

Domestic Money Transfer Services for Migrant Workers in China

Executive Summary *

**Report prepared for
the Consultative Group to Assist the Poor**

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* The full report of 'Domestic Money Transfer Services for Migrant Workers in China' is available upon request

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Exchange Rate, as in June 2005

1 US\$ = 8.28 RMB (¥)

1 Euro = 10.15 (¥)

Abbreviations

ABC	The Agricultural Bank of China
BOC	Bank of China
CBRC	China Bank Regulation Commission
CITIC	China International Trust and Investment Corporation
ICBC	Industrial and Commercial Bank of China
IMAR	Inner Mongolia Autonomous Region
MFI	Microfinance Institutions
MoA	Ministry of Agriculture
PCBC	People's Construction Bank of China
PBOC	People's Bank of China
RCCs	Rural Credit Cooperatives
RCCF	The Provincial RCC Federation
RCCU	The Rural Credit Cooperatives County Union
SDRC	State Development and Planning Commission
SOCBs	The State owned commercial banks, refers to the big Four banks of ABC, BOC, ICBC and PCBC and other state owned commercial banks in China

Executive Summary

Labour migration in China has been characterised by the large outflow of agricultural labourers from inland villages to work in the manufacturing and service sectors in the coastal provinces, mostly on a temporary basis. Under a dual economic model, the increasing number of domestic migrant workers in China has been shaped by the increased agricultural productivity and subsequent surplus labour on the land, the increases in foreign and domestic investment and job opportunities in the coastal regions, the incomplete market for farmland, as well as China's residential registration system (hukou).

This pattern of domestic and temporary migration has helped to generate a huge inflow of money from migrant workers to their families at home. Compared with migrant workers in other countries, migrant workers in China on the whole have sent a higher proportion of income home. The major factors responsible for the proportion of remittance to total income of a migrant worker include the income of the migrant worker, whether the migrant worker's family is with him (or her), as well as the need for money of the family at home. The remittances of migrant workers have contributed to improvements in the income and welfare of farmers and to poverty reduction by reducing the consumption of grain and other farm goods on the farm, by bringing in additional income, new ideas and skills learnt while working in the coastal areas. The income from migrant workers, constituting 20-50 per cent of total family income for the receiving households, is crucial for these families to pay for their children's education, family medical expenses and to cover other basic consumption expenses. The incomes from migrant workers have also impacted on the demand for credit and the supply of loanable funds on rural credit market, which in turn impacted on the consumption and investment decisions by rural households in China.

The contribution made by migrant workers to the improvement in the income and consumption of their families at home and to their broader rural communities is influenced to a considerable extent by the quality of the provision of remittance services. Efficient remittance services tailored to the demand of migrant workers enable them to remit money home in a safely and timely manner at a reasonable cost, which tends to increase their income, reduce the time and effort spent on remitting and better meet the needs of their family members for urgent production and consumption uses. Efficient remittance services also encourage migrant workers to send a higher proportion of their incomes home, and encourage migrant workers and their family members in the villages to use other related financial services such as deposit and loan services and expose them to new financial products and services such as savings and credit cards, Internet and mobile services.

This study aims to understand the demand for and supply of the remittance services for migrant workers in China in order to recommend ways to improve the remittance services, with the ultimate goal of contributing to the improvement of the income and welfare of migrant workers and their families and to promote the overall income growth and equity in China. The executive summary presents key findings in the following areas:

- Market size
- Demand for domestic remittance services
- Supply of domestic remittance services
- International remittances
- Recommendations.

Market Size

The market for domestic remittances of migrant workers in China is huge and is projected to grow over the next 5 to 10 years, due to the fact that the Chinese economy is growing at a high rate (annual GDP growth is around 9 per cent) and that there remains a large surplus of labour in rural China to be shifted out of agriculture. The total volume of funds per annum that could be remitted home by migrant workers, or the potential market for remittance by migrant workers in China, is estimated at between ¥169 billion and ¥300 billion for 2004 and between ¥191 billion and ¥330 billion for 2005. A reasonable estimate is that the potential market for remittances by migrant workers in China is around ¥ 223 billion (US\$ 27.55 billion) in 2004, and around ¥249 billion (US\$ 30.7 billion) in 2005. The above estimate is based on the fact that there were 85 million migrant workers in China in 2004 and 95 million migrant workers in 2005 and the assumption that 75% of them send money home and that each of them sends on average ¥3,500 home per year. Moreover, the number of migrant workers in China is projected to increase by 10 million each year, from 2003 to 2005.

The market size will change if major changes occur in any of the following conditions: reforms in the contractual land tenure system, further improvement in agricultural productivity, reduced qualifications and costs for obtaining permanent urban residency, changes in employment conditions and wages in the coastal areas, and/or improved economic development and opportunities in inland areas, thereby encouraging more people to stay in their region.

The Market Demand and Choices of Migrant Workers

On the whole, migrant workers in China represent a younger and more highly educated work force from rural China, especially from poor areas of China. Our study found that nearly 5 per cent of the migrant workers are illiterate, and a further 10 per cent have less than 4 years of formal education (presenting difficulties reading and writing), and over 30 per cent with less than a middle school education. Women migrant workers have slightly lower levels of education. Almost 40 percent of migrant workers have low levels of education, and this could lead to greater risk for misunderstanding about existing financial products, including remittance products. Most migrant workers are married and a majority of them chose to leave their children at home. The study also shows that migrant workers remit a relatively small amount of money home for each remittance. An average migrant worker remits 3-6 times each year, each time sending between ¥500-1000. The average remittance is higher for construction workers who are usually paid a large sum of money at the end of a construction project.¹ Yet overall, migrant workers reported that they do not like to

¹ Usually a construction worker is paid ¥300-400 a month for subsistence, with the balance of the wages paid out at the end of a project, or the end of the year.

remit too much money each time, for reasons of security and control over how the money is spent at home.

Remittance services for migrant workers in China are not yet widely accessible or efficient. Contrary to the expected relationship between price, the quality of service and demand, most migrant workers in China use the Post Offices, many have used the most expensive products offered by the Post Office, and about a quarter of migrant workers have opted to carry money home. The surveys in Zhejiang and Sichuan reveal that migrant workers select their channel of remittance based mainly on location of service providers in relation to their family and total real cost of the service. The delivery speed, quality of service and security of the transaction are the secondary determinants in selecting a remittance service provider. Migrant workers tend to select a service provider that is located in their home township, or in the rural township nearby.² The county seats where the commercial bank branches are usually located are considered too far from the migrant's home villages and therefore commercial banks are less likely to be selected as service providers. In the end, what matters most to migrant workers and their families are the total real costs of remittance both to the migrant sending funds and to the family receiving funds.

The real costs of remitting for migrant workers in China include the nominal fees and any additional fees charged by service providers including the forced savings imposed by certain service providers (mainly the Post Office in certain areas), and the transaction costs incurred by the complicated procedures in sending and receiving money. In general, the real costs are higher for migrant workers with families who live in poor and remote areas of China and for the older migrant workers with low levels of education. Service providers tend to charge additional fees and provide poor service in poor and remote areas where few other service providers are available.

However, migrant workers do not always select the fastest or least expensive options, even though they think they are. The study indicates that the service providers, including the State Banks and the Post Offices in some areas, have deliberately hidden the information about the remittance products and relevant fee rates from their clients and also guide their clients to use the more expensive services.

Supply of Domestic Remittance Services

The market for domestic remittances by migrant workers in China has been dominated by formal service providers, mainly China Post, the commercial banks, and rural credit cooperatives. Based on the projection of the potential market for domestic money transfers in China and our survey results, approximately 75 percent of the total domestic remittance volume of ¥223 billion in 2004 was captured by the formal financial institutions. The remaining 25 percent was carried home or sent through other channels. Improvements in service or reductions in the real costs of remitting for migrant workers and their families tend to increase the market share of formal service providers. Moreover, of the ¥162 billion market captured by the formal service providers, the market share is around 62 per cent (¥101 billion) for China Post, 5.5 per

² A service provider located in a nearby township is acceptable for most migrant workers. For example, if an ABC business office is located in a nearby township, the recipient can travel to the nearby larger township to get the money as the bus transportation is cheap, costing RMB 0.5 one way.

cent (¥8.9 billion) for RCCs and 32 per cent (¥52.6 billion) for all of the commercial banks in China.

Our study reveals that the vast computerised network of the Post Office in rural China and the poor quality of the remittance services provided by the RCCs have led to the Post Offices capturing a large market share of China's migrant worker remittance market. Another contributing factor is the lack of access to the services (e.g. branch offices or other distribution points) provided by commercial banks, as the state owned commercial banks in China are rapidly retreating from rural areas. Even in the areas where farmers have more access to commercial bank services, many farmers are not familiar with bank accounts and bankcard services.

Under a market dominated by the formal service providers, remitters in China have two options: to remit through the formal service providers, or carry money home (either personally or they ask their relatives and friends to carry money home). The demand and market for remittances by migrant workers in China are affected by the prices and quality of services provided by the formal service providers. A reduction in the price and/or an improvement in service tend to increase the share of money sent home through formal service providers. Routing remittances through formal service providers also increases the opportunity to link remittances to other financial services for both the migrant sending the payment and for the family receiving the funds.

There have been few reports of informal service providers for domestic remittance by migrant workers in China. Apparently, the organised informal operators in China have focused their attention on currency exchange and international remittances between mainland China and overseas countries/regions as the state control on currency exchange and outward remittance of foreign currencies creates a market for informal services. In many cases, the organized informal currency and remittance operators in China have also engaged in money laundering and other illegal activities. Given low charges for domestic money transfers compared to charges for similar services in other countries, informal service providers may not have enough incentive to enter the market. Further, formal service providers such as China Post and ABC have a vast network across the country, with service points in every county and many townships in China. Many informal service providers of currency exchange and international remittances use formal financial institutions for money transfer within China, thereby providing further evidence that informal operation of domestic remittance for migrant workers in China is under-developed.

Of all the remittance products available, remitting through a card-based system (e.g., prepaid, debit, credit cards) through ABC, PCBC and ICBC is the cheapest and fastest (real time) option. Compared to other options, the cost of remitting through cards is half the cost (give average cost). ABC National Roaming is the second best option. It does not require the recipient to have an account or a card with the ABC, it is real time, and it is cheap even if the recipient does not have a bank account with ABC.³ In comparison, the remittance products offered by Post Offices are generally more expensive. In addition, the survey respondents reported more complaints about services provided by the Post Offices compared to services offered by others.

³ ABC National Roaming is a new remittance product introduced by ABC.

The proportion of the migrant workers who carry cash home (25 percent) is an indication of low quality and inefficiency of services provided by formal remittance service providers. This may also indicate the low level of informal channels for remittance in China. It is unsafe for migrant workers to carry money home when they are travelling home for festivals, as they have been the main targets of thefts and robbery on the trains, buses, and at the train and bus terminals. Further analysis of our survey results reveals that the two major reasons for carrying money home are: a) the migrant is unclear about the procedures for sending remittances through formal providers and b) the migrant is concerned that formal providers will charge very high fees. Compared with those who use formal remittance services, the migrant workers who carry money home generally have lower incomes and hence send less money home, they tend to be older and also have a lower level of education. The existing formal procedures for remittances are more complicated to follow for people with low levels of education. Moreover, our survey results show that the quality of services provided by some formal remittance providers may drive away potential clients. The forced savings by the Post Office and closing down of rural bank branches have also contributed to the relatively high percentage of migrant workers carrying money home. Many migrant workers are concerned about the high remittance fees. For migrant workers from poor areas with low incomes a ¥30-50 remittance fee (1-1.5 per cent of the amount remitted) is a large sum of money and the equivalent of a monthly expenditure on their staple food.

The impact of poor quality remittance services on migrant workers is generally regressive. Poorer migrant workers and their families from poorer and remote areas of China tend to suffer more by a) not using the formal services and hand carrying the funds and/or b) paying a higher fee for the services when they do use formal services. It appears that the rapid development of technology and hardware for remittance services in China has not been accompanied by corresponding improvements in services to migrant workers. The market efficiency of formal remittance services and the income and welfare of migrant workers and their families can be improved by enhanced market competition and hence the provision of higher quality remittance services, as well as greater use of available technology.

International Remittances

The volume of international remittances being sent between China and other countries/regions has grown quickly, following increases in overseas trade, emigration, tourism, and overseas studies. The major player in the international remittance market is the Bank of China. The other three big banks, ABC, ICBC and PCBC, certain small commercial banks in China, and China Post also offer international remittances and foreign currency transactions. For China, the main countries/regions where remittances originate are USA, Japan and the EU.

Western Union has developed an international express service with China Post and ABC using the China Post and ABC branch network to deliver remittances in China. MoneyGram offers real time international remittance services in China through a partnership with ICBC (Bank of Communications) and CITIC (Industrial Bank). China Post partners with multiple intermediaries, including Western Union, UPU, Eurogiro network and Deutsche Bank.

A recent study by PBOC on anti-money laundering in China found that underground money exchange and international remittances have been active in China. Chinese migrant workers overseas may believe that the remittance and exchange services in other countries are the same as in China, i.e., heavily regulated and implicitly guaranteed by the state. Unfortunately, many overseas registered currency exchange and remittance companies have business connections with illegal money-shops and currency exchange points in China. Migrant workers using such providers would lose their remittances if the Chinese authorities crack down on companies connected to illegal money-shops and currency exchange points in China.⁴

Recommendations

Policymakers, and Migrant Organizations

Consumer information dissemination. To lower costs and improve remittance services for migrant workers in China, it is important to provide consumers with the following information about existing remittance services: the major products and services available by different services providers in China, including the fees for senders and recipients, delivery speed, and any guarantees or recourse in the event of problems. Information concerning the available remittance services should be updated frequently. Further, service providers should be required to fully disclose their remittance services, charges, delivery speed, and any guarantees.

Government programs, NGOs, and associations working with migrants could disseminate this information through advertisement on trains and buses, radio ads, the internet, special TV programs and brochures for migrant workers and their families. In addition, this information could be disseminated by companies with large numbers of migrant workers. Given low levels of education for about 40 percent of migrant labourers, some of the information suggested above could be illustrated with charts and pictures.

In addition, a toll-free hotline could be set up for inquiries about the services and fees charged by various service providers and to receive complaints and report these to the relevant agencies. The current PBOC number for reporting card losses (95588) could also be advertised more broadly.

An educational campaign on financial literacy could be offered to help labour migrants make better use of available financial services. Topics could include how to apply for and use a bankcard, how to check a balance with the cards, where to find information about remittance services and charges, and how to complete certain forms to send and receive remittances. Government programs or even employers of migrant workers could offer this financial literacy campaign.

Possible agencies for promoting the different types of consumer education described here could include: the NGOs and associations working on migrant worker issues, the Department of Women's Development and All China Women's Federation. Information dissemination could be done through an existing website, such as, www.nmpx.gov.cn, a website for migrant workers and other non-agricultural

⁴ See Singapore Morning Herald, website zaobao.com, 7 September 2004.

rural workers in China operated by the Farmers Science and Technology Training Centre of the Ministry of Agriculture, China.

Policymakers and Regulators

Enhance competition for the provision of remittance services. Given the problems with current services, competition from other service providers may help improve quality of services, especially in the Western provinces and in the remote rural areas. Market competition can be enhanced in the following ways:

- Provide incentives to SOCBs, particularly the ABC, to remain in large rural townships.
- Improve the payment and settlement system for RCCs and small banks to provide alternative efficient channels of remittances.
- Promote business alliances that could expand the supply of services such as:
 - Link micro-credit institutions and other microfinance institutions directly to the payment and settlement system of the PBOC or indirectly via partnerships with other commercial banks so they can more easily offer their clients remittance services.
 - Link SOCBs and MFIs working in rural areas to increase competition with Post Offices in remote rural areas.
 - Link international service providers such as Western Union, Money Gram and others to domestic remittance service providers.
 - Link RCCs with offices at the township level to commercial banks in China, particularly the ABC. The massive number of RCCs throughout China could dramatically increase the points of service to receive remittances and other money transfers. Given the new Provincial RCC Federations in many provinces of China, RCCs should be in a stronger position to negotiate alliances with the ABC and other commercial banks in China.

Financial Service Providers

China Post. As the service provider with the largest market share in China's domestic remittance market, it is important to improve the quality of services provided by the China Post across the country. China Post could set up a toll-free hotline to answer basic inquiries on their services and fees, receive complaints and report back to their provincial and county offices. China Post could also study the fee and income allocation between the sending and receiving post offices to provide greater incentives for both sides to offer high-quality services, especially in remote rural areas. Finally, depending on CBRC and PBOC analysis of the Post Office capacity to manage other services, the Postal Savings branches may be allowed to offer other financial services (on a pilot and/or limited basis) to provide more competition in rural areas.

Commercial Banks. Given the market for domestic remittances, commercial banks could benefit from more market share. Commercial banks with broad branch

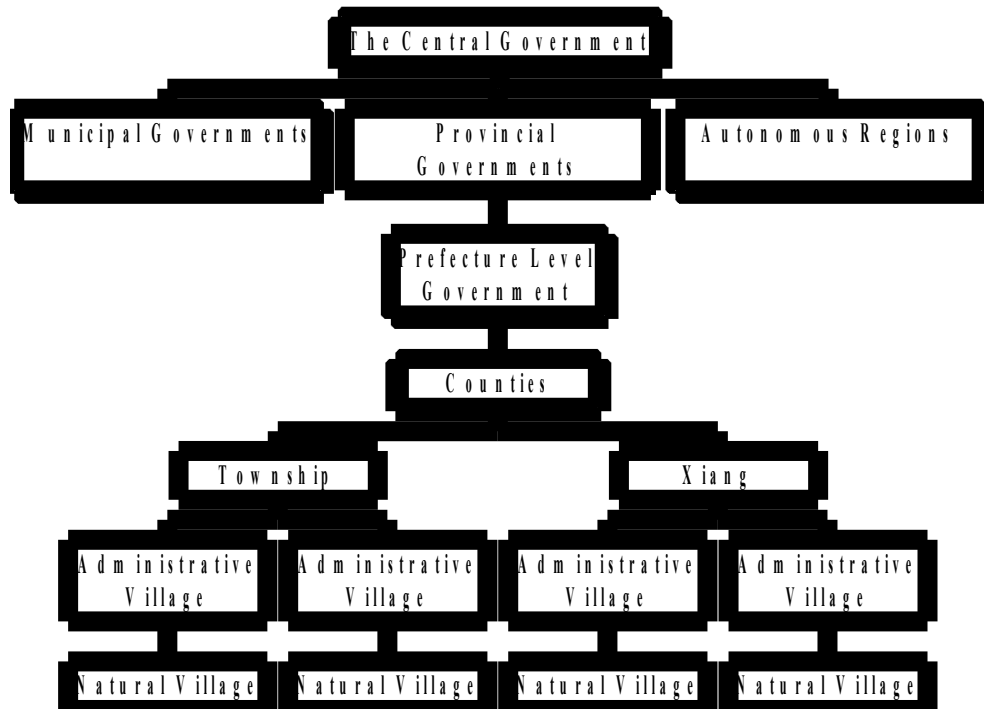
coverage and/or ATM networks could easily deploy this infrastructure to provide remittances. Increased market share would generate more income from remittance fees for banks. In addition, the banks could offer other linked financial services such as deposits, consumer loans and others to migrant workers and their families.

Improving Remittance Services . Existing technology is driving down the cost of delivering remittances. Delivery technologies common in many parts of the world include systems based on cards (prepaid, debit, credit cards), cell phones, and the internet. Given the widespread use of cards for factories and other employers to pay migrant workers in China, this may be one of the most promising technologies to expand remittance services. In addition, cell phones are increasingly being used in the Philippines, South Africa, and other countries to transfer money through simple systems based on SMS messages. While few migrant workers may currently have regular access to the internet, this is another potential for providing services or at least to make inquiries about bankcard balances and remittance transactions.

Remittance service providers should be encouraged to explore opportunities for cross selling other financial products, such as savings accounts, loans, insurance and mortgages. Commercial banks and RCCs could explore the possibility of using the stream of remittance income or record of remittance transfers to build a credit history for the sender and receiver of remittances to qualify for loans. Health or life insurance may be another promising product, as the migrant workers could buy insurance for their family members. Finally, migrant workers with stable incomes could also be allowed to take out mortgages to buy or build houses in their home counties and townships.

Appendix I. The Administrative System in China

Chart 1. The Administrative System in China



In Chart A.1, Township and Xiang are at the same government level. In general, a township tends to have a higher proportion of urban population and a higher proportion of non-farm output.

Appendix II. The Profile of Migrant Workers in Zhejiang

In December 2004, a survey of migrant workers was conducted in Hangzhou of Zhejiang and 400 migrant workers were selected randomly for the survey. Of all the 400 migrant workers sampled, 72 per cent are male and 28 per cent are female. A profile of the sample migrant workers, including their regions of origin, the ethnicity, age structure and marriage status of the migrant workers is shown in tables A1, A2, A3 and A4.

Table A1. The Classification of Migrant Workers by Source Provinces

Regions	No of Observations	Percentage
By Region		
Southwest	119	29.8
Northwest	48	12.0
Central	193	48.3
East	40	10.0
Total	400	100.0
By province		
Anhui	1	0.3
Chongqing	13	3.3
Fujian	6	1.5
Gansu	22	5.5
Guangxi	2	0.5
Guizhou	40	10.0
Hebei	2	0.5
Henan	113	28.3
Hubei	38	9.5
Hunan	29	7.3
Jilin	2	0.5
Jiangsu	21	5.3
Liaoning	1	0.3
Ningxia	1	0.3
Qinghai	7	1.8
Shaanxi	18	4.5
Sichuan	60	15.0
Shandong	15	3.8
Shanxi	4	1.0
Tianjin	1	0.3
Yunnan	4	1.0
Total	400	100.0

Table A2. The Ethnicity of Migrant Workers Surveyed

Ethnicity	Number of Observations	Percentage of Total
Han	347	86.8
Miao	10	2.5
Yao		0
Tujia	9	2.3
Mongol	1	0.3
Other	33	8.3
Total	400	100.00

Table A3. The Age Structure of Migrant Workers

Age	No Observations	Percentage
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17-20	26	6.5
21-30	131	32.8
31-40	158	40
41-50	69	17.3
>50	16	4.0
Total	400	100.00

Table A4. Marriage Status of Migrant Workers

Marriage Status	No Observations	Percentage
Unmarried	103	25.8
Of which: female	11	2.8
Married	291	72.8
Of which: female	98	24.5
Widowed	3	0.8
Of which: female	2	0.5
Devoices	3	0.8
Of which: female	1	0.3
	400	100.0

It is shown in Table A1 that the migrant workers come mainly from West and Central regions of China, only 10 per cent of them from eastern provinces. Different from the perception that Sichuan Province has exported most migrant workers to other areas of China, a higher proportion (28 per cent) of migrant workers were from Henan, the most populous province in central China, followed by Sichuan and Guizhou.⁵ Most migrant workers are ethnic Han Chinese. Miao and Tujia minority groups are located in Southwest part of China, mainly in Guizhou, Yunnan and Hunan provinces (see Table A2).

Table A3 indicates that most migrant workers fall into the group of 21- 40 years old. As shown in Table A4, a high proportion (72%) of the migrant workers were married, and a higher proportion of female migrant workers were also married, out of 112 female workers, only 11 unmarried. Of 291 married workers, 182, or 62 per cent had their spouses with them, and 96 left their spouses at their home villages. However, most migrant workers left their children at home. Of 452 children of workers, only 76 were with their parents, and 345, or 76 per cent were living in their home villages. This suggests a close relationship between migrant workers and their home villages. Of those children living in their home villages, over half were in the middle and high schools, an indication that migrant workers prefer to send their children to the school at their home townships.

⁵ After Sichuan was split into Sichuan and Chongqing, Henan became the most populous province in China.

Table A5. Formal Schooling of the Migrant Workers

Formal Schooling	No Observations	Percentage
Illiterate	19	4.8
Female	9	2.3
Primary School 1-3	17	4.3
Female	9	2.3
Primary School 4-6	109	27.3
Female	38	9.5
Middle School	203	50.8
Female	50	12.5
High School	49	12.3
Female	6	1.5
College&above	3	0.8
Female	0	0.0
Total	400	100.00

The average educational level of the sample migrant workers was 7.22 years of formal schooling (middle school education), with a standard deviation of 2.82 years. Table A5 shows that over 50 per cent of the migrant workers are middle school graduates, with 7-8 years of formal schooling. There are however nearly 5 per cent of illiterate migrant workers, and a further 10 per cent with less than 4 years of formal education (difficulty reading and writing), and over 30 per cent less than a middle school education. Moreover, women were over represented in the lower educational groups, and under represented in the groups of middle school and over.

Table A6. The Distance from their Home Village to Home Townships and Bus Services

	All	Southwest	Northwest	Central	East
Distance to Township¹					
No. Observations	393	115	47	191	40
Mean (km)	5.79	6.98	5.37	5.35	4.96
StDev (km)	6.01	6.37	5.08	6.25	4.17
Min (km)	0	0	0	0	0.5
Max (km)	45	30	20	45	20
Regular Bus²					
Have regular Bus	213	63	25	100	25
%	54.2	54.8	53.2	52.4	62.5
No regular bus	181	52	23	91	15
%	46	45	49	48	38

Notes: 1. The distance from the village of the migrant workers to the township where financial services are usually available. 2. Whether there are regular bus services from the village to the township.

The migrant workers have selected their channel of remittance based mainly on the availability of the service provider in their home townships and the fees charged. In terms of access to the township in their home provinces, migrant workers from southwest parts of China have the longest distances (6.98 km) to travel from their home village to the townships and less regular bus services. Given the mountainous roads in the southwest China of Sichuan, Chongqing and Guizhou, it appears that the families in these provinces have more problems accessing financial services usually present at the township level.

Appendix III. The Focus Group Discussions in Zhejiang and Sichuan

The basic information from the focus group interviewed are presented in Table A7.

Table A7. Basic Information about the Focus Group Members in Zhejiang

Item	Cixi Group	Hangzhou 1	Hangzhou 2	Hangzhou 3
Date of Interview	14-Nov-04	11-Jan-04	12-Jan-04	12-Jan-04
Industries of Group Members	Mixed	Construction	Factory	Services
Gender?				
Group Size	15	10	12	10
Source Regions ¹				
Henan		4		
Guizhou		6		3
Sichuan			3	4
Hunan			2	
Anhui			7	
Education Level				
Above High School	2	0	0	0
High School (9-12)	7	0	0	1
Middle School (7-9)	6	6	6	7
Primary School (6)	0	3	5	2
Below 6 years of school	0	1	1	0
Mobile owners	15	6	3	4
Migrant workers using internet	6	0	0	0
Married Migrant workers	11	6	3	6
Of which				
With partner and children		0	0	2
With partner but children home	3	3	2	3
Partner and Children home		3	1	1
No. Bankcard (debit) holders	14	4	8	6
No. Credit cardholder	1	0	0	0
Use of Remittance Channel				
Post Office	6			
ABC	7			
PCBC	1			
BOC	1			
RCC	0			

Note: 1. The provinces where the migrant workers coming from.

Table A7 indicates that the uses of the financial services by migrant workers are related to their educational level that is highly correlated with income. With a higher average level of education, came a higher proportion of the migrant workers interviewed using electronic technology to remit: 14 out of 15 migrants in Cixi had bankcards, one had a credit card and all had mobile phones. Of the 14 cardholders from Cixi, one had four cards, two had three cards and five have two cards. Of all the cards in Cixi, 12 were issued by ABC, five by Postal Savings and seven by the Bank of China. The cards issued by the banks other than ABC had been provided by employers for paying wages directly into the cards, in cooperation with a bank. The migrant workers need to transfer their wages over to an ABC or Post Savings in order to remit money home. In addition, 6 from Cixi had used Internet services and 2 send and receive emails whereas in the other three groups no one had used Internet services.

Migrant workers in China generally send a relatively high proportion of their income home and remittance incomes are crucial for family consumption at home. According to the groups interviewed, on average, each migrant worker in Zhejiang remits ¥3,000-4,000 home, 35-40 per cent of their total income. Individually, the major factors responsible for the size of the remittance include: the income of migrant workers, whether a migrant worker's family is with him (or her), as well as the need for money from the family at home. For example, a migrant worker would send around 20 per cent of his (her) incomes home if he (she) is a single and/or both of his partner and children are with him, ⁶ send 20-35 per cent of his (her) incomes when the children are left at the home village and 60-70 per cent of his (her) incomes when both the partner and children are left at the home village. The money remitted home constitute between 40-80 per cent of the family income at home. Educational expenses for children, household consumption, house building and weddings are the major uses by the family for remittance incomes.

It was also found in the group interviews that migrant workers remitted a relatively small amount of money home for each remittance. Each time a migrant worker remitted ¥500-1000, higher for the construction workers, with the largest remittance being sent at the end of construction. Migrant workers in Zhejiang were paid monthly, except for the workers in the construction industry. The latter group were paid a living allowance of ¥300-400 per month, with a down payment at the end of the project, or when the migrant workers returned home. According to the groups interviewed, they do not like to remit too much money each time, usually less than ¥1,000, for reasons of security and control over how the money is being spent at home. An average migrant worker therefore would remit 3-6 times each year, each time sending ¥500-1000. The remittances occurred at the major festivals, such as the Spring Festival (mostly in February), Mid Autumn Festival (September or October), or when there are big family events (such as paying school fees, birthday of parents, house building). When one has one's partner and children at home, one sends money more regularly, like every two or three months.

According to the groups interviewed, ABC charged 0.5% for the card-to-card services and other commercial banks charge 1% of remittance, with an overcharge of 30% for express service, which is inconsistent with the standard for bank charges as shown in Table 2.2.⁷ The money could be received within a day if channelling through SOCBs and however it took 5-7 days if remitting through Post Office.

⁶ Under such circumstances, some migrant workers chose to bring the money home while they visited their families in their home villages.

⁷ According to the migrant workers interviewed, some migrant workers opened a bank account with ABC and took both a passbook and a debit card with the account. The migrant worker would take the passbook with him and left the debit card at home and sent money home simply by depositing into his account and informing his family members to withdrawal from his account by using the card. The ABC did not charge for such kind of transactions until the end of 2003. The ABC started to charge 0.5% of the money remitted in the way above. This is included in the so-called card-to-card remittances.

Table A8. Industrial Allocation of Migrant Workers in China (percentage)

Item	1998	1999
Manufacturing	42.2	44.2
Construction	22.9	21.3
Commerce	6.5	7.2
Services	13.0	15.2
Other	15.4	11.9
Total	100.0	100.0

Source: 2000 China Census.

Notes: 1. The migrant workers for inter provincial migration.

Appendix IV. The Results from the Survey of Financial Institutions

Table A.9. Access to the Formal Financial Services in Zhejiang, 2004

	Fonghua		Ninghai		Yutao	
	Total	Rural	Total	Rural	Total	Rural
Population '000	479	379	583.1	527.3	825.9	698.9
No Townships		11		18		15
GDP Per capita (¥)	23,160		19,770		30,599	
Net farmers Incomes (¥)	6,225		6,104		6,943	
Population Density	382.3		302.0		540.9	
ABC Branches	22	10	15	5	27	12
ICBC Branches	7	2	12	3	17	3
PCBC Branches	7	2	8	1	15	3
BOC Branches	8	2	7	0	12	3
RCCs	1	1	15	13	19	17
No Postal Offices		9		28		42
No Rural Postal Savings		22		18		0
No MFIs ¹	0	0	0	0	0	0
Townships No RCCs Branches		0		0		0
Townships No Postal Offices		0		0		0
Townships No Postal Savings						
Total SOCB Branches 04	44	16	42	9	71	21
Population/SOCB Branch	10,886	23,688	13,883	58,589	11,632	33,281
Rural Popu/Post Office ²		42,111		18,832		16,640

Notes: 1). MFI refers to NGO microfinance institutions. 2. Rural population per post office.

Table A.10. Access to the Formal Financial Services in Hunan, 2004

	Lixian		Wangcheng		Xiangtang	
	Total	Rural	Total	Rural	Total	Rural
Population '000	880	716	709	611	1,218	1002.9
No Townships		32		19		22
GDP Per capita (¥)	6,872		11500		5680	
Net farmers Incomes (¥)	2,982		4,000		3,700	
Population Density	419		521		266	
ABC Branches	11	6	5	2	11	0
ICBC Branches	?	?	3	0	2	2
PCBC Branches	3	0	2	0	1	0
BOC Branches	?	?	2	0	4	0
RCCs	36	35	17	16	23	22
No Postal Offices		23		46		45
No Rural Postal Savings		0		0		32
No MFIs ¹		0		0		0
Townships No RCCs		0		0		0
Townships No RCCs Branches		0		0		0
Townships No Postal Offices		0		1		0
Townships No Postal Savings		0		19		0
Total SOCB Branches 2004	14	6	12	2	18	2
Population/SOCB Branch	62,857	119,333	59,083	305,500	67,667	501,450
Rural Popu/RCCS		20,457		38,188		45,586
Rural Popu/Post Office ²		31,130		13,283		22,287

Notes: 1. MFI refers to NGO microfinance institutions. 2. Rural population per post office.

Table A.11. Access to the Formal Financial Services in Sichuan 2004

	Renshou		Shimei		Anyue	
	Total	Rural	Total	Rural	Total	Rural
Population '000	1,560	1,349	121.8	84.8	1532	1390
No Townships		110		16		69
GDP Per capita (¥)	4607		11490		3689	
Net farmers Incomes (¥)	2641		2520		2621	
Population Density	600.0		45.5		569.5	
ABC Branches	21	13	3	0	13	10
ICBC Branches	6	0	3	0	0	0
PCBC Branches	5	0	0	0	2	0
BOC Branches	0	0	0	0	5	0
RCCs	18	14	14	11	64	62
No. Postal Offices		134		11		101
No. Rural Postal Savings	0	0	0	0		
No. MFIs ¹	0	0	0	0	0	0
Townships No RCCs		96		4		0
Townships No RCCs Branches		35		4		0
Townships No Postal Offices		0		9		0
Townships No Postal Savings		35		15		0
Total SOCB Branches 2004	32	13	6	0	20	10
Population/SOCB Branches	48,750	103,769	20,300		76,600	139,000
Rural Popu/RCCS		96,357		7,709		22,419
Rural Popu/Post Office ²		10,067		7,709		13,762

Notes: 1). MFI refers to NGO microfinance institutions. 2. Rural population per post office.

As shown in Tables A9, A10 and A11, all the four SOCBs are present in the three counties of Zhejiang; three present in Wangcheng and Xiangtang and two

present in Lixian of Hunan; and in Sichuan, three are present in Renshou and Anyue and two in Shimei County of Sichuan Province. ABC is found in all the counties above.

However, as far as rural areas are concerned, SOCBs are well represented in rural townships of the coastal areas. Generally only ABC has business offices in limited townships (one quarter or less) of the Central and Western counties of China. In the poor and remote townships, no offices of any commercial banks exist, and RCCs and the Post Office are the only institutions available for remittance services. As shown in Table A9, all the big four are present in rural townships of the three counties of Zhejiang except the Bank of China in Ninghai. In Hunan, only ABC is present in six of the 32 townships of Lixian and two of the 19 townships of Wangcheng, and only ICBC is present in two of the 22 townships of Xiangtang. In Sichuan, ABC is present in 13 of the 110 townships of Renshou, and 10 of the 69 townships of Anyue, and no commercial bank branches are present in any rural townships of Shimei.

In the remote small townships of the Western province, there are basically no formal financial institutions available at the township level. In Renshou of Sichuan, 96 out of 110 townships do not have RCCs, and 35, or one third of townships have neither RCCs (RCC branches) nor post offices. In Shimei, 4 out of 12 townships have no RCCs (RCC branches) and 9 have no postal offices. In other word, there are four townships in the county that have no formal financial institutions and services. In the sample counties, there are no NGO microfinance institutions.

Some concessions were made by the larger players from January to March 2005 in order to compete for a larger market share. For example, China Post reduced the fee for real time transfers to ¥5, and for express service to ¥3. Also, PCBC discounted the inter-regional deposit charge by 20%.

Appendix V. Terms of Reference: Study on Domestic Remittances for Migrant Labour in China

Background

Since the late 1980s, the process of industrialization in China has been characterized by the migration of the large number of unskilled labour from the relatively poor inland to the coastal areas seeking employment opportunities, pushed by the extremely low land people ratio and subsequently large amount of surplus labour in these areas. Rural remittance, generated by the migrant workers, has become an important source of incomes for the rural poor in China. According to a recent report by the *Financial Times*, remittances from China's fast growing urban labour force are on track to overtake agriculture as the biggest income generator in the rural areas they left to find work and an estimated 98 million rural residents who worked away from their villages sent or carried home a total of RMB 370 billion (about \$45 billion) in 2003, an increase of 8.5 per cent over the previous year.

The labour migration out of the poor rural areas has been accompanied by the inflow of remittance incomes. The studies on the efficiency and costs of channels of remittance services for migrant labours in China are however almost non-existent, though there has been a growing literature on labour migration in China.⁸ This study aims to fill in the gap by focusing on the efficiency and costs of the transfer channels and the impact of remittance incomes on the incomes and welfares of the poor in rural China, and to make policy recommendations on how to improve remittance services for the poor households and poor communities in China. The study will address the following issues related to labour migration and remittance in China:

- The patterns of labour migration in rural China break down by age, education, gender, marriage status and household incomes.
- The determinants of the level and frequency of remittance incomes, in terms of the characters of migrant workers and their families, as well as the availability and efficiency of transfer service providers.
- The availability and extent of competition of the remittance service providers in the poor areas.
- The impact of the remittance incomes on the supply of and the demand for loanable funds and on the operation of rural financial markets in the local areas.
- The policy measures which tend to improve the efficiency for the use of remittance incomes.

Remittance channels as defined in this study include cash carried home by migrants themselves and others. The study will also shed light on some definitions related to labour migration and remittance incomes in rural China. For instance, should remittance incomes from migrant workers be included in family off farm income, or transfer incomes? Whether and under what conditions should migrant

⁸ For a summary on the literature available for labor migration in China, see 'Labour Mobility in China – A Review of Ford Foundation Grantmaking 1997-2001', and 'China Migration Country Study', by Huang Ping and Frank N. Pieke, paper presented at the Conference on Migration, Development and Pro-poor Policy Choices in Asia, Dhaka, 22-24 June 2003.

workers be defined as family labour? The definitional issues above are closely related to the magnitude and frequency of remittance incomes from migrant workers.

Scope of Work

Dr. Enjiang Cheng from Victoria University of Australia and Dr. Zhong Xu from the People's Bank of China will lead the study. The study will be undertaken through a desk review, large sample data survey, site visits and interviews. The study will focus on the poor and very poor Western regions of China where the outreach of the financial services is low and the competition on the provision of financial services, including remittance services, is very limited. Two poor rural counties, possibly one from Guizhou Province and one from Sichuan Province will be selected and around 250 households, households with ongoing and returned migrant workers, will be sampled from each county for detailed analyses. The study team will also interview and collect data from the transfer service providers in these two counties, including rural credit cooperatives, the Postal Savings and the state owned commercial banks, mainly the Agricultural Bank of China. With the assistance from the local People's Bank of China, a separate survey of migrant workers (400-500 migrant workers) will be organized in Zhejiang Province, a recipient region for migrant workers in Southeast part of China.

The study will address the following areas, using indicators including but not limited to those mentioned below to answer the specific questions posed.

(1) General context

- a. Socioeconomic description of study locale (source area), with particular reference to the social economic and infrastructure conditions, investment opportunities, levels of incomes, land labour ratio and development of out-migration in the counties.
- b. Migration patterns in the study locale by socioeconomic position and sex of migrants (with data from the household and migrant survey)
 - i. What are the age, education, skill, marriage status and gender-wise breakdown of out-migrants from the area? What different kinds of households (family income and wealth, and labour availability) do they tend to come from?
 - ii. The amount and sources of initial funds enabling the migrant workers to find jobs in the destination areas?
 - iii. Where and why do these different types of people migrate?
 - iv. What types of jobs do these different people tend to perform as migrants, and how much do they earn?
 - v. What is the temporal pattern of different types of migrants? When do they migrate, how long do they stay, and how many times might they return?
- c. Socioeconomic description of the migrant receiving areas

(2) Transfer Patterns and Behaviour

- a. Determinants of the levels and frequency of remittance from migrant workers: (I). In terms of migrant workers: intention to stay in the destination area (or urban area), levels and frequency of their incomes,

length of time away from home, the age, education and marriage status; (ii). In terms of migrant families at home: the family income level except the incomes from migrant workers, the relationship between the migrant and family members at home, possible uses of remittance incomes; (iii). The availability, efficiency and costs of the transfer channels in the receiving area.

- b. How does the choice of transfer channel differ by the type and location of migrant or receiving household? The factors responsible for the selection of transfer channels by migrant workers and their families: financial and non financial costs of remittance, length of time involved, safety, the distance between recipients and transfer service providers, whether the migrant and the receiving family has a deposit account and/or a loan account with the transfer channel, etc.
- c. The proportion of the total remittance incomes through: (i). Financial institutions, (ii). Cash carried home by migrant workers themselves, and by relatives, friends and fellow villagers; (iii). Other channels. (ii) & (iii) are important indicators of the costs and efficiency of the formal financial system in the provision of remittance services to migrant workers. Why do migrants choose not to use financial institutions?
- d. The proportion of the total remittance incomes remitted through financial institutions by using credit and debit cards
- e. How often and in what form do different types of migrants send remittance? What is the range of amounts and the modal and average quantities per transfer? How do these figures differ for financial and non-financial transfers?
- f. Who is the titular remittance recipient in different types of receiving households? Is this person different than the person who generally actually receives or manages remitted funds?

(3) Domestic remittance transfer channels

- a. What is the total volume of remittances flowing into the study locale through financial institutions, and how does it break down by sending location and type of migrants?
- b. What formal and informal remittance transfer (receipt) channels are available in the study locale (break down by each township, to be linked with the level of incomes, population size and density, and distance to the county seat)? What portion of total remittance flow into the area passes through each channel and why (break-down by township)?
- c. To what extent is the local remittance transfer business characterized by competition or lack of competition, by county and townships, and reasons?
- d. Do providers have pricing power for rural remittance, and the costs and incomes for the providers to provide remittance services, whether the service is profitable?
- e. The proportion of remittance incomes turned directly into the demand and time deposits.
- f. How is technology used in each available transfer channel (eg. wire transfer systems, ATMs, smart cards, Internet-based platforms, others)?

- g. How transparent and accountable is each channel? How reliable and secure are they?
- h. The payment and settlement system for different channels of finance and costs and timing associated.
- i. The impact of remittance on the operation of the transfer channels and the formal financial system in the local areas, in terms of the increases in savings and loans; and the flow of funds, including the remittance incomes, channelled out of the areas by the financial institutions, and the cause for the outflow of remittance incomes?
- j. The means employed by local financial institutions to attract remittance from migrant workers and to compete with other channels.

(4) Impact of domestic remittance transfer

- a. How do different types of recipients use remittances? What portion goes to consumption, and of what items? What portion is saved, for what purposes and where? What portion is invested, and in what? And what proportion is lent out and to whom, at what rate of interest? The relationship between the uses of remittance incomes and investment opportunities in the study locale.
- b. How have recipients' lives changes since the migration of the sender? What have been the effects of the receipt of remittances?
 - i. The impact of out-migration and remittance on household cash incomes, and their demand for credit from formal and informal sources
 - ii. The impact of out-migration on household food security
 - iii. The impact of out-migration on family labour supply and labour allocation, particularly on the workload of housewives and labor available for farming, and changes in agricultural technology adopted and agricultural productivity.
 - iv. What changes are required on the non-financial sector in the study locale to make the use of remittance more efficient, in association with changes to be introduced in the financial sector, in terms of the provision of agricultural extension services, introduction of new agricultural technology, investment in rural infrastructure, etc.
- c. Are there other ways in which recipients would prefer to use remittances, and what is preventing them from doing so?
 - a. Do the available transfer channels allow recipients to smooth the expenditure of their remittances, or to save, invest, or repay debt with them?
 - b. Any requirement from the providers for the remittance to be deposited, if so, what is the minimum period?
 - c. What do recipients like and dislike about the available transfer channels

(5) Conclusions and Policy Recommendations

- a. Conclusions (i). Assessment of different channel(s) of remittance in terms of their efficiency and costs to the migrants and remittance recipients, and pro-poor effects in the study locale; (ii). Choices of remittance channel by migrant workers and recipients; (iii). Impact of the remittance channel on the

magnitude and frequency of remittance incomes, uses of remittance incomes by recipients, and operation of rural financial markets; (iv). The flow of remittance incomes in and out of the area through the operation of the formal financial system.

- b. Recommendations on (i). The changes necessary for the remittance providers to improve their services to the poor, including the new products and technology that could be introduced to improve the efficiency and the services to the poor; (ii). Possible improvement in terms of the payment and settlement system for money remittance to reduce the remittance costs for the poor (for the People's Bank of China and China banking Regulation Commission to consider); (iii). The services provided by non-financial sector and governments to make the use of remittance incomes more efficient in the study locale; (iv). The possibility of conducting a pilot to lower the costs and improve the remittance services to the poor in rural China.

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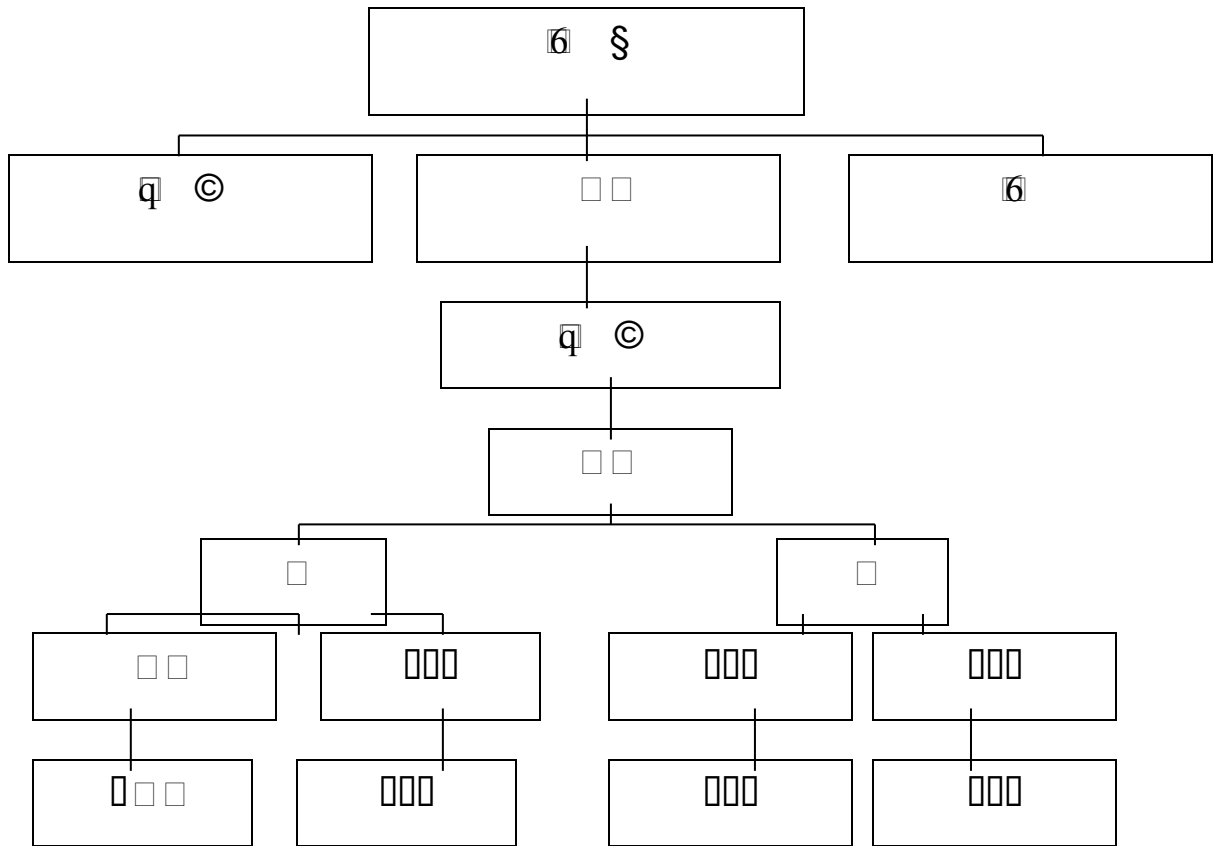
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	22.9	21.3
	6.5	7.2
	13.0	15.2
	15.4	11.9
	100.0	100.0

2000 1.

⁵⁹ 2003

0.5%

IV. 2004

A.9. 2004

'000	479	379	583.1	527.3	825.9	698.9
		11		18		15
GDP ¥	23,160		19,770		30,599	
¥	6,225		6,104		6,943	
	382.3		302.0		540.9	
	22	10	15	5	27	12
	7	2	12	3	17	3
	7	2	8	1	15	3
	8	2	7	0	12	3
	1	1	15	13	19	17
		9		28		42
		22		18		0
¹	0	0	0	0	0	0
		0		0		0
		0		0		0
04	44	16	42	9	71	21
	10,886	23,688	13,883	58,589	11,632	33,281
²		42,111		18,832		16,640

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A10. 2004

'000	880	716	709	611	1,218	1002.9
		32		19		22
GDP ¥	6,872		11500		5680	
¥	2,982		4,000		3,700	
	419		521		266	
	11	6	5	2	11	0
	?	?	3	0	2	2
	3	0	2	0	1	0
	?	?	2	0	4	0
	36	35	17	16	23	22
		23		46		45
		0		0		32
¹		0		0		0
		0		0		0
		0		0		0
		0		1		0
		0		19		0
2004	14	6	12	2	18	2
	62,857	119,333	59,083	305,500	67,667	501,450
		20,457		38,188		45,586
²		31,130		13,283		22,287

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