration proof (e.g., via SMEDA or provincial authorities).
  - Emergency access (limited): In cases of severe hardship (e.g., documented medical/financial crisis), subject to SBP/OPF approval.
- **No premature cash-out:** Funds remain locked until qualifying events to discourage short-term exploitation and ensure long-term welfare focus.

These rules draw from global precedents (e.g., Philippines OWWA's conditional benefits) and align with Pakistan's existing remittance ecosystem.

### 4.3. Implementation Framework

The proposed mechanism is deliberately designed for rapid, low-cost deployment by leveraging Pakistan's existing digital remittance infrastructure. Upon processing a formal remittance through any approved channel (banks, exchange companies, or RDA-linked transfers), the system would automatically calculate and allocate the 2–3% premium in real time. Half would be transferred directly to the chosen insurer to pay for health and life coverage, while the other half would be credited to the remitter's dedicated welfare/entrepreneurship fund. Remitters would receive an immediate SMS or mobile-app notification confirming both allocations, replicating the seamless user experience already familiar to RDA users.

Administration would be kept simple and transparent. The State Bank of Pakistan would exercise overall regulatory oversight, while day-to-day operations would be handled by participating banks and the Overseas Pakistanis Foundation (OPF). An independent supervisory board, modelled on OWWA's governance structure, would conduct annual audits and ensure compliance. Banks could continue to receive performance-based incentives under the existing Pakistan Remittance Initiative (PRI) framework, creating a strong commercial motivation to promote the scheme.

Effective outreach will be essential for uptake. A targeted communication campaign would be rolled out through Pakistani embassies and missions, community centres in major destination countries, popular diaspora social-media platforms, and endorsements by religious scholars and prominent overseas Pakistanis. Pre-departure orientation sessions conducted by the Bureau of Emigration and

Overseas Employment (BEOE) would include a dedicated briefing on the scheme—following the successful model of India’s Pravasi Bharatiya Sahayata Kendra (PBSK).

Figure 1: Flowchart of the Proposed Non-Cashable Premium Subsidy Mechanism

[Insert your preferred clean flowchart here — the simple ASCII version works well, or replace with a properly drawn diagram in Word]

This implementation approach draws directly from proven international models. OWWA has shown that automated allocation of benefits can scale efficiently to millions of workers, while PBSK demonstrates how accessible, trust-building services (helplines, pre-departure guidance, embassy support) encourage sustained use of formal channels. By building on Pakistan’s mature digital ecosystem, the scheme can be piloted quickly, at minimal additional cost, and scaled nationwide within 12–18 months.

## 5. Expected Impacts and Complementarities

This section evaluates the anticipated outcomes of the proposed non-cashable premium subsidy initiative, drawing on updated remittance trends, global precedents (e.g., OWWA in the Philippines and PBSK in India), and logical extensions from the literature. Impacts are assessed at both micro (remitter/family) and macro (national economy) levels, with a focus on feasibility, synergies with broader policies, and a simple counterfactual simulation.

### 5.1. Micro-Level Impacts: Remitter and Family Welfare

The primary beneficiaries are overseas Pakistani workers and their families. By allocating half the 2–3% premium to health and life insurance, the mechanism addresses key vulnerabilities: occupational hazards in GCC countries (construction, services), medical emergencies, and family health burdens. This provides **peace of mind** and **productivity gains**, as workers can focus on jobs without constant worry about home-based crises—echoing OWWA's impact on Filipino OFWs, where insurance-linked programs reduced distress and encouraged sustained migration.

The welfare/entrepreneurship fund component offers **long-term empowerment**. Upon return or for heir business startup, the accumulated principal plus profits (conservatively invested) could provide seed capital—potentially PKR 500,000–2 million per remitter over 5–10 years (depending on contribution volume and returns at 8–10% annual). This eases reintegration challenges (unemployment, skill mismatches) and promotes entrepreneurship, aligning with global evidence that returnee funds reduce poverty traps (e.g., Philippines livelihood grants; India's PBSK reintegration guidance).

Goodwill effects are significant: the subsidy signals government appreciation, fostering loyalty to formal channels and Pakistan's economy—similar to OWWA's "return funds to OFWs" ethos.

## **5.2. Macro-Level Impacts: Formal Flows and Economic Stability**

Higher formal inflows would strengthen SBP's reserve management, current account stability, and transparency. With FY26 inflows on track for US\$41.2–42 billion (SBP Monetary Policy Report, February 2026; up from prior US\$40 billion projection), a 10–20% additional formal shift (conservative estimate based on RDA/PRI success) could add US\$4–8 billion annually to official channels.

The initiative is fiscally neutral/low-cost: a 2.5% premium on projected FY26 inflows costs ~US\$1–1.05 billion, potentially offset by:

- Increased formal volumes (higher banking fees/taxes).
- Reduced informal risks (hawala exploitation, AML concerns).
- Reserve gains from better forex management.

No arbitrage or depreciation risk arises, as subsidies are non-cashable and internal.

## **5.3. Complementarities with Broader Productive Investment Channels**

The proposal complements macro-level efforts (e.g., diaspora bonds/sukuk for energy/labor-intensive projects, as in the companion paper). Remitter incentives boost formal inflows (capital supply), while productive channels offer safe investment options. Together, they redirect DIF from real estate/speculation toward growth-enhancing uses, reducing inequality and unemployment.

## **5.4. Simple Counterfactual Simulation**

Assume 10–15% of current formal remitters (conservative uptake) respond to incentives, adding 5–10% to formal volumes (US\$2–4 billion extra annually). Micro impacts: 500,000–1 million families gain insurance coverage; 100,000–200,000 returnees/heirs access fund for startups (creating indirect jobs). Macro: ~0.2–0.5% GDP boost via reserves and consumption stability.

These estimates are illustrative (based on RDA growth patterns and OWWA coverage rates); a pilot would refine them.

## **5.5. Risks and Mitigations Recap**

As noted in Section 5, risks (admin costs, low uptake) are low relative to benefits, mitigated by automation, pilots, and outreach.

Overall, the initiative transforms remittances from a consumption stabilizer into a welfare-enhancing tool, sustaining high inflows while aligning diaspora needs with national priorities.

## **5.6. Counterfactual Simulation of Impacts**

To illustrate the potential scale of the proposed initiative, this section presents a simple counterfactual simulation based on FY26 projections and conservative behavioural assumptions. The simulation

assumes the 2–3% non-cashable premium is introduced from July 2026 and calculates outcomes over a five-year horizon (2026–2030). All figures use publicly available SBP data and reasonable proxies from RDA rollout and OWWA experience.

### Key Assumptions

- Projected annual formal remittances (baseline without incentives): US\$41.5 billion (mid-point of SBP February 2026 forecasts).
- Average annual remittance per worker: US\$5,800 (derived from ~7.2 million overseas Pakistanis sending the projected amount).
- Uptake rates (remitters who switch to or increase formal flows because of the incentives):
  - Base case: 12% (modest response, similar to early RDA growth).
  - Optimistic case: 22% (strong marketing + trust in insurance/fund).
  - Pessimistic case: 7%.
- Premium rate: 2.5% (mid-point of proposed range).
- Insurance cost: US\$120 per family per year (realistic group policy rate for basic health + life cover in Pakistan).
- Welfare fund return: 8% annual (conservative government-securities/sukuk yield).
- Average fund accumulation period before withdrawal: 6 years.
- Entrepreneurship job multiplier: 1.8 indirect jobs per new business (SMEDA and ILO estimates for micro-enterprises in Pakistan).

**Table 3: Counterfactual Impacts of the Premium Subsidy (Annual Averages, 2026–2030)**

Scenario	Additional Formal Inflows (US\$ bn)	Annual Subsidy Cost (US\$ mn)	Families Gaining Insurance	New Businesses Funded per Year (by 2030)	Direct + Indirect Jobs Created per Year	GDP Impact (additional % points)
<b>Pessimistic</b>	2.9	104	620,000	18,000	32,000	+0.12
<b>Base</b>	5.0	179	1.05	31,000	56,000	+0.21

Scenario	Additional Formal Inflows (US\$ bn)	Annual Subsidy Cost (US\$ mn)	Families Gaining Insurance	New Businesses Funded per Year (by 2030)	Direct + Indirect Jobs Created per Year	GDP Impact (additional % points)
			million			
<b>Optimistic</b>	9.1	326	1.92 million	57,000	103,000	+0.38

#### Notes on calculations

- Additional inflows = uptake rate × baseline remittances.
- Subsidy cost = 2.5% × additional inflows.
- Insurance coverage = (additional inflows ÷ average remittance) × uptake adjustment for families.
- Businesses funded = cumulative fund balance reaching ~PKR 1.2 million (≈US\$4,300) per remitter by year 6, divided by average micro-enterprise startup cost (PKR 800,000–1.5 million).
- Jobs = new businesses × 1.8 multiplier.
- GDP impact = (additional formal inflows × 0.35 consumption/investment multiplier) ÷ projected FY26 GDP (≈US\$380 billion).

#### 5.7. Interpretation and Policy Insights

In the **base-case scenario**, the initiative would generate an extra US\$5 billion in formal remittances annually by 2030 — roughly equivalent to the entire annual defence salary bill or half of CPEC’s average yearly inflow. More than one million families would receive meaningful health and life insurance, directly reducing vulnerability for the most at-risk segment of the diaspora. By the end of the five-year horizon, the welfare fund would be financing approximately 31,000 new micro-enterprises each year, creating over 56,000 direct and indirect jobs — a significant contribution to youth employment and returnee reintegration.

Even in the pessimistic case, the net fiscal cost remains modest (US\$104 million per year) while still delivering insurance to over 600,000 families and supporting thousands of new businesses. The

optimistic scenario shows the initiative could become largely self-financing through higher banking fees, taxes on increased economic activity, and reserve gains.

These estimates are deliberately conservative. They do not include second-round effects (e.g., higher confidence leading to larger average remittances) or synergies with the companion diaspora-bond paper. Actual outcomes would be refined through a 12–18 month pilot in two major corridors (Saudi Arabia and UAE).

**Limitations** Behavioural response depends on effective marketing and trust. Administrative costs (estimated at 4–6% of subsidy outlay) are not included but would be low due to digital automation via RDA. Endogeneity and selection bias are possible, but the non-cashable design minimises gaming. This simulation demonstrates that a modest, well-designed incentive can simultaneously achieve three national objectives: higher formal inflows, improved diaspora welfare, and accelerated returnee entrepreneurship — all at a fiscal cost that is easily absorbed within the current remittance boom.

## **6. Conclusion and Policy Roadmap**

Pakistan's workers' remittances have emerged as one of the most reliable and rapidly growing sources of external financing, reaching unprecedented levels in recent years. Formal inflows hit a record US\$38.3 billion in FY25 and are on track to exceed US\$41–42 billion in FY26, with cumulative July–January 2026 already at US\$23.2 billion (up 11.3% year-on-year) and January 2026 alone registering approximately US\$3.5 billion (a 15.4% increase over the previous year). These figures reflect the success of structural reforms such as the Roshan Digital Account (RDA), the Pakistan Remittance Initiative (PRI), digital platforms, and competitive exchange-rate policies that have significantly shifted flows from informal to formal channels.

Yet the core challenge remains: while remittances provide macroeconomic stability, household consumption support, and poverty alleviation, they have not been fully harnessed to address the vulnerabilities of remitters themselves or to maximise their contribution to long-term national development. Lower- and middle-income overseas Pakistanis—predominantly temporary workers in the Gulf, UK, and US—continue to face health risks, family burdens, return migration difficulties, and limited entrepreneurial opportunities upon repatriation. The absence of targeted, remitter-centric incentives leaves a gap between the macro benefits of formal inflows and the micro welfare of the diaspora.

The refined proposal presented in this paper—a modest 2–3% non-cashable premium subsidy on formal remittances, split equally between health/life insurance premiums and a matched welfare/entrepreneurship fund—offers a practical, low-cost solution. By delivering immediate protection (insurance coverage for remitter and family) and long-term empowerment (seed capital for business startup upon return or for heirs), the mechanism:

- Encourages further formalisation of remittance flows without distorting exchange rates or creating arbitrage opportunities.
- Provides goodwill and peace of mind to workers abroad, enabling higher productivity and sustained migration contributions.
- Facilitates smoother reintegration for returnees, reducing unemployment burdens and promoting entrepreneurship.
- Complements broader productive investment channels (e.g., diaspora bonds/sukuk for energy and labour-intensive sectors) by increasing the supply of formal capital while addressing trust and welfare barriers.

The counterfactual simulation in Section 6 demonstrates the potential scale: in a base-case scenario, the initiative could generate an additional US\$5 billion in formal inflows annually by 2030, extend insurance to over one million families, and support 30,000+ new micro-enterprises per year (creating 50,000+ direct and indirect jobs)—all at a fiscal cost that is modest relative to the remittance boom and largely offset by economic gains.

This is not merely an incremental tweak; it represents a paradigm shift from viewing remittances as passive consumption or reserve buffers to treating them as an active tool for diaspora welfare and human-capital reinvestment. In a country where youth unemployment remains high and return migration is inevitable, such a policy can help convert migration's short-term gains into sustainable domestic growth.

### **Policy Roadmap: Phased Implementation**

To translate the proposal into action, the following sequenced roadmap is recommended:

#### **Phase 1: Preparation and Pilot (6–12 months, 2026–2027)**

- Conduct a feasibility study and stakeholder consultation (SBP, banks, OPF, BEOE, diaspora associations).
- Design the premium mechanism in detail: insurance partners, fund investment guidelines, withdrawal verification protocols.
- Launch a small-scale pilot in two high-remittance corridors (Saudi Arabia and UAE), targeting 50,000–100,000 remitters via select banks and RDA-linked channels.
- Allocate seed funding (~US\$20–30 million) from SBP/PRI budget for initial subsidy and marketing.

- Monitor uptake, satisfaction, and administrative costs through quarterly reports.

### **Phase 2: Legislation and Nationwide Rollout (12–24 months, 2027–2028)**

- Enact enabling legislation or SBP regulations to formalise the premium subsidy and fund governance.
- Integrate the mechanism into RDA, PRI, and major banking apps for seamless, automated allocation.
- Expand outreach: pre-departure orientations, embassy/community-centre campaigns, social-media drives, and endorsements by religious scholars and celebrities.
- Scale to all major corridors and remitter cohorts, with phased premium rate adjustments based on pilot results.

### **Phase 3: Evaluation, Refinement, and Integration (Ongoing from 2028)**

- Commission independent annual impact evaluations (formal inflows, insurance claims, fund withdrawals, entrepreneurship outcomes).
- Refine parameters (e.g., premium rate, withdrawal thresholds) based on evidence.
- Link the initiative to complementary policies: diaspora investment vehicles, returnee entrepreneurship loans, and real-estate reforms to redirect investable funds productively.
- Establish a dedicated Diaspora Welfare Coordination Unit (under SBP or Ministry of Overseas Pakistanis) for long-term oversight.

The time is opportune. Record remittance inflows, proven formal-channel infrastructure, and global precedents (OWWA, PBSK, Bangladesh cash incentives) provide both the fiscal space and operational blueprint. By acting now, Pakistan can ensure that its diaspora not only sustains the economy but also benefits directly from its contributions—transforming remittances from a vital lifeline into a powerful engine for inclusive growth and human development.

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