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# The High Cost of Migrating for Work to the Gulf

Manolo I. Abella

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edited by Philippe Fargues and Nasra M. Shah

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## About the Gulf Research Center

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# About the Gulf Labour Markets, Migration, and Population (GLMM) Programme

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## XI

# The High Cost of Migrating for Work to the Gulf

*Manolo I. Abella\**

**Abstract:** There are inherent costs in job search which workers pay whether employed at home or abroad. Job seekers need to travel and spend time to find job vacancies, undergo tests of their skills as well as their physical fitness, secure some official evidence attesting to their good citizenship, and in some instances pay for the services of job agents. These “transaction costs” tend to be minimal in finding jobs at home but can be very high when one seeks work in another country. This chapter examines evidence on these transaction costs, which we refer to as migration costs, paid by workers. We draw on data from surveys commissioned by the World Bank and the International Labour Organisation (ILO) of some 29 important migration corridors to provide insights into how migration costs can be reduced, especially through policy interventions. Theory suggests that conditions of excess supply of labour (many workers chasing after a few jobs) are a big part of the explanation. Since available jobs, especially for the low-skilled, are much fewer than the number of job-seekers, the market is cleared when employers or their agents auction work permits, which effectively means that workers accept lower

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wages than what is stated in their contracts. Poor information available to workers and employers contributes to the phenomenon. Employers will offer lower wages to foreign workers with unknown skills, while workers unfamiliar with working and living conditions abroad may overestimate the value of wage offers. This chapter reviews the evidence on why workers appear to be willing to incur what seem to be excessive costs to migrate. It reviews the differences among corridors and looks at policy interventions used by governments for clues into how such costs may be reduced.

## **Significance of High Migration Costs**

It is easy to recognise the impact of high migration costs on the welfare of many poor migrants and their families, and why policies of origin countries to regulate recruitment often fail. Migration is often the best option available to many in the less developed regions to improve their condition, whether to a more industrialised urban area at home or abroad. This is what explains the risks that many poor people take, and the investments that they make, to find work even in countries that they may not have any knowledge of. A farmer in a hill area of Bangladesh can double or even triple his earnings by finding work as a construction labourer in Dubai. This is because, for the same amount of effort, a worker's productivity can easily multiply by working in a country where he or she works with more capital and better technology. Unfortunately, the market for migrant labour is highly inefficient and is characterised by poor information, where intermediaries exercise a dominant role and state policies impede movements and raise costs. Information about vacancies and job-seekers is likely to be undersupplied in the market (Autor 2008). Most employers have no direct knowledge of skills available in foreign countries, while workers, especially those living in remote areas, have little access to information about employment opportunities abroad. Despite bans or limits imposed on fees that can be charged by recruiters, workers in many countries, especially those with few skills, bear not only the actual cost of recruitment but also what amounts to a "rent" that intermediaries are able to extract for allocating scarce jobs. There are international norms such as ILO Conventions prohibiting the charging of recruitment fees from workers as well as national laws and regulations adopted in origin and, in some cases, destination states also, but widespread failure of enforcement has robbed workers and their families of much of the benefits that migration can bring.

The growing problems faced by destination countries with migrants in an irregular situation can easily be traced to these costs borne by the workers. Due to the large amounts involved, a one-year contract is usually not long enough for



workers to recover what they invested, support their families while abroad, and accumulate some savings. Quite a few assume that they can recoup their investment by working many hours of overtime, unmindful of the toll this can take on their health. These are among the “hidden costs” which are unlikely to be taken into account in the worker’s decision to enter into an employment contract. If after the end of their contracts they still have not succeeded in earning a sufficient return on their investment, many will risk over-staying their visas or permitted stay, thereby becoming vulnerable to all the abuses that those without legal status tend to suffer.

Some 10 million people cross borders every year in order to find work. There is much anecdotal evidence that most spend many thousands of dollars for the services of recruiters and people smugglers in order to get their jobs. Billions of dollars can therefore flow back to the pockets of poor workers each year if migration costs can be substantially reduced. The productivity of employing firms will be increased when workers are satisfied with their jobs. This is the reason why the reduction of recruitment costs has been included by the United Nations as one of the global Sustainable Development Goals (SDGs).

## **The Theory**

Extending the Harris-Todaro (1970) model to international migration, one can postulate that migration will take place as long as the “expected wage” at the destination exceeds the expected wage at home.<sup>1</sup> In the Harris-Todaro framework, the equilibrium is reached when the wage that a rural worker can expect to get by moving to a manufacturing job in the urban area is equal to what he or she earns in the rural area. That expected urban wage is defined as the product of the manufacturing wage in the urban sector and the probability ( $p$ ) of getting employed in that sector. When applied to the case of international migration, the expected wage at destination,  $Wde$ , is not the prevailing wage,  $wd$ , but a lower one on account of the “costs” of migration,  $c$ .

$$Wde = p (wd - c)$$

In this chapter, we focus on the size of these costs and what determines them.

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1. In the classic Harris Todaro model, the long-run equilibrium in rural–urban migration is reached when the “expected” urban wage,  $w_{eu}$  is defined as:

$$w_u^e = p w_m$$

where  $p$  is the probability of getting a job in the urban sector defined as the employment rate in the manufacturing sector,  $Nm/Nu$ , and  $w_m$  is the prevailing wage in the manufacturing. See Harris & Todaro 1970.

Unless constrained by state policies limiting admissions, migration will take place if the “expected wage” at destination exceeds that in the origin. On the other hand, the probability of getting a job,  $p$ , is not independent of these implicit costs,  $c$ , since these may in fact enhance the probability of employment (i.e., paying for the services of job-brokers or actually buying a work permit may make  $p = 1$ ).

Many factors determine these costs,  $c$ . Some destination countries impose levies as a disincentive to discourage employer dependence on foreign labour. Whether or not these added costs are absorbed by the employer depends on conditions in the market. Where the employer is able to exercise power as the sole buyer (“monopsonist”), these added costs may be absorbed by the worker, such as by accepting a lower wage than what he or she would otherwise have accepted, or by paying the employer’s agent in order to get a job offer. There is evidence of labour market segmentation based on skill. Where the workers possess skills that are in short supply and thus have countervailing power, as is the case for medical professionals, managers, and engineers, employers often absorb most, if not all, of the cost of recruitment, all the immigration costs, as well as levies.

Recognising the weak bargaining position of its nationals who have low skills, some origin countries intervene in employment contracting by establishing minimum standards for foreign jobs. In other words, they try to influence the size of  $w_d$  in the model. Several origin countries in Asia, for instance, require standard contracts with minimum wages and working conditions, below which contracting for employment will not be allowed. Whether or not such intervention actually “works” depends on the degree to which the country exercises some “monopoly power” as a supplier of a particular kind of labour and on the willingness of the host country government to enforce the standard.<sup>2</sup> More generally, unless they conspire to control labour supply and adopt the same wage standards, governments of origin countries have little influence on the actual wage their nationals receive and how much of the recruitment costs they absorb. In most instances, migrant workers from low-wage countries are simply “price takers” – they cannot influence the wage. In this way, they often end up absorbing the added costs involved in migration regardless of what their governments say, either by paying recruiters up front, or by accepting lower wages, or both.

In this chapter, we look at the migration of low-skilled migrant workers in the labour markets of the Gulf region where conditions mirror those in the Harris-

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2. Such instances are rare, but there have been exceptions such as the agreement between the Philippines and Saudi Arabia on minimum wages for domestic helpers.

Todaro model. Low-skill foreign workers come from lower income countries in Asia and Africa where wages are much lower than in the destination, there is no minimum wage and wage setting in the private sector is pretty much left to the market, and where barriers to admission of foreign workers are generally low (even if only selectively applied). The probability of landing a job also depends on the employment rate at the destination, but as pointed out earlier, a low-wage job may be assured if one goes through a recruiter. The expected wage will, however, be lower than prevailing wages once the cost of migration is taken into account.

### **Evidence of High Costs Paid by Migrant Workers to the Middle East**

There is much evidence, anecdotal as well as from recent studies, that in the Asian and GCC migration corridors, the burden of recruitment and related costs have fallen heavily on the shoulders of migrant workers. As far back as 1976, Farooqi-Azam reported that Pakistani migrant workers were paying Rs 10,488 more on average than what the government of Pakistan allowed recruitment agencies to charge workers.<sup>3</sup> In 1984, Peeratep Roongshivin reported that Thai migrant workers were paying recruiters fees of about \$600.<sup>4</sup> In a 1995 survey of South Asian migrant workers in Kuwait, Nasra Shah found that Bangladeshis paid on average \$1,727 to get their jobs, Indians \$900, Pakistanis \$768, and Sri Lankans \$ 689.<sup>5</sup> The cost of migration has not declined in these corridors despite the large numbers who have passed through them. A multi-agency survey on recruitment commissioned by IOM in 2016 found that Nepalese workers to the UAE paid anywhere from \$1,400 to \$1,600 for their visas, recruiters' fees, and related costs.<sup>6</sup> Rahman (2013) reported that nearly 66 per cent of Bangladeshi migrants to the Gulf had outstanding loans averaging \$2,154 and were struggling to pay them back. The reason for the "stickiness" of high cost may be what Seshan (2016) observed in Kerala where several rounds of surveys conducted by the Centre for Development Studies starting in 1998 indicated that costs declined but then rose again with the size of migrant networks. Although the growth of social networks may indeed have the effect of bringing down costs, the trend appeared to have reversed or levelled off in areas with denser migrant networks, characterised by the high proportion of households in a locality with one or more members working abroad. Citing the

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3. Farooqi-Azam 1966.

4. See Roongshivin 1984.

5. Shah (1996) cited by M. Abella (2004).

6. See IOM (Kuwait) November 2016.

findings of the 2013 round of the Kerala surveys, Seshan found that, on average, Indian migrants to the Gulf paid \$548 for their visas, \$251 for recruiter's fees, and another \$249 for air tickets and emigration clearance fees.<sup>7</sup>

Comparison of these reported costs is made difficult by the fact that the studies did not start with a uniform definition of what costs to include. Even if they did, many practical problems arise, particularly when the migrants themselves do not know what specific costs they were charged. This is not uncommon, since lack of transparency (even outright deceit) is a feature of many recruitment processes. Moreover, what survey respondents are usually asked is what they paid for, hence "implicit" costs, such as accepting a lower wage or agreeing to deductions from wages, are not taken into account.

To start with, it is important to determine if there are strong similarities or if there are wide differences in costs paid and reported by the migrants. Can differences be explained by personal characteristics of the workers (such as previous experience abroad, education, age, sex), by supply and demand conditions, or by structural factors such as policies of the destination country or the existence of social networks? *A priori* one may postulate that what workers paid depends on demand and supply conditions, the size of the wage differential between origin and destination countries, the skill of the workers, their previous experience working abroad, the mode of recruitment or the existence of social networks that facilitate migration, and immigration and labour policies of destination countries. Holding some of these determinants constant can make the analysis much simpler. For workers in the same or similar occupations, coming from the same country of origin and who worked in the same destination, differences in costs are therefore unlikely to be due to labour market conditions or to the policies of their government, or of the government at destination, and instead are likely to be due to previous experience working abroad, rural vs. urban origin, whether they were hired by their employers directly, hired through the intercession of relatives and friends already in the destination country, or hired through recruitment agents.

Where differences in worker-paid costs are significant among workers in the same occupation who were employed in the same destination country, but who originated from different ones, one will need to examine if differences in regulations and policies of their respective governments can explain the differences. If the

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7. The reversal of the trend in costs appears to have occurred amidst improving economic conditions in Kerala. Seshan opined that this may be due to the growth of internal movements of aspiring migrant workers from other Indian states to Kerala to avail of its more developed migration infrastructure. See Seshan 2016.

significant differences are in costs paid by workers from the same country but employed in different ones, the question that then arises is whether these can be explained by differences in conditions or policies among destination countries. Some destination countries require employers to absorb recruitment costs and prohibit them or their agents from charging fees from the workers. In some countries, the practice of “trading” in work permits is prevalent, often despite legal prohibitions against it (Rahman 2013, Jureidini 2016; Segall & Labowitz 2017).<sup>8</sup>

In Asia, most of the origin countries have regulations and policies aimed at disallowing or putting a ceiling on fees recruiters may charge workers. The ceiling may be an absolute amount or a limit expressed in terms of wages—usually a month or two months in wages if the job contract is for two years or more. Violation of the rule can result in suspension or cancellation of a recruiter’s license, or, in some instances, the payment of stiff penalties. If the policy is effective, one would expect that reported costs will tend to gravitate around these limits. Significant “in-country” differences, on the other hand, may mean that not all workers, especially those living far from metropolitan centres, are informed about the regulation, or the regulation is not effectively enforced by the authorities. It is also not uncommon to find workers who willingly pay more than the legal ceiling since they believe it is the only way to get a job. The magnitude of differences in reported costs can therefore provide authorities with a useful feedback on how well their policies are working. It should obviously be of concern if many are paying more than the legal ceiling. From the standpoint of policy, it would be important to find out if there are significant outliers at the upper end of the cost distribution.

In our analysis, we therefore find it useful to draw a distinction between “in-corridor” differences and “between corridor differences.” Large “in-corridor differences” may be due to worker’s individual traits, familiarity with migration processes, previous experience in migration, or how he or she was recruited. Between-corridor differences, on the other hand, may suggest differences in conditions or policies of either destination or origin countries.

## **KNOMAD/ILO Surveys to Measure Migration Costs**

Starting in 2014, the Global Knowledge Partnership on Migration and Development (KNOMAD) initiative that is hosted at the World Bank undertook

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8. This is the practice frequently observed in some of the Gulf states where the work permits issued by the Government to employers or labour suppliers (sponsors) are sold to job seekers or recruiters. See Jureidini 2016.

surveys of worker-paid migration costs in several migration corridors, some jointly with the ILO, using a standard questionnaire. The surveys sought to obtain detailed information on what the workers spent to migrate for employment, including all fees paid to intermediaries whether these were informal job brokers or licensed agents or to relatives and friends who secure job offers and work visas (which are sold in some countries), to governments for travel documents and various exit requirements, and informal payments including bribes.<sup>9</sup> The survey questionnaire also asked when these were paid, including as deductions from wages, whether they took out loans to finance their migration, how long did the job search last, how many times they have worked abroad, how much they earned at home and in the foreign country, and how much they remitted home. The survey questionnaire was designed to fill in some of the information gaps noted in earlier studies such as the costs implicit in accepting lower than prevailing wages, very long working hours, and the opportunity costs as workers forego earnings during job search and for jobs left behind.

The target respondents were low-skilled migrants who are working, or have recently returned, from jobs in one of three sectors—agriculture, services, and construction. Low-skilled migrants were targeted since they comprise the largest proportion of all who migrate for employment and because it is well known that employers are less likely to pay for their recruitment than that for the skilled. Pilot surveys with small samples were first conducted in Spain, Kuwait, and the Republic of Korea. These were then followed with surveys in India, the Philippines, and Nepal of recently returned migrants from Qatar; in Ethiopia and Pakistan of those who recently returned from Saudi Arabia (and in Pakistan's case also those from UAE), and of migrants still working in Mexico, Russia, and Italy. Including the pilot surveys, some 31 migration corridors were covered and some 5,854 workers interviewed (see list in Appendix 11A).

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9. Due to the fact that many transactions in recruitment are “opaque,” the workers may not be informed on what exactly they are paying for. It was therefore necessary to develop a questionnaire that probed into total payments as well as for specific items. It was also recognised that workers incur costs not only for the job currently held but also for previous but failed attempts to migrate, but in the surveys it was decided to limit the costs to those that can be associated with the jobs held abroad.

## **Surveys Revealed Wide Differences in Cost to Migrate for Work**

The KNOMAD/ILO Surveys in 2015 and 2016 revealed considerable differences in recruitment and migration costs paid by migrants in the 29 migration corridors covered. The Middle East corridors appear to have cost migrants the most, while those to Mexico, and to Russia and Spain were the least costly. Migrant workers in Mexico come mainly from its next door neighbours in Central America, and wages in Mexico are not much higher than those in the origin countries. Migrant workers in Russia are mostly from Central Asia, from countries which were part of the Soviet Union in times past and where strong social networks have already developed. The migrant workers in Spain are mostly seasonal workers from countries in Eastern Europe which have free movement arrangements under the EU. In the absence of state restrictions on cross-border movements, the cost of migration appears to be little more than the cost of transport to the country of employment. However, in the case of migration to the Gulf states, the much higher costs require explanation since they are evidently not due to transport costs.

Aside from the much higher costs, there were notable differences in the costs reported by the Gulf workers originating from different countries (Martin 2017). We refer to these as “corridor differences.” Table 11.1 shows the average total cost paid by the workers, together with measures of variance, for selected migration corridors. Since what costs workers are willing to incur also depend on what they expect to earn, these costs were then expressed as a ratio of costs to monthly earnings abroad. Migrants from some origin countries, notably Pakistan, incurred higher costs to migrate than other migrants. Since, on average, Pakistanis only earned \$491 a month, they had to work 10.5 months to recover their investment in migration of \$4,460 (in 2016 US dollars).



**Table 11.1: Recruitment costs and earnings of migrant workers in selected countries, \* 2015 and 2016**

	Variable	N	Mean	Med	St. Dev	Min	Max	4th quantile	5th quantile
<b>Pakistan - Saudi Arabia 2015</b>									
	Total recruitment cost in 2016 USD	375	4,460	4,035	1931	193	12,691	5,576	7,167
	Current monthly earnings in 2016 USD	374	491	432	248	94	2700	675	851
	Recruitment cost in monthly earnings <sup>a</sup>	374	10.5	9.5	5.6	0.2	40.8	12.1	16.4
<b>India - Saudi Arabia 2016</b>									
	Total recruitment cost in 2016 USD	409	1,386	1,329	779	415	14,995	1,495	1,894
	Current monthly earnings in 2016 USD	409	377	373	71	18	693	419	480
	Recruitment cost in monthly earnings <sup>a</sup>	409	4.5	3.5	8.3	0.6	110.7	4.1	5.3
<b>Nepal - Saudi Arabia 2016 *</b>									
	Total recruitment cost in 2016 USD	98	769	628	393	186	1,861	1,116	1,396
	Monthly earnings at arrival in 2016 USD	97	286	267	81	14	533	267	373
	Recruitment cost in monthly earnings <sup>a</sup>	97	3.8	2.3	6.7	0.7	55.6	3.8	5.2
<b>Philippines - Saudi Arabia 2016</b>									
	Total recruitment cost in 2016 USD	476	309	228	297	0.0	1,780	368	71
	Current monthly earnings in 2016 USD	483	471	400	179	0.0	1,600	480	69
	Recruitment cost in monthly earnings <sup>a</sup>	468	0.7	0.5	0.7	0.0	6.5	0.8	1.7
<b>Ethiopia - Saudi Arabia 2015</b>									
	Total recruitment cost in 2016 USD	499	1,015	832	774	55	6,195	1,069	1,773
	Current monthly earnings in 2016 USD	499	348	270	236	0.0	1,890	432	729
	Recruitment cost in monthly earnings <sup>a</sup>	497	3.7	2.9	3.1	0.2	23.9	4.1	7.1
<b>Nepal - Qatar 2016 **</b>									
	Total recruitment cost in 2016 USD	89	742	651	363	186	1,861	930	1,396
	Monthly earnings at arrival in 2016 USD	89	292	247	187	30	1,923	302	357
	Recruitment cost in monthly earnings <sup>a</sup>	89	2.9	2.5	1.9	0.3	15.4	3.7	4.8
<b>India - Qatar 2015</b>									
	Total recruitment cost in 2016 USD	400	1,156	1,174	248	352	1,715	1,369	1,486
	Current monthly earnings in 2016 USD	401	604	612	100	236	779	668	751
	Recruitment cost in monthly earnings <sup>a</sup>	400	1.9	1.9	0.4	0.5	3.7	2.1	2.3



**Table 11.1 (contd.)**

<b>Philippines - Qatar 2015</b>									
	Total recruitment cost in 2016 USD	349	519	377	481	0.0	3,347	724	1,191
	Current monthly earnings in 2016 USD	366	508	445	268	0.0	2782	640	835
	Recruitment cost in monthly earnings <sup>a</sup>	348	1.1	0.8	1.0	0.0	5.6	1.4	2.6
<b>Nepal - Malaysia 2016 *</b>									
	Total recruitment cost in 2016 USD	164	689	582	302	186	1,861	791	1,117
	Monthly earnings at arrival in 2016 USD	163	241	241	36	193	458	241	313
	Recruitment cost in monthly earnings <sup>a</sup>	162	2.9	2.5	1.3	0.8	8.1	3.4	4.7
<b>Vietnam - Malaysia 2015</b>									
	Total recruitment cost in 2016 USD	399	1,401	1,400	287	45	2,509.5	1,487	1,704
	Current monthly earnings in 2016 USD	399	362	350	197	0.0	3889	389	467
	Recruitment cost in monthly earnings <sup>a</sup>	393	4.2	4.0	1.6	0.1	19.4	4.7	6.0

**Note:**

- \* Recruitment costs defined to include all out-of-pocket expenses paid by migrants to get a job abroad, including all formal and informal payments (i.e., bribes), to intermediaries (job brokers/licensed agencies, or friends and relatives) or employers, for work visas (including informal costs), interest paid on loans, and for local and foreign travel.
- \*\* Nepal 2016 survey was conducted prior to migrants' departure to their destination countries. Reported earnings at arrival are based on the employment contract information, and migration cost questions are answered by migrants' families after the departure.
- a Averages calculated from sample distribution of ratios of recruitment cost to earnings.

## Same Origin, Same Destination

What are the possible determinants of costs if we hold origin and destination constant? Reading across each row in Table 11.1, one finds a wide spread of the costs paid by workers from the same country going to the same destination. In order to find out what explains the differences, we regressed total migration costs against migrants' characteristics—occupation, education level, age, sex and years working outside origin country—and mode of application. The variables that had a significant effect on “in-corridor” differences in costs are listed in Table 11.2 together with the R<sup>2</sup> scores indicating how much of the costs they could explain. We note two interesting results: Except for India, the identified variables can explain only a fourth to fifth of the costs. Unobserved determinants may be responsible for the rest of the variation such as, for example, differences in motivation to migrate or

differences among their employers. Secondly, the “mode of application” mattered in the four countries. This refers to how the migrants were recruited—through job brokers, licensed agents, relatives/friends, or directly by their employers. Those who found their jobs through informal job brokers and licensed agencies incurred higher costs than those who were recruited with the help of relatives/friends or were directly recruited by their employers.<sup>10</sup>

**Table 11.1 (contd.) Recruitment costs and earnings of migrant workers in selected countries**

Survey	Variable	N	Mean	Median	St. Dev	Min	Max	4th quantile	5th quantile
<b>El Salvador - Mexico 2016</b>									
	Total migration cost in 2016 USD	102	157	56	393	0	3,038	89	426
	Current monthly earnings in 2016 USD	125	244	204	284	26	3,240	256	307
	Migration cost indicator (current monthly earnings)	101	1	0	3	0	18	0	2
<b>Guatemala-Mexico 2016</b>									
	Total migration in cost in 2016 USD	174	54	15	147	0	1,525	32	137
	Current monthly earnings in 2016 USD	204	266	166	755	11	9,968	204	204
	Migration cost indicator	174	0	0	1	0	10	0	1
<b>Honduras-Mexico 2016</b>									
	Total migration in cost in 2016 USD	137	154	66	306	0	2,535	101	319
	Current monthly earnings in 2016 USD	163	235	204	192	10	1,994	256	332
	Migration cost indicator	137	1	0	1	0	10	1	2
<b>Kyrgyzstan-Russia 2016</b>									
	Total migration cost in 2016 USD	209	504	332	586	1	4,095	500	875
	Current monthly earnings in 2016 USD	260	416	373	191	0	1,193	465	671
	Migration cost indicator	195	1	1	1	0	7	1	2
<b>Tajikistan-Russia 2016</b>									
	Total migration cost in 2016 USD	244	1,075	449	3771	0	48,496	731	1,374
	Migration cost indicator	231	4	1	20	0	232	2	3
<b>Uzbekistan-Russia 2016</b>									
	Total migration cost in 2016 USD	265	527	447	398	0	3,302	608	1,014
	Current monthly earnings in 2016 USD	312	489	328	1,738	5	30,000	447	597
	Migration cost indicator	254	2	1	5	0	82	2	3
<b>Senegal-Italy 2016</b>									
	Total migration cost in 2016 USD	68	1,507	1,050	1,744	0	9,415	1,535	2,690
	Current monthly earnings in 2016 USD	81	765	719	483	0	1,770	1,150	1,438
	Migration cost indicator	57	2	2	2	0	8	2	3
<b>West Africa CFA-Italy 2016 *</b>									
	Total migration cost in 2016 USD	71	1,259	1,027	974	0	3,543	1,797	2,713
	Current monthly earnings in 2016 USD	81	737	719	546	0	1,881	1,150	1,438
	Migration cost indicator	55	2	1	2	0	8	2	4

10. Controlling for occupation, education, sex, age, and years working outside, those who applied through agents or brokers incurred higher costs to migrate compared to those who applied through relatives/friends.

**Table 11.1 (contd.)**

<b>West Africa-Italy 2016 *</b>									
	Total migration cost in 2016 USD	70	4,954	1,123	29,913	0	251,297	1,579	3,369
	Current monthly earnings in 2016 USD	90	936	1,001	509	0	2,301	1,294	1,510
	Migration cost indicator	64	2	1	2	0	9	2	4
<b>Egypt-Italy 2016</b>									
	Total migration cost in 2016 USD	23	3,939	2,246	3,600	259	11,997	6,716	9,403
	Current monthly earnings in 2016 USD	21	1,247	1,217	565	431	2,301	1,659	1,999
	Migration cost indicator	21	4	4	4	0	14	6	11
<b>Nigeria-Italy 2016</b>									
	Total migration cost in 2016 USD	42	4,446	1,456	11,621	0	67,157	3,139	5,598
	Current monthly earnings in 2016 USD	49	594	575	456	0	2,340	719	1,150
	Migration cost indicator	35	8	2	22	0	117	6	10

**Source:** KNOMAD/ILO Surveys in 2015 and 2016.

**Note:** \*Due to small number of observations, some countries were grouped based on common geographic/economic features:

1. West Africa: Migrants born in Cape Verde, Ghana, Cote d'Ivoire, Gambia, Liberia, Guinea, Sierra Leone
2. West Africa CFA: Migrants born in Benin, Togo, Mali, Guinea-Bissau, Burkina Faso, Niger

**Table 11.2: Significant determinants of differences in recruitment costs for migrants in same origin country and same destination country\***

Origin	Destination			
		2015		2016
	Saudi Arabia	Qatar	UAE	Saudi Arabia
<b>Ethiopia</b>	Occupation Mode of application Years outside $R^2 = 0.2261$			
<b>India</b>		Occupation Level of education Mode of application Sex Age Years outside $R^2 = 0.7044$		Occupation Level of education Mode of application $R^2 = 0.3355$
<b>Nepal</b>		Occupation Level of education Mode of application $R^2 = 0.2241$		
<b>Pakistan</b>	Occupation Mode of application Age $R^2 = 0.2116$		Occupation Level of education Mode of application Age Years outside $R^2 = 0.2707$	
<b>Philippines</b>		Occupation Mode of application $R^2 = 0.2248$		Occupation Sex Years outside $R^2 = 0.2015$

- Significant factors have “p” score of less than 10 percent based on regression model  $Y = \beta_1 \text{age} + \beta_2 \text{years outside} + \beta_3 \text{occupation} + \beta_4 \text{gender} + \beta_5 \text{mode of application} + \beta_6 \text{level of education} + \epsilon$ .

Differences in the composition of the migrants from the same origin and the same destination countries may also partly explain the wide differences in costs. Although the surveys were limited to low-skilled workers, there may in fact be differences among them. For example, Pakistani, Indian, and Nepalese migrants were mostly male workers taking up jobs in construction, while Filipino and Ethiopian migrants were spread over more occupations and included significant numbers of females who were employed as domestic helpers.

### **Same Destination, Different Origin**

The surveys revealed that the differences in what migrants paid to work in Saudi Arabia or in Qatar were remarkably different depending on which country they originated from. Among those who worked in Saudi Arabia, Pakistanis paid the most, on average more than three times what the Indian migrants paid, 4.4 times what the Ethiopians paid, and almost six times what the Nepalese paid. Since the comparison is made of cost to workers going to the same destinations, it is curious why such differences are observed. Are these due largely to differences in conditions in the origin countries such as high unemployment or failure of the government to curb recruitment malpractices? Or is it possible that destination policies or conditions can vary depending on the workers' origin? For instance, it is possible that a destination country limits admissions from certain origin countries, but not from others. A likely consequence is to raise prices offered for the few work visas available as those able to secure them (sponsors as well as job brokers) are able to "sell" them to the highest bidders. Unfortunately, it is not possible to ascertain the existence of such discriminatory admission policies since they are never explicit or formal. Another explanation may be that migrants were paying more for higher paying jobs in the same destination. Pakistanis did earn 30 per cent more on average than the Indians, 41 per cent more than the Ethiopians, and as much as 70 per cent more than the Nepalese.<sup>11</sup> Among those who worked in Qatar, the Indians paid over 50 per cent more than the Nepalese but earned more than twice, and they paid over 2.2 times more than the Filipinos but earned, on average, about 18 per cent more.

The KNOMAD/ILO surveys revealed that "visa" costs represented a very high percentage of total recruitment costs for Pakistani migrants but not for Indians or

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11. Nevertheless, on average, Pakistani migrants still have to work longer to recover what they invested in migration - 6 months more than the Indians, and 6.7 months more than the Nepalese.

Filipinos. Respondents were asked about the specific items they paid for, but given the usual lack of transparency in recruitment transactions, the separation of some cost items became problematic. What local job-brokers charge workers for visas may be much higher than what they cost to obtain. For this reason, we report both costs in Table 11.3. Migrant workers in the Gulf states reported visa and recruiters' fees as the two biggest costs they paid for. Pakistanis paid an average of \$3,121 for their visa to Saudi Arabia, the Bangladeshis \$2,324 and Egyptians \$2,486 for their visas to Kuwait. These costs have no relation to official visa fees but are no doubt the consequence of trading in visas, both in the destination as well as in the origin countries. In sharp contrast, only 13 out of 480 Filipinos who worked in Saudi Arabia reported paying for their visa.<sup>12</sup> Trading in visas thus seems more rampant in some countries than in others as Amjad et al. (2016) suspected is the case in Pakistan.<sup>13</sup>

Recruiters in Asia and the Middle East have not adopted a standard for the fees they charge for their services. In these corridors, the market for recruitment services often has monopolistic features such as the recruiter's ability to dictate the price, since he or she has exclusive information about the job and that all important link with the employer abroad. The temptation to take advantage of this market power (such as auctioning jobs to the highest bidders) is only constrained by social norms which may not be insignificant especially in small rural communities where everyone knows each other.<sup>14</sup> Nevertheless, in general, where there are many more job-seekers than jobs on offer, the recruiter will be tempted to price his or her services according to what the market will bear.

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12. Philippine authorities have banned the charging of recruitment fees from workers recruited to do domestic services and set a minimum wage of \$400 a month. The surveys suggest that the policy is having the intended effects.
  13. The authors Amjad et al. commented on the prevalence of visa trading in Pakistan "...Clearly there exists a market for visas in Pakistan in which many people including government functionaries are involved at different stages encompassing even the destination country and the high mainly illegal rents that are earned in this market are distributed amongst these people. These include amongst other the officials of government agencies regulating migration, recruiting agents and even friend/relative who are part of a chain that arranges the visa."
  14. The phenomenon of using informal brokers or dalals has received much attention in Bangladesh. A recent study points out that uneducated rural people prefer to apply through them because dalals come from the same community and they assume a certain accountability in case the job seeker fails to land a job. See Segall and Labowitz 2017.

**Table 11.3: Reported amounts paid to job brokers/recruitment agencies and for visas**

		Average Fees paid to Agents		
Migration Corridor		Mean	Median	SD
Qatar	India	464	477	113
	Nepal	759	824	276
	Philippines	495	450	280
Saudi Arabia	Pakistan	273	122	379
	India	49	47	24
UAE	Pakistan	293	254	243
		Average Amounts Paid for Visas		
Saudi Arabia	Pakistan	3121	2871	1515
UAE	Pakistan	1740	1485	865
Kuwait	Bangladesh	2324	1803	1074
	India	344	9	640
	Egypt	2486	2756	1502
	Sri Lanka	87	0	288

Source: KNOMAD/ILO Surveys in 2015.

In a perfectly competitive market, the standard theory says there should be “one price.” If agents do act like monopolists in the recruitment market, one would expect a lot of differences in the fees that they charge different workers from the same country. They may demand fees that depend on what they know is the buyer’s capacity to pay. Today many origin country governments establish a ceiling on allowable fees, so if these are effective we should see some convergence in the price of recruiter’s services. To find out we measured the variance in fees as reported by the survey respondents, as well as in the prices charged for visas which we suspect incorporate fees or “rent” that job brokers are able to extract from job-seekers. The large variance in reported costs for several migration corridors also shown in Table 11.3 strongly suggest the exercise of monopoly power by those who are able to obtain and sell visas. We further tested how differences in migration costs are associated with the mode of recruitment, while holding constant the other observed determinants (age, level of education, gender, years outside the country, and occupation). Our regression showed the following results:<sup>15</sup>

15. Reported here are only the coefficients which had a “p” value lower than 10 per cent. Regression model relating total migration costs (natural log) to occupation, education, age, gender, years outside their country, and mode of recruitment was able to explain anywhere from 20 to 33 per cent of variation in migration costs, except in the case of Indians to Qatar where it explains as much as 70 per cent.

- \* In the case of Indian and Nepali migrants, the cost of getting a job directly from their employers in Qatar was 83 per cent and 57 per cent lower, respectively, than if they went through informal brokers;
- \* In the case of Pakistanis, the cost of migrating to UAE through friends and relatives was 40 per cent lower than if they got the job through informal brokers;
- \* For the Indians who migrated to Saudi Arabia, the reported costs of getting their jobs directly from employers were 40 per cent lower than going through informal brokers; and 42 per cent lower than through the category “other.”<sup>16</sup>

### **Prior Experience of Working Abroad Has Ambiguous Effect on Costs**

Lack of information about workers and about jobs abroad is the key explanation cited for the existence of a market for job brokers or intermediaries. If employers are already familiar with worker’s skills and the workers know what conditions of employment to expect, would the cost of migration be much lower? The KNOMAD/ILO surveys include a question on previous work abroad, so it is possible to test if migrants who had already worked abroad incurred less costs than those going for the first time. We used the survey of Pakistani returnees from Saudi Arabia and UAE to test the hypothesis. We looked at what workers paid for their visas since other costs aside from passports are likely to be the same regardless of the number of times the worker went to work abroad.<sup>17</sup> With cost of visa,  $v$ , as dependent variable we tested how it related to previous work experience abroad,  $X$ . For Pakistanis who worked in either Saudi Arabia or the UAE, we found no statistically significant difference in the visa costs between first-timer and those who have worked abroad before.

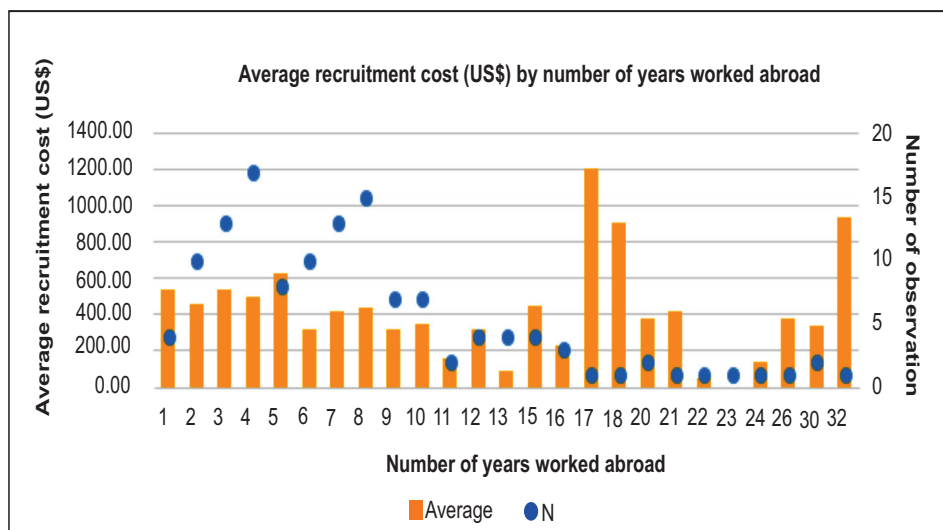
The same conclusion comes from the survey of Filipino migrant workers who returned from Qatar. Fig.11.1 shows the distribution of the sample according to number of years the migrants worked abroad. For most of the workers, the number of years spent abroad did not appear to reduce recruitment costs. It is even curious, although the number of observations (blue dots) is very small, that costs were much higher for those who claimed having already worked abroad for many years. It would thus appear, from the findings from the surveys in Pakistan and the Philippines, that contrary to expectations, previous work abroad is not a significant factor in reducing costs of migration.

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16. “Other” often refers to being posted abroad by a contractor from the origin country.

17. We define visa costs as whatever the worker claimed to have paid for the visa, thus not limiting it to the official visa fee but also including the “rent” exacted by agents or brokers who trade in visas.

**Fig. 11.1: Effect of experience abroad on average recruitment costs of Filipino migrants**



Source: Daquio 2015.

Close to half of the 308 Filipino returnees from Qatar claimed that their employers paid for their recruitment fees and for almost 92 per cent employers paid for their airfares as well. Only 38 (12.3 per cent) said they had to pay back recruitment costs through salary deductions over, on average, five months. In the case of migrants from other origin countries, the costs of recruitment fell mainly on their shoulders. This finding suggests that differences in policies and conditions in origin countries may be largely responsible for the differences in costs.

## Conclusion

The surveys undertaken under the auspices of KNOMAD/ILO provide the first comparative evidence of the variety of modalities through which workers find jobs in other countries, what it costs them to do so, and why they still migrate despite the high costs involved. The surveys revealed that the costs of migrating for work to the Gulf states were considerably higher than costs incurred to migrate elsewhere, although the large differences in costs depending on country of origin raise questions about the reasons behind them. The surveys confirm a widely held perception that the “commercialisation” of recruitment processes in those corridors is behind the high costs. The surveys found that migrants have paid much higher costs for their work visas than the official fees for them, clear evidence that “visa trading” remains



rampant in the migration corridors to the Gulf States, but not in other regions. The GCC governments have already made it illegal to sell visas or work permits, while origin governments have set ceilings on recruitment fees, and yet the practice appears to continue, suggesting that enforcement is deficient in one or at both ends of the migration corridor. In project contracting, the matter should be addressed even at the project tendering stage as Juredini (2016) has argued. Contractors and their sub-contractors should be required to include all recruitment costs including for work visas in their bids. Being hired by the employer directly greatly reduced the costs incurred by the workers. Countries of origin should remove obstacles to direct hiring, and facilitate it by subsidising skills testing, computerising job-seeker files, and offering services especially through bilateral agreements to encourage foreign employers to directly hire their workers.

The finding that visa costs are not equally high in all countries of origin may mean that some are failing to curb the practice of visa trading while others succeed. It may, however, also be the consequence of changes in the admission policies of some destination states. From time to time, the recruitment of workers from certain countries may be restricted by destination governments. The reason may be political or simply achieving some balance in the nationalities of the migrant population residing in the country. Where this happens, the consequence is to push up the “price” of the now scarce visas in affected origin countries.

Despite the high migration costs, propensities to migrate appear to remain strong. The surveys suggest that this is because the wage wedge between origin and destination countries is viewed by the migrants as being large enough to warrant the investment. The expected wage at destination, net of migration costs, exceeds the worker’s wage at home substantially. Workers with little education and employed in agriculture may indeed see no better alternative to advancing their economic and social position than through migration, and their only access to jobs abroad is through job-brokers. It is paradoxical, however, to find no evidence that previous experience working abroad helped to reduce costs.

Our study confirms that employment contracting in the migration corridors to the Gulf hugely depends on third party intermediation by job-brokers. Except for a tiny number of workers, almost all were recruited through job-brokers and agents despite the existence of state-operated employment agencies offering no-fee placement services. Evidently, the demand for information in the labour market is largely met by commercial intermediaries who, unfortunately, are in a position to extract from the workers much of the wage gain they may have in migration. From a policy standpoint, it is clear that, aside from having appropriate laws and effective

regulations, a system that allows direct hiring of workers by foreign employers could improve worker welfare. In order to succeed, such a system needs the full support of governments at both ends of the migration link. The experience with well-regulated temporary worker schemes, such as Germany's Gastarbeiter Programme and Korea's Employment Permit System, suggests that two conditions must be satisfied: Firstly, both destination and origin governments must actively cooperate to make the scheme work; and considerable resources must be invested to plug the information gaps that make recruitment across borders problematic. Systems must be developed to minimise adverse selection, so that employers are assured of the skills of workers they employ, while workers are assured that they will be justly rewarded in the jobs they are expected to perform.

## Appendix

**Table 11A.4: Migration corridors covered by ILO/KNOMAD surveys**

Destination	Origin	Destination	Origin	Destination	Origin
Kuwait (105)	Bangladesh	Qatar	India (353)	Saudi Arabia	Pakistan (375)
	India		Nepal (355)		Ethiopia (500)
	Sri Lanka		Philippines (366)		Philippines (480)
	Egypt				India (409)
					Nepal (352)
		UAE	Pakistan (260)		
Spain (171)	Bulgaria	UAE	Pakistan (260)	Malaysia (404)	Vietnam
	Romania				
	Poland	Mexico (500)	Nicaragua	Italy (332)	Egypt
	Morocco		El Salvador		West Africa
	Ecuador				
Korea, R.O (120)	Indonesia			Honduras	Russia (908)
	Thailand		Tajikistan		
	Vietnam		Uzbekistan		

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## **Migration to the Gulf: Policies in Sending and Receiving Countries**

International migration is a ubiquitous reality in the Gulf states where foreign citizens are a majority in the workforce as well as in the total population of several states. Migration is instrumental in the Gulf nations' prosperity and at the same time regarded as a challenge to their identity. For many countries of origin in Asia, the Arab world and East Africa, migration to the Gulf is an integral part of the daily lives of tens of millions and a constitutive element of economies and societies.

On the sending side, there is a widespread view that emigrants serve the prosperity of their nation, through financial remittances, enhanced skills, and enlarged business networks, and that they must be protected in the countries where they live. State institutions have been created to look for migration opportunities and to defend the rights of their expatriate nationals in terms of living and working conditions. Fair recruitment and decent work have become an integral part of their agenda. Emigration is now regarded as a resource for national economies in the same way as trade, and a matter for external policies and politics.

On the receiving side, Gulf policies must address the challenge of admitting contract workers needed by ambitious development programmes and welfare goals, while tackling a number of migration-related imbalances: too much dependency on foreign labour; too few women in the labour force; too much unused education and wasted skills among nationals; too much money flooding out of the country in the form of workers' remittances; and too rigid regulations ending up in high levels of irregularity.

This book is about policies designed to regulate migration and protect the migrants and enable them to contribute to the prosperity of the Gulf and the development of their home countries. It brings unique knowledge to all those striving to improve current systems, from a state's as well as a migrant's perspective.

