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May 2016

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ABSTRACT

Asymmetric Information under the *Kafala* Sponsorship System: Impacts on Foreign Domestic Workers' Income and Employment Status in the GCC Countries

This paper examines the legal and policy implications of information asymmetry on foreign domestic workers employed under the *Kafala* sponsorship system in the Gulf Cooperation Council (GCC) countries. Drawing from ethnographic and field-based observations in large GCC migrant destinations – including Kuwait, Qatar, and the United Arab Emirates (UAE) – we investigate the information flows and market uncertainties between five key stakeholders: labor-receiving governments, labor-sending governments, recruitment agencies (subagents), sponsors (employers), and social networks. Several factors contribute to asymmetric information: the lack of bilateral labor agreements and government policy coordination, programs between and among government entities, the absence of labor law for domestic workers, and the *laissez faire* approach of the labor-receiving government. These sources of asymmetric information create serious market vulnerabilities for the domestic worker population, often resulting in loss of employment and early deportation. The concluding section further outlines policy implications and areas of methodological research on GCC migration.

JEL Classification: D82, F22, G14, N35, N45

Keywords: asymmetric information, migration, domestic worker, Middle East, Gulf Cooperation Council Countries

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Introduction

“When I came to the UAE, I thought I would work as a beauty manicurist. But when I arrived here, my recruitment agency pushed me to work as a domestic worker. I did not have training, but I had to do it. I borrowed US \$2,000 in order to come to the UAE, and now I am in debt before I even start my job”—

Martina, 28, a Filipina runaway domestic worker in Qatar¹

“One of the main challenges we face is the lack of coordination between sending and receiving countries. There is lack of procedure for addressing domestic workers’ rights. There is no labor law and this puts us in a tricky, unregulated labor market, where labor violations are high.” – Sending-country official in Kuwait

In the GCC countries, domestic work migration is a critical policy discourse.² In 2010, 18 million out of 41 million constituted labor migrants, representing 40 percent of the GCC total population (Fargues and Shah, 2014). In particular, domestic workers represent more than 2.5 million of the foreign labor (almost 15 percent) from various countries, including the Philippines, Indonesia, Bangladesh, and Nepal, employed under the *Kafala* sponsorship system (International Labor Organization, 2012). International rights organizations heavily criticized the GCC countries’ slow actions to regulate the domestic work sector and mitigate labor and employment violations.

Many GCC-based female domestic workers like Martina travel for financial reasons and often are motivated by origin and/or destination country factors, whereby a rational economic agent determines a migration decision based on a cost-benefit analysis (Massey et al, 1993). The costs include the travel expenses and indirect non-monetary costs, while the benefits have monetary and non-monetary aspects. Both literatures on neoclassical and the new economics of migration suggest that the expected wage differential between the destination and home countries trigger migration. Unexpected shocks in the destination

¹ The participants’ actual names were altered to protect their confidentiality and anonymity.

² Moors et al (2009) links the rapid growth in paid domestic labor to the feminization of international migration along with income inequality and family composition.

country introduce risk factors that affect the expected wage and the migration experience. Shocks include macro-shocks, exogenous to the migrant, and micro-shocks, which are endogenous and directly linked to the migrant (i.e. committing a crime). Although macro-shocks like bad economic conditions fall outside the migrant's capacity, their effects on labor migrants are direct and costly. Conversely, micro-shocks are related to the migrant. Both types of shocks can lead to loss of employment and of expected earnings. In the GCC countries' case, unexpected shocks to migrants are more costly because they include loss of income and employment leading to an early deportation to their home countries.³ Unlike North America and European countries, the GCC countries have no path to permanent residency and citizenship for migrants, and therefore, the loss of employment inevitably impedes their right to stay.

This paper examines the role of asymmetric information under the GCC's *Kafala* system, focusing on Filipina domestic workers. A domestic worker is typically a female employee working in or for a household of the sponsor/employer.⁴ To our knowledge, no studies have examined how and when asymmetric information generates economic micro-shocks and early repatriation of GCC-based runaway domestic workers. This is particularly important for the Gulf region because it accounts for more than 70 percent of all Filipina runaway domestic workers globally (Philippine Overseas Labor Office (POLO), 2014)⁵ Selected cases from Kuwait, Qatar, and the UAE are examined, given the GCC countries growing demand for domestic workers, which addresses their manpower shortages in

³ Migrants have 30 days to find employment before exiting. In instances of criminal activity (in Kuwait, this could be as simple as a speeding ticket), repatriation is done by deportation, followed by a lifetime ban on the migrant. A ban on the migrant permanently shuts down the work destination and a lucrative source of income.

⁴ The Domestic Work Convention (2011) defines a domestic worker as an individual who performs in or for a household or households. It also means "any person engaged in domestic work and employment relationship." However, a person performs domestic work occasionally and not on an occupational basis is not considered an official domestic worker.

⁵ The MENA region accounts for more than 90 percent of Filipina runaway domestic workers in which the majority are in the Gulf region.

households and hospitality sectors (Jureidini 2010, 2014). This paper is divided into four main sections. The first section reviews the literature on asymmetric information and labor migration. The second section examines the GCC-wide *Kafala* system and explains the asymmetric information's role in the domestic labor market. The third section analyzes factors that contribute to asymmetric information while the conclusion addresses policy implications.

Literature Review

Any situation in which the first party has more or better information than the second suggests the existence of asymmetric information. Under these circumstances, the market equilibrium is not optimal. The initial application of asymmetric information was developed in the used-car market, but it has been widely studied since then (Akerlof, 1970). In particular, asymmetric information between employers (sponsors) and migrants has direct economic implications on the labor market. As Katz and Stark (1987: 718) acknowledges, the “most natural application of the asymmetry information lies where (at least initially) employers do not know the productivity level of individual employees.” Asymmetric information can occur when market “information does not ordinarily flow across them or does not flow costlessly and freely” within the labor market. While some literature has examined the effect of asymmetric information on international migration (Katz and Stark 1984, 1987) and consequences on transnational households and remittances (Chen, 2006; Ashraf, 2011; Seshan, 2012; Ambler, 2012), no studies have analyzed the impact of asymmetric information on migrants' income and employment status within the host-country labor market.

Asymmetric information poses unintended direct costs and risks before and after the migration process. It becomes more prevalent when labor mobility between sending and receiving countries is considered in conjunction with their languages, systems, institutions,

and cultures (Kar, 2009). For instance, Nepali government found that Nepalese workers pay US \$1,200 to secure job placement in Qatar, despite the Qatari government's prohibition of unauthorized recruitment fees (International Organization for Migration, 2011). The lack of public awareness, exacerbated by the unequal information flows, incurs income shocks for migrants. Agunias (2012) added that although Filipino migrants are often aware of the migration risks involved (paying around 10-30% of their monthly salary for the first three-months to the recruitment agency) they fail to problematize recruitment agencies' unauthorized placement fee policies, including those of their subagents and brokers. In contrast, many Filipino workers, largely unaware that these placement fees are illegal, find this practice "acceptable". Amongst all migrant workers, domestic workers were more likely to find the policies acceptable. In fact, even though placement and recruitment fees are illegal in the Philippines, domestic workers continue paying to secure employment and avoid delays in their foreign employment placement. The Filipino domestic workers' case is an interesting study because it not only shifts the financial burden/costs to migrants, but also poses negative effects on their earnings (and remitting power) and their host-country employment status.

Other studies emphasize the risks perpetuated by recruitment agencies in creating uneven information flows in the labor market. One example of this inequity is the recruitment agencies' contract substitution practices. This contributes to serious income shocks on migrant's earnings, often resulting in employment withdrawal. Battistella and Asis (2009) found that legal and illegal recruitment agencies in sending and receiving countries often practice 'contract substitution' to circumvent government regulations, frequently falsifying market information (i.e. wages, working conditions, employer's background) to lure potential migrants to move. These findings indicate that migrants are tempted by high-compensation packages stipulated within the government-mandated contracts before pre-departure, which become invalid in the host-country after the costly move (Agunias 2010). The agents' labor

exploitations in both origin and destination countries tend to increase recruitment costs and often shift to “the weakest chain in the link: the migrant worker” (Ibid) While some recruitment agents notify the workers about their real wages in the host country, our findings reveal that most workers’ contracts have been substituted and contained falsified information. This uneven information flows both creates negative income shocks for migrants and reinforces market vulnerabilities.

In addition to economic hardships, asymmetric information produces legal market vulnerabilities that transfers economic costs onto migrants in the host country. Shuck (2007) emphasizes that “law defines individuals’ rights to property and economic activity [...] and the content and configuration of these extra-immigration rights help to structure the set of opportunities that people can exploit.” Halabi (2008) finds that migrants face market disadvantage due to the mismatch between their knowledge of migrant-related rights and their recruitment agencies. Migrants’ dependency on the *Kafala* system and their employer produce large power disparities between them which the sponsor has full autonomy to exercise control. *Kafala* sponsors control workers’ mobility and legal status by facilitating the required immigration visa, residency permits (and renewals), and other documentations via labor and interior ministries, where Arabic is mainly spoken. The power imbalance in the household of employment, combined with workers’ dependency on their sponsors, impacts the domestic workers’ host-country employment security, income, and residency.

Due to these economic and legal challenges, scholars have examined migrants’ coping mechanisms. Chris (2007) notes that, despite the Philippine government-required information campaigns in the origin and destination countries, many Filipino migrants fail to utilize these sources (despite paying a nominal cost), placing them at a market disadvantage. Oftentimes, Filipino migrants utilize informal social networks via friends and family members to accumulate information on employment laws. Unfortunately, this information is

commonly the result of other migrants' real-life experiences, frequently with a negative outcome, and may not apply to others.

To explore the linkages between asymmetric information and economic shocks, semi-structured interviews with domestic workers, government officials, and recruitment agencies were employed. Direct participation in official meetings and conferences were integrated to validate factors that produce asymmetric information under the GCC's *Kafala* system. Three data collection phases were executed - Phase I (June – August 2012), Phase II (November – January 2013), and Phase III (April – May 2014) – in Kuwait, Qatar and the UAE. Approximately 60 domestic workers and 10 officials were interviewed. At least 75% of domestic workers had a high-school education, while only 5% reported a college education. The average age was 29, and 82% of the domestic workers had at least one child. The demographic background, labor market experiences, and legal issues in the destination country were also qualitatively captured. The next section discusses the *Kafala* system and domestic work regulations.

The GCC's *Kafala* Sponsorship System and Domestic Work Regulations

The *Kafala* system is a government policy used to organize and control GCC-based migrant population. *Kafala* requires all migrants to have an official local sponsor responsible for their immigration visa and residency status in the country (Gardner 2010). It is tied to the domestic work regulations, whereby governments govern domestic work policies. Under the standardized contract agreement, domestic workers are required to work for two-years and are put on a three-month probation period with their employer. Within the probation period, workers can be returned to the agency at no cost to the employer (if the prospective employer is not satisfied of the worker's performance or simply due to preferences) and can become a re-hire by other employers to mitigate the agency's transportation and other immigration

costs. Outside the probationary period, domestic workers are referred to the sending country's embassy, if certain labor disputes arise. The employer will not be able to receive any reimbursement due to the probationary period's expiration.

Conversely, a worker has the legal right to terminate the contract within the probationary period; however, if workers have financed their migration costs using loans, this would significantly influence their decision to leave an employer. This short-term probationary period poses economic issues between parties, often creating moral hazard. One Filipino official, Rodrigo notes: "...employers and recruitment agencies want to control costs so they seek reimbursement from domestic workers, or deduct from their salary in order to protect themselves [...]." The probationary period constrains domestic workers to access information (i.e. webs, social interaction), given the common "no-day off policy" within private households. Therefore, the probation's short-term, along with domestic workers' limited access to the outside world, disrupts their access to the information flows (Jureidini 2014). This condition generates morally hazardous behavior by both the recruiting agency and the sponsor (employer), despite government efforts to provide migrant awareness campaigns. The next section examines the information asymmetry's sources within the *Kafala* system.

Triggers of Asymmetric Information under the GCC's *Kafala* System

Factors Contributing to Asymmetric Information

Asymmetry of information plays a critical role in shaping the migration experience of foreign domestic workers in the region. Three factors below influence the existing unequal power relations between the labor-sending and receiving countries in the Gulf region.⁶ Fernandez

⁶ Models with unequal power relations can lead to similar outcomes. Workers' ignorance or lack of accessibility to information on immigration rules and procedures (including legal rights, local labor laws, existing support systems, etc...), creates an environment of information asymmetry that enhances the existing power disparity. This environment also magnifies the impacts of migrants' decision on their income and employment status in

(2014) argues that the prevailing power asymmetry between the “poor sending countries and the rich receiving countries further weakens sending countries’ ability to take action to protect their citizens.” Thus, the labor-sending countries’ limited legal and administrative capacities to protect migrants, combined with the labor-receiving’s embedded autonomy to exclude domestic workers from the law, undermine their bilateral labor cooperation and constrain the possibility addressing asymmetric information.

Lack of bilateral agreement between countries

Bilateral agreements can play a critical role in mitigating the effects of asymmetric information. Go (2005) argues that bilateral agreements set the parameters to determine the quotas, rights, and welfare of migrants between origin and destination countries. However, some destination countries often avoid entering into an agreement with sending countries due to perceived fear of political intrusion on their policymaking. One Filipino official, Patricia asserts, “Bilateral labor agreements are relevant, yet some GCC countries have been reluctant so far to enter into an agreement.⁷ These instruments can set a ‘guiding framework’ on how to address labor rights related issues, or regulate recruitment agencies’ malpractices in the long-run.” However, one could argue that the GCC countries have no incentives to engage in bilateral talks with labor sending countries because of their immense bargaining power justified through their near infinite supply of (low-cost) labor from neighboring Arab, South Asian, and even from Western countries. The lack of bilateral agreement has developed divergent and often incoherent policies for domestic workers, which has empowered recruitment agencies to influence the dissemination of information in the labor market.

the Gulf. While the factors defining power differences would remain, closing the information asymmetry can help minimize the power gap and avoid costly, and often permanent, negative outcomes on immigrants.

⁷ Fernandez (2014) argues that the like many countries, GCC countries are reluctant to implement international treaties on domestic workers. Only 22 states (mostly sending-countries) ratified the ILO C189 or the UN Convention on the protection of all migrant workers and members of their families.

Lack of national labor laws

Under all GCC labor laws, domestic workers are excluded from accessing government services, including official mediation, or conciliation within relevant ministries (Malit and Ghafoor, 2014). Although domestic workers have a standard employment contract—stipulating their wages, working conditions—they have limited or no protective mechanisms that could protect them from agencies. One Filipino official, Carlos notes, “Standard employment contracts are legally difficult to enforce because no permanent law exists. Therefore, employers and, to an extent, domestic workers can violate this labor contract without equal protection.” The lack of legal protection appears to contribute to asymmetric information because the unregulated nature of the industry (i.e. lack of monitoring of agencies’ malpractices and receiving countries’ limited labor inspectors) provides a favorable legal environment for recruitment agencies to violate both the standardized labor contract and destination-country labor laws.

Limited coordination between states

The limited coordination between origin and destination countries further contributes to a weak legal framework of the GCC domestic-work industry. One GCC labor official, Ahmed noted, “There is a weak cooperation between sending and receiving countries, but it is the responsibility of the sending countries to verify, regulate, and monitor domestic workers who come into this region. They need to be trained about our culture and laws to address labor issues.” This concern reflects the incoherent regulatory framework of both origin and destination countries and their limited efforts to eradicate the existing differences in information.⁸

⁸ Similarly, Fernandez (2013) studies the effects of the failure to regulate intermediaries of migration on employment of Ethiopian domestic workers in the Middle East.

The limited public awareness is also imperative to understand the asymmetric information's existence in the GCC. Although the Philippines offers pre-departure orientation services (PDOS) and post-arrival orientation services (PAOS) to educate domestic workers about the destination country, workers often do not utilize existing destination countries' laws and information, and only visit the embassies if they face labor disputes, or renew their passports or travel documents. If not permitted to leave outside the house without employer's consent, domestic workers may be penalized for an absconding case ("runaway"), limiting their capacity to access embassy information. Similarly to the PDOS, the Philippines offers PAOS at the destination countries to educate migrants about their legal rights. However, these services seem ineffective at closing the information gap. In fact, drawing from a 303 survey on Qatar-based runaway domestic workers between 2013 and 2014, more than 70% of Filipina domestic workers did not participate in the PAOS (Naufal and Malit 2016). While the orientation services are important mechanisms to offer legal information, few recruitment agencies offer these provisions for its workers. Destination-based recruitment agencies directly transport domestic workers to their employers instead of giving them a PAOS by the Philippines embassy in the destination country. The inadequate implementation of key government mechanisms to ameliorate the flow and availability of information enable recruitment agencies to influence the legal information flows.

We now focus on key actors in the *Kafala* system that shapes the quality, quantity and distribution of information to the domestic worker. We identify five main players: the recruitment agency (both sending/receiving countries), sponsor/employer, the origin and destination countries' governments, and social networks. We further examine how asymmetric information in the unregulated nature of domestic work sectors in the GCC generates micro-economic shocks to the migrant.

Key Information Actors in the Kafala System

Agency

Recruitment agencies (including brokers and agents) in both sending and receiving countries shape information flows between labor markets. Under the Philippine Labor Code's Article 25, 'private recruitment agencies' are referred to "any individual, partnership, corporation or entity engaged in the recruitment and placement of persons for employment" (Department of Labor and Employment, 2013). Recruitment agencies are not only governed under the Philippines labor laws but also centrally affect the domestic workers' lives in the labor market. Agunias (2012) acknowledges:

In the fierce competition to capture the coveted Middle East labor market, private recruitment agencies fulfill an important role – that of bridging the gap between employers or sponsors and prospective migrants. They recruit and guide migrants through the shoals of immigration policies and the difficulties of transit, match employers with workers and provide information about living and working conditions in distant locations.

Yet recruitment agencies are often associated with malpractices that can place the worker in a vulnerable position. As Abella (2004) contends, "the fee is not determined by the financial value of the good procured but by the demand itself... What the recruiter gets is not a fee for the recruiter's service but a 'bribe' to the job he or she offers." One Kuwait-based domestic worker, Conny, highlighted, "I paid US \$700 to get this job. I saved and sold our lands so I can come here. I thought I would be able to save here and help my family. I was wrong. I have a lot of debts now, but I don't know how to pay them when I go back home." This sum of money (including unauthorized placement fees) is not part of the process but instead is imposed by recruiting agencies, which put a heavy financial burden on migrant domestic workers (see Jureidini 2014). Prospective migrants are often unaware that these illegal practices should not affect their labor market prospect. Despite the government's strict regulations on unauthorized placement fees, private recruitment agencies have continued to use their control over domestic workers, exercising direct threats to their status (i.e. deportation, salary

deductions) or their families. One UAE-based domestic worker, Maria, acknowledged: “Our recruitment agency told us that we have no choice because, if we return to our country, we need to pay them US \$4000 for the expenses paid by the employer.” To enforce restrictive control, the labor recruiter locked the domestic workers and, rehired them locally without government permission to recoup their previous recruitment costs. This example of forced labor forces domestic workers to remain in their employment, despite their employer’s or agency’s contract violations.

In addition, recruitment agencies control the availability of information and fail to enforce labor standards. Agunias (2012) acknowledges “the onus for regulating the employer-employee relationship falls to recruitment agencies, which unfortunately are often ill equipped to effectively enforce labor standards”. As Jenny, a Qatar-based domestic worker, noted: “I was offered \$400 here, so I took this job. When I was in Manila, I worked in a factory job, making \$220 a month, and since I have 4 children, I thought this would help me a lot. But when I moved to Qatar, the agency told me not to even dare to ask for \$400 because the average is only \$250. I was upset but I cannot go back anymore.” Despite the explicit labor violation, the recruitment agency failed to enforce the standard payment of \$400 that is stipulated within the employment contract.⁹ Instead, the recruitment agency knowingly encouraged the migrant to work for only \$200. In this specific instance, the migrant’s earnings in the destination country were even lower than they were at the sending country. Thus, recruitment agencies perpetuate information asymmetry and lack the will to enforce labor standards for domestic workers.

Sponsor

⁹In 2006, the Philippines government passed a minimum wage of \$400 for Filipina domestics in all labor-receiving countries, including the GCC countries (the POEA 2007).

Sponsors also hold tremendous power under the *Kafala* system. Halabi (2008) explains the imbalance of power between the sponsors and domestic workers within the *Kafala* system:

Although both the sponsor and worker are capable of breaking contract, this ostensible equality is merely a ruse, because if the worker breaks her contract, she must pay the cost of her return ticket (a charge that would have otherwise been paid by the sponsor). She may also be fined or forced to pay debts to the recruitment agency. Through this system of sponsorship, the fate of the migrant worker is entirely dependent upon the goodwill of an employer who, at any time, can threaten her deportation if unsatisfied. Once in host countries, migrants are required to surrender their passports to their employers. Thus, even before the worker steps foot in her host country, the systems of exploitation are already in place.

Although domestic workers regularly receive less than the contractually agreed salary, they are often compelled to stay for two years to compensate for incurred debt. After contract completion, they expect an easy transfer of employment to another employer. These factors influence them to stay in the host country and continue working to support any offspring back home. One Qatar-based domestic worker, Patricia noted: “I have a bachelor’s degree in business and I only took this job because I did not pay a placement fee. I was promised that I could become a business secretary after one year of employment. I realized later that I could not even get out of my contract, unless I get deported first. I had to stay because I have four children to support; who’s going to feed them?” These particular narratives reinforce the recruitment agencies’ manipulative role in the recruitment process and reflect the foreseeable challenges faced by some employers in the destination country.¹⁰

Domestic workers’ lack of legal knowledge further encourages them to stay illegal in the destination market. Under the Ministry of Interior (MOI)’s administrative regulations, domestic workers who complete their contracts have the right to stay for one month before departing back home. This rule creates an opportunity for domestic workers to settle any

¹⁰ Jureidini (2010) highlights the agencies and employers’ ability to control and create an environment of abuse and exploitation for domestic workers.

financial dues or look for employment. However, given many domestic workers' lack of awareness of this immigration rule, they often do not report to embassy or police authorities to verify their immigration status. Since domestic workers are confined to their sponsors' homes, the role of the sponsors (employers) to disseminate information is vital.¹¹

Illegal immigration status creates legal and market vulnerabilities for domestic workers in the destination country. Our interviews verified that many domestic workers struggle to bargain for higher wages with employers because of their illegal immigration status. Illegal domestic workers cannot defend their rights due to the absence of employment contracts stamped by the host-country government. One domestic worker, Amparo, highlighted: "My employer gave me \$200 for my salary, even though she promised \$350. She told me that she can easily find other illegal [cheap] maids. I remained silent. I had no choice but to send money to my children." With long hours, unequal status, and little food, domestic workers like Amparo find it difficult to reinforce her labor rights due to lack of labor rights information and knowledge, which lead to loss of income and labor abuse throughout the process. Thus, asymmetric information creates both legal and economic risks for migrants and additional complications for government officials.

Embassy

Under the Philippines laws RA 8042 and RA 10002, the government is mandated to extend legal protection to all Filipino workers, particularly domestic workers. The government – represented by labor and welfare officers at Overseas Worker and Welfare Administration and the POLO – works with domestic workers to address employment issues, yet the government faces critical vulnerabilities, particularly on illegal immigration (Malit 2013). In Maria's case, the government struggled to protect her due to her prolonged illegal immigration status. In some cases, domestic workers could be protected if they report to the

¹¹ A domestic worker's employer may not necessarily be her sponsor, although this seems to be the majority of the cases in our sample. For simplicity, we use both terms interchangeably.

Philippines embassy after absconding. Another Qatar-based domestic worker, Trisha acknowledged: “I did not know that I have to report to the Philippines Embassy. If I had known, I would have been able to fix my problems and complain directly.” Her lack of information about the appropriate procedures for applying for second employment, combined with her misconception about the embassy’s assistance and functions, put her in a vulnerable position.

Because of the existence of asymmetric information, domestic workers often fail to receive legal protection. Although domestic workers have limited access to the MOI police officers, the MOI personnel are the only officials allowed to follow-up with labor cases. Another Qatar-based Filipino official, Marco observed: “Once we submit the domestic worker to the police station, the host country’s government normally facilitates the dialogues with the employer. We can only follow-up on the status of the case, but our influence is very limited due to their own legal jurisdiction.” Because of illegal immigration status, domestic workers have no formal employers, placing substantive powers on local authorities and thus, early deportation becomes inevitable.

Local Government

Under the host-country MOI, domestic workers are covered in both legal and administrative proceedings and cases. The MOI police and immigration officers ensure full compliance of immigration rules and procedures. The local government’s most challenging function is to address domestic worker’s cases, particularly absconding ones. As UAE-based official, Mohammed notes: “We try to settle this case by calling their employers at home. It is hard to, because sometimes domestic workers run away even though they are paid the minimum wage of \$400 and are treated respectfully.”¹² Absconding constitutes a violation of immigration residency and rules, a condition which created direct pressure on the MOI to regulate

¹² In our sample, some domestic workers absconded for personal reasons (i.e. pregnancy).

immigration rules and procedures and on the employers, who therefore would have to protect their status/rights. When the employer's reaction is to file early for missing domestic worker, the runaway worker automatically becomes illegal and, therefore, faces legal dispute. The new environment faced by the absconding worker has serious impacts on the worker's earning ability and immigration status.

Most domestic workers are unaware or ignorant about the host-country laws. In fact, recruitment agencies often fail to provide legal awareness to domestic workers to control their mobility, which creates an imbalance of information. As one Qatar-based Filipino official, Peter acknowledges: "It is the duty of recruitment agencies to facilitate knowledge information for the domestic workers. We call these agencies all the time, but they do not fully reveal the information to us. On the other hand, sometimes, maids do not tell all information – whether at fault or not –and this add to the difficulty in regulating and examining the domestic work sector." Although the Philippines government has programs to provide legal awareness, it does not broadly cover the labor laws to domestic workers, particularly the police officers' role in the host country. This puts domestic workers at risk, often making decisions that have potential dire consequences on income and employment.

Social Networks

Social networks are the migrant's most important source of information. Migrants' social networks comprise relatives, friends, or acquaintances with migration experience. These networks are divided into two geographical locations: those in the Philippines (pre-departure) and at the destination country (post-departure). There is no doubt that technological advances (mobile and smart phones, voice-over-internet protocol) and access to other domestic workers (church, cafes) or even through direct access from the sponsor/employer, facilitate

transfer of information across different networks and eventually to migrants.¹³ However, the information being transferred is often related to a specific migrant's encounter with the law and therefore is not always applicable to others. In fact, our interviews suggest that a personal advice or specific migrant's story can be useless, if not even harmful, to domestic workers due to the rapidly changing GCC legal and administrative policies on domestic workers.¹⁴

To summarize, GCC-based domestic workers can obtain information from five different sources located in both the sending and receiving countries: labor agencies, sponsors in the destination country (employers), governments of origin/destination countries and social networks (Figure 1).

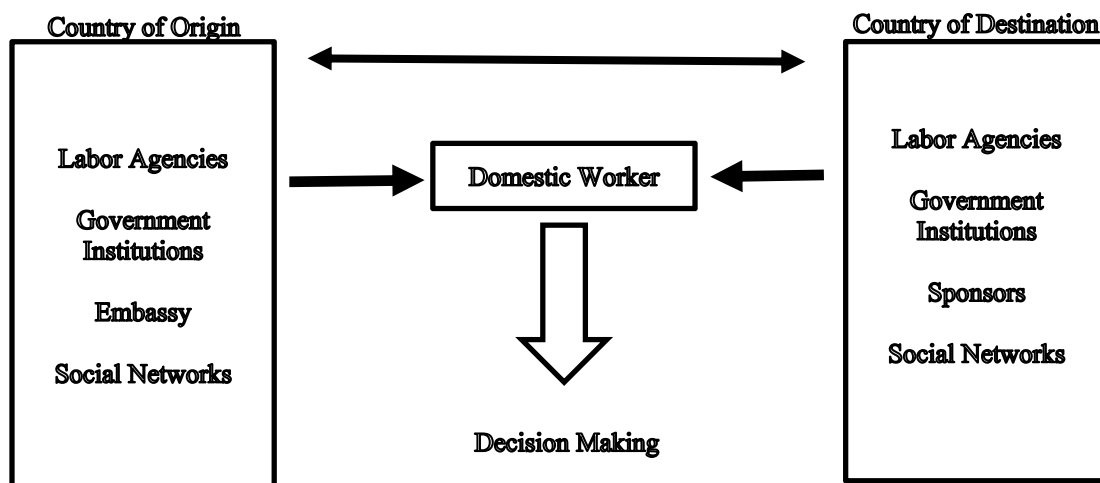


Figure 1 highlights the source of information available to the domestic worker in time of decision-making. The decision-making starts with the intent to migrate based on available information from labor agencies, government institutions, and social networks at the country of origin. Once at the destination country, faced with a different set of information and potentially harsh working conditions, domestic workers contemplate to escape by

¹³ See Moors et al (2009).

¹⁴ Friends, family members and, newly recruited government officers (both sending/receiving countries) provide conflicting recommendations on how to resolve domestic workers' cases. These sources are being taken at a face value by workers given their perceived 'legitimate' government roles.

absconding. One UAE-based domestic worker, Patricia, asserted: “My recruitment agent said once I finish my contract, he can help me work as a saleslady. But, instead, he forced me to work for another family after the two-year contract. I did not get my salary so I decided to find my own employer. I did not know exactly where the embassy is, so I left and moved in with friends.” Instead of reporting to official institutions (whether the embassy or host-country’s authorities), some runaway domestic workers often hide from the authorities, which places them in a precarious situation. With limited information, domestic workers often become vulnerable targets, as their immigration status decreases their income potential and violates the immigration residency rules.

The decision to abscond could be a rational decision or a consequence of another decision, which is often the result of a lack of information. A rational, fully-informed migrant would weigh the expected value before terminating her job since the decision to abscond has an inherent element of a cost. On the positive side, an absconding migrant has more mobility and freedom in the choice of work.¹⁵ Yet, a clandestine migrant has less bargaining power and is seen as an illegal, and will likely face jail time, deportation and a ban.¹⁶ An employed domestic worker faces the following two outcomes after absconding: not get caught, and get caught with respective probabilities of occurring. Under each scenario, absconding domestic workers will face different expectations of earnings or payoffs. The expected earnings under the first scenario (absconding without getting caught) could be lower (due to the loss of bargaining power) or higher (due to the mobility and flexibility). If a domestic worker gets caught then the payoff becomes zero or even negative (daily fines for being illegal). A risk-loving domestic worker would decide to abscond if the expected value is at least zero while a

¹⁵ Pessoa et.al (2014) discusses market vulnerabilities among Ethiopian workers who moved to Qatar under a free visa system where the job associated with the visa does not exist, giving the worker freedom of the choice of work as long as he/she fulfilled the visa costs.

¹⁶ Periodically, GCC countries offer amnesty towards illegal migrants. Amnesty typically occur around the Holy Month of Ramadan. The offer allows illegal workers to return back home without prosecution.

risk-averse worker would only abscond if the expected value of the gamble (abscond) is greater than zero. If the expected value is negative then the domestic worker would decide to stay at her current job. The outcome of the expected value is heavily dependent on the domestic worker's information affecting both the probability and payoffs.

Policy Recommendations

In summary, the *Kafala* system produces asymmetric information that ultimately increases domestic workers' labor market vulnerabilities, generating mismatch in work environments. The domestic work's unregulated nature enables employers to violate the original employment contract, which inevitably triggers domestic workers to abscond and find better employers. While the prevalence of absconding in the GCC remains unknown due to data scarce, the recorded absconding rate for domestic workers in the UAE was more than 14,000 in 2013 alone.¹⁷ Absconding domestic workers add costs to both the host and origin countries, whereby the host country covers the daily cost of absconding workers confined in deportation centers in preparation for repatriation back home. Other absconding workers become illegal migrants and blend in the total workforce. Shah (2009) estimates that illegal migrants constituted around 15% of the total workforce in the GCC in the early 2000s. For the labor-sending countries, workers who abscond and lose their income earnings do not remit and eventually increase local unemployment after being repatriated. In other terms, both host and sending countries have the incentives to deal with information asymmetry.

What should be done?

1. Better policy coordination among sending and receiving countries on information dissemination on labor market regulations and immigration

¹⁷ In its latest report, the Dubai General Directorate of Residency and Foreign Affairs (GDRFA) announced that the number of absconding cases of domestic workers in 2013 was 14,150 (a little bit lower than 14,741 recorded in 2012) (Sambidge, 2014). This number includes new absconding cases that have been reported by the employer/sponsor.

procedures. This could materialize through bilateral agreements, establishments of joint-labor migration committees, and data sharing.

2. Better monitoring and inspection of recruitment practices. As discussed earlier, recruitment agencies influence the legal procedures in moving workers and in disseminating the type, quality and level of information available to workers. GCC countries should regulate and monitor recruitment agencies, and consider centralizing recruitment efforts by monitoring state agencies in the sending countries. Also, creating an updated online-database of recruitment agencies that monitors the recruiting practices and offers agency rankings could help guide potential migrants to the better performing agencies. Agency-rankings would be based on feedback from domestic workers and would create the right incentives for recruitment agencies to improve their practices.
3. Social networks play substantial role in shaping domestic workers' decision-making patterns. These formal or informal sources of networks directly reach domestic workers and offer a unique opportunity to close the information gap. Receiving countries should create social media presence (similar to Dubai Police's online social-media accounts) that directly interact with domestic workers and offer information and assistance. Sending countries should offer cheap smartphones to departing migrants so they could access social media on their phone. Both of these proposed steps would allow domestic workers to gain comprehensive information, and reduce information gaps from employers and recruitment agencies.

Conclusion

This paper examines the impacts of asymmetric information on the domestic worker's income and employment status in the GCC labor markets. Using field data interviews with key stakeholders, we identify the following findings. First, under the *Kafala* system, the information flows to the domestic worker is controlled by five key players: labor sending country, labor receiving country, recruitment agency, sponsor (employer) and the worker's social network. Second, the incoherent bilateral and legal cooperation between origin and destination, combined with limited state coordination and labor information programs, facilitates asymmetric information in the GCC labor market. The inaccessibility or lack of organized state information campaigns in remote labor source regions, along with public agenda to educate (future) labor migrants, enable recruitment agencies/brokers to shape market information, and influence domestic workers' conditions for the purpose of maximizing market profits. Third, asymmetric information produces costly market failures and creates legal vulnerabilities in the host-country labor market. The lack of accessible information or knowledge of the legal immigration and residency rules, combined with limited knowledge of English and Arabic languages, put migrant domestic workers in a precarious position to challenge current labor practices. Fourth, recruitment agencies (both in sending and receiving countries) play a significant and often deliberate role in facilitating a mismatch in information to shape migrants' expectations for deployment purposes and thus generating market profits for all recruitment agencies, brokers and sub-agents. These unethical practices reduce migrant domestic workers' income and often incentivize them to breach the contract rules and regulations, resulting in the early return of domestic workers to their countries of origins with heavy financial losses (i.e. pre-departure fees). Fifth, given the aforementioned recruitment agencies' role, sponsors often employ violent tactics (i.e. threatening to early deployment, contract termination, filing absconding) to protect potential

income losses and reduce legal risks with hiring domestic workers. In fact, employers/sponsors' discretion to misuse or misinform workers about their contractual rights are shaped by their intent to reduce future labor costs or recoup the initial recruitment fees paid to the agencies. These cases have become causes of human rights abuses, and influenced by the recruitment agencies' failure to inform sponsors' about domestic workers' background (i.e. job duties, mobility rights). Finally, receiving and sending countries' authorities often regulate domestic workers' labor cases and complaints largely due to incoherent and unequal flow of information between sponsors, domestic workers, and government authorities. This burdens the receiving and sending country's public resources and institutional capacity, and deepens existing sociopolitical tensions between states on the rights of domestic workers. These conclusions on asymmetric information constitute costly market failures and inevitably place domestic workers in a precarious condition in the host country.

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