ADB

# Workers' Remittance Flows in Southeast Asia

Asian Development Bank

Publication Stock No. 011806

# Table of Contents

## Appendixes

## Tables

## Figures

## Boxes



## Attachment



## References

# Abbreviations

| | |
|---|---|
| ABROI | Association of Bank Remittance Officers, Inc. (Philippines) |
| ADB | Asian Development Bank |
| ADWU | Asian Domestic Workers Union |
| AEG | Advisory Experts Group |
| AI | authorized institution |
| AMCB | Asian Migrant Coordinating Body |
| AML | Antimoney laundering |
| AMLC | Anti-Money Laundering Council (Philippines) |
| AOTS | Association for Overseas Technical Scholarship |
| ASEAN | Association of Southeast Asian Nations |
| ATKI-HK | Asosiasi Tenaga Kerja Indonesia di Hong Kong (Association of Indonesian Migrant Workers in Hong Kong, China) |
| ATM | automated teller machine |
| BAFIA | Banking and Financial Institutions Act |
| BCA | Bank Central Asia |
| BCB | Bumiputra Commerce Bank |
| BDO | Banco De Oro |
| BI | Bank Indonesia |
| BII | Bank Internasional Indonesia |
| BNI | Bank Negara Indonesia |
| BNM | Bank Negara Malaysia |
| BOJ | Bank of Japan |
| BOP | balance-of-payment |
| BOPM5 | Balance of Payment Manual (fifth edition) |
| BPI | Bank of the Philippine Islands |
| BRI | Bank Rakyat Indonesia |
| BSP | Bangko Sentral ng Pilipinas (Central Bank of the Philippines) |
| CAD | Commercial Affairs Department |
| CFT | combating the financing of terrorism |
| DBS | Development Bank of Singapore |
| DC | dependency ceiling |
| DMT | Department of Manpower and Transmigration |
| DOWE | Directorate of Workers Empowerment |
| EMS | express mail service |
| EP | employment pass |
| FATF | Financial Action Task Force |
| FDH | foreign domestic helper |
| FDI | foreign direct investment |
| FEFTL | Foreign Exchange and Foreign Trade Law |
| FEONA | Far East Overseas Nepalese Association |
| FGD | focus group discussion |
| FMWU | Filipino Migrant Workers' Union |
| FRC | Financial Reconstruction Commission (Japan) |
| FSA | Financial Services Agency (Japan) |
| FTP | file transfer prototype |
| FWL | foreign worker levy |
| FX | foreign exchange |
| FXD | foreign exchange dealer |
| GDP | gross domestic product |
| GNI | gross national income |

| | |
|---|---|
| GNP | gross national product |
| HDH | Helpers for Domestic Helpers |
| HDI | human development index |
| HK$ | Hong Kong dollar |
| HKMA | Hong Kong Monetary Authority |
| IBA | International Bankers' Association (Japan) |
| IDWU | Indian Domestic Workers' Union |
| IMF | International Monetary Fund |
| IMW | Indonesian migrant worker |
| ISS-Hong Kong | International Social Services Hong Kong Branch, Hong Kong, China |
| IT | information technology |
| IT IS | international transaction information system |
| JFIU | Joint Financial Intelligence Unit |
| JICA | Japan International Cooperation Agency |
| KITAS | permanent resident card (Indonesia) |
| KOTKIHO | Coalition of Indonesian Migrant Workers Organizations |
| KYC | "Know-Your-Customer" |
| LGU | local government unit |
| LPB | limited purpose branch (Singapore) |
| MAS | Monetary Authority of Singapore |
| MC | money changers |
| MFMW | Mission for Filipino Migrant Workers |
| MG | MoneyGram |
| MOF | Ministry of Finance |
| MOM | Ministry of Manpower |
| MTC | Money transfer company |
| MTO | money transfer outfit |
| NCR | National Capital Region |
| NGO | nongovernment organization |
| OECD | Organization of Economic Co-Operation and Development |
| OFW | overseas Filipino worker |
| P | Philippine peso |
| PCI | Equitable PCI Bank |
| PNB | Philippine National Bank |
| POEA | Philippine Overseas Employment Administration |
| POSB | Post Office Savings Bank |
| PPATK | Centre for Reporting and Analysis of Financial Institutions (Indonesia) |
| PRC | People's Republic of China |
| RA | remittance agent |
| RBAP | Rural Bankers Association of the Philippines |
| RCBC | Rizal Commercial Banking Corporation |
| RETA | regional technical assistance |
| RM | Malaysian ringgit |
| Rp | Indonesian rupiah |
| S$ | Singapore dollar |
| SARS | Severe Acute Respiratory Syndrome |
| SDS | State Department of Statistics |
| SEC | Securities and Exchange Commission (Philippines) |
| SIPS | systematically important payment system |
| SMS | short message service |
| SNA | systems of national account |

| | |
|---|---|
| SWIFT | Society of Worldwide Interbank Financial Telecommunication |
| SWIPS | system-wide important payment system |
| TA | technical assistance |
| TKI | Tenaga Kerja Indonesia |
| UN | United Nations |
| UNHCR | United Nations High Commission for Refugees |
| UNSD | United Nations Statistics Division |
| US | United States |
| US$ | United States dollar |
| WP | work permit |
| WU | Western Union |
| ¥ | Japanese yen |

# Foreword

This report examines remittance fund flow from a regional perspective to understand its trends, as well as to identify policies that can leverage remittance. The study covers Indonesia, Malaysia, and Philippines as the remittance recipient countries; and Hong Kong, China; Japan; Malaysia; and Singapore as the source jurisdictions of remittance outflow. Malaysia is peculiar as it is both source and recipient country, receiving large inflows from Japan and Singapore while hosting a large number of Indonesian and Filipino workers.

To understand these trends, the study looked into a range of issues relevant to donors and development players: (i) migration trends as well as their social and economic features; (ii) remittance flows; official and estimated figures; (iii) regulatory framework that oversees international worker transfers; (iv) marketplace of remittance flows-channels and competition; (v) role of financial intermediation; and (vi) transnational landscape among remittance senders.

The study is based on a series of predominantly primary sources. Four different protocols were created for this study, designed to cover four major facets of remittance transfers in the Southeast Asia regions: (i) remittance senders, (ii) remittance recipients, (iii) money transfer organizations, and (iv) financial institutions. Other potentially relevant institutions, such as migrant support networks, government officials, media outlets, and so on were also interviewed.

The report was prepared for the Asian Development Bank under Regional Technical Assistance (RETA) 6212—Southeast Asia Workers' Remittance Study. The findings and recommendations were discussed and debated with representatives from the Government, academe, the private sector, and international organizations at a regional conference at ADB headquarters in Manila on 22 July 2005. Hope this report offers practical recommendations for policies initiatives.

For further information, please visit ADB's website at www.adb.org or contact:

S. Emma Yang
Senior Financial Management Specialist
Asian Development Bank
6 ADB Avenue
Mandaluyong City, Meto Manila
P.O. Box 789
0980 Manila, Philippines
E-mail: eyang@adb,org

or ,
Ayumi Konishi
Director, Governance, Finance, and Trade Division
Southeast Asia Regional Department
Asian Development Bank
6 ADB Avenue
Mandaluyong City, Meto Manila
P.O. Box 789
0980 Manila, Philippines
E-mail: akonishi@adb.org

# Acknowledgement

Funded by the Government of Japan through Asian Development Bank, this study on Workers' Remittance Flows in Southeast Asia was prepared by: (i) Manuel Orozco, Remittance and Development Specialist/Team Leader; (ii) Isabelita Manalastas, Banking, Financial and Legal Regulatory Specialist; (iii) Alan Taylor, Economics, Banking and Capital Market Specialist, National Team Leader of Hong Kong, China; (iv) Widyono Soetjipto, Economics and Development Planning Specialist/National Team Leader of Indonesia; (v) Hisatsugu Furukawa, Economics, Banking and Capital Market Specialist/National Team Leader of Japan; (vi) Teshima Naoyuki, Economics, Banking and Capital Market Specialist; (vii) Arichantheran Sivagnanam, Banking, Capital Market, and Finance Specialist/National Team Leader of Malaysia; (viii) Agerico Agustin, Banking, Capital Market, and Finance Specialist/National Team Leader of Philippines; and (ix) Thomas Chan, Banking, Capital Market and Finance Specialist/National Team Leader of Singapore. Venicia Gillego and Alfie A. Zafra provided administrative assistance to this study. Rachel Fedewa provided research assistance. Sujan Emma Yang, Senior Financial Management Specialist/in charge officer of the study supervised this work and Ayumi Konishi, Director of Governance, Finance and Trade Division, Southeast Asia Department provided the overall guidance for the Asian Development Bank. We would also like to acknowledge the cooperation and hospitality extended by development agency representatives and consultants, national government offices, academic institutions and other study stakeholders.

# I. Introduction

International migration is increasingly influencing the global economy. Remittances sent by migrant workers amount to some United States dollars (US$)200 billion to countries and regions in Latin America, Asia, Africa, or Europe.[1] The Southeast Asia region is an important example of the global trend. Historically, this region has been characterized by fluid migration, but recent economic and other changes have dramatically increased these flows of people and money.

Given these movements, the Asian Development Bank (ADB) proposed to examine remittance fund flows from a regional perspective to understand its trends, as well as to identify policies that can leverage remittances. Thus a regional technical assistance (RETA) project was implemented. The purpose of the project consists of conducting a systematic understanding of remittance flows in selected Southeast Asian sender and recipient countries. The project also seeks to offer an informed set of policy recommendations that may help leverage a greater development role of remittances in the countries studied.

To understand these trends, we looked into a range of issues relevant to donors and development players:

i. migration trends as well as their social and economic features;
ii. remittance flows: official and estimated figures;
iii. regulatory framework that oversees international worker transfers;
iv. marketplace of remittance flows—channels and competition;
v. role of financial intermediation; and
vi. transnational landscape among remittance senders.

Among the findings in this study is that nearly two million largely women immigrants remit more than US$3 billion from Hong Kong, China; Japan; Malaysia and Singapore on averages ranging from US$300 to US$500. Estimates were based on official figures on migrants in the sending countries and survey analysis conducted for this study (please refer to the methodology section for details). This means that the volume may be higher if estimates of undocumented workers are included. There is a significant level of contact between migrants and their family, remitting being one key form of contact.

Regulatory issues pertaining to remittance transfers vary from country to country from strict restrictions to more liberal approaches, to money transfers. Informality prevails in most countries, however, most notably in Malaysia where it seems to be greater. One key finding with regards to informality referred to transaction cost of remittances. When analyzing the determinants of informal transfers, foreign exchange rate, fees, and reputation were key factors explaining the use of these methods. Moreover, transaction costs overall were greater in Japan. Explanations about determinants of transaction costs focused on exogenous factors such as volume, informality, and regulatory environment in the sending and receiving corridors. There is a statistical significant relationship between cost and sender country regulations, informality, and volume.

Half of the senders and recipients have bank accounts. However, the level of use or access to banking financial intermediaries was minimal. For example, the relationship between using banks for remittance transfers and having a bank account or other substantive financial obligations is low.

[1] Remittances defined as monetary funds sent by individuals working outside of their home countries to recipients in the country that they came from.

These findings emphasize a fluid process of relationships between migrants and their home country as well as to policy opportunities and challenges. Filipino migrants were more engaged with their relatives than other groups by virtue of their frequency of sending and level of contact. Some policy issues are worth highlighting, on which this report offers practical recommendations for short-term initiatives.

This report was based on surveys conducted in sending and receiving populations in Hong Kong, China; Indonesia; Japan; Malaysia; Philippines; and Singapore, totaling a sample of 2,500 senders and recipients. In addition to the surveys, a team of 11 experts conducted field work and interviews of more than 20 policy makers, analysts, industry officials, and nongovernment organization (NGO) personnel among others. Pricing data sets were created for Hong Kong, China, Japan, and Singapore that captured the transaction cost of the most active money transfer companies.

# II. Migration Trends in Southeast Asia

Southeast Asia is an emerging market in the global economy, reporting complex intraregional dynamics among the countries. Demand for—and supply of—foreign labor increased significantly during the 1970s and into the late 1990s with the deepening of globalization, including contrasting demographic trends, enhanced educational opportunities, political developments, as well as economic booms and busts. Southeast Asian countries have increasingly benefited from—and in some cases come to rely on—migrant foreign earnings. Remittance flows operate in a context of diverse regulatory environments and mixed competition, yet a vibrant economic influx with volumes estimated at approximately a third the global total for South Asia, Southeast Asia, and the Pacific region (i.e., around US$33 billion).

This section identifies the main trends of regional migration in Southeast Asia and offers a profile of the demographic and social characteristics of immigrants in Hong Kong, China; Japan, Malaysia; and Singapore. What follows is a synthesis of current trends in remittance transfers within the context of migration flows, estimated remittance volumes, the structure of intermediation for remittance transfers, prevailing regulatory environments, and the position of banking financial intermediation.

**Table 2.1: Southeast Asian Migration Corridor—Main Economic Indicators**

| Country | per Capita GDP[a] (current international) | Human Development Index[b] | per Capita Foreign Direct Investment[a] (US$) | Unemployment[b] (% of total labor force) | % of Population below Poverty Line[c] |
|---|---|---|---|---|---|
| Cambodia | 2,000.92 | 0.556 | 10.89 | 2% | 35.9 |
| Indonesia | 3,227.81 | 0.682 | (-15.69) | 6% | 18.2 |
| Malaysia | 9,130.40 | 0.790 | 12.06 | 4% | 7.5 |
| Philippines | 4,171.06 | 0.751 | 14.58 | 10% | 34.0 |
| Singapore | 24,006.40 | 0.884 | 339.26 | 3% | … |
| Thailand | 7,009.47 | 0.768 | 58.00 | 2% | 9.8 |
| Viet Nam | 2,304.78 | 0.688 | 16.35 | n.a. | 28.9 |

FDI = foreign direct investment; GDP = gross domestic product; HDI = human development index; n.a. = not available

Sources: [a] United Nations Development Programme, *Human Development Index 2001*; [b] World Bank, *World Development Indicators 2004* (figures from 2001); [c] Asian Development Bank, *Key Indicators 2004.*

## A. Migration Trends in Southeast Asia

Contemporary Southeast Asia is a region with high levels of labor migration, mostly in the short term but also in the long term. Most immigrants live and work legally in the host countries based on short-term labor contracts and work visas, but undocumented migration is a growing phenomenon. Another significant emerging trend is the increasing number of female migrants, especially those who independently decide to migrate. Some countries such as Japan and Singapore are predominantly immigrant recipients. Other countries, including the Philippines and Indonesia, mostly send emigrants and workers. Malaysia is both an immigrant recipient and labor migrant sending country. The human movement involved in labor migration is of enormous economic importance. Indeed, "sending labour abroad has become the largest single foreign exchange earning activity, outweighing commodity exports, in the national economy in a number of Asian labour-surplus nations".[2]

Among the significant trends in Asian labor migration is government awareness of the phenomenon, and related attempts by the state to variously control and capitalize on the benefits and burdens associated with this movement. Southeast Asian countries with labor surpluses establish facilitating or regulating labor export agencies within the government bureaucracies, attempt to enhance the value of remittances through an array of policies (e.g., tax breaks or forced remittances), and try to establish bilateral agreements to protect their nationals working abroad. Importantly, sending countries recognize and encourage the return of their citizens working in other countries, and therefore also provide assistance with re-adjustment or encouragement to highly skilled workers to return home. Although one of the biggest reasons for government involvement is remittances, paradoxically official data are arguably a significant underestimate of the numbers.

### 1. Hong Kong, China

Foreigners in Hong Kong, China, make up approximately 340,000 residents of this island area of 6.8 million people (95% of the population is ethnic Chinese). A significant number of these foreigners are permanent residents of Hong Kong, China, but most are temporary workers. About 70%, or 240,000, of the temporary migrants are from other Southeast Asian countries. The largest sending country is the Philippines—about 142,000 Filipinos. Indonesia follows with nearly 108,000 migrants. The third biggest source of foreigners is not an Asian country but the United States, and Thailand is the fourth biggest migrant-sending country with almost 30,000 immigrants. Immigrants in Hong Kong, China, are also from a range of other countries, including other Southeast Asian countries like India, Japan, and Nepal.

Most Asian migrant workers in Hong Kong, China, are what the Hong Kong, China, Government calls "foreign domestic helpers" (FDHs) and are often called "foreign domestic workers" (FDWs) by migrant groups. These migrants are overwhelmingly females from the Philippines and Indonesia; the two countries supply 96% of FDHs. They usually come to Hong Kong, China, legally on a 2-year work FDH visa that is governed by strict regulations but lack consistent enforcement. FDH comprise 88% of Hong Kong, China's migrant worker population. In addition to the FDHs, Hong Kong, China, legally admits about 1,200 workers under the Supplementary Labour Scheme and also has other employment visas, some of which are held by Asian migrants. A further number of foreign Asians work in Hong Kong, China, illegally, mostly by overstaying their tourist visas or working in the sex trade.

Because of their numerical predominance, this report focuses on the profile and remittance sending practices of FDHs. FDHs have had a fast-growing presence since the early 1980s, although their numbers have largely stabilized since 2000. In 1982 there were about 20,000 FDH and over the past 5 years, the number of FDHs has ranged from 217,000 to 237,000. Numbers are relatively easy to determine because the Hong Kong Immigration Department collects these numbers based on work visas, and most FDH are in legally.

The age, gender, and country profiles of FDHs are largely consistent. These migrants are overwhelmingly female and 80% are aged between 21 and 40 years old. Filipinos and

[2] Hugo, p. 59.

Indonesians account for 96% of the FDH population followed by Thailand's 2.2%. Filipinos predominate: the number of Filipinos grew steadily from 1985 to 1995, then at a slower rate until 2001, and has since declined. The peak was 155,000 in 2001, since when numbers have fallen by 23%. The number now appears to have stabilized at around 120,000. The Indonesian FDH population grew from around 1,000 in 1990 to 92,000 in 2005, with the rate of growth slowing over the past 2 years. There is also a very small number of FDHs from other countries.

Official figures on how long FDHs stay in Hong Kong, China, are not available. Other indications of length of stay are available, but limited in terms of accuracy. First, although FDHs sign a standard 2-year employment contract and 2 years therefore accounts for the length of stay of many migrant workers, many others stay for longer by renewing or replacing contracts. On the other hand, some employees lose their jobs after less than 2 years. Second, in a 2001 study of Indonesian migrants, the ATKI-HK consulting group found that a third of the population had been in Hong Kong, China, less than 1 year, and 78% less than 2 years. The figures suggest a high turnover rate, with relatively few surviving beyond the first contract. This implication was complicated by the Indonesian migrant population growing strongly at the time, which could alter future patterns.

One way migrants attempt to facilitate necessary services and decrease exploitation is through migrant worker organizations, of which there are over 30 in Hong Kong, China. These organizations provide assistance to individuals (e.g., overcharging by employment agency); lobby governments, organizations, and individuals for improved regulations or protection for migrants; and provide cultural, educational, and other activities. This range of goals is underscored by the diverse makeup and missions of these groups, which are variously religious, national, or issue-based in origin. As a whole, the groups provide valuable services and support to FDHs. Nevertheless, their aims are sometimes undermined by structural features such as the transience of worker-volunteers, difficulties of establishing a single voice among so many groups—especially with respect to liaising with government officials, and possible competition between and among immigrant NGOs.

Despite these limitations, FDHs do have numerous organizing advantages upon which they could build. These include the large number of migrants in Hong Kong, China, the relatively homogeneous nature of the workforce; Hong Kong, China's economy's reliance on their cheap labor; and, from their home countries' perspectives, the importance to the Philippine and Indonesian economies of their remittances. Conversely, these migrants ability to successfully lobby for improvements is also constrained by many factors: being female, poor, divided predominantly between two major national groups within Hong Kong, China, only having short-term contracts, not having many rights, and being subject to a vast pool or alternative labor sources from their own and other countries. Success in improving the policy climate is likely to be facilitated by high levels of FDH unity and focus in lobbying the Hong Kong, China, Government and/or enlisting the support of their home country governments in the Philippines and Indonesia. Ideally, such efforts should not be limited to Hong Kong, China, but should occur for all Asian countries to, for example, prevent exploitation by employment agencies. Indeed, the Philippine Government in 2001 successfully lobbied to allow the direct hiring of domestic helpers for Hong Kong, China, without needing the involvement of an agency, thereby avoiding agency fees, one of the greatest costs to FDHs.

## 2. Malaysia

Two laws govern Malaysia's recruitment of foreign workers, namely the Immigration Act and the Employment Act. The major instrument used to regulate the inflow of migrant workers into Malaysia is the work permit.[3] Work permits are issued to all foreign workers to authorize their entry and employment. There are two types of work permits used to target skills levels. Unskilled and semi-skilled workers are classified as those earning below Malaysian Ringgit (RM)2,000.00 (US$526)[4] per month. This group of workers is generally termed as "migrant workers" or "foreign workers." Those earning RM2,000 and above, classified as "professional workers" and popularly termed "expatriates," are issued with employment passes if their employment contracts are at least 2 years. Expatriates on short-term contracts (less than a year) are issued visit passes for professional employment (Kanapathy 2001). Another instrument of foreign labor management is the foreign worker levy. The annual levy varies by sector and skills. The main aim of the levy is to raise the cost of hiring and discourage the use of foreign workers. The annual levy ranges anywhere from RM300.00 (US$79) to as much as RM1,200 (US$315) per year for each worker.[5]

Despite the apparent clarity of the work permit and levy policies, labor migrants in Malaysia face a more complicated policy reality. For a start, migrant labor policy is shaped by two different government organizations; the Home Affairs Ministry, under whose purview the Immigration Department falls, and the Human Resources Ministry, which looks into the labor needs of the country. Second, different immigration departments in Malaysia have varying rather than uniform rules and procedure *(ILO Workshop, KL, 2005).* Third, there are differences in immigration laws and policies between East and West Malaysia, with the former having greater autonomy to set immigration policy. Finally, there have been frequent policy shifts to accommodate demands from employers to ease critical labor shortages, as well as to document and legalize the large number of undocumented migrant workers in the country. This has been frequently described as "stop-go" or adhoc especially after the amnesty given in early 2005.

Indonesians constitute the bulk of the foreign worker population, accounting for about 73%. According to the Foreign Workers Division of the Immigration Department of Malaysia, the total number of documented migrant workers in Malaysia currently stands at about 1.43 million. After an amnesty offer that ended on 28 February 2005, there were still about 300,000–400,000 undocumented workers (The Sun 2005). As of May 2005, there were over 34,000 foreign professionals and highly skilled workers employed in the country, mostly in the manufacturing and services sectors. The largest group of these expatriates is Japanese, followed by Indians and Singaporeans.

In West Malaysia, migrant workers are concentrated in the Klang Valley, the island of Penang in the north, and Johor Bahru, which is south of the peninsula. The largest group is Indonesians, followed by Nepalese and Indian migrants. One significant group of migrant workers in West Malaysia is domestic workers or maids. According to the Home Affairs Ministry, almost 230,000 of the 240,000 foreign maids in Malaysia with recognized legal status are from Indonesia, 6,000 from the Philippines, and the remainder from Cambodia and Sri Lanka. The Indonesian maids work 16–18 hours a day, 7 days a week, and earn less then US$5 per day. They are not protected by Malaysia's labor laws, as these exclude domestic workers.[6]

---

[3] Malaysian policy does not provide for residential status for migrant workers.
[4] Since 21 July 2005, Malaysia has adopted a managed float system for the ringgit exchange rate.
[5] Immigration Department, Malaysia
[6] This information about migrants working in domestic labor was reported in *The Sun* newspaper on 19 May 2005, and in turn was from a New York-based Human Rights Watch Group.

While immigration law and policy in West Malaysia is based on national law, immigration policies and procedures in East Malaysia (Sabah and Sarawak)[7] are a state matter, and detailed statistics, including data on illegal immigrants, are not published. This parallel legal structure has its roots in 1963 when Sabah and Sarawak joined Malaysia with a 20-point agreement, including the right for the region to maintain control over immigration matters. However, a composite picture may be assembled from published reports, which show that Sabah alone may have as many as 30,000 Indonesians, and about 200,000 Filipinos, [8] as well as nationals from other countries, most notably Pakistan, working there as migrant labor.

A summary of the Philippine Embassy's official estimate of the number of Filipinos in Malaysia follows. According to these figures, most Filipino migrants are in East Malaysia. Over half the migrants in Peninsular Malaysia are domestic workers. In addition to these household workers, Filipinos work about all in hotels, restaurants, and resorts, with very small numbers in construction, plantation work, and skilled professional work. Embassy figures for East Malaysia suggest about half the immigrants are undocumented. In practice, however, the number of undocumented Filipino migrants is difficult to establish, especially in Sabah due to its porous border with Southern Philippines. In East Malaysia, most Filipino workers are involved in the agriculture/plantation (31%), construction (21%), services (20%), and manufacturing sectors (16%) with the rest (12%) in logging, household work, fishery/ livestock, and mining.[9]

**Table 2.2: Filipinos in Malaysia as of December 2004**

| Location | Sector | No. | % |
|---|---|---|---|
| Peninsular Malaysia | Professionals (engineers, architects, supervisors, information technology specialists, managers) | 2,421 | 19 |
| | Islamic Students | 24 | 0.19 |
| | General Workers/Construction Workers | 578 | 4.6 |
| | Domestic Helpers | 6,601 | 52.2 |
| | Holders of Dependent Visas | 2,500 | 20 |
| | Undocumented | 500 | 4 |
| Subtotal | | 12,642 | 100 |
| Sabah and Sarawak | Holders of Work Permits | 9,000 | 4.5 |
| | Holders of IMM13 (stateless/refugee visa) | 70,000 | 35 |
| | Holders of Permanent Residency Visa | 21,000 | 10.5 |
| | Undocumented | 100,000 | 50 |
| Subtotal | | 200,000 | |
| **Total** | | **212,624** | **100** |

Source: Embassy of the Republic of the Philippines in Malaysia.

7 East Malaysia consists of the two states of Sabah and Sarawak across the South China Sea on the island of Borneo.
8 Embassy of the Republic of the Philippines in Malaysia.
9 Embassy of the Republic of the Philippines in Malaysia.

A market research company conducted a survey of migrants in the peninsula. Most of these foreign workers are Indonesians. Majority of the population surveyed is within the age groups of 21–40 years, 70% are male, and have basic education of primary and high school. (Less than 5% have a college education.) Most are probably in the construction industry with a good number of females who may be either construction workers or maids. Those having college degrees likely fall into the "expatriate" community. (In addition to Indonesians, survey researchers identified small numbers of Indians and Bangladeshis. The numbers of respondents were, however, too small to be useful to this analysis.)

### 3. Japan

A conservative estimate of Asian migrant workers in Japan who remit to their home countries is 1,423,000. This figure is based on the Japanese Immigration Association's count that there are more than 180,000 Filipino residents, more than 22,000 Indonesian residents, and about 9,000 Malaysian residents in Japan as of the end of 2003. This figure undercounts actual migrants and remitters as it does not include shorter-term migrants, which are not registered as residents.[10]

Defining and counting migrants, and therefore, remittances, is complicated by a several factors. Chief among these reasons is competing definitions. Based on the International Monetary Fund (IMF)'s Balance of Payment Manual, Fifth Edition (BOPM5), a migrant is "a person who comes to an economy and stays, or is expected to stay, for a year or more." In other words, migrants are considered residents of that economy. In contrast, Japan calculates remittances in the national balance of payment (BOP) statistics based on the Foreign Exchange and Foreign Trade Law (FEFTL) that states that "worker remittances from Japan by foreigners who are the residents of Japan are recorded in worker's remittances of the BOP statistics in Japan."

The survey of immigrants conducted for this study gives an expanded demographic profile of Asian immigrants to Japan, though as is explained below, the survey was biased in key ways and therefore this profile should be taken as suggestive rather than definitive. Most Filipino workers (68% of the responses) are female, between 21 and 40 years of age. An even larger majority of Indonesian workers surveyed was male (82% of the responses) and between 21 and 40 years of age. Indonesian workers seem to stay in Japan for shorter periods than Filipino workers, which is consistent with the point that a major portion of surveyed Indonesian migrants were trainees and students: 50% stay in Japan less than one year and 22% between 1 and 3 years. In contrast to the uneven male-female division among Filipino and Indonesian immigrants, gender distribution of Malaysia workers surveyed was balanced well. The majority (71%) of respondents were between 21 and 30 years old. They often live in Japan for more than 1 year (39% have been living in Japan 1–3 years) and 90% answered that they have completed college degree, leading surveyors to think that the majority of those questioned might be students.

### 4. Singapore

Singapore's foreign workforce has historically played a vital role in its economic development. In the past, it has made up as much as half the total workforce. Today, foreign

[10] There are about 2 million officially registered foreign workers in Japan. Annual net increase of migrants in Japan in 2003 was over 100,000 people.

workers continue to be critical to the economy, comprising 28% of the total workforce in 2004, according to the Ministry of Manpower (MOM), Singapore's labor ministry.

MOM issues three types of permits for foreigners to work in Singapore: the work permit, the employment pass, and the "S" pass. The work permit is for unskilled and low-skilled foreign workers whose monthly salary does not exceed Singapore dollars (S$)2,500, among other criteria. These workers are usually in the construction, manufacturing, marine, domestic help, and low-skilled service industries. Work permits are restricted to citizens of the following countries: Bangladesh, Hong Kong, China, India, Macau, Malaysia, Myanmar, Pakistan, People's Republic of China (PRC), Philippines, Republic of Korea, Sri Lanka, Taipei,China, and Thailand.[11]

The employment pass is issued to foreigners with acceptable degrees, professional qualifications, or specialist skills and whose monthly salary is above SG$2,500, in addition to other criteria. These skilled foreigners mainly work in the finance, real estate, and high-technology industries as specialists, managers, executives, and entrepreneurs. Employment pass holders are generally wealthier and more independent. They are allowed to bring their families to Singapore and thus have few economic links back to their home countries. There are no restrictions on the nationalities of employment pass holders.

The "S" pass was created in July 2004, with the objective of increasing flexibility to meet industries' needs for middle-level skilled foreign workers with postsecondary qualifications and above. The minimum monthly basic salary must be SG$1,800. There is no restriction on the nationality of "S" pass holders, no maximum duration of employment in Singapore, and no maximum age of employment as with work permits.

MOM uses two main policy tools to regulate and control the inflow and employment of foreign workers: the dependency ceiling (DC) and the foreign worker levy (FWL). The DC determines how many foreign workers an employer is allowed to hire in proportion to Singaporean workers. The FWL is a monthly levy paid by the employer to the Government. The DC and FWL are set depending on the industry and have been adjusted periodically to meet the changing needs of industries and Singapore's policies on foreign workers. As of December 2004, official government figures identified 621,400 foreign workers in Singapore. Of this, an estimated 500,000 foreign workers were work permit holders.

Singapore's largest source of low and unskilled foreign labor is South Asia (India, Sri Lanka, Bangladesh), followed by Malaysia and the PRC. The largest employment sectors are for domestic help, construction, and manufacturing. Foreign workers in the construction and marine sectors are male while domestic helpers are female. The service sector—which includes hospitals, hotels, retailers, and restaurants—employs a mix of male and female foreign workers.

In addition to the officially sanctioned sources of labor, there are also significant numbers of foreigners without work permits. Among these are mostly Malaysians with 90-day social visit passes and PRC and Thailand nationals on 2-week to 1-month tourist visas. Malaysians usually find "day" labor in factories or the numerous small food service outlets while the tourist visa holders generally freelance in social vices including drugs and prostitution.

FDHs represent one of the largest groups of foreign workers in Singapore. They number approximately 150,000, or 30%, of all work permit holders. The vast majority (90%) are from the Philippines and Indonesia with the remaining 10% mostly from Sri Lanka. They

[11] Singapore classifies these countries under the following categories: Traditional source (Malaysia), Non-traditional source (Bangladesh, India, Myanmar, Pakistan, Philippines, Sri Lanka, and Thailand), North Asia source (Hong Kong, China, Macau, People's Republic of China (PRC), Republic of Korea, and Taipei,China).

are all female, recruited into Singapore by employment agencies, and generally work on standard 2-year contracts.

There is a clear dichotomy in treatment between Filipino and Indonesian FDHs. Filipino FDHs are paid about 30% more than Indonesian FDHs and usually get 1 or 2 days of rest a week, which Indonesians typically do not receive. Placement fees for Indonesian FDHs are higher, averaging over S$2,000 or 8 months' salary, compared with Filipino FDHs, which average S$1,800 or 5 months' salary.

This disparity with respect to Indonesian and Filipino FDHs is widely justified as a product of market forces. Filipinos are perceived to be older, have better education, be more highly skilled, and have superior English language skills. Whether this disparity is really market driven is highly debatable. Filipino FDHs tend to have better education but also have well-established network and support systems to get better labor terms and conditions. Indonesian FDHs will accept poorer terms of employment than their Filipino counterparts, presumably because of lack of choice in addition to lower skills.

There is no minimum wage for foreign workers. Until recently, MOM allowed the market to establish standards of practice for the employment of FDHs. From 2005, MOM instituted a set of requirements for all new (those who have not worked in Singapore previously) domestic helpers. New domestic helpers had to be at least 23 years old, have at least 8 years of formal education, and pass an English competency test. These requirements are perceived as biased against Indonesians. Following these changes, many employment agencies complain of a shortage of Indonesian maids. The requirement has ripple effects such as increasing agency fees to employers and a S$50 increase in monthly salary to S$280 to entice eligible Indonesian maids who would otherwise go to Hong Kong, China, Republic of Korea and Taipei,China, or elsewhere where salaries are higher. In contrast, the new requirements are benefiting Filipino maids. Some employment agencies are reporting a threefold increase in Filipino maid placements.

The Indonesian Government has attempted several measures to help improve the conditions of its FDHs. Such measures include accreditation of Singapore employment agencies by the Indonesian Embassy in Singapore, limiting FDHs headed to Singapore to one point of exit so that the Indonesian Government can better monitor the safety and whereabouts of Indonesian domestic workers as well as provide training, health checks, and other tests before departure for Singapore. Indonesia has also stipulated that employers of Indonesian domestic workers would be required to sign an agreement guaranteeing improved conditions of work. If implemented, these terms would greatly improve the condition of the Indonesian FDH. However, there has been no evidence in the market that these terms have been implemented.

Malaysians are preferred foreign workers in Singapore, and receive some privileges such as immigration access cards for frequent travelers and more liberal rules for staying in Singapore. A large number of Malaysian workers commute daily to work in Singapore; independent estimates are that 50,000 Malaysian workers cross the two land immigration checkpoints on their daily commute to work in Singapore. Daily commuters include an estimated 20% of undocumented workers (i.e. without work permits but with proper travel documents), with most working in the food services and manufacturing industries.

The total number of Malaysian work permit holders is independently estimated at 85,000, and together with undocumented workers, employment pass holders and permanent residents, the total number of Malaysians working in Singapore totals close to 165,000. The majority of work permit holders are in the manufacturing and service sectors while the employment pass and permanent residents are in technical, managerial, and professional positions throughout the economy.

Of the estimated 60,000 Indonesian work permit holders in Singapore, virtually all are domestic helpers. An estimated 8,000 employment pass holders and permanent resident in the higher skilled professions are also resident in Singapore. Indonesia, despite being Singapore's other close neighbor, is not on the approved source countries for employment in Singapore's construction, manufacturing, marine, or service industries. There are an estimated 90,000 Filipino workers in Singapore of which an estimated 76,000 are domestic helpers. The remaining 14,000 hold employment passes and work in professional sectors.

**Table 2.3: Immigrant Labor Population in Selected Host Countries**

| Host<br><br>Home | Hong Kong, China | Japan | Malaysia | Singapore |
|---|---|---|---|---|
| Philippines | 141,720 | 185,200 | 250,000 | 90,000 |
| Indonesia | 107,960 | 22,800 | 1,000,000 | 60,000 |
| Malaysia | > 1,000 | 9,000 | -- | 165,000 |
| **Total** | **249,680** | **217,000** | **1,250,000** | **315,000** |

Source: Official statistics from host country governments.

## 5. Women as Migrants: A Cross-Border Reality

Historically, labor migration has been dominated by men all over the world, including in Southeast Asia. One of the ways contemporary migration in this region has transformed is the large number of single women working in a country other than their own, in large part to support family members through remittances. These women overwhelmingly work in domestic labor situations. In addition to frequent employer pressure upon workers and would-be migrants, these women tend to face numerous challenges, some but not all of which are worse because of their gender.

Domestic labor tends to be among the most demanding jobs migrants receive: working hours tend to be extremely long; pay tends to be the lowest or among the lowest; and women are likely to be paid less, controlled more, and earn less than their male counterparts. Experience in other countries suggests that domestic assistants tend to be the most isolated migrants, cut off from fellow (and more experienced) migrants, likely to lack local language skills, possibly have undocumented status and have to pay the agency back, and have little understanding about any recourse for assistance, and be subject to sexual abuse as part of the "job."

The sex industry is another likely arena where women migrants work. Understandably, this kind of information cannot be easily obtained in the kind of survey research conducted for this study, so at this point one must necessarily develop informed speculations. In this context, it is imperative to note that the sex industry overwhelmingly uses women and girls rather than men. Sometimes these women and girls "choose" to go into the industry to earn an income, including remittances, but other times they are forced or mislead into becoming sex workers.

## B. Migrant Characteristics

There are several characteristics that define intraregional migration flows in the Southeast Asian countries studied. Demographic features such as gender and age, as well as the income and education levels of migrants, influence their purpose and duration of stay in the host country, and potentially influence remittance sending behavior.

### 1. Gender and Professions

Intraregional migration flows tend to be predominantly female, with the exception of Malaysian migrants, and Indonesians who migrate to Japan or Malaysia. The "feminization" of emigration from Indonesia and the Philippines has many contributing factors, among them the nature of the work available to migrants in the host country.

Based on survey results, two thirds of Filipino migrants to Japan are women, many of who work as entertainers. According to the Japanese Immigration Association, the total population of entertainers in 2003 numbered 65,000 individuals, 78% of which were Filipinos. Indonesians, on the other hand, represent just 2% of entertainers in Japan. Eighty two percent of Indonesian migrants to Japan are male. The two largest groups of Indonesian migrants to Japan are either classified as trainees (19%), or are granted residency for "designated activities" (26%).

Nearly all migrant workers from Indonesia and the Philippines to Hong Kong, China, and Singapore are women (see Table 2.4). FDH jobs are almost exclusively occupied by women. FDHs represent 90% of all Asian migrant workers in Hong Kong, China, and comprise 30% of the total migrant labor force in Singapore. FDHs from Indonesia and the Philippines, specifically, make up 96% of the FDH population in Hong Kong, China, and 90% of the FDH population in Singapore.

**Table 2.4: Percent of Female Migrants in Destination Countries**

| Host / Home | Hong Kong, China | Japan | Malaysia | Singapore |
|---|---|---|---|---|
| Indonesia | 94% | 18% | 29% | 100% |
| Malaysia | -- | 50% | -- | 26% |
| Philippines | 97% | 68% | 58% | 88% |

Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

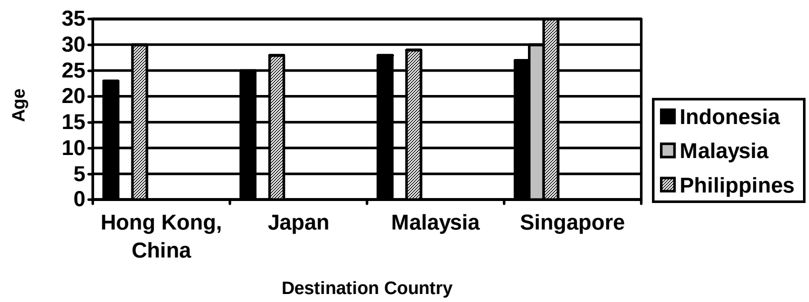
Distinct from Filipino and Indonesian workers, Malaysian worker permit holders in Singapore are mostly male and work in either construction or manufacturing and services industries. These two categories comprise 70% (27% and 43% respectively) of all foreign work permit holders.

Like Hong Kong, China; and Singapore, nearly all Filipino female migrants to Malaysia are classified as domestic workers. Alternatively, more men than women migrate from Indonesia to Malaysia. Thirty five percent of these men work in agriculture, and another 35% work in construction and manufacturing.

### 2. Age and Education

Migrants in the Southeast Asia region are young, with the majority of respondents ranging in age from 25 to 30 years. Migrants surveyed in this study were 20 years of age or older. Indonesian migrants to Hong Kong, China; Japan; Malaysia; and Singapore were found to be consistently younger than their Filipino counterparts, as demonstrated in Figure 2.1 below.

**Figure 2.1: Average Age of Migrants in Destination Countries**




Source: Survey of immigrant sender, Regional Technical Assistance No. 6212: Southeast Asia Workers Remittance Study, Asian Development Bank.

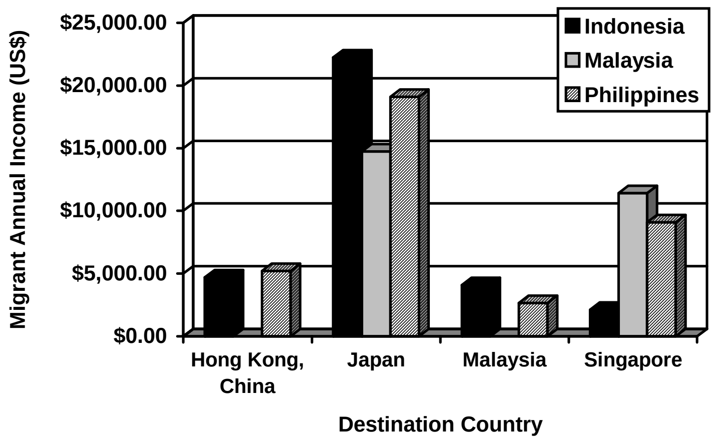
While the migrant population is young, they also appear to be relatively well educated. Among migrants surveyed in Hong Kong, China, Japan, Malaysia and Singapore, 84% have received at least a high school education. Almost all Filipino, Indonesian, and Malaysian migrants to Japan have completed high school. Most Indonesians working in Singapore (85%) have a high school diploma, while close to half those working in Hong Kong, China, and Malaysia (55% and 48% respectively) completed high school.

Filipinos are among the most highly educated. In all four migrant receiving/remittance sending countries, no less than 99% of Filipinos surveyed completed high school. Forty three percent of Filipinos in Japan; 74% of Filipinos in Hong Kong, China; 65% in Singapore; and 71% in Malaysia have completed at least some college and most possess a college degree.

### 3. Income

While it can be said that intraregional migrants share similarities in gender and age, and to a certain extent professions and educational attainment, the same cannot be said of income earnings, which vary widely across the region (Figure 2.2).

Figure 2.2: Average Annual Income of Migrants




Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

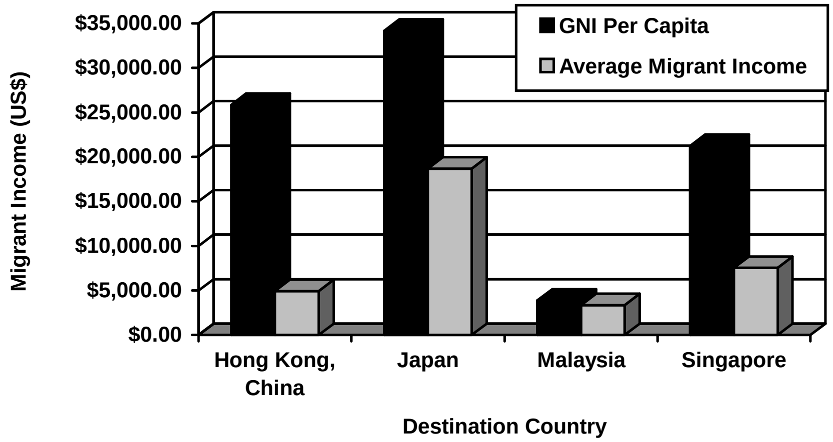
Income differences between Filipinos, Indonesians, and Malaysians working in Singapore are particularly striking compared with the other remittance sending countries. Filipinos working in Singapore earn 80% the income of Malaysians. Meanwhile, Filipinos earn more than four times as much as Indonesians. While Malaysians tend to occupy higher skilled positions in Singapore, the majority of Filipinos and Indonesians (92% among both groups) work as domestic helpers (as noted previously). Indonesians, moreover, are typically more willing to accept lower wages and employment standards than their Filipino counterparts.

Of the four migrant receiving/remittance sending countries profiled, foreign workers in Japan earn the most, with US$18,688.75 annually on average, followed by foreign workers in Singapore who earn slightly over a third this amount, with US$7,542.01 annually on average. However, the Singapore average annual earning amount masks the discrepancy—as noted above—between Malaysians, Filipinos, and Indonesians. Indonesians working in Singapore are the lowest income earners of all migrant groups profiled, with earnings of just $2,118 on average annually, a figure that contrasts sharply with their fellow Indonesian countrymen in Japan who average $22,232 annually, making them the highest income earners among all the migrant groups profiled.[12] Migrant workers in Hong Kong, China, average US$4,950.25 annually, and $3,364.91 on average annually in Malaysia.

When averaging income earned by Filipino, Indonesian, and Malaysian migrants by host country, results consistently show that their earnings fail to meet the gross national income (GNI) per capita of the host country (see Figure 2.3). The difference for migrants in Malaysia is relatively small, with workers earning 87% of the country's GNI per capita. Meanwhile, the gap widens for migrant workers in Hong Kong, China, who average earnings of just 19% of the country's GNI per capita.

[12] This figure might be high, considering Indonesian survey respondents included business men, educators and permanent residents in Tokyo.

Figure 2.3: GNI per Capita (2003) Compared with Average Migrant Income (2005)




Source: GNI per Capita, *World Bank Development Indicators 2003*; average migrant income estimates based on survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers Remittance Study, Asian Development Bank.

### 4. Duration in Destination Country

In some cases, the longer migrants reside in the host country, the less likely they are to continue remitting money to family members in their home country. This behavior can be explained by various factors, including assimilation, migration laws favorable to family reunification, etc. In the case of Southeast Asia intraregional flows, however, remittance transactions exhibit consistency over time (see *Characteristics of Receiving Households, Amount, and Frequency* below), seemingly regardless of the length of time a migrant has been working abroad.

Filipinos living and working in Hong Kong, China, and Japan tend to stay approximately 5–6 years in the destination country, on average 1–2 years longer than their Indonesian counterparts. In contrast to survey respondents in Hong Kong, China, and Japan, Filipinos working in Singapore reported staying *twice* as long as their fellow countrymen working in the other destination countries. Indonesians working in Singapore, meanwhile, stay *half* as long as their fellow countrymen working in the other destination countries.

Table 2.5: Average Number of Years in Destination Country

| Host<br>Home | Hong Kong,<br>China | Japan | Malaysia | Singapore |
|---|---|---|---|---|
| Indonesia | 5.3 | 4.6 | > 1 year, 98% | 2.7 |
| Malaysia | -- | 4 | -- | 4.5 |
| Philippines | 7.6 | 6.1 | > 1 year, 67% | 6.5 |

Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers Remittance Study, Asian Development Bank.

## C. Immigrant Family Characteristics

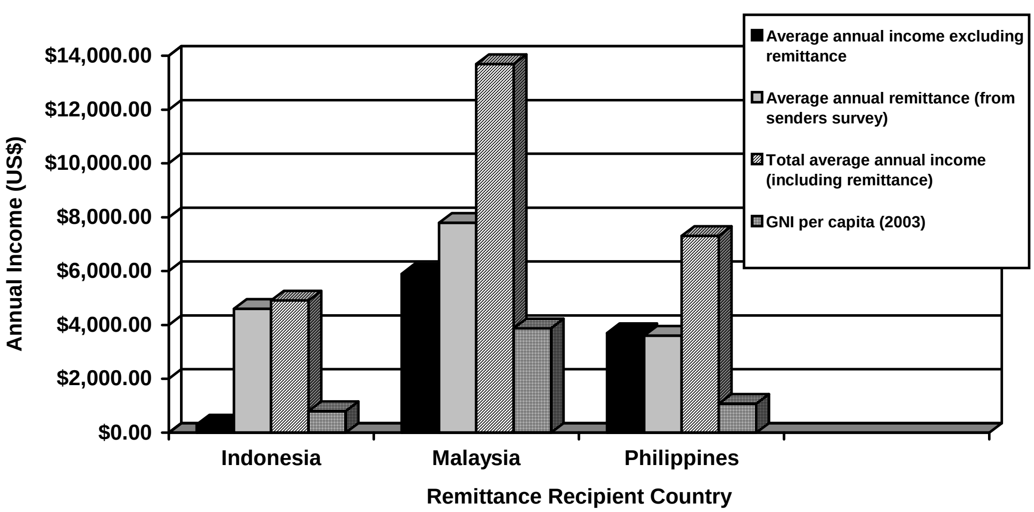
Surveys conducted among remittance beneficiaries in Indonesia, Malaysia and the Philippines correspond to demographic information obtained from migrants surveyed in Hong Kong, China, Japan, Malaysia, and Singapore. The following section details some key characteristics of migrant sending/remittance recipient households in the Southeast Asia region. Information on recipient household size and income, types of beneficiaries, their gender and age, enriches the discussion on the causes and consequences of the migration-remittance connection.

### 1. Household Size and Income

There are no significant differences in the household sizes of migrant sending families in the Indonesia, Malaysia and the Philippines. Migrants from all three countries come from households with approximately four other family members.

Among the remittance receiving households profiled in this study, Indonesian households appear to be the poorest. Figure 2.4 below compares average income per capita excluding remittance with average annual remittance, average income including remittance, and GNI per capita. While Filipino and Malaysian heads of migrant sending households, on average, earn 3.4 and 1.5 times more than the national average, respectively, Indonesian heads of migrant sending households earn less than half the GNI per capita (annual income excluding remittance of US$306 compared with a GNI per capita of US$810).

**Figure 2.4: Average Annual Recipient Income (2005) Compared with GNI per Capita (2003)**




Source: GNI per Capita, *World Bank Development Indicators 2003*; Average migrant income estimates based on survey of remittance recipient, Regional Technical Assistance No. 6212: Southeast Asia Workers Remittance Study, Asian Development Bank.

Remittance receiving households in Malaysia and the Philippines appear to earn, excluding remittances, roughly double their country's GNI per capita, deriving approximately half their income from remittances.

### 2. Type of Beneficiaries

Most migrants in the country's profiled report send money home to their parents, with the exception of Indonesians remitting from Malaysia. Eighty one percent of Indonesians working in Malaysia send money home to a spouse, rather than a parent (see Table 2.6 below).

**Table 2.6: Main Remittance Beneficiaries**

| Host<br>Home | Hong Kong, China | Japan | Malaysia | Singapore |
|---|---|---|---|---|
| Indonesia | 50% parent | 61% parent | 81% spouse | 66% parent |
| Malaysia | -- | 87% parent | -- | 74% parent |
| Philippines | 49% parent | 53% parent | 50% parent | 58% parent |

Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers Remittance Study, Asian Development Bank.

Secondary beneficiaries are—in almost all cases—the spouse of the migrant. The exceptions here, in terms of secondary beneficiaries, are the Indonesian households with family members in Malaysia (as mentioned above) who receive remittances from their children, and Malaysian households with family members in Japan receiving remittances from a sibling.

### 3. Gender and Age

On average, considering all the countries studied and based on surveys, nearly three quarters of remittance recipients in Malaysia and the Philippines are women, while more than half (60%) of remittance recipients in Indonesia are men. A closer look at individual corridors reveals that an Indonesian who receives remittances from a family member working in Japan or Malaysia is just as likely to be female as male. But this relative gender equality among households receiving remittances from Japan or Malaysia is counterbalanced by the large numbers of male beneficiaries receiving remittances from mostly female family members in Hong Kong, China, (74% male) and Singapore (78% male).

Consistent with results from remittance sender surveys, which revealed that most remitters are relatively young and typically remit to their parents, are the findings of remittance recipient surveys showing that beneficiaries tend to average 43 years in the Philippines, 40 years in Indonesia, and 37 years in Malaysia.

# III. Patterns among Senders and Recipients and Estimating Flows

After profiling some general demographic characteristics of migrants in the host countries, this chapter intends to look more specifically at the remittance sending behaviors of these groups. Different sending behaviors (both in amount and frequency), how migrants foresee remittances being spent by recipients, and the correlation between remittances and contact between family members, as well as the level of engagement migrants have with their home country, are discussed here. This section also estimates the flow of remittances sent to the countries under analysis.

## A. Defining Remittances

Worker remittances have generally been understood as a portion of earnings migrants send from a country other than their own to a relative in their country of origin for the purpose of meeting certain economic and financial obligations. The point of departure for remittances is the migration of people who respond to the complex reality of the foreign labor marketplace, political circumstances, and/or emergencies that influence one's decision to move in order to meet their responsibilities at home.

The International Monetary Fund (IMF), the United Nations (UN), and the World Bank among other international institutions, have used concrete definitions that seek to capture funds transferred as migrant earnings, depending on basic considerations. The most commonly cited definition of remittances is that provided by the IMF in the fifth edition of its *Balance of Payments Manual* (BOPM5) and the accompanying *Balance of Payments Textbook* and *Balance of Payments Compilation Guid*e (IMF 2005). The three balance-of-payments components often analyzed in relation to remittances are *workers' remittances* (current transfers), *compensation to employees* (income), and *migrants' transfers* (capital transfers). The first two are part of the current account, while the latter is part of the capital account.

According to the BOPM5 "*workers' remittances* cover current transfers by migrants who are employed in new economies and considered residents there," and goes on to define a migrant as "a person who comes to an economy and stays there, or is expected to stay, for a year or more." This definition also stipulates "workers' remittances often involve related persons." The BPM Textbook further adds that workers' remittances are "transfers made by migrants who are employed by entities of economies in which the workers are considered residents," but also notes "transfers made by self-employed migrants are not classified as workers' remittances, but as current transfers" (91).

The BOPM5 definition of *workers' remittances* distinguishes—and hinges on a distinction—between differences in migrant labor and residency status. In fact, IMF makes another distinction with regards to what constitutes a migrant based on their residency status in its definition of *compensation of employees*. As noted above, c*ompensation of employees*, along with *workers' remittances*, are the two main BOPM5 current account categories cited in reference to remittances. However, while *workers' remittances* refer to transfers, *compensation of employees* refers to remuneration for work, and is defined as "wages, salaries, and other benefits earned by individuals—in economies other than those in which they are residents—for work performed for and paid by residents of those economies." Seasonal workers, for example, are subject to fall under the compensation category, as are employees such as embassy staff.

This distinction raises the question as to what constitutes a resident as opposed to a non-resident. The BOPM5 does not define workers or migrants,[13] although the rule of thumb has been that any individual who has resided in the country for 1 year is classified as a resident. However, even when applying such a rule, it is increasingly difficult to distinguish between residents and nonresidents considering the contemporary landscape of human mobility. In Asia, Africa, and the Latin American and Caribbean context, for example, some individuals may hold a residency status in a country other than their home country, work seasonally there, but yet physically reside most of the time in the home country. These individuals are transnational migrants, who by virtue of their reality live in more than one country, and may often work in more than one country.

The BOPM5 uses a third typology, also frequently cited in reference to remittances called *migrants' transfers*. *Migrants' transfers*, a component of the capital account, are "contra-entries to the flow of goods and changes in financial items that arise from the migration of individuals from one economy to another," and like *workers' remittances* are classified as transfers. However, including *migrants' transfers* in remittances calculations is misleading since they involve assets that remain in the same hands—those of the migrant who has moved his or her assets from one country to another. The concept of remittances employed here is one that involves the intention of wealth transfer, and *migrants' transfers* do not fall into this interpretation. In fact, the UN Advisory Experts Group in National Accounts (AEG),[14] at its third annual meeting in July 2005, supported recommendations to remove *migrants' transfers* from the capital account, because no change of ownership occurs (SNA/M1.05/13.1 and SNA/M1.05/13.2).

This and other initiatives aimed at improving the definition of remittances largely stem from efforts of an international working group formed at the behest of the G-7 Finance Ministers during the June 2004 Sea Island Summit, and coordinated by the World Bank's Development Data Group and the IMF's Statistics Department. The International Technical Meeting on Measuring Migrant Remittances brought various stakeholders—including the IMF, Organization for Economic Co-operation and Development (OECD), United Nations Statistics Division (UNSD), World Bank, and central bank officials—together in January 2005. The group has agreed that the balance of payments is an "appropriate framework for improving the estimation and reporting of remittance data." Furthermore, the consensus was that revisions to the definition of remittances, as well as methodologies associated with quantifying these flows, should focus more on "household to household" transactions, deemphasizing "concerns about worker and migrant concepts" (IMF 2005).

In this vein, the Technical Subgroup on the Movement of Natural Persons (also known as Mode 4[15]) has assumed adjusting its terms of reference so that remittances can be defined and measured "independently of temporary worker issues" (IMF 2005). Mode 4, which is chaired by the UNSD and reports to the Inter-agency Task Force on Statistics of International Trade in Service, is coordinating its work with the IMF's revision of the BOPM5

[13] "The activities of an individual—whether he or she is regarded as a resident or a migrant—do not affect the aggregate transactions of the compiling economy with the rest of the world. Therefore, difficulties on this score will not, in principle, be a source of net errors and omissions in the balance of payments. Even so, efforts should be made to observe the distinction between nonresident workers and migrants" (BPM5, 272).

[14] AEG comprises 20 country experts in national accounts from all regions of the world.

[15] According to the IMF's Manual on Statistics of International Trade in Services, GATS Mode 4 "covers the presence of foreign workers in the market abroad. These can be employees working for foreign affiliates classified as services suppliers, and those sent abroad by a services supplier to provide a service. It also covers self-employed persons providing services. Borderline cases are discussed to clarify their treatment" (BOPCOM98/1/5).

and makes recommendations to the IMF Committee on Balance of Payments Statistics. During the third AEG meeting, Mode 4 advanced the following items:

(i) eliminate the concept of "migrant" from the balance of payments (BOP) and systems of national account (SNA)[16] frameworks and instead use exclusively the concept of resident;

(ii) replace the BOPM5 component "workers' remittances" with the component "personal transfers" to bring the BOP transaction in line with the 1993 SNA item "household transfers"; and

(iii) introduce two new BOP components, namely "personal remittances" and "institutional remittances", to meet users' needs (SNA/M1.05/15.2)

AEG members supported the Mode 4 recommendations, and therefore corresponding adjustments will be made. Definitional enhancements and adjustments are ongoing, and the G-7 expects a draft report on findings and recommendations by fall 2005. These recommendations recognize that it is important to use broader definitions of remittances than those traditionally employed, thus adjusting to the present times and preventing confusions or narrow understandings that would apply to one type of migrant only. Thus, "personal remittances," reported in the standard BOP presentation as a memorandum item, is then defined as current and capital transfers in cash or in kind, made or received, by resident households to or from nonresident households, and "net" compensation of employees from persons working abroad for short periods (less than 1 year).[17] Migrants' transfers would not be included (IMF 2005).

## B. Characteristics of Remittance Senders

### 1. Amount and Frequency

Remittance sending behavior varies between countries in the Southeast Asia region. The average remittance transaction for Filipino and Indonesian migrants living and working in Hong Kong, China, is US$300 on average and US$289 on average for those working in Singapore. This amounts to slightly more than twice to the amount sent by their counterparts working in and remitting from Malaysia (Table 3.1).

[16] The *1993 System of National Accounts* is a conceptual framework that sets the international statistical standard for the measurement of the market economy. It is published jointly by the United Nations, the Commission of the European Communities, the International Monetary Fund, the Organisation for Economic Co-operation and Development, and the World Bank.

[17] This concept refers to "compensation of employees" net of, i.e., less, taxes on income, social security contributions, and travel and passengers transportation related to the short-term employment.

**Table 3.1: Average Amount Sent Each Remittance** (US$)

| Host<br>Home | Hong Kong, China | | Japan | | Malaysia | | Singapore | |
|---|---|---|---|---|---|---|---|---|
| | Average | Average | Lowest 40% | Average | Lowest 40% | Lowest 40% | Average | Lowest 40% |
| Indonesia | 332 | 830 | 467 | 284 | 181 | 176 | 151 | 70 |
| Malaysia | -- | 961 | 280 | 385 | 241 | -- | -- | -- |
| Philippines | 268 | 567 | 374 | 294 | 181 | 192 | 132 | 70 |

Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Filipinos and Indonesians working in Japan, however, remit more than twice as much as their counterparts in Hong Kong, China, and Singapore. The same trend is evident among those whose average remittance transaction falls at or under the lowest $40^{th}$ percentile.

Indonesians working in Japan, Hong Kong, China, and Singapore tend to remit more than Filipinos, but the reverse is true for those working in Malaysia. However, the Indonesians' higher average amount remitted is counterbalanced by the frequency with which they remit. Indonesians tend to remit much less frequently than Filipinos, in some cases half as many times, as illustrated in Table 3.2 below.

**Table 3.2: Annual Average Number of Transactions a Migrant Makes**

| Host<br>Home | Hong Kong, China | Japan | Malaysia | Singapore |
|---|---|---|---|---|
| Indonesia | 11 | 5 | 6 | 3 |
| Malaysia | -- | 4 | -- | 6 |
| Philippines | 15 | 11 | 10 | 14 |

Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Among the remittance receiving countries profiled, Filipinos remit the most frequently. Nearly all Filipinos in Hong Kong, China, and Singapore and 67% of Filipinos in Japan remit at least once a month. Of the other corridors profiled, only Indonesians remitting from Hong Kong, China, approximate a monthly transaction frequency. Sixty seven percent of Indonesians working in Hong Kong, China, remit at least once a month, contrasted with just 14% of Indonesians in Japan who remit monthly.

Migrants in Hong Kong, China regardless of country of their origin, tend to remit more frequently than their counterparts in Japan, Malaysia and Singapore.

### 2. Expenditures

When asked how the remittance is spent by the recipient (generally the parents, as demonstrated above), Filipino migrants in the countries profiled most frequently mentioned food, education and clothing as the top three expenditures, in that order. Filipino migrants in Hong Kong, China, Japan, and Malaysia were consistent in their responses, while Filipinos in Singapore prioritized education above food, and housing rather than clothing.

With Indonesian migrants, expenditures vary depending on the country from which the migrant is remitting. Like their Filipino counterparts, Indonesians remitting from neighboring countries Malaysia and Singapore most frequently mentioned food, clothing, and education as the top three remittance expenditures. However, Indonesians in Japan were more prone to mention education, followed by savings and then food as the most important remittance expenditures. Indonesians remitting from Hong Kong, China, meanwhile, most frequently mentioned savings, followed by education and business investments rounding out the top three expenditures. Higher variability in the case of Indonesian remitters does not reveal that Indonesian remitters necessarily spend less on basic expenditures such as food and clothing, but rather that in the case of Indonesian remitters from Japan and Hong Kong, China, their remittance is more spread out among expenses incurred by the recipient.

**Table 3.3: Top Three Expenditures According to Senders**

| Host<br>Home | | Hong Kong, China | Japan | Malaysia | Singapore |
|---|---|---|---|---|---|
| | 1st | savings (39%) | education (43%) | food (99%) | food (87%) |
| Indonesia | 2nd | education (36%) | savings (40%) | clothing (98%) | clothing (66%) |
| | 3rd | business (30%) | food (34%) | education (93%) | education (47%) |
| | 1st | -- | education (35%) | -- | food (90%) |
| Malaysia | 2nd | -- | savings (30%) | -- | clothing (66%) |
| | 3rd | -- | food (26%) | -- | housing (49%) |
| | 1st | food (78%) | food (74%) | food (92%) | education (77%) |
| Philippines | 2nd | education (73%) | education (57%) | education (80%) | food (75%) |
| | 3rd | clothing (45%) | clothing (56%) | clothing (75%) | housing (50%) |

Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

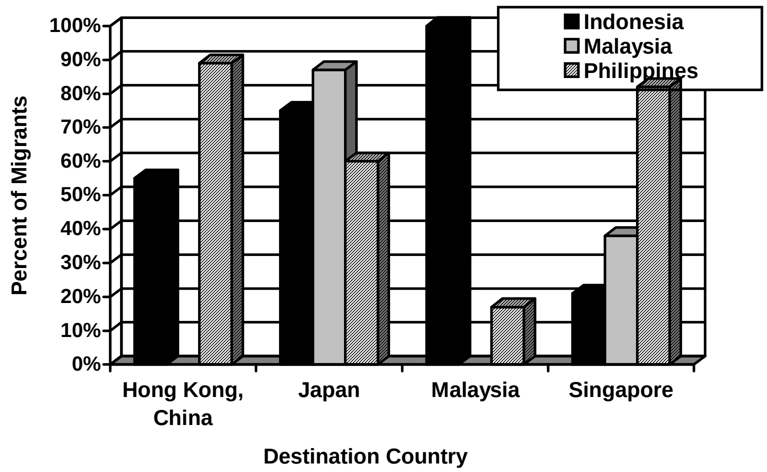
### 3. Contact with Country of Origin

Contact between migrants and family members back home is varied by country and nationality. Filipinos tend to have more contact with their home country family members than Indonesians or Malaysians. On average, approximately 73% of Filipinos (ranging from 55% in Japan to 92% in Hong Kong, China) have contact with a family member at least once a week. Indonesians, on average, have the least amount of contact with home country family members. Approximately one in three of all Indonesians in the countries profiled contact their family member at least once a week.

While just 8% of Indonesians working in Malaysia contact their family members at least once a week, 92% have traveled back to Indonesia at least once either in 2005 or in 2004. Likewise, nearly all Malaysians (97%) working in neighbor country Singapore have returned home at least once during the same time frame, compared with just 42% of Indonesians working there. Filipinos working in Malaysia are the least likely among their counterparts in Hong Kong, China, Japan, and Singapore to travel home, with just 30% making the trip at least once in 2005 or 2004.

Of those who travel home, more than three quarters of Indonesians on average take at least US$3000 home with them, with the exception of Indonesian workers traveling home from Singapore (21%). While just 17% of Filipinos working in Malaysia take at least US$3000 home when traveling back to their country of origin, it is migrants overall working in Singapore who least frequently take a minimum US$3000 home with them (Figure 3.1).

**Figure 3.1: Percent of Migrants who Brought US$3000 or Less on their Last Visit Home**




Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

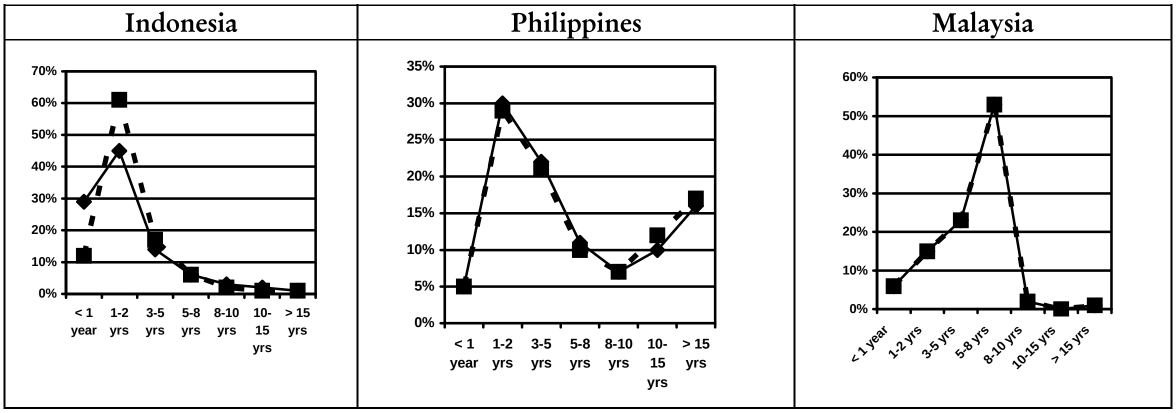
## C. Characteristics of Receiving Households

Like the preceding section, the following takes the description of migrant sending households one step further by looking closely at their remittance receiving experiences, remittance spending behavior, and how this potentially relates to the type and level of contact they have with their family member working overseas.

### 1. Amount and Frequency

According to survey data collected from remittance recipients, there is a direct correlation between the length of time a family member has been living and working overseas, and the length of time remittances are being sent/received. It appears that the remittance sending behavior of Southeast Asian migrants remains consistent over time and does not diminish (or increase) the shorter (or longer) the migrant stays overseas (Figure 3.2).

**Figure 3.2: Length of Time Receiving Remittances and Length of Time Relative to Living Abroad**




Source: Survey of remittance recipients, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

## 2. Expenditures

When asked about the principal reason for receiving remittances, 65% of Filipinos, 79% of Indonesians, and 60% of Malaysians reported receiving money from family members working overseas to cover basic family needs, including food, clothing, and shelter.

Remittance recipients in the Indonesia, Malaysia and the Philippines all rank food and education among the top three expenditures for the funds they receive. Forty nine percent of Filipino and 81% of Malaysian recipients reported saving a portion of their remittance. Satisfying housing needs rounded out the top three expenditures for Indonesian recipients (Table 3.4).

**Table 3.4: Remittance Expenditures According to Recipients**

| Country Rank | Indonesia | Malaysia | Philippines |
|---|---|---|---|
| 1st | Food (72%) | Savings (81%) | Food (60%) |
| 2nd | House (55%) | Education (64%) | Education (57%) |
| 3rd | Education (53%) | Food (62%) | Savings (49%) |

Source: Survey of remittance recipients, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

There was more variation among respondents when asked whether or not funds are used to pay loans. Just 4% of Filipino respondents use remittance funds to repay loans, compared with nearly a quarter (22%) of Malaysian and almost half (48%) of Indonesian respondents. The questionnaire administered to remittance recipients did not ask about the specific nature of the loans being repaid, however, other sections of this report allude to the potential impact that agency repayment fee obligations among Indonesian workers have on their remittance transactions.

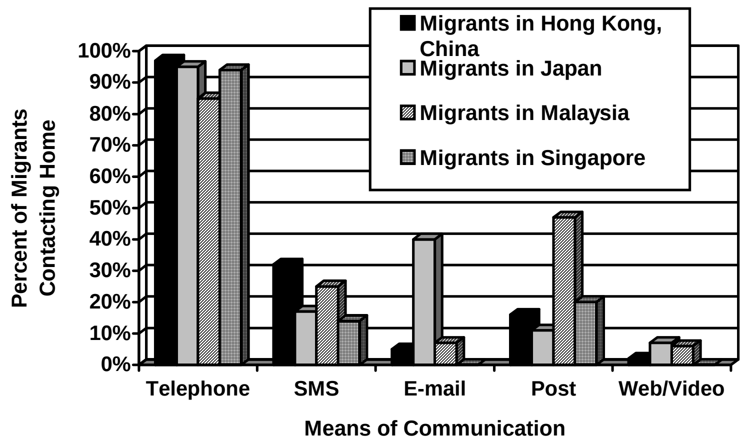
## 3. Contact with Family Members Overseas

Insofar as contact with family members living and working overseas, recipient responses are mostly consistent with results from surveys administered to remittance senders.

On average, one in two Filipinos and likewise 50% of Malaysians have contact with their family members at least once a week, compared with just a quarter of Indonesians.

Remittance receiving households most frequently hear from their overseas family members by telephone. After the telephone, most migrants in Japan (regardless if they are Filipino, Indonesian, or Malaysian) use e-mail as a means of communication, whereas migrants in Hong Kong, China, are more likely to use short message service (SMS) as a second choice (Figure 3.3).

**Figure 3.3: How Migrants Contact their Family Members**
(average between Filipinos, Indonesians and Malaysians)

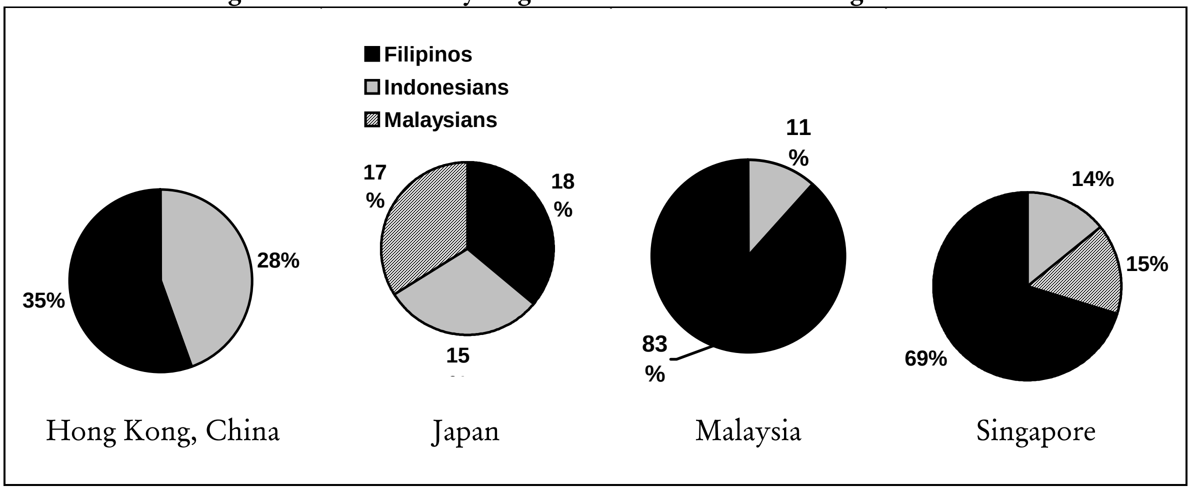



Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers Remittance Study, Asian Development Bank.

Unlike Hong Kong, China, and Japan not all migrants in Malaysia and Singapore concur on their secondary communication method. Most Indonesians in Singapore (37%) and Malaysia (49%) rely on the post—after the telephone—to communicate with family members back home. Most Filipinos in Singapore (69%) and Malaysia (83%), however, will use SMS after the telephone to communicate with their relatives in the Philippines.

Figure 3.4 illustrates the use of SMS by different foreign workers, depending on their country of residence.

**Figure 3.4: SMS Use by Migrants in Remittance Sending Countries**




Source: Survey of migrant sender, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

The overall engagement that immigrants have with their families is relatively significant. We created an index of engagement based on 10 questions.

Who

- has a bank account?
- has a mortgage?
- has a small family or commercial business?
- has a loan to maintain personal business?
- has a student loan?
- has a pension plan?
- lends money for family investments?
- stays in regular contact with families?
- leaves with the family half the cash one brought in the last visit?
- supports or contributes to hometown associations or clubs that help one's home country

The majority of respondents were actively involved in at least three activities with their home country, and a smaller percentage was very involved in more than four. Table 3.5 shows those very engaged in their home country. Filipinos appear as the most involved with their relatives back home.

**Table 3.5: Level of Engagement (%)**

| Host<br>Home | Hong Kong, China | Japan | Malaysia | Singapore |
|---|---|---|---|---|
| Indonesia | 28 | 14 | 42 | 3 |
| Malaysia | | 9 | | 7 |
| Philippines | 37 | 22 | 38 | 20 |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Note: this table reflects percent of people who were engaged in four or more activities

## D. Estimates of Values

Estimating the volume of money sent from one group to a country of origin is difficult. Prevailing methodologies offer limited benefits unless the remittance recipient country carefully monitors worker transfers from abroad. Moreover, in many cases the central bank units of the sending or receiving entities do not account for the geographic origin of the flows. The most typical methodology central banks use to measure remittances and record them as unilateral transfers within the BOP is to obtain daily reports from those licensed remitters. An additional and complementary method consists of random household surveys to estimate the ratio and profile of remittance recipients. Finally, some central banks monitor the inflow and/or outflow of foreign currency and estimate their transactional origin (whether in foreign investment, remittance, aid, trade, or any other international financial activity).

Unfortunately central bank officers acknowledge the difficulties in accurately measuring remittances. In this report the volume of remittances is estimated by using survey data for sending countries and weighted it to the immigrant population sending and the frequency of sending. The surveys conducted in Southeast Asia are statistically representative of the immigrant population and allow for an approximation of the total sent. The estimation employed looked at the percent of immigrants who send remittances, the range sent, and regularity.

Thus, the weighted average is

$$REMITTANCES_{IJ} = \sum \{[( Sent_{IJ} \times Freq_{IJ}) \times Dist._{IJ}] \times Migr._{IJ} \}$$

REMITTANCES$_{IJ}$ = Total remittances from host country i to home country j

Sent$_{IJ}$ = Average amount sent

Freq$_{IJ}$ = Frequency of sending)

Dist.$_{IJ}$ = Percent distribution of that group

Migr.$_{IJ}$ = Migrant sending population

For ease of reading, the tables below display only the average amounts remitted, the total weighted averages, and regularity in sending and applied to 90% and 70% of immigrants. Our surveys show that 90% or more of immigrants send remittances; however, we used a 70% estimate to control for cases of overreporting. However, because the surveys use official figures about migrants, these estimates need to be considered as a baseline because they do not consider the undocumented population (no matter how small or large it can be) working in those countries. Thus, an unweighted average is also estimated.

$$\boxed{REMITTANCES_{IJ} = TIMESSEND_{IJ} * SENDAVG_{IJ} * MIGR_{IJ}}$$

WHERE,

REMITTANCES$_{IJ}$ = Total remittances from host country i to home country j

TIMESSEND$_{IJ}$ = Average number of times sending of remittances from host country i to home country j

$SENDAVG_{IJ}$ = Average amount sent from host country i to home country j
$MIGR_{IJ}$ = Migrant population in host country i from home country j.

### 1. Estimates of Remittances Sent from Japan

As the previous sections have shown, the majority of immigrants in Japan remit at least US$4,000 a year. Except with the Philippines, which remit monthly, these remitters send on a quarterly or semester basis; however, the total annual volumes are similar because the averages vary: the less frequent they send the more they send. Thus, with an estimated minimum of 150,000 immigrants remitting we estimate US$1 billion in remittances going to three countries.

**Table 3.6: Japan, Average Amount Sent, Frequency of Sending and Migrant Population**

| Country of Origin | Average Amount of Remittance Sent (US$) | Average Frequency of Sending | Migrant Population | 90% Migrant Population | 70% Migrant Population |
|---|---|---|---|---|---|
| Indonesia | 830 | 5 | 23,000 | 20,700 | 16,100 |
| Malaysia | 961 | 4 | 9,000 | 8,100 | 6,300 |
| Philippines | 567 | 11 | 185,000 | 166,500 | 129,500 |
| **Total** | **671** | **9** | **217,000** | **195,300** | **151,900** |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

**Table 3.7: Estimated Volume of Remittances from Japan (US$)**

| Country of Origin | 90% Est. Volume | 70% Est. Volume | Weighted Average |
|---|---|---|---|
| Indonesia | 86,126,080 | 66,986,951 | 79,441,570 |
| Malaysia | 28,420,294 | 22,104,673 | 15,087,395 |
| Philippines | 1,014,012,040 | 788,676,031 | 927,495,542 |
| **Total** | **1,128,558,414** | **877,767,655** | **1,022,024,508** |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

## 2. Remitting from Hong Kong, China

A common feature among Filipino and Indonesian immigrants in Hong Kong, China, is their frequency of remitting. However, like the counterparts in Japan, Filipinos send smaller amounts. Overall the quantity sent is lower than what is sent from Japan. One reason being that income and salaries in Japan are higher: per capita income in Japan is US$45,029, against US$25,456 for Hong Kong, China. The same applies to the differences in income immigrants earn in the respective countries. What is strikingly different is that the volume sent as a ratio of total income is far greater among immigrants in Hong Kong, China, than in Japan, Singapore, or Malaysia.

**Table 3.8: Income, Remittances, and Ratio of Remittances to Income**

| Sending Country | Country of Origin | Annual Personal Income (US$) | Money Sent per Year (US$) | Ratio |
|---|---|---|---|---|
| Japan | Indonesia | 22,232 | 3,850 | 0.4 |
| | Malaysia | 14,738 | 1,945 | 0.1 |
| | Philippines | 19,097 | 6,064 | 0.4 |
| Hong Kong, China | Indonesia | 4,700 | 3,246 | 0.8 |
| | Philippines | 5,200 | 4,086 | 0.8 |
| Singapore | Indonesia | 2,072 | 782 | 0.4 |
| | Malaysia | 11,413 | 1,930 | 0.2 |
| | Philippines | 9,094 | 3,786 | 0.8 |
| Malaysia | Indonesia | 4,076 | 874 | 0.2 |
| | Philippines | 2,654 | 1,354 | 0.5 |
| **Total** | Indonesia | 6,804 | 2,241 | 0.5 |
| | Malaysia | 11,907 | 1,931 | 0.2 |
| | Philippines | 10,776 | 4,639 | 0.7 |
| | **Total** | **9,186** | **3,248** | **0.5** |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Given these average values, estimated amount sent annually from Hong Kong, China, to the Philippines and Indonesia is at least half a billion to eight hundred million US dollars. Tables 3.9 and 3.10 show the estimates in remittances.

**Table 3.9: Average Amount Sent, Frequency of Sending and Migrant Population in Hong Kong, China**

| Country of Origin | Average Amount of Remittance Sent (US$) | Average Frequency of Sending | Migrant Population | 90% Migrant Population | 70% Migrant Population |
|---|---|---|---|---|---|
| Indonesia | 332 | 11 | 142,000 | 127,800 | 99,400 |
| Philippines | 268 | 14 | 108,000 | 97,200 | 75,600 |
| **Total** | **299** | **13** | **250,000** | **225,000** | **175,000** |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

**Table 3.10: Estimated Volume of Remittances from Hong Kong, China**

| Country of Origin | 90% Est. Volume | 70% Est. Volume | Weighted Averages |
|---|---|---|---|
| Indonesia | 459,474,417 | 357,368,991 | 227,250,902 |
| Philippines | 376,651,521 | 292,951,183 | 298,124,465 |
| **Total** | **836,125,937** | **650,320,174** | **525,375,367** |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

### 3. Remitting from Singapore

In the case of Singapore, immigrants send in similar frequencies to those of Japan. These frequencies translate in an estimated volume of five to seven hundred million US dollars.

**Table 3.11: Average Amount Sent, Frequency of Sending and Migrant Population in Singapore**

| Country of Origin | Average Amount of Remittance Sent (US$) | Average Frequency of Sending | Migrant Population | 90% Migrant Population | 70% Migrant Population |
|---|---|---|---|---|---|
| Indonesia | 284 | 3 | 60,000 | 54,000 | 42,000 |
| Malaysia | 385 | 6 | 165,000 | 148,500 | 115,500 |
| Philippines | 294 | 14 | 90,000 | 81,000 | 63,000 |
| **Total** | **323** | **7** | **315,000** | **283,500** | **220,500** |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

**Table 3.12: Estimated Volume of Remittances from Singapore** (US$)

| Country of Origin | 90% Est. Volume | 70% Est. Volume | Weighted Average |
|---|---|---|---|
| Indonesia | 42,876,091 | 33,348,070 | 70,816,500 |
| Malaysia | 316,929,387 | 246,500,634 | 315,708,661 |
| Philippines | 331,796,694 | 258,064,095 | 120,100,109 |
| **Total** | **691,602,171** | **537,912,800** | **506,625,270** |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Estimating remittance volumes for Malaysia is more complicated. These estimates focus only on work permit holders, permanent residents, and employment pass holders. Day laborers, who are estimated to amount to 50,000 are also individuals carrying money back home, but are not included in this estimate. However, by virtue of their daily cross-border activity, Malaysians constitute the largest foreign worker group in Singapore, but still reside in Malaysia while working in Singapore. These groups return to their country with the earnings from Singapore, which either deposit in banks or keep in cash.

While technically these earnings are not qualified as remittances, the physical transfer of Singapore dollars into Malaysia is not negligible and does have a very real and positive impact on the Malaysian economy.[18]

### 4. Remitting from Malaysia

Like Singapore, measuring remittance sending from Malaysia is complicated because the Filipino population in the country is dispersed and with significant undocumented populations using informal mechanisms. We used 400,000 as a figure of Filipinos, but this number may be half of that reported by other sources. These immigrants send the lowest average though in similar frequencies. The estimated volume is between one and one and a half billion US dollars.

[18] See the country report on Singapore, Appendix 7.

**Table 3.13: Average Amount Sent, Frequency of Sending and Migrants in Malaysia**

| Country of Origin | Average Amount of Remittance Sent (US$) | Average Frequency of Sending | Migrant Population | 90% Migrant Population | 70% Migrant Population |
|---|---|---|---|---|---|
| Indonesia | 151 | 6 | 400,000 | 360,000 | 280,000 |
| Philippines | 132 | 10 | 1,000,000 | 900,000 | 700,000 |
| **Total** | **147** | **7** | **1,400,000** | **1,260,000** | **980,000** |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

**Table 3.14: Estimated Volume of Remittances from Malaysia** (US$)

| Country of Origin | 90% Est. Volume | 70% Est. Volume | Weighted Average |
|---|---|---|---|
| Indonesia | 326,842,105 | 254,210,526 | 1,000,000,000 |
| Philippines | 1,219,040,248 | 948,142,415 | 2,000,000 |
| **Total** | **1,545,882,353** | **1,202,352,941** | **1,002,000,000** |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

### 5. Regional Flows

Comparing the volumes from various countries the range varies from three to four billion US dollars—the Philippines receiving about 50% of that volume. It is important to note that in all cases migrant sending groups are consistent in the frequency of sending. This is particularly telling in the case of Filipinos who consistently said they sent 11–13 times a year. Moreover it is worth noting that except from the case of Hong Kong, China, immigrants sent about half their earnings back home.

**Table 3.15: Regional Comparison of Remittance Sending by Migrants**

| Country of Origin | Average Amount of Remittance Sent (US$) | Average Frequency of Sending | Migrant Population | 90% Migrant Population | 70% Migrant Population |
|---|---|---|---|---|---|
| Indonesia | 376 | 7 | 625,000 | 562,500 | 437,500 |
| Malaysia | 455 | 5 | 174,000 | 15,6600 | 121,800 |
| Philippines | 372 | 13 | 1,383,000 | 1,244,700 | 968,100 |
| Total | 384 | 9 | 2,182,000 | 1,963,800 | 1,527,400 |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

**Table 3.16: Regional Flows to Three Selected Remittance Recipient Countries in Southeast Asia** (US$)

| Country of Origin | 90% Est. Volume | 70% Est. Volume | Weighted Average |
|---|---|---|---|
| Indonesia | 915,318,692 | 711,914,539 | 1,377,508,972 |
| Malaysia | 345,349,681 | 268,605,307 | 330,796,057 |
| Philippines | 2,941,500,502 | 2,287,833,724 | 1,347,720,116 |
| Total | 4,202,168,875 | 3,268,353,569 | 3,056,025,145 |

Source: Survey of migrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

# IV. The Marketplace of Money Transfers: Rules, Players, and Competition

Intermediation of money transfers is essential to an effective and efficient marketplace. Such a marketplace operates as a function of prevailing regulatory frameworks, which establish rules on how money is sent and through which institutions. The remittance transfer marketplace also functions in relationship to the number and type of players, demand, size, real and expected volumes, and the structure of competition. Each of these elements defines the health of such markets.

Within the context of the countries studied, intermediation for money transfers occurs under a strict regulations; more so in countries like Japan and Malaysia, and less so in places like Hong Kong, China, and Singapore. In most cases, intermediation occurs within a framework of licensed and/or regulated institutions, with exceptions among immigrants in Malaysia remitting to Indonesia or the Philippines.

Moreover, competition is concentrated among no more than 20 players, with the exception of Singapore where the availability of providers serving many Asian countries, including Indonesia, Malaysia, and Philippines, is greater. Transaction costs vary from country to country and may be more a function of regulatory environments restricting nonbanking financial institutions, than a response to demand size.

This section of the report analyzes each of these issues, highlighting the main trends and patterns in each country studied.

## A. Regulatory Environment

Regulatory frameworks help define and structure the ways in which private transactions take place. Countries regulate the kind of institution allowed to make international money transfers, and the conditions in which foreign currency transfers are allowed. Critical issues concerning regulatory environments refer to the number of regulatory bodies, the rules they establish, and their concerns regarding financial transfers and enforcement. This report interviewed regulators at central banks, bank superintendencies, finance ministries, and other currency regulatory bodies about who is allowed to make transfers, what restrictions exist and why, what role exists for banking financial institutions, how reporting is regulated, when transfers fall outside the legal framework, and what other rules and enforcement mechanisms are in place that affect money transfers.

One concern shared by all regulators in the countries studied is the use of money transfers for illicit activities. This section summarizes findings from interviews conducted at remittance regulatory bodies in Hong Kong, China, Indonesia, Japan, Malaysia, the Philippines, and Singapore. The issues addressed in these interviews dealt with five main themes, namely: (i) Regulatory Framework, (ii) Remitting Country – Receiving Country Relations, (iii) Enforcement, (iv) Anti-Money Laundering Law Compliance, and (v) Information and Data Gathering.

### 1. Regulatory Bodies

Not all countries in Southeast Asia have uniform regulations or institutional bodies that oversee money transfers. In Hong Kong, China, Indonesia, Malaysia, and Singapore, the central banks (or monetary authority as in Singapore) have jurisdiction over the banking sector; where allowed to operate, several companies, outfits, and agents are involved in the business of remittances. These institutions are the Bank Negara Malaysia (BNM), the Hong Kong Monetary Authority (HKMA), the Bank of Indonesia and the Monetary Authority of Singapore.[19] In the case of Malaysia, the Finance Minister is also the country's Prime Minister. When it comes to money transfer outfits (MTOs) in Hong Kong, China, the police assumes registration responsibility.

In the Philippines, the Charter of the Central Bank (Bangko Sentral ng Pilipinas BSP) provides some independence in reporting lines to the Finance Secretary; however, under the New Bank Act, the Finance Secretary sits as one of the members of the Monetary Board (BSP's policy-making body). This change indicates the Government's desire to have close coordination between the two government bodies. Chaired by the BSP Governor, the other five members of the Board come from the private sector.[20] Qualified persons and nonbank institutions desiring to act as foreign exchange dealers, money changers, and/or remittance agents are now also required to register under BSP (Circular No. 471). Other regulators include the Securities and Exchange Commission (SEC), which requires banks, remittance companies, and foreign exchange corporations to also register with it (ADB 2004).

In Japan, the Ministry of Finance (MOF) was the main banking regulator until 1998, when the Financial Supervisory Agency (FSA) was established to serve as one of the external organs of the Prime Minister's Office. FSA assumed from MOF the functions of inspecting, supervising, and surveying securities transactions by the private sector and financial institutions. In July 2000, the name of FSA was changed to Financial Services Agency under the Financial Reconstruction Commission (FRC), and the department assumed from MOF the additional task of planning Japan's financial system. In July 2001, FRC was abolished and FSA became the primary finance body of the Cabinet Office, with expanded responsibilities over the liquidation and resolution of failing banks, including correction actions relating to bank reconstruction.[21]

Japan's MOF retains power on the overall coordination and adjustment of MOF accounts; the investigation, planning, and drafting of the Government's financial system; financial crisis management; and funding supervision along with FSA of the Deposit Insurance Corporation.[22] The Bank of Japan, on the other hand, has responsibility over price stability (i.e., to maintain an economic environment in which there is neither inflation nor deflation), the overall volume of money in the economy, and interest rates on a daily basis through money market operations.[23]

### 2. Authorized Remittance Licensed Players

Not all countries have similar policies as to which businesses are allowed to have a remittance license to legally operate their businesses. In Indonesia, Japan, and Malaysia only banks are allowed to do wire transfers, whereas in the Hong Kong, China, Philippines, and Singapore there is greater room for participation. Under special provisions in each country, post offices are also allowed to effect transfers directly through their branches and with corresponding offices.

[19] MAS is also the sole regulator of finance companies, insurance companies, securities firms, and moneychangers.

[20] Interview with former Philippine Minister of Finance Anita Amatong, 1 May 2005.

[21] Refer to Japan FSA homepage www.fsa.go.jp

[22] Refer to Japan MOF homepage www.mof.go.jp.

[23] Refer to BOJ homepage www.boj.or.jp.

Japan requires a full banking license of all remittance transfer businesses, even if a company would like to engage only in remittance transfers and no other financial matters. This is because remittances fall under the category of "exchange transactions," a core function permitted only to authorized, licensed foreign financial institutions. Under the Postal Transaction Law, the post office may also engage in the funds transfer business as part of its postal savings operations.

Indonesia and Malaysia also limit permission to engage in the remittance transfer business to the banking sector, but Post Office Malaysia (POS Malaysia) and Indonesia's Post Office are also allowed to engage in the business. Money transfer companies, such as Western Union (WU) or MoneyGram (MG), seeking to establish a presence in Indonesia or Malaysia, must partner with licensed banks. In Malaysia, BNM is currently handling the granting of remittance business permission on a case-by-case basis. POS Malaysia, for example, is not a licensed bank; however, BNM has allowed WU to partner with them to provide remittance transfer services.

Both domestic and foreign banks may forge partnership agreements in Malaysia. Furthermore, Malaysian authorities have allowed a private Nepalese company called IME Impex Sdn Bhd, under a special arrangement between the Government of Malaysia and the Government of Nepal, to service Nepalese remittances, in the form of a private commercial venture, between IME and designated licensed local Malaysian banks. In Indonesia, however, partnerships with money transfer outfits are limited to domestic banks.

Hong Kong, China, the Philippines, and Singapore do not restrict remittance business permits to banking institutions. Hong Kong, China, and Singapore appear to have the most liberal remittance environment with interested parties able to secure permits as remittance agents (RAs). No minimum capital is required of RAs in these countries. Singapore allows already licensed banks to open limited purpose branches (LPBs) through a simple application procedure that is secured within a month or so, and carries a minimum licensing expense of only S$1,000 (US$611) per year.[24] Through LPBs, Singapore appears to have encouraged more foreign bank branches with large migrant populations to establish remittance businesses, thereby making their presence more visible and more easily accessed by their country's migrant workers. The move may be indicative of the Government's desire to have banks with presumably lower status and operational risks to become more active players in the business.

### 3. Capital Requirements

As an insurance precaution, governments require banking and nonbanking financial institutions to back their operations with minimum capital thresholds, which often may be significantly high. This procedure may preclude small businesses from entering the market. Japan is the only one of the four remittance sending countries where no minimum capital requirement is imposed on foreign bank branches. One reason is that these banking institutions are expected to be financially strong. Local banks, however, are required Japanese yen (¥)2.0 billion (US$19,020,447),[25] an amount that is still much lower than those imposed by other sending countries.

In Malaysia RM2 billion is required for domestic banking groups, which comprises commercial bank, merchant bank, and finance companies, and RM300 million for locally

---

[24] Interview with Alex Milan, General Manager, Philippine National Bank, Singapore Branch. PNB Singapore opened its first LPB on 24 April 2005.

[25] ¥105.15 = US$1.00 (value as of closing price, 28 April 2005).

incorporated foreign banks.[26] Indonesia's capital required for banks seeking to open business is rupiah (Rp)3.00 trillion (US$333.33 million).[27] Additionally, Indonesia requires banks to maintain a capital adequacy ratio of at least 8% from the start of the bank's operations. Past problems experienced with many small banks may have influenced the thinking of the regulators that only the bigger and, by association, more stable banks be allowed to enter the market. Much smaller capital requirements are required of banks wishing to establish and/or convert their operations to business operations based on Sharia principles, from Rp1.00 billion, to Rp2.00 billion (US$104,515–209,030), depending on which area they hope to set up Sharia branch offices.[28]

Singapore expects the head offices of foreign banks to be in good financial standing to set up business, requiring them to have capital of not less than S$200 million (US$122.25 million), while their foreign branches are required to have a minimum of S$10 million (US$6.11 million).[29] In addition, yearly licensing fees are paid varying from S$75,000–125,000 (US$45,844–76,406), depending on license type. Worth noting is the ease with which nonbanks like MTOs can set up business in the city state. No capital is required of MTOs, and only an S$100,000 (US$61,125) security deposit, is required which must be furnished to the MAS for each branch of the remittance company.

Hong Kong, China, requires Hong Kong dollars (HK$)300 million (US$38.48 million) for banks to set up business. For restricted licensed banks, HK$100 million (US$12.83 million) is required, and for deposit-taking companies HK$25 million (US$3.21 million).[30] There is no capital requirement for RAs.The minimum capital requirement for banks in the Philippines depends on the type of banking license the institution seeks to operate.[31] Universal banks are required Philippine peso (P)4.95 million (US$91,413); commercial banks P2.4 million (US$44,321); thrift banks with head offices in Metropolitan Manila P325 million (US$6 million), and head offices outside Metropolitan Manila P52 million (US$960,206); and rural banks varying capital depending on the location of the office. Remittance companies and other entities are required a minimum capital depending on the type of business entity (sole proprietorship, partnership, or corporation).[32]

### 4. Identification Documents for Banking Transactions

One issue addressed in this report refers to who, on the demand side, is allowed to conduct remittance transfers. Identity is a common minimum threshold that permits an individual to send money. The kind of identity required, however, varies across countries and thus may set limitations as to who is effectively allowed to remit through licensed businesses.

In all the countries studied, in addition to government issued identification documents, a valid passport for nonnationals of the host countries is an acceptable form of identification for opening accounts and remitting money overseas. However, some countries may require additional supporting documentation for account opening, such as a national identity card. For those remitting, additional documents include work permits, or national identity card in

[26] Comments by officials at the Bank Negara Malaysia. It is important to qualify that this requirement applies to open banking operations, not remittance operations.

[27] Rp9,568 = US$1.00 (value as of closing price, 28 April 2005).

[28] Article 56, Bank of Indonesia Regulation No. 2/27/2000 concerning commercial banks.

[29] S$1.6360 = US$1.00 (value as of closing price, 28 April 2005).

[30] HK$7.7948 = US$1.00 (value as of closing price, 28 April 2005).

[31] http://www.bsp.gov.ph/regulations/guidelines/guidelines_b.htm

[32] P54.155 = US$1.00 (value as of closing price, 28 April 2005).

Singapore, a permanent resident card in Indonesia; a valid worker's permit or a letter from the employer in Malaysia; an alien registration card for nonnationals in Japan; and the Hong Kong Identity Card in Hong Kong, China. In the Philippines, identification (ID) documentation varies from institution to institution with the alien certificate of registration and the passport as minimum requirements.

### 5. Regulations on Pricing and Other Transaction Costs

In the countries studied, remittance charges can be freely set and are therefore unregulated. However, in the Philippines there exist various charges, additional to the remittance charge already paid by the remitter, borne by the recipient. Below are examples of the documentary stamp tax levied in the Philippines by the Philippine National Bank. While the documentary stamp tax is standard for all banks, other charges can vary from bank to bank.[33]

**Table 4.1: Examples of Amounts of Documentary Stamps Levied in the Philippines by the Philippine National Bank**

| Item | Amount of Documentary Stamp |
|---|---|
| Non-PNB Peso Account | P0.30 documentary stamp tax for every P200.00 + P100.00 + charges of the other bank |
| Non-PNB US$ Account | ¼ of 1% of proceeds or minimum of P100.00 for first US$100T, additional 1/8 of 1% on next US$400T, additional 1/16 of 1% on excess over US$500T, + P100.00 |
| Advice and Pay | P0.30 documentary stamp tax for every P200.00 + P100.00 |
| Door-to-Door Delivery | P0.30 documentary stamp tax for every P200.00 + P40.00 delivery cost |

### 6. Regulation on Bulk Remittances

Bulk remittances are conducted by so-called "consolidators" who collect remittances from individuals and then perform the money transfer singularly or in bulk, using formal remittance channels for credit to a single beneficiary account. The receiving country farms out the remittances to the individual accounts of the various beneficiaries (who normally also maintain accounts in the same bank as where the remittance "catching account" of the consolidator is maintained).

Japan, in keeping with "Know-Your-Customer" (KYC) policies that each and every remitter should be identified and each transaction individually processed, does not allow bulk remittances. Hong Kong, China, has no restrictions on bulk remittances; Singapore allows such remittances provided the person or business doing the bulk transfer is licensed and in compliance with its regulations (i.e., the consolidator must maintain proper records of his/her individual clients). Indonesia presently allows bulk remittances but has yet to institute policies and guidelines for processing such remittances.

In the Philippines, the members of the Association of Bank Remittance Officers, Inc. (ABROI) are key officers of various Philippine-based banks involved in the remittance business. The association would like to refrain from accommodating consolidators, many of which are not formally recognized in their host countries, and simply use bank facilities as

[33] Interview withVivien Calamlam, First Vice President, International Transactions Processing Group, Philippine National Bank Head Office, Philippines.

outlets for bulk remittances sent from abroad. Some member banks nonetheless continue to allow consolidators to use their bank facilities for various reasons such as meeting their own target goals, etc.[34]

Malaysia employs a modified form of remittances in bulk by allowing legitimate remittance transfers from one licensed bank to another with prior government-to-government arrangement and agreement. This modified form is used in the case of Nepalese remittances from Malaysia wherein a government-to-government arrangement made it possible. One locally incorporated remittance operator from Nepal, i.e., IME Impex Sdn. Bhd., is involved in the remittance business whereby the settlement of the remittance transactions is made through the banking system.[35] Individual Nepalese remitters credit the bank remittance catching account of IME Impex maintained in a Malaysian bank, bring proof of the credit to IME Impex, and fill out the necessary details on the sender and the recipient. IME Impex implements the remittance by first crediting its remittance catching account in bulk in its depository bank in Nepal, and then has the remittances delivered to the beneficiaries. In this arrangement, IME Impex incurs one remittance transfer cost, and is able to charge the individual clients much lower charges than an individual Nepalese who might directly transfer money using a Malaysian bank.

In Japan, a slight variation of the Malaysia–Nepal model may be studied in terms of its legality under current banking regulations in Japan. Such study assists the approximately 4,593 Nepalese on legal status in the country (Japan Immigration Association 2003), and discourages the use of the "Hundi" or "Hawala" system. If the Nepalese Government wants to ensure that the foreign currency earned is repatriated back to the country through banking channels, the following scheme involving three parties (a licensed bank in Japan, another licensed bank in Nepal, and a licensed Nepalese company acting on the approval of the Nepalese Central Bank) may be considered.

The licensed bank in Japan remits the money of Nepalese residents in Japan to a so-called "nonoperative" account, maintained by a licensed Nepalese company in a licensed bank in Nepal which is registered and pre-approved by the Nepal Central Bank. The nonoperative account, preregistered with the Nepal Central Bank by the Nepalese company, acts as the "remittance catching account" for incoming Nepalese remittances. The Nepalese company, acting pursuant to an arrangement forged with the bank in Nepal, ensures door-to-door delivery of the funds to beneficiaries in Nepal, most of who do not maintain bank accounts.[36]

This slight variation of the Malaysia–Nepal model may pose some regulatory problems given that remitters sending money to a single catching account may classify the transactions as "suspicious" (with the "nonoperative" account potentially suspected of being a money laundering outlet), even though individual KYC checking is done by the bank in Japan for each and every Nepalese remitter. Furthermore, the model may not result in lower remittance fees for individual Nepalese remitters since the bank in Japan is not allowed, under current banking regulations, to send remittances in bulk to "nonoperative accounts" in Nepal.

---

[34] Interview with Articer Quebal, founding member, Association of Bank Remittance Officers, Inc., and full-time consultant and Executive Head, Remittance Marketing, Asia United Bank, Philippines.

[35] Comments by officials at Bank Negara Malaysia

[36] As described by Bigyan Pradhan, President and Chief Executive Officer of Sun and Company P., Ltd. of Nepal, on his visit to Japan in April 2005, talking with various banks in Japan proposing such a scheme.

### 7. Remitting Country–Receiving Country Relations

The countries studied engage in some form of dialogue with their counterparts and with various institutions, but these dialogues do not necessarily include matters specifically related to remittances. In practical terms there is little formal communication or agenda on international money transfers among specific corridors.

Japan, however, concluded a bilateral agreement with the Philippines and Malaysia to facilitate workers' remittance and improve access to financial institutions on 30 August 2004, and 28 October 2004,[37] respectively.

### 8. International Regulatory Standards: Anti-Money Laundering and Know-Your-Customer Policy

In the countries studied, government antimoney laundering rules are in place and efforts are made to enforce them upon businesses involved in international money transfers. Each country institutes and implements various programs to ensure antimoney laundering law compliance. However, in the majority of cases these guidelines are generally similar or standardized.

A similar standard is found on the KYC policy. The adoption of the standard KYC principle by the Basle Committee on Banking Regulations and Supervisory Practice in December 1998, and by the banking community worldwide, is a step toward preventing the use of the financial system for money laundering purposes.[38] The countries studied set minimum requirements to meet their KYC rules, the most basic of which are name, date of birth, address, and valid ID. In addition to basic KYC checking, players in the industry could also ask for additional information like nationality, details about occupation, telephone number, visa validity, etc.

Japan requires KYC principles be applied for remittance transfers from "zero yen" upward for all international transactions, while Singapore requires no minimum amount to trigger KYC. It should be noted, however, that despite having no prescribed dollar figure trigger there are quite strict KYC provisions in the antimoney laundering guidelines for remittance licensees. The guidelines state that "remittance licensees shall not conduct business transactions with customers who fail to provide evidence of their identity," and "remittance licensees shall record relevant information from all prospective customers in the appropriate register in accordance with the conditions of the remittance license." Based on these guidelines, Singapore effectively implements "zero dollar" policy for KYC. In Malaysia, Bank Negara Malaysia does not specify any threshold amount for conducting KYC. Banks are required by law to identify and verify all customers. Record keeping is required for all transactions for a period of not less than 6 years. Banks are required under the Anti-Money Laundering Act 2001 to report any suspicious transactions, irrespective of the amount.[39] Special forms are required to be filled out for RM50,000 (US$13,158) and higher, and Hong Kong, China, strictly checks remittances of HK$20,000 (US$2,566) and higher.

Regarding remittance receiving countries, Indonesia does not require strict ID checking except for amounts exceeding Rp100 million (US$10,452). Monitoring of incoming remittances of more than P500,000 (US$9,233) is required in the Philippines. Malaysia, also a

---

[37] For more details (in Japanese only), see http://www.mof.go.jp/jouhou/kokkin/japan-philippin.soukin.pdf, and http://www.mof.go.jp/jouhou/kokkin/japan-malaysia .soukin.htm

[38] BNM/GP9 Guidelines on Money Laundering and "Know Your Customer Policy," Bank Negara Malaysia.

[39] Comments provided by officials from Bank Negara Malaysia.

receiving country in this study, does not set a minimum level. Japan strictly monitors incoming and outgoing remittances of ¥2.0 million (US$19,020) and over.

Threshold amounts required for reporting also vary from one country to another. Foreign Currency and Foreign Trade Law requires banks, based o the law on KYC, to apply these rules to transfers of more than ¥2.0 million (US$19,020) by customers. Amounts over ¥30.0 million (US$285,307) are reported to the Bank of Japan (BOJ) (for Balance of Payments Statistics compilation purposes). Singapore's MAS, on the other hand, considers setting a minimum threshold to be impractical since customer types and behavior vary widely. Indonesia also does not require a minimum amount, but transactions over Rp500 million (US$52,258) are reported to the Center for Reporting and Analysis of Financial Institutions (PPATK). Hong Kong, China, requires no minimum amount for reporting purposes. In the Philippines, covered transaction amounts exceeding P500,000 (US$9,233)[40] are reported to the Anti-Money Laundering Council (AMLC), and in Malaysia the amount is RM50,000 (US$13,157) and higher.

The countries studied are required to file reports of suspicious transactions, regardless of the amount believed to be suspect.

### 9. Enforcement I: Conditions

The surveyed countries have different concerns. Hong Kong, China, seemingly does not encounter significant problems in the enforcement of regulating money transfers. Japan desires efficient enforcement of the Financial Action Task Force (FATF) requirements, and Singapore wants limited control of the smaller players in the remittance market.

Indonesia's regulators say that major challenges are posed in compliance, possible overlapping regulations, and the difficulty and cost involved in efficiently monitoring and implementing set objectives and regulations. Malaysia's concerns are basically on implementation and compliance. The Philippines may find it a daunting task to ensure that informal channels do not get involved at various points in the whole value chain of remittances involving many players.

In Hong Kong, China; Indonesia; Japan; Malaysia; and Singapore, the police are primarily responsible for watching out for unlicensed channels. In the Philippines, BSP is the main enforcement body of MTO, and the AMLC is responsible for investigation, examination, and auditing. Prevailing enforcement issues remain, however, regarding nonregistrants.

Authorized institutions (AIs) In Hong Kong, China, are subject to HKMA's supervision to ensure compliance. Remittance agents (RAs), on the other hand, are not subject to supervision; however, random watches, usually triggered by third party reports or criminal investigations, are conducted by the Hong Kong, China, police. For RAs and money changers (MCs), advice is given to employees concerning declarations and background checks. In Japan, the submission of transactions reports is made compulsory by the penal code. Fines, imprisonment, and lashes of the cane are given to those who engage in criminal activities involving money transfer in Singapore, and MAS may also revoke licenses and suspend business. Warnings are given by Bank Indonesia and administrative sanctions such as a cash penalty, a degraded bank ranking, and so forth, may be given. The police conduct enforcement when the violation is criminal in nature. BSP ensures compliance and may impose varying degrees of sanctions to offending institutions. Malaysia enforces laws such as

[40] Interview with the Compliance Office, Philippine National Bank Head Office, Philippines.

those set by the Banking and Financial Institutions Act (Bafia), the Criminal Procedure Code, Anti-Money Laundering Act, Exchange Control Act and Payment Systems Act, and other laws set by authorities such as Customs or Acts of Parliament.

### 10. Enforcement II: Case Examples

***Citibank***, N.A, Japan Branch: This branch office has a suspension date for 30 September 2005. Problems discovered in connection with compliance and governance systems of the branch were cause of the suspension. In particular, acts against public interests, serious violations of laws and regulations, and extremely inappropriate transactions were uncovered at the Private Bank Group. This included lack of a system of internal controls pertaining to foreign currency depository operations.

***Banco do Brasil*** S.A. Japan Branch Office: The branch office has been suspended from operating since 24 December 2004. Problems with compliance and governance systems of the Japan Branch Office in connection with sound and proper management operations were cause of the suspension. Specifically, the suspension was associated with foreign exchange and remittance transactions with new corporate customers (with exception of operations that relate to transactions with existing corporate customers). The suspension order may be reviewed after 26 December 2005, when it is possible for the suspended business to be resumed based on progress made by the Japan Branch Office.

### 11. Information and Data Gathering by Regulators

BOP statistics in Japan are the primary formal source of data on workers' remittances. Data are mainly gathered from bank settlements on behalf of the banks and their customers. Hong Kong, China, does not require its AIs and RAs to report incoming and outgoing remittances; therefore, no statistics on remittances are available. Singapore strictly requires quarterly reports, specifically on remittance transactions from MTOs. Banks are not required to specifically report on remittance transaction, but have more general and more frequent reporting requirements with respect to their operations and financial health.

Indonesia requires general monthly bank reports, but does not specifically require information on remittances. In the Philippines, reports on remittances and the buying and selling of foreign exchange transaction, are required per BSP Circular No. 471. In Malaysia, the report on cross-border settlements by the banks are submitted online daily through the "International Transaction Information System" (ITIS). The nonbank reporting entities submit their monthly reports by hard copy.

None of the countries indicated the adoption of formal and efficient methods of data collection for incoming and outgoing remittances from informal channels.

## B. Players in the Intermediation of Remittance Transfers

### 1. Formal and Informal Markets

The nature of formality or informality of the marketplace for remittances depends on different factors, including the demand for such services, which often operates as a function of income and education, as well as the supply side, particularly the prevailing technological and financial infrastructure, and laws that enables for an efficient international money transfer environment.

In Southeast Asia, particularly among those countries studied, informal money transfer markets are less prevalent than in other regions. Most clients use regulated institutions to send and/or receive remittances. The presence of informal networks for money transfers continues to be puzzling. As mentioned previously, some immigrants rely on informal transfers because the technological infrastructure is costly, prohibiting companies from providing affordable services to the customer, or because strict government regulations on how to send money lead immigrants to use less traceable mechanisms.

Immigrants interviewed in the four remittance countries (Hong Kong, China; Japan; Malaysia; and Singapore) suggested that, in the majority of cases, they used formal money transfer mechanisms, be this a bank or a money transfer operation. A typical case where remittances are predominantly handled with significant regulatory strength is Japan. There is use of unlicensed businesses; however, it seems to occur among certain immigrant groups over others. Filipinos in Japan predominantly use formal networks for money transfers (Table 4.2), and represent a remittance corridor with a significant degree of competition. Indonesians, on the other hand, which make up a smaller population group in Japan, tend to send remittances through unlicensed or unregulated operations, such as friends, acquaintances, or other travelers.

**Table 4.2: Percent of Immigrants in Japan Using Sending Methods**

| **Japan** | **Indonesia** | **Malaysia** | **Philippines** | Total |
|---|---|---|---|---|
| MTO | 15 | 4 | 9 | 11 |
| Bank | 26 | 57 | 70 | 56 |
| Post office | 9 | 30 | 9 | 11 |
| Friend | 67 | 4 | 17 | 31 |
| Other | 12 | 17 | 10 | 11 |

Source: Survey of migrant senders in Japan, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Reasons for choosing informal networks are still unclear. One reason argued is unattractive pricing—the more costly to send money, the more likely people will be to use informal transfers. Although sending money to the Philippines is cheaper than to Indonesia, less is known about the cost of sending through an informal network and this could answer our query. However, Indonesians expressed that of all the reasons why they choose to send money, fee and foreign exchange rate commissions were key factors (Table 4.3).

**Table 4.3: Indonesians in Japan Use of Friends to Remit Money and Fee**

| | | **How did you choose this method? (Low) Fee** | | |
|---|---|---|---|---|
| | | No | Yes | **Total** |
| Use of Friend to remit | No | 55.8% | 20.3% | **33.3%** |
| | Yes | 44.2% | 79.7% | **66.7%** |
| **Total** | | 100.0% | 100.0% | 100.0% |

Source: Survey of migrant senders in Japan, Regional Technical Assistance No. 6212: Southeast Asia Workers Remittance Study, Asian Development Bank.

Other factors such as income, education, age, or gender do not appear to play much of a role. Table 4.3 shows a statistical regression between using friends and demographic as well as other factors. Fee and exchange rate are the two most statistically significant predictors.

**Table 4.4. Relationship between Choices of Using Friends to Remit to Indonesia from Japan**

| Item | Score | Sig. |
|---|---|---|
| Length of Time Sending | 1.207 | .272 |
| Age | .302 | .582 |
| Gender | 5.249 | .022 |
| Education | .063 | .802 |
| Income | .389 | .533 |
| Time Sending Money | .006 | .940 |
| Traveling Back Home | .273 | .601 |
| Fee of Transaction | 9.540 | .002 |
| Recommendation of Business | .260 | .610 |
| Reputation of Business | 2.334 | .127 |
| Speed of Sending | 2.646 | .104 |
| Exchange Rate | 3.757 | .053 |
| Convenience | .001 | .971 |
| Customer Support | .234 | .628 |
| Other Reasons | 1.782 | .182 |
| | 21.819 | .113 |

Note: Logistic regression: dependent dummy variable is use of informal methods regressed against demographic variables and reasons for choice of sending method.

Source: Survey of migrant senders in Japan, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Are these trends suggestive of the other countries studied? Data from Hong Kong, China, and Singapore does not show that immigrants rely on informal networks. Tables 4.5 and 4.6 demonstrate the choice of sending method to these countries. As the results suggest, most transfers taking place from Hong Kong, China, and Singapore occur through formal transfer mechanisms.

**Table 4.5: Sending Methods from Hong Kong, China**

| | Indonesia | Philippines |
|---|---|---|
| MTO | 66 | 75 |
| Bank | 21 | 13 |
| Post Office | 7 | 1.4 |
| Credit Card | 1.5 | 7 |
| Friend | 1.2 | 2 |
| Other | 3.3 | 1.6 |

Source: Survey of migrant senders in Hong Kong, China, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

**Table 4.6: Sending Methods from Singapore**

| | How do you generally remit money? | | |
|---|---|---|---|
| Singapore | Indonesia | Malaysia | Philippines |
| MTO | 45 | 54 | 21 |
| Bank | 40 | 25 | 74 |
| Post Office | 7 | NA | 2 |
| Credit Card | NA | 1 | 13 |
| Friend | 3 | 3 | 0 |
| Other | 3 | 4 | 2 |

MTO = money transfer outfit, NA= not available
Source: Survey of Southeast Asian immigrants in Singapore, April 2005, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

In the Singapore remittance marketplace found that informal money transfers occur only in certain corridors, where there is a historically entrenched network of businesses operating in that context. This applies in particular to corridors remitting to India, Bangladesh, and Sri Lanka, where an estimated 70% of total remittances go through channels commonly known as "Hawala" and "Hundi".[41]

In Malaysia, Indonesians and Filipinos use both informal transfers as much as licensed methods to remit back home. Formally established businesses exist offering money transfers without money transfer licenses. This is particularly evident among freight or cargo companies, which offer a similar fee to that offered by licensed remitters, and are still a primary choice for customers.[42]

**Table 4.7: Sending Methods from Malaysia**

| Malaysia | Indonesia | Philippines |
|---|---|---|
| MTO | NA | NA |
| Bank | 38 | 45 |
| Post office | 25 | 9 |
| Friend | 1 | 2 |
| Other | 36 | 45 |

MTO= money transfer outfit; NA= not available
Source: survey of migrant senders in Malaysia, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Applying a similar statistical procedure to Malaysia (as described above), regression results show that foreign exchange and the reputation of the remittance transfer business are two key determining factors in the use of informal transfers. Neither income, age, education, nor gender plays a role in explaining the use of informal networks.

**Table 4.8: Malaysia Variables in the Equation**

| Variables | B | Sig. | Exp(B) |
|---|---|---|---|
| Age | .033 | .909 | 1.033 |
| Gender | (.286) | .488 | .752 |
| Education | .141 | .382 | 1.152 |
| Annual Income | (.374) | .191 | .688 |
| Fee | (.084) | .826 | .919 |
| Recommendation | (1.139) | .010 | .320 |
| Reputation | .299 | .504 | 1.348 |
| Speed | .564 | .147 | 1.758 |
| Foreign Exchange | (1.977) | .000 | .138 |
| Easy Access | (.151) | .684 | .859 |
| Other | .113 | .788 | 1.120 |
| Constant | 4.113 | .014 | 61.117 |

Note: Logistic regression. Dependent dummy variable is use for informal methods regressed against demographic and reasons of choice of method.
Source: Survey of migrant senders in Malaysia, Regional Technical Assistance No. 6212: Southeast Asia Workers Remittance Study, Asian Development Bank.

[41] Field country report on Singapore.
[42] Field country report on Malaysia.

When comparing these trends with the remittance downstream in receiving countries, the study found that the distribution of transfers may be less informal, possibly suggesting that the regulatory environment in receiving countries may be less stringent on monitoring transfers. In the case of the Philippines, however, most transactions are handled by legally accepted intermediaries.

**Table 4.9: Methods of Receiving Money among Filipinos**

| Method of Receiving | Indonesia | Philippines |
|---|---|---|
| Bank | 64% | 70% |
| MTO | NA | 30% |
| Other | NA | NA |

MTO= money transfer outfit; NA=not available
Source: Survey of remittance recipients in thePhilippines, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

The decision to send or receive money does not appear to be exclusively made by the sender, but that there may be a mutual agreement between the sender and recipient regarding how to send the money. Senders may know how best to send the money, factoring cost and convenience, whereas recipients may be factoring convenience overall and informing the relative abroad. Furthermore, a low percent of recipients expresses preference over informal transfers.

**Table 4.10: Decides which Money Transfer Agency to Use when Transfering Money** (%)

| Decisionmaker | Indonesia | Philippines |
|---|---|---|
| Relative Abroad | 47 | 50 |
| Yourself | 31 | 50 |
| Others | 17 | |

Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

**Table 4.11: Preference of Informal Method among Recipients** (%)

| Method | Indonesia | Philippines |
|---|---|---|
| Informal | 26 | 38 |

Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Thus, although informality prevails in some corridors, overall its presence is smaller than that of formally licensed businesses. It would be important, however, to better identify ways to transform informal businesses into licensed ones, while encouraging remitters to use the regulated market. This is particularly relevant considering that customers prefer the use of formal mechanisms.

### 2. Key Players in Money Transfers

Given the volume of money that circulates along different corridors as a result of the demand for money transfers, intermediation is crucial to ensuring market efficiency. More importantly, the players providing intermediation end up establishing an industry composed of a multiplicity of competitors, seeking to offer a range of services to customers. This industry acts through banking and financial nonbanking institutions, depending on the regulatory environment allowing or restricting certain businesses in the industry. What follows is a description of the range of players operating in the respective upstream corridors in Southeast Asia.

### a. Japan

Remittance transfers from Japan are carried out by the post office, national and international banks, which either contract out with international remittance companies or set up their own money transfer operation. For example, Suruga Bank has an agreement with Western Union whereas Ogaki Kyoritu Bank has one with MoneyGram. Thus, these MTOs operate only through the banks and not as MTOs in Japan. International banks that operate in Japan to carry out money transfers are also varied. Philippine National Bank (PNB) carries a significant flow of the market for transfers to the Philippines.

In most cases, clients are not required to have a bank account to send money. However, there are certain minimal advantages in sending money when holding a bank account, such as the ability to mail the request for a transfer, or to transfer from account to account without visiting the branch by phone, fax, or online.[43]

Another player in remittances from Japan to the countries studied is the post office. It facilitates transfers of money from post office to post office rather than door to door. However, the extent of their market share in the business is unknown. Finally, like in other parts of the world, technology-based systems, such as online transfers, card-based use, among others, are entering the market, although have a smaller presence.

An example is Travelex[44] who issues a reloadable prepaid remittance card. Travelex sells the card at a fixed amount of money that travelers wish to send and the money is generally withdrawn through automated teller machines (ATM) outlets. Remittance recipients receive a debit card with a Visa functionality. Another example is the use of mobile telephony to remit money. One case is "SMART Padala". However, this system operates without a license in Japan, therefore is an informally operating MTO. Unlike Malaysia, informal transfers have a lesser presence. However those that exist are managed by ethnic stores, such as restaurants, shopkeepers.

**Table 4.12: Examples of Institutions Offering Remittance Transfer Services**

| Philippines | Indonesia | Malaysia |
|---|---|---|
| PNB, UFJ Bank, Suruga Bank (Western Union), Travelex, Post Office, Ogaki Kyoritu Bank (MoneyGram) | BNI, Suruga Bank (Western Union); UFJ Bank | Bumiputra Commerce bank, UFJ Bank, Suruga Bank |

BNI=Bank Negara Indonesia; UFJ= United Financial of Japan ; PNB= Philippine National Bank

Note: there are over 130 banks, plus Shinkin-banks, and post offices that offer remittance transfers. The list provided here is only an illustration of the range of players.

Source: Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

[43] It is necessary, though, to send a copy of original evidences or any other relevant certification in accordance with the requirement of the bank for identification. These advantages do not include the advantages of financial intermediation to the remittance sender.

[44] The headquarters of Travelex are in the United Kingdom.

Competition overall varies significantly with companies processing from 1,000 transactions a month to 40,000. In the Philippines, where annual flows are estimated to range at 200,000 transactions, competition is concentrated between local and foreign banks. Foreign banks, however, are the main processors in the business controlling over 40% of the market. The larger international money transfer companies like Western Union or MoneyGram, although very active, are not the major players, but important competitors in this market.

### b. Singapore

Unlike in Japan, in Singapore remittance transfers are carried out by a larger and diverse pool of players that includes domestic banks, local branches of foreign banks, and licensed remittance companies.

Unlike in Japan, national banks are less involved in transfers. The larger commercial banks are not active in the business with the exception of the Development Bank of Singapore (DBS), which through its subsidiary, Post Office Savings Bank (POSB), targets the foreign worker remittance business. These banks have not entered this market due mostly to thin margins, high start-up and operating costs, and a perceived negative impact to its overall brand image.

Foreign banks with nationals working in Singapore, on the other hand, have significant remittance operations controlling as much as 30–60% of the market share of remittances to their respective home countries.

Remittance transfer companies, however, are the key players in this market. They dominate the industry with a presence of over 100 remittance companies. These companies comprise nearly 200 branch locations located throughout Singapore in neighborhood shopping centers, near work sites, factories, and shipyards. Many are concentrated in areas of ethnic congregation such as Lucky Plaza (Filipinos), Golden Mile Complex (Thais), Little India, and Chinatown. The vast majority of remittance companies are small one-branch operations catering to one to three niche corridors where they have specific competitive advantages. The largest private remittance company has 17 branch locations and services over 10 corridors.

**Table 4.13: Players in Singapore's Remittance Marketplace**

| Type | No. of Locations |
|---|---|
| Domestic Banks | |
| Post Office Savings Bank (POSB) | 2 |
| Foreign Banks[a] | 15 |
| Remittance Companies | 197 |
| **Total** | **214** |

[a] For NTS countries, Malaysia, Indonesia and PRC Source Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

With more than 200 companies, this market is saturated and highly competitive. Like in other corridors, companies compete mainly on price, speed, and service reliability. Many also have complementary money exchange businesses while others are linked with courier services. One interesting characteristic of this market is that supply and demand meet at specific locations. For example, the majority of remittances to South Asia are handled in Little India while to Philippine in Lucky Plaza.

Although Western Union is the major competitor, it still has an important position among the top companies. It has the largest branch and agent network in Singapore using remittance companies (3), American Express Foreign Exchange outlets (2), mailboxes etc. outlet (1), RHB bank branches (7), and Singapore post branches (39).

Singapore Post, or SingPost, offers remittance transfers through its 40 branch locations. Since starting operations in 2001 as a Western Union agent, and now holding its own money transfer brand, its large distribution network and brand quality have made it a key player in the market. In 2003, SingPost launched its low-price/high-speed service to Philippine-branded CasHome, a debit card service in partnership with Equitable PCI Bank of the Philippines. SingPost market position is yet to be known, but competitors are divided about its entrance in the market. Some believe SingPost will not likely make a significant impact. However, other players are more concerned given SingPost's large branch network and reputation.

### c. Singapore Corridors

Remittances to the Philippines are predominantly handled by some 20 remittance companies and 2 banks located in Lucky Plaza. The PNB is considered the dominant player in this market and has an estimated 60% of the market. Other players in this corridor are I-Remit (owned by I-Bank), KC Dat, LBC Remittance, and MetroRemit (owned by MetroBank).

Unlike the Philippine corridor, competition to Indonesia is more fluid. Over 30 MTOs serve Indonesia, and BNI estimates it handles 20-30% of the total volume to Indonesia. There is no door-to-door delivery, debit card, or other technologically advanced services. Informal channels play a role in this corridor due in part to higher costs and poorer service of the formal channels, as well as to the constraints faced by the Indonesian domestic helpers. These informal channels are those that the domestic helper has normal contact with and include the employment agencies (first contact) and courier companies who offer remittance service as a familiar and trustworthy counterpart. Given that they do not have off-days to explore their own options and are generally younger and less sophisticated, these informal channels do present an attractive method for the Indonesian domestic helpers.

Finally, because of ease in border crossing between Singapore and Malaysia, worker remittances in this corridor are largely physical. Given the close proximity with Malaysia, Malaysian workers continue to carry back the money earned in Singapore. This is particularly true in the case of commuters who work in Singapore but continue to live more inexpensively in Malaysia.

### d. Hong Kong, China

Like in Singapore, there exist different players in this industry, which include commercial banks (Filipino and Indonesian), international MTOs, local companies or ethnic stores specializing in money transfer (and possibly foreign exchange and other money services), and other businesses (such as travel agencies or cargo companies) offering remittances as an additional service.

Fourteen banks and money transfer companies were interviewed. Table 4.14 shows some of those interviewed as key players.

**Table 4.14: Players in Hong Kong, China's Remittance Marketplace**

| Organization | Type | Main Destination for Remittances Philippines | Indonesia |
|---|---|---|---|
| Bank Mandiri | Bank | | √ |
| BCA Remittances | Bank subsidiary | | √ |
| BDO Remittances | Bank subsidiary | √ | |
| Express "Padala" (Equitable PCI) | Bank subsidiary | √ | |
| iRemit (iBank) | Bank subsidiary | √ | |
| PNB Remittance Centre | Bank subsidiary | √ | √ |
| RCBC Telemoney | Bank subsidiary | √ | |
| MoneyGram | International MTC | √ | √ |
| Franki Exchange | Local MTC | √ | |
| "Pinoy" Express | Local MTC | √ | |
| Rupiah Express | Local MTC | | √ |
| HongKong Post | Other | √ | √ |
| General Store | Other | | √ |
| Travel Agency | Other | | √ |

BDO = Banco de Oro; MTC = money transfer channel
Source: Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

#### e. Hong Kong, China, Corridors

The two main corridors analyzed for the Hong Kong, China, market were Indonesia and the Philippines, countries from which there is a large labor migration to Hong Kong, China. In the Philippine market, remittance transfers are mostly handled by Filipino banks, which offer bank-to-bank transactions, cash pickup, or door-to-door delivery. An emerging feature in this corridor is remittance transfers via cell phone and debit cards. At least seven banks participate in the remittance transfer business, handling about 200,000 monthly transactions to the Philippines.

**Table 4.15: Banks (or subsidiaries) in Hong Kong, China, Providing Remittance Transfers to the Philippines (a sample)**

| |
|---|
| Bank of the Philippine Islands (BPI) |
| Banco De Oro Universal Bank (BDO) |
| Equitable PCI Bank |
| International Exchange Bank (iBank) |
| Metropolitan Bank and Trust Company (Metrobank) |
| Philippine National Bank (PNB) |
| Rizal Commercial Banking Corporation (RCBC) |

For about the last 5–10 (1996-2005) years, these banks have targeted migrant workers as an emerging foreign labor market demanding services such as money transfers. Their aim has been to offer remittance transfers, while simultaneously encouraging the opening of savings accounts. These institutions operate through subsidiaries in Hong Kong, China, handling the remittance business to better cope with banking regulations. Competition among these institutions is reflected in their pricing: most banks offer similar foreign exchange rates and fees to customers.

Global Nation reported recently that PNB accounts for more than 35% of the Filipino remittance business in Hong Kong, China, followed by the Metrobank Group, Rizal Commercial Banking Corporation and the Bank of the Philippine Islands.

International money transfer outfits, particularly, Western Union, Travelex, and MoneyGram are also active but compete against the banks. A similar situation is found among local money transfer companies, though on occasion they may act as agents of international companies or banks.

The downstream remittance corridor to Indonesia shows trends similar to sending money to the Philippines. Indonesian Bank branches dominate the market. Six Indonesian banks have a significant presence in Hong Kong, China: Bank Internasional Indonesia (BII), Bank Mandiri, Bank Negara Indonesia (BNI), Bank Niaga, Bank Rakyat Indonesia (BRI)

Although Indonesian banks have similar objectives to Philippine banks, some differences distinguish the latter. For example, door to door services appear not to be available for Indonesia, ATM use is less developed, and bank to bank transfers are less efficient and can take up to 4 days to effect transfer.

On the other hand, Indonesian shops can offer faster remittances than the banks. They maintain accounts at each bank in Indonesia and can issue transfer instructions for next-day payment.

#### f. Malaysia

In Malaysia, although there are some nonbank entities that are allowed to operate remittance services, banks are the major market players. The banks that are particularly active in providing remittance services for foreign workers are RHB Bank, Bumiputra-Commerce Bank, and Maybank. Bumiputra-Commerce has a licensing agreement with Western Union.

Other money transfer operations that exist are businesses working in other countries under government-sponsored programs. This is the case of IME Impex Sdn Bhd, formed as a result of a government-to-government agreement allowing IME Impex to facilitate remittances made by Nepalese nationals back to Nepal. Using any of the three major banks, remittance senders deposit the transfer into an escrow IME Impex account in Malaysia and provide IME Impex with details regarding the transaction. IME Impex then transfers the money into an IME remittance recipient account in Nepal. The transaction cost is RM15.00 for an allowed maximum of RM10,000.

As the earlier section showed, informal transfers are more frequent in Malaysia than the other corridors. For example, cargo companies in the business of sending parcels to the Philippines also often provide unlicensed remittance services. These businesses charge RM20 flat fee. The operation is typical of an informal business, meaning the money is deposited into an account owned by the business, and upon delivery notification, the receiving end disburses the money to the recipient's door. Some companies operate in the Kota Raya Shopping Complex in Malaysia.

## C. Transaction Cost

Pricing and cost factors are found at the intersection between supply and demand of goods and services. In the remittance transfer industry it is said that people often resort to informal mechanisms to cope with high costs. This assumes that the costs to an immigrant to send money through regular companies are above their means.

In this section we analyze the cost of sending money to three downstream corridors under analysis, Philippines, Indonesia, and Malaysia, from four upstream countries: Hong Kong, China; Japan; Malaysia; and Singapore. The transaction cost is based on two prices, one the fee the person is charged to send the money and the commission on the exchange rate. In some countries fees are divided into different components, such as the stamp fee. Moreover, another consideration is that some businesses charge a flat fee up to a certain amount, whereas others charge a percent fee.

### 1. Sending Money from Japan

The cost of sending money from Japan depends on the corridor through which the money is being sent. However, overall minimum fees range from ¥2,000 to ¥25,000 (when the transaction uses Society of Worldwide Interbank Financial Telecommunication [SWIFT]). Western Union appears as an expensive provider. Generally the transaction cost in Japan includes a 5% lifting fee plus ¥2000 plus the commission on the exchange rate. The average cost (excluding the commission on the foreign exchange) to send an average of US$500 from Japan to the four countries studied is 7.8%. Table 4.16 shows the transaction cost of sending different amounts.

As the table below shows, sending to the Philippines is less costly than to Indonesia or Malaysia probably due to the volume of transfers. The total cost including the commission may add to 2% more. Unfortunately data were unreliable to measure exchange rate markups.

**Table 4.16: Remittance Transfer Costs in Japan to Indonesia, Malaysia, and the Philippines**

| Country Sent | Amount Sent (US$) | Fee | | Total Charge[a] | |
|---|---|---|---|---|---|
| | | Amount | (%) | Amount | (%) |
| Indonesia | 75 | 35.1 | 46.8 | 35.1 | 46.8 |
| | 150 | 35.9 | 23.9 | 35.9 | 23.9 |
| | 250 | 36.9 | 14.8 | 36.9 | 14.8 |
| | 600 | 47.1 | 7.8 | 47.1 | 7.8 |
| Malaysia | 75 | 45.3 | 60.3 | 45.2 | 60.3 |
| | 150 | 45.5 | 30.3 | 45.5 | 30.3 |
| | 250 | 45.8 | 18.3 | 45.8 | 18.3 |
| | 600 | 50.7 | 8.5 | 50.7 | 8.5 |
| Philippines | 75 | 28.2 | 37.6 | 28.2 | 37.6 |
| | 150 | 31.3 | 20.9 | 31.3 | 20.9 |
| | 250 | 34.5 | 13.8 | 34.5 | 13.8 |
| | 600 | 41.7 | 6.9 | 41.7 | 6.9 |

[a] Information about exchange rate commission was difficult to obtain during the data collection. Further contacts with some institutions suggest that an estimate of such commission may range from 1–2% of the amount sent.

Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

### 2. Sending Money from Hong Kong, China

Sending remittances from Hong Kong, China, is among the least expensive corridors. Looking at 26 companies operating in World Wide House, Central, Hong Kong, China, sending to the Philippines costs 1.3% in foreign exchange rate commission as a percentage of the average sent (HK$2,000) and an average of HK$25.5 fee to send HK$1,000 or more, which means about 1.3–2.7%. For an average amount sent of HK$2,000 the total cost is 2.6% the value of the principal.

In some cases, a slightly more favorable rate was available for regular customers or personal account transfers. The fee on the other hand varied depending on the method employed. If door to door the cost was higher. The tables below show the transaction cost in the commission on foreign exchange and fees.

**Table 4.17: Commission on Foreign Exchange and Fees to Remit from Hong Kong, China, to the Philippines**

| Item | 7 April 2005 (Thursday) | 11 April 2005 (Monday) | 20 April 2005 (Wednesday) |
|---|---|---|---|
| Markup (average) | 0.0020 (1.43%) | 0.0018 (1.27%) | 0.0021 (1.41%) |
| Cost for $1,000 remittance (average) | HK$14.3 | HK$12.7 | HK$14.1 |

Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

**Table 4.18: Transfer Costs to Remit from Hong Kong, China, to the Philippines (HK$)**

| Item | Highest | Lowest | Median |
|---|---|---|---|
| Bank to bank—Metro Manila | 25 | 10 | 20 |
| Bank to bank—Provinces | 30 | 10 | 25 |
| Cash pickup—Metro Manila | 30 | 15 | 20 |
| Cash pickup—Provinces | 40 | 15 | 25 |
| Door to door—Metro Manila | 30 | 20 | 28 |
| Door to door—Provinces[a] | 40 | 30 | 35 |

[a] Higher fees (up to HK$70) may be charged for the most remote barangays.

Source: Survey of remittance transfer agencies, Regional Technical Assistance No.6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Similar to the Philippines, the cost of sending to Indonesia is relatively low. In this corridor, the commission on the exchange rate is less than 1% and the average fee is HK$25 or 1.75%. Table 4.19 shows that fees are generally higher on Sunday, which is also the most popular day for remittances by Indonesians, as it is their normal day off. However, foreign exchange rates are more competitive on Sundays.

**Table 4.19: Commission on Foreign Exchange and Fees to Remit from Hong Kong, China, to Indonesia**

| Item | 10 May 2005 (Tuesday) | 15 May 2005 (Sunday) |
|---|---|---|
| Markup (average) | 9 (0.73%) | 3 (0.25%) |
| Cost for $1,000 Remittance (average) | HK$7.3 | HK$2.5 |

Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

**Table 4.20: Transfer Costs to Remit from Hong Kong, China, to Indonesia** (HK$)

| Type | Highest | Lowest | Median |
|---|---|---|---|
| Sunday rate—(1 hour)[a] | 70 | 50 | 50 |
| Sunday rate—(1-day) | 50 | 30 | 30 |
| Sunday rate—(standard) | 30 | 20 | 25 |
| Weekday rate—(1-day) | 50 | 40 | 45 |
| Weekday rate—(1-day) | 40 | 20 | 30 |
| Weekday rate—(standard) | 30 | 15 | 30 |

[a] The precise nature of the advertised service is not always clear. For example, 'express' service can mean 1 hour or next day. 'Standard' service can take 2–5 days, depending on the bank.
Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Putting the foreign exchange spread and the fees together, the average cost of remitting funds to Indonesia is 2.75% for a HK$2,000 remittance, depending on the company and method used. These charges are borne by the remitter. Additional charges may be payable by the receiver, depending on the method and bank used.

It is important to note however that destination banks in Indonesia also deduct charges from the remittance. The deduction ranges from Rp6,000 (HK$5) to Rp30,000 (HK$24), depending on the bank used and the distance from Jakarta. This practice is not atypical as it happens in other countries with the argument that the transfer costs to the institution increase when the money goes to areas outside the capital. The rationale of such arguments is not clear, however, and the recipient is often not told the reasons.

### 3. Sending Money from Singapore

Remittance transfers from Singapore are competitive because of multiple providers and players. Such environment translates in pricing, too. Looking at a sample of 10–23 companies, the transaction cost to an immigrant ranges from 2–4.5% depending on the receiving country (Table 4.21).

**Table 4.21: Remittance Price Comparison**

| | Philippines | | | Indonesia | | | Malaysia | | |
|---|---|---|---|---|---|---|---|---|---|
| **Remittance Amount** | **Service Fee** | **FX Markup** | **Total Cost** | **Service Fee** | **FX Markup** | **Total Cost** | **Service Fee** | **FX Markup** | **Total Cost** |
| S$500 | 1.06% | 2.50% | **3.56%** | 2.59% | 2.04% | **4.63%** | 2.16% | 1.39% | **3.55%** |
| S$1,000 | 0.53% | 2.50% | **3.03%** | 1.30% | 2.04% | **3.33%** | 1.08% | 1.39% | **2.47%** |
| S$2,000 | 0.27% | 2.50% | **2.77%** | 0.65% | 2.04% | **2.68%** | 0.54% | 1.39% | **1.93%** |
| Number of Companies Sampled | | 13 | | | 23 | | | 10 | |

Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Malaysia offered the lowest overall cost, averaging 2.47% for a S$1,000 remittance, while Indonesia had the highest, averaging 3.33%, for the same remittance amount.

Moreover, although with the lowest fee, the Philippine corridor had the highest average mark-up of foreign exchange rates. Because of this, it actually had the highest overall cost for sending larger amounts of money. The practical implications, however, are minimal because worker remittances are usually under S$500.

### 4. Sending Money from Malaysia

Bumiputra-Commerce Bank is an important player in remittance transfers. With its agreement with Western Union, Bumiputra makes over 12,000 transactions a month to the Philippines and a similar number to Viet Nam. In less busier corridors like Nepal, India, or Bangladesh the transaction volume is below 3,000.

Depending on the country, Western Union competes by dropping prices and seeks to make up in the commission from the exchange rate. Table 4.22 offers Western Union fees to send remittances to selected countries in Southeast Asia. Because immigrants from either Indonesia or Philippines send an average of RM500, the cost of sending money is 6% plus the commission on the exchange rate. This commission generally ranges to 2%.

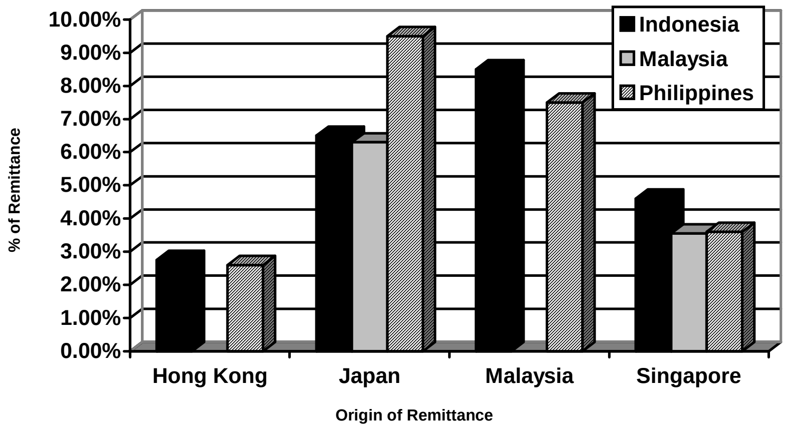
**Table 4.22: Western Union Charges in Malaysia**

| Amount Sent (RM) | | Destination (RM) | | | | Duration |
|---|---|---|---|---|---|---|
| From | To | Indonesia and Philippines | Bangladesh, India, Nepal, and Pakistan | Viet Nam | Others | |
| 0.00 | 1,900.00 | 20.00 | 30.00 | 42.00 | 54.00 | 1 day |
| 1,900.01 | 3,800.00 | 30.00 | 40.00 | 42.00 | 54.00 | 1 day |
| 3,800.01 | 5,700.00 | 40.00 | 50.00 | 42.00 | 54.00 | 1 day |
| 5,700.01 | 7,600.00 | 50.00 | 60.00 | 42.00 | 54.00 | 1 day |
| 7,600.01 | 9,500.00 | 60.00 | 70.00 | 45.00 | 54.00 | 1 day |
| 9,500.01 | 11,400.00 | 70.00 | 80.00 | 45.00 | 54.00 | 1 day |

Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

When comparing transaction costs from various corridors, the average amount paid varies from 7% from Japan to 2.5% from Hong Kong, China. These costs are far lower than in other corridors in Latin America and the Caribbean, where there is significant competition among companies and corridors. Figure 4.2 before shows the transaction cost within the Southeast Asian corridor.

**Figure 4.1: Transaction Cost to Send Average Amount to Selected Southeast Asian Countries**




Source: Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

What factors explain the differences in transaction costs? There exist endogenous and exogenous reasons. Endogenous reasons refer to the internal cost structure of transfers, such as operating costs embedded in running the business (personnel, advertising), data transmission and processing and compliance with regulations or negotiated commissions. Exogenous factors may relate to the conditions of the transfer infrastructure in the sending and/or receiving side, the effect of informality on competition (higher informal practices reduce expected volumes among formal businesses and increase costs), regulatory frameworks that restrict the number and or kinds of players, or the volume remitted into a given corridor.

Using available data the report tested whether or not exogenous factors influence remittance transfer costs. Three variables are used to analyze such factors—extent of regulatory controls in the upstream and downstream corridors, extent of informality in the respective corridors, and volume sent. Thus, the equation,

$$\text{Cost} = \text{Regulat(upstream)} + \text{Regulat(downstream)} + \text{Informality(ij)} + \text{Volume (ij)}$$

**Table 4.23: Exogenous Factors on Transaction Cost in Southeast Asia**

| | Standardized Beta | Statistical Significance |
|---|---|---|
| Extent of Regulatory Environment in Sending Corridor | 0.809398 | *** |
| Extent of Regulatory Environment in Receiving Corridor | 0.050647 | |
| Informal Sector | (0.12225) | * |
| Total Remittance Volume (millions) | (0.15596) | *** |

Adjusted R2 = 0.54

Source: Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

These results suggest that strict regulatory environments, informality, and volume are statistically correlated to pricing. More regulations, greater informality, and lower volumes imply higher costs. These results may highlight the relevance of reviewing the costs and benefits of the prevailing regulatory environment, as well as the causes of informality. It is unclear what causes informality. However, lessons learned in other societies indicate that informal networks exist due to ineffective distribution networks, poor technological infrastructures, and controlled markets.

# V. Remittances and Financial Intermediation

Remittances are earnings from abroad sent to families of immigrants; they are also foreign savings like earnings from trade, or foreign investment and aid. Like these other sources, remittances are thus a financial stream, which unlike its counterparts, seldom stay inthe financial framework because remittances are predominantly a cash-to-cash transaction.

Yet development is found at the intersection between remittances and financial intermediation. First, providing financial intermediation through remittances increases benefits to senders and recipients because it brings opportunities to save, borrow, buy other financial services like insurance, invest, and helps financial institutions mobilize savings in local communities where the money is allocated. Second, as the transnational family diversifies its dependence on foreign savings with assets built from migrant earnings and savings, one can ensure that families can stay out of poverty after remittances recede and the immigrant worker has returned home or stopped sending due to other reasons. Third, increasing household assets have national effects on growth and development in an economy. The national savings and investment ratio can grow higher when foreign savings are mobilized to strengthen the productive base of the local economy.

Unfortunately, one development challenge is that in many countries remittance senders and recipients have very limited access to financial intermediation: a small percentage have bank accounts, savings accounts, or access to credits or other financial services. This situation represents a policy problem: financial intermediation is limited to processing remittance transfers but not to transforming senders and recipients into financial asset builders. Transforming individuals from cash-based to asset-based agents has benefits for the individual, the family, the intermediaries, and the country as saving and investment ratios rise. This section takes a preliminary look into the experience of the six countries studied with regards to remittances and financial intermediation.

## A. Migrants' Access to Financial Intermediation

Three issues that arise among remittance senders and financial intermediation are that they live in the host country longer than thought, send a high percentage of their earnings back home, but have limited access to financial institutions.

Although there is a perception that migrant workers spent less than 1 year working abroad, the majority spend an average of 5 years, with Indonesians in Singapore spending the least—3 years. Moreover, immigrants send almost half their income abroad, getting by with basics in the host country.

**Table 5.1: Length of Time Living in Host Country**

| Sending Country | Migrant Remittance Sender | Time Living in Host Country (years) |
|---|---|---|
| Japan | Indonesia | 5 |
| | Malaysia | 4 |
| | Philippines | 6 |
| Hong Kong, China | Indonesia | 5 |
| | Philippines | 8 |
| Singapore | Indonesia | 3 |
| | Malaysia | 5 |
| | Philippines | 6 |

Source: Survey of remittance recipients, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

In addition, despite a significant percentage of immigrants having bank accounts, there appears to be no clear relationship between sending remittances through banks and owning an account. This is particularly important among immigrants in Japan and Malaysia whose options for remitting are restricted to banking financial institutions. This means that while regulatory environments promote banking as a means for financial transfers, there is limited financial outreach outside the processing of these remittances.

**Table 5.2: Immigrants with Bank Accounts** (%)

| Migrant Remittance Sender | Hong Kong, China | Japan | Malaysia | Singapore |
|---|---|---|---|---|
| Indonesia | 66 | 91 | 41 | 65 |
| Malaysia | -- | 100 | -- | 90 |
| Philippines | 51 | 81 | 50 | 67 |

Source: Survey of remittance recipients, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

**Table 5.3: Sending Remittances through Banks and Owning a Bank Account**

| Sending Country | Migrant's Country | Migrants who Remit through Banks and Have Bank Accounts (%) | (%) with Bank Accounts |
|---|---|---|---|
| Singapore | Malaysia | 68 | 84 |
| Japan | Malaysia | 57 | 100 |
| Japan | Philippines | 57 | 79 |
| Hong Kong, China | Philippines | 52 | 66 |
| Malaysia | Indonesia | 37 | 46 |
| Singapore | Philippines | 36 | 47 |
| Hong Kong, China | Indonesia | 34 | 51 |
| Singapore | Indonesia | 29 | 34 |
| Malaysia | Philippines | 29 | 50 |
| Japan | Indonesia | 25 | 91 |

Source: Survey of remittance recipients, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

In fact having a bank account is not enough condition for using or accessing financial services. Very small percentages of immigrants have financial obligations in their host countries. This issue represents a policy problem. Although opportunities to save and borrow could increase among low-income migrants and could secure a better future once returned into their home, or if they end up staying in the host country, their options are currently limited.

**Table 5.4: Extent of Financial Obligations among Immigrants in the Host Country**

| | Business Loan | Education Loan | House Payment | Other Debts |
|---|---|---|---|---|
| **Japan** | | | | |
| Indonesia | 3 | 7 | 7 | 7 |
| Malaysia | | 4 | 4 | 9 |
| Philippines | 4 | 6 | 15 | 10 |
| **Singapore** | | | | |
| Malaysia | | 1 | 2 | |
| Philippines | 4 | 10 | 11 | 9 |
| **Malaysia** | | | | |
| Indonesia | 2 | 1 | 1 | 1 |
| Philippines | 4 | 8 | 13 | 33 |

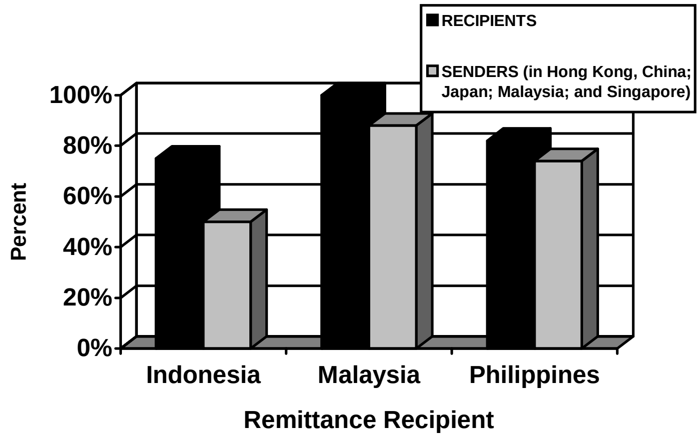
A remittance sender is generally a low-income individual with significant obligations in two places. Ensuring greater opportunities is a relevant policy goal on development. Some immigrants may have a demand for mortgage loans, while others may need medical and life insurance services. Moreover, offering low-cost savings accounts, including certificate of deposit, will prove a long-term investment and an insurance for the future of the person.

## B. Recipients' Access to Financial Institutions

Looking at the receiving side is perhaps more relevant in terms of development. Immigrants are likely to return to their countries after some time away from home, their families will improve their condition in the short and long term if provided with greater financial opportunities. Financial intermediation among remittance recipient households has greater effects on their quality of life: the propensity to save and invest in education is higher among remittance recipients, and the demand for other financial services is achieved when the supply side responds to the market preferences of recipients (Orozco 2005).

The survey results on remittance recipients in Indonesia, Malaysia, and the Philippines show that nearly all have savings accounts. Likewise, a slightly lower but still significant percentage of Filipinos, Indonesians, and Malaysians working in Japan, Hong Kong, China, Singapore and Malaysia have savings accounts in their country of origin (Figure 5.1).

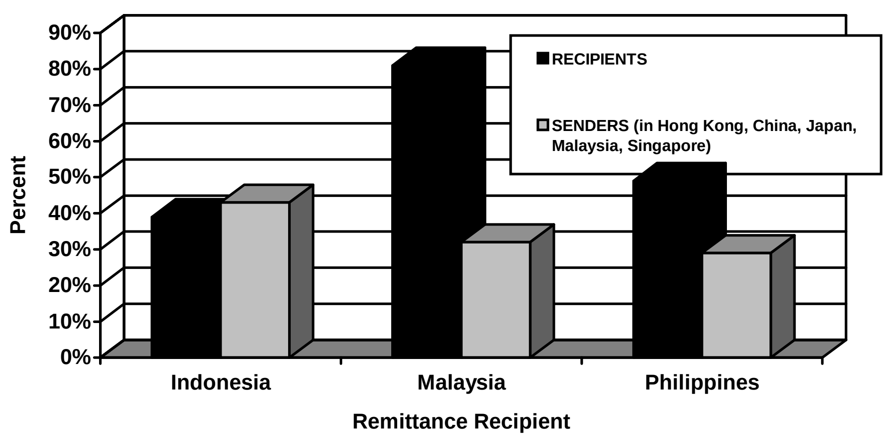
Figure 5.1: Percentage of Remittance Recipients and Senders Who Have a Bank Account in the Country of Origin




Source: Survey of migrant senders and remittance recipients, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

When asked how remittances are used or spent, 30–50% of respondents (except in the case of Malaysian recipients) reported that some of the remittance is allocated to savings in the home country. Overall, recipients appear more inclined than senders to choose some form of savings mechanism for remittance funds.

Figure 5.2: Percentage of Remittance Recipients and Senders who Responded that Some of the Remittance is Allocated to Savings in the Country of Origin




Source: Survey of migrant senders and remittance recipients, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Moreover, when remittance recipients were asked about their main financial activities, majority of Filipinos and Malaysians, and almost a quarter of Indonesians, listed having a savings account at a local bank. Table 5.5 describes remittance recipients' top two economic activities in the receiving country. Recipients surveyed provide multiple answers.

**Table 5.5: Remittance Recipients' Top Two Economic Activities**

| | | |
|---|---|---|
| Philippines | 1st | savings accounts (82%) |
| | 2nd | small business (19%) |
| Indonesia | 1st | small business (47%) |
| | 2nd | savings accounts (22%) |
| Malaysia | 1st | savings accounts (100%) |
| | 2nd | mortgage (86%) |

Source: Survey of remittance recipients, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Just as more Filipinos and Malaysians than Indonesians have savings accounts, a similar trend is evident when it comes to owning a credit and/or debit card. More than a third (37%) of Filipinos and almost half (47%) of Malaysians use either and/or both a credit and a debit card, while just 7% of Indonesians use a credit and/or debit card.

***Urban/Rural Bias?*** While survey responses may indicate a lower level of financial intermediation among Indonesian remittance recipients when compared with Filipino and Malaysian recipients, part of the difference between these groups could be attributed to the fact that a larger portion of survey respondents from Indonesia are rurally based, while most survey respondents from Malaysia and the Philippines are based in urban areas.

**Box 5.1 – Philippines: RuralNet**

There are close to 1,800 rural banks throughout the Philippines, with branches in 103 cities or 93% of all cities, and 753 municipalities or 50.4% of all municipalities (with services available to an additional 20-30% of all municipalities).

The Rural Bankers Association of the Philippines (RBAP) has launched RuralNet, a platform aimed at connecting rural banks to the central bank (*Bangko Sentral ng Pilipinas)*, urban commercial banks, government agencies, and other service providers through a nationwide network of business, service, and information centers also known as the "countryside e-market." Through their local bank's connection to RuralNet, migrant-sending families will be able to participate in a range of activities at the local level, from remittance transactions to applying for overseas work assignments, as well as access to educational and pension plans, auto and housing loans, government securities and privately issued bonds, insurance products, and any other existing or yet to be developed financial service.

RuralNet offers local banks flexibility in their connectivity to the national network as well as customized technical packages, including connections made through GPRS, the Internet, leased line or VPN. Furthermore, RuralNet can use any service provider's platform and ensure its compatibility with the local financial institution's system.

RuralNet's purpose is to provide an integrated solution for connectivity, automated transaction capture, and settlement. RuralNet is very affordable to rural banks, charging a minimal monthly service and connectivity fee, amounting to less than P4000 (or less than US$75) if the bank already has a computer, and P5000 (or less than US$90) including the use of a computer.

Starting in 2005, RuralNet will be pilot-tested starting in Cebu, the second largest city in the Philippines. After achieving measurable results in 40 rural banks and 70 branch offices centered around Cebu, RuralNet will be rolled out nationally.

RuralNet will increase overseas Filipino workers' access to financial products and services for migrant remittance senders and their recipient relatives, by enhancing the efficiency and security of OFW remittances, providing value-added financial and nonfinancial services, maximizing the government and private overseas deployment system, and strengthening the link between remittances and development.

## VI. Conclusions and Recommendations

In attempting to identify trends and patterns in regional remittance flows, this report finds the existence of more than two million migrants from Indonesia, Malaysia and the Philippines living and working in Hong Kong, China, Japan, Malaysia, and Singapore who are sending over three billion dollars to their home countries.

These Southeast Asian migrants are predominantly employed under some form of labor contract mediated by the migrant-receiving country. In addition to migrants employed through short-term labor contracts, there are also migrants who have been working in the migrant-receiving countries on an average for 4 years, and who have consistently sent money home throughout that time. Migrant workers in the Southeast Asia region remit, on average, US$100–US$500 a month. Remittance recipients are mostly the parents of migrants, and because of these funds, tend to earn higher incomes than the national average.

This study also finds a regulatory environment throughout the Southeast Asia region that varies from country to country, including governments with strict rules regarding the types of institutions permitted to intermediate these funds, and which closely scrutinize funds transferred to countries with less restrictive regulations. However, common to all six countries studied was that all regulators request specific information about senders and recipients, to control for money laundering and other criminal activities.

With regards to the marketplace for money transfers, informality exists in some corridors, particularly the Japan–Indonesia and Malaysia–Philippines corridors. Transaction costs may be a variable, and high transaction costs in the formal sector explain why people prefer less expensive informal transfers. Transaction costs among formally licensed money-transfer businesses range from 4 to 9% of the total amount sent.

The research found minimal intersection between financial intermediation and remittance transfers. Despite remittances being a form of foreign savings, these remitters and recipients have little contact with bank intermediaries. The opportunities offered by banking, in the forms of credits, long-term savings, and insurance among other products and services, are missed by most financial institutions in both the sending and receiving areas.

Given some of these patterns, the study provides recommendations that seek to address these issues in the short term. Remittance transfers are subject to endogenous and exogenous dynamics. Endogenous dynamics refer to activities for which there is some direct leveraging control on regulations, development, data management, and market competition. Exogenous dynamics, however, apply to conditions that are indirectly or outside the control of the remittance transfer process and cycle. Examples of exogenous dynamics are the migratory process, the regulatory environment, economic cycles, and political issues.

The recommendations offered in this section pay particular attention to endogenous issues, based upon which it is possible to offer some policy guidance with short-term impacts. However, this section also deals with one exogenous factor, related to the working conditions of foreign workers–how their needs are managed, and the opportunities available for improving labor migration systems in the Southeast Asia region.

## A. Data Management and Analysis

Although this report offered an estimate of flows based on survey data and official migration statistics, more accurate data collection and analysis is required to have a better picture of the remittance transfer universe. In some countries, limited data are collected on the aggregate because, for example, banks lack the appropriate methodologies or rely solely on formal flows. On the minimum, all licensed remitter companies should report their flows by corridor and provide time series data when appropriate.

A cross-border comparative statistical analysis of workers' remittances and existing Southeast Asian data may be useful. The Association of Southeast Asian Nations (ASEAN) Secretariat has already conducted an intensive TA to identify and try to fill gaps in macroeconomic statistical data collection for member countries. The IMF has begun an assessment of statistics acquisition among member countries. It would be useful for ADB to organize a regional working group to identify statistical discrepancies in the data compiled among member countries. Streamlined statistics on workers' remittances would be a good starting point for increasing the reliability of data in the region.

Central banks in the countries studied would benefit from greater mandates and the accompanying resources necessary for understanding and measuring remittance flows. In Japan, for example, data compilation methodology reflects inconsistencies with company compliance in reporting transactions. For BOP statistics compilation purposes, the Bank of Japan (BOJ) requires commercial banks to submit reports on transactions over ¥2 million, but most migrants remit amounts below ¥2 million. Similarly, not all banks consistently comply with BOJ's request. BOJ officials in charge of BOP statistics thus agree that their current collection method is not satisfactory, and have been studying the introduction of survey methods to increase data coverage. Reports from travel agents and credit card companies have been used to estimate statistics related to BOP travel services. These data may include transactions classified as worker's remittances.

Another area that should be further studied is the flow of money from Singapore to Malaysia. While estimated to be quite substantial (US$1.1 billion per year), much of this amount is transferred through physical means. How much is transferred through formally regulated channels is not at all clear. Irrespective of the channels used, the total amount is substantial and worth further investigation, the ultimate goal being to provide vital data to Malaysian policy makers eager to leverage these flows.

While data collection is one area for improvement, data analysis is also critical. Little is known in the region about the macroeconomic impact of remittances on economic growth, or what macroeconomic determinants affect remittances. These two aspects are significantly important since they can shed light on aspects relating to remittance transfers and economic policy.

## B. Regulatory Environment

As noted in this report, there are differences in regulatory environments among the Southeast Asian countries. However, the comparative study also shows an apparent statistical relationship between the level of strictness in regulations and the degree of informality—the stricter the rules, the more informality exists in the marketplace. Within this context, it is important to explore lessons learned regarding the impact of regulatory environments in the various countries, focusing on best practices, enforcement, and industry self-regulating capacities.

Although in every society rules are contingent on local cultural settings, there is a shared understanding of international money transfer behaviors. Learning about these issues can help inform policy makers about all the options available to them to review their own bodies. An area where there is clear variation between regulatory environments is the type of players allowed in the industry. This issue raises the question as to whether regulations restricting or enabling the participation of other types of intermediaries have an effect on informality. Analyzing lessons learned and shared between countries may help inform policy makers about these kinds of questions.

## C. Transaction Costs and Informality

As previously mentioned, informality is present in Southeast Asia. It is worth noting, however, that informality is more pronounced in countries not studied here, such as Viet Nam. The presence of informality in the countries analyzed in this study seems to be mostly associated with transaction costs, which are often a function of the volume of transactions, technological infrastructure, and market competition.

We recommend studying more closely the sources of informality in the various corridors, and possible strategies for reducing it. In particular, it is important to focus on ways to increase competition and technology in selected corridors.

While determining the exact level of informality in the Japanese marketplace remains a challenge, this study finds that more can be done in Japan to increase the number of remittance service providers. One suggestion is to expand the availability of banking services to companies employing migrant workers, by promoting direct bank-to-bank transfers to the migrant worker's account in the home country, while reducing costs. Even more desirable would be to allow other companies such as nonbanking financial institutions as agents of banking financial institutions but permitting transfers at a lower threshold amount (¥100,000 at a time or ¥200,000 per month).

Technology is also an important factor in reducing informality. Transfer options that are attractive to remitters include ATMs available for use in English and other languages, as well as card-based transfers that contain cost-effective and value-added services in bank-to-bank transactions. Card-based transfers may provide an important solution to prohibitive transaction costs and informality, as they can be connected to various services, including phone card minutes, savings, retail store purchases, and other front-end technology services.

Efforts can also be made to lessen informality on the remittance-receiving side. In the case of Indonesia, the Government should consider possible improvements to the domestic payments clearing system that would shorten the time funds reach destination bank accounts.

## D. Financial Intermediation

The intersection between financial intermediation and remittance transfers has been identified as the weakest link, and yet one of the most important in the relationship between remittances and development.

Two specific strategies are recommended to strengthen the link between financial intermediation and remittances. First, provide financial education to migrants and relatives. Second, implement a pilot program between Japan and the Philippines, as well as Malaysia and the Philippines, which links microfinance with banking institutions, in a concerted effort to enhance financial services to migrants and their relatives.

***Financial education:*** Financial intermediation among remittance senders and recipients could be enhanced by providing more information to these groups. Indonesian trainees in Japan, for example, have very limited knowledge on how to open an account at a Japanese bank, what kinds of services Japanese banks provide to customers, and what remittance transfer options are available through the banks (such as using registered mail, acquiring an international card, and the associated fees, and other costs).

Systematic information dissemination mechanisms and materials made available to foreign workers through the media, seminars and events, organizations, and so on may improve their participation in the financial sector. In the case of remitters from Japan, for example, pre-departure seminars could be provided through Japanese embassies or representative offices of Japan International Cooperation Agency (JICA) in counterpart countries. And in the case of Hong Kong, China, to cite another example, the Government could consider requiring that immigrants' wages be directly deposited into bank accounts, complimented by a short financial education course, an effort that would not only facilitate intermediation, but also help enforce minimum wage standards.

***Pilot program on financial intermediation:*** There is a demand from remittance senders and recipients for financial services. The Japan survey of remittance senders, for example, found that 10–20% of recipients use remittance funds for investments in savings, pension plans, and/or family investments—an indication that there is room for alternative investment mechanisms. The sender survey administered in Singapore revealed that over a third of Indonesian domestic helpers do not have bank accounts in their home country. Meanwhile, half of Filipino workers in Hong Kong, China, do not have bank accounts.

Efforts to increase financial intermediation among senders and recipients would thus be an important development. Greater convenience through decreasing physical collection of remittances (which would also reduce transaction costs) could be achieved through the use of bank accounts and card-based monetary instruments. Moreover, the portion of remitted money that remains in recipients' bank accounts could potentially be mobilized through short-term placement of savings in a money market, or investments in securities including government bonds. Another way to leverage remittances may be through enhanced lending to remittance recipients, by considering remittances as a secure source of income as part of a client's credit history.

We recommend a pilot project whereby banking and microfinance institutions in the Philippines collaborate in a strategy to leverage remittance transfers by providing financial services targeted at remittance recipients. The pilot project would consist of supporting rural banks and microfinance operations in areas where there is remittance activity. These institutions would act as remittance payers, in alliance with established money transfer providers. Assistance would be provided in support of market research to identify the financial needs and preferences of senders and recipients, facilitate the adoption of new technologies, and encourage the design and implementation of commercially viable financial products and services. A similar strategy could be implemented in Indonesia for its three corridors: Japan, Hong Kong, China, and Malaysia.

## E. Regional Remittance Agenda Setting

The significance of Southeast Asian remittance flows is highlighted by their volume, as well as the effect that these transfers have on receiving households and their local and national economies. However, very few studies exist on this topic, much less on the relationship between remittances and development (see Annex II of literature review). We therefore recommend the formation of a regional task force to discuss such a development agenda on remittances.

This task force should involve parties from governments, the business community, development players, academics, and civil society groups working with migrants and aware of issues relating to remittance transfers.

## F. Migration Issues and Remittance-Related Policy

As this study has illustrated, some migration-related policies potentially impact the flow of remittances. Many Filipinos and Indonesians rely on agencies to gain overseas employment, and it is not unusual for agencies to charge high fees, which leave little surplus for transferring back home. One suggestion to overcome this is for governments of migrant sending countries to lift restrictions requiring emigrants to use employment agencies.

Additionally, host country governments should consider relaxing regulations to make it easier for an FDH to change employers without returning to the home country. To do this, it would be helpful for host country governments to collect more statistics on FDHs, in particular their length of stay and early contract termination.

Foreign workers in Singapore, Indonesians in particular, experience unequal working conditions, highlighted by the generally lower salaries compared with Filipino domestic helpers and the lack of a mandatory rest day. MOM can further ensure a homogeneously high-quality domestic helper workforce by requiring common contractual terms including common wages and mandatory rest days for all domestic helpers without regard to nationality. Such equalization will give Indonesian domestic helpers more income and the time to learn and make informed choices about what to do with the income, including remittances.

One of the ways to improving the situation of migrant workers is to increase their awareness through pre-departure education. Without personal time and being less knowledgeable of their rights and options generally (including with respect to remittances), greater education such as mandatory orientations, video presentations, and brochures—describing their rights, support organizations, remittance channels, and benefits of financial intermediation—would be of great value to immigrants, as it would improve their ability to make more informed social and financial decisions.

Host countries can do more to ensure that domestic helpers and other migrant workers know and understand their basic rights and how to contact support organizations in case of need. This can be implemented by the governments through a requirement for employment agencies to directly provide the information and education. It can continue to improve the quality of the industry by further providing basic educational services to newly arriving domestic helpers.

The Indonesian Government, for example, has in the past attempted to institute more favorable terms and conditions (such as higher salary and mandatory rest day) for its domestic helpers but with little effect. For these policies to have the desired effect, the host country government must take a lead role in promoting them. It is to the benefit of all parties involved that all foreign domestic helpers in Singapore, for example, regardless of country of origin, conform to similarly high standards of knowledge, skills, and professionalism, are able to work in an open, safe, and fair environment, and are accorded similar terms and conditions for their employment.

Migrant worker organizations in different host countries could collaborate in these efforts in bringing concerted pressure on home country governments to relax restrictions and enforce protective measures.

Particularly challenging in Malaysia is the short-term nature of policies. Ad hoc policies about employment of foreign workers and expatriates caused confusion and disrupted work. The common problems faced by employers in recruitment are delays in obtaining approvals (72.4%) and constantly changing policies (67.1%). Labor policies must be long term and strategic to serve the needs of the country. The social problems caused by the immigrant community and the abuse of foreign labor must also be addressed.

The Malaysian Employees Federation has recommended that the Government implement a comprehensive system and policy of recruitment of foreign workers in an organized and systematic manner that would enhance the productivity and efficiency of companies. This is to ensure that industries do not experience productivity and sales growth shortfalls, as experienced by many sectors during implementation of the amnesty program that ended on 28 February 2005. The government could also consider forming a national council on foreign workers, although the federation maintains that employment of foreign workers should not be a preference, and there should be proof of efforts to recruit local employees before approval is given to recruit foreign workers

Aside from explicit migration-related policies, there are also remittance-specific policies that could help alleviate some potential risks felt by migrants. For example, the HKMA should consider requiring that remittance agents inform their customers of bank charges and other amounts deducted in the destination country, in line with the Code of Banking Practice for Authorised Institutions.

# VII. Methodology

The RETA 6212 on Southeast Asia Workers' Remittance Study is based on a series of predominantly primary sources. Four different protocols were created for this study, designed to cover four major facets of remittance transfers in the Southeast Asia region: (i) remittance senders, (ii) remittance recipients, (iii) money transfer organization, and (iv) financial institutions. Other potentially relevant institutions, such as migrant support networks, government officials, media outlets, and so on were also interviewed.

Consultants based in each country administered surveys and conducted interviews, serving individually as national study team leaders, and collectively as part of the regional team overseen by a study team leader.

Field work (data collection) for this research project started on 15 February 2005 and concluded in 1 July 2005. During that period interviews, surveys, data set development, and secondary literature were consulted to prepare the first report, which was elaborated in mid- July and a final draft presented at the end of August 2005. The surveys were administered 1 March–1 May. Data processing and analysis followed during May–June.

The analytical framework of this study focuses on migration, remittance volumes, the remittance transfer marketplace, financial sector regulations, and financial intermediation as related to development.

The principal objective of the study was to learn about the trends and patterns of remittances, and issues concerning development as related to these funds, in the Southeast Asian context.

## A. Interviews

Person-to-person interviews were carried out with policy officials, money transfer companies, and immigration experts. In each country a minimum of twenty influential individuals were interviewed. People interviewed included central bank officials, public officials working in the management of overseas workers, company managers, commercial bank officials, and immigrant group advocates.

**Table 7.1: Number of Individuals Interviewed**

| Country | Total |
|---|---|
| Hong Kong, China | 26 |
| Japan | 26 |
| Singapore | 26 |
| Malaysia | 30 |
| Indonesia | 18 |
| Philippines | 10 |

## B. Survey Samples

The team generated a survey questionnaire to migrants or families of migrants in each country under study. The questionnaire is an international protocol containing more than 30 questions and adopted in other parts of the world, particularly in the Caribbean, Germany, Latin America, United Kingdom, United States, and West Africa.

Because of funding constraints approximately 500 surveys were conducted. Although the sample size is smaller than a typical nationwide survey, for migrant populations of less than one million individuals concentrated in specific geographic areas, the sample is representative with a 4% margin of error. However, although the results are statistically significant, the sample size needs to be considered as a limitation when analyzing an individual sender of a recipient country (ie, a Filipino in Japan) and the findings are to be interpreted within such limitation.

Another limitation to consider is that due to lack of census data about migrant population sizes, it was difficult to discern the appropriate sampling size.

The statistical analysis of the surveys was drawn predominantly from the samples carried out in Japan, Hong Kong, China, and Singapore. The data collection offered better choices for statistical analysis and its validation. With regards to recipients of remittances, Indonesia's survey was also used for statistical analysis.

**Table 7.2: Sample Size of Remittance Senders**

| | Indonesia | Malaysia | Philippines | Other (Nepal, India, Bangladesh) | Total |
|---|---|---|---|---|---|
| Hong Kong, China | 262 | | 262 | | **524** |
| Japan | 134 | 42 | 256 | | **432** |
| Malaysia | 210 | | 100 | 200 | **510** |
| Singapore | 151 | 151 | 127 | | **429** |
| | 647 | 193 | 669 | | **1509** |

**Table 7.3: Sample Size of Remittance Recipients**

| | Indonesia | | Malaysia | |
|---|---|---|---|---|
| | # | % | # | % |
| Japan | 17 | 3 | | |
| Hong Kong, China | 43 | 8 | | |
| Korea, Republic of | 15 | 3 | | |
| Taipei,China | 26 | 5 | | |
| Singapore | 63 | 11 | 100 | |
| Malaysia | 378 | 69 | | |
| Brunei | 8 | 1 | | |
| **Total** | **550** | **100** | **100** | |

## 1. Hong Kong, China, Survey Methodology

Market surveys were carried out among Filipino and Indonesian migrant workers. The survey was administered using typical procedures, through a "supported self-completion" basis. Questionnaires were handed out to respondents but supervised by trained researchers, who were available to provide explanation and guidance. The forms were checked for completeness, and a small token was given to respondents.

The questionnaire was based on the regional questionnaire, but partly tailored for the Hong Kong, China, market. For validation purposes a small pilot survey (20 questionnaires) was carried out for each of the Filipino and Indonesian target groups. The survey was conducted in English for Filipinos and translated in Bahasa for Indonesian migrants, using Bahasa-speaking interviewers.

The surveys were carried out over 4 Sundays (the normal day off for the migrants) at their main gathering places (Central for Filipinos and Causeway Bay for Indonesians). A total of 265 valid responses were obtained for the Filipino survey and 259 for the Indonesian survey. These represent sampling rates of 0.22% and 0.28%, respectively.

### 2. Japan Survey Methodology

The survey conducted in Japan included three migrant groups: Filipinos, Indonesians, and Malaysians. The sample size was based on a margin of error of 5–6% with 250 samples for the Philippines. The remaining was shared by Indonesia and Malaysia, taking the proportion of Indonesian and Malaysians with the remaining number of targeted sample (approximately 500 in total) into consideration.

The places were the survey was administered included Tokyo and Nagoya where majority of these migrants reside. Churches, language schools, remitting places like the PNB, and other places of concentration were chosen to conduct survey for Filipinos, Indonesians and partly for Malaysians. Moreover, restaurants and retail stores, including in the suburban area of Tokyo, were also included for the Filipinos and Indonesians.

Prior to the surveys, focus groups were formed to validate the questionnaires and garner general information about migrants and remittances. This exercise showed that the survey data of Malaysians show a clear bias in that the majority might be composed of students. Therefore, the survey results for Malaysia, especially numeric data, should be considered as a reference data.

### 3. Malaysia Survey Methodology

The survey in Malaysia was conducted by two market research companies: City Advertising Enterprise based in Taman Seri Serdang and AriSu Management Consultants The market survey was conducted by personal interviews where migrant workers from Indonesia, India, Bangladesh and Nepal live or work.

Filipinos in W. Malaysia were interviewed on Sundays where they gather at the St. John's Church in the vicinity of Kuala Lumpur. Interviews were also conducted at their Training Centre in Jalan Ampang where the Philippines Embassy conducts classes every Sunday.

One major difficulty in conducting this survey was caused by time and budget constraints in working with a larger sample of Filipinos and Indonesians. The sample size is thus not representative of its population and the analysis presented in the report concerning Malaysia is only a descriptive snapshot of a purposive sample.

### 4. Singapore Survey Methodology

A total of 429 surveys were completed for Filipino, Indonesian, and Malaysian workers. All surveys were conducted face-to-face including prescreening. The Filipino worker survey was conducted largely at the PNB branch in Lucky Plaza. A few were also conducted at various remittance companies also located in Lucky Plaza. A total of 127 surveys were completed over three weekends in April 2005.

Indonesian domestic helpers and Malaysian workers (work permit and employment pass holders) were intercepted over key areas island-wide. Screening questions were asked to ensure that the respondents have worked and lived in Singapore for at least 6 months so that they had sufficient remitting experience.

A total of 1,531 Indonesians and Malaysians were approached for the survey, of which 302 were completed successfully for a 20% success rate. The main reason for survey failure (32% of total or 42% of all Indonesians) was the refusal of Indonesian domestic helpers to participate, which was due to time constraints or employer disapproval. Of the Malaysians approached, 15% did not pass screening because they had not remitted money in the past 6 months compared with 9% for Indonesians. The sampling captured those Malaysians working and living in Singapore and not those who commute.

A total of 302 surveys were successfully completed, comprising half each of Malaysian workers (work permit and employment pass holders) and Indonesian domestic helpers. For this section, Malaysian employment pass holders are also defined to include Malaysian "S" pass holders. Fieldwork was conducted over 3 weeks from mid-March to mid-April 2005.

## 5. Indonesia Survey Methodology

A household survey was conducted to support the analysis of Indonesia as the recipient country of remittance sent by Indonesian migrant workers working in the Southeast Asia region.

Due to budget constraints the survey employed a small number of respondents, thus experiencing a higher margin of error. Based on the discussion, the regional team suggested a sample size of 500 respondents, which represents a 4% margin of error, where the average sample size will be about 540 respondents. In the implementation, the total respondents weree 550 households.

A purposive sampling technique was used because there is only a few major provinces, counties, and cities identified as the source of migrant workers. The top five provinces are West Java, Central Java, East Java, East Nusa Tenggara and West Nusa Tenggara, and followed by North Sumatra, West Kalimantan, East Kalimantan, South Kalimantan, South Sulawesi, and North Sulawesi. The market survey was conducted on April 2005 by the Institute for Economic and Social Research collaborating with local surveyors.

## 6. Philippines Survey Methodology

Basic demographic and remittance profile of remittance beneficiaries was studied through a survey of remittance beneficiaries conducted at the Philippines Duty-Free Shop, which is a usual stopover of arriving overseas Filipino workers (OFWs) and their families who welcome them at the airport. The survey covered the OFWs who arrived and visited the Philippines Duty Free Shop during the period 15 March–30 April 2005. A sample size of 300 was targeted, which yielded a total of 274 valid survey returns.

The questionnaire was administered in English but also translated. The survey is statistically representative of families of migrants. However, it is not a representative sample of Filipinos with families in Southeast Asia.

## C. Remittance Transfer Cost Data Set

The collection of data for this report consisted of pricing information from banks and money transfer companies involved in the transfer of money abroad. Data on money transfers were gathered through direct contacts with over 100 money transfer companies operating in Hong Kong, China, Japan, Malaysia; and Singapore. The main kinds of information collected to build the pricing data set included fee, foreign exchange charged as commission, interbank exchange rate, and other charges that could apply. The transfer cost of a remittance is generally derived from the sum of the fee and the commission on the exchange rate. The commission is estimated from the spread between the interbank exchange rate and the exchange rate applied by a company.

## D. Estimating Weighted Averages

The estimates on weighted averages were derived from applying survey data results to to the number of migrant senders and average sent. The mid-point of the range sent was calculated resulting from the survey individual responses about the average sent. The midpoint was multiplied by the frequency percent distribution reported by migrants and then multiplied by the migrant sender population.

Thus, the weighted average is

$$REMITTANCES_{IJ} = \sum \{[( Sent_{IJ} \times Freq_{IJ}) \times Dist._{IJ}] \times Migr._{IJ} \}$$

$REMITTANCES_{IJ}$ = Total remittances from host country i to home country j
$Sent_{IJ}$ = Average amount sent
$Freq_{IJ}$ = Frequency of sending)
$Dist._{IJ}$ = Percent distribution of that group
$Migr._{IJ}$ = Migrant sending population

The tables below illustrate the estimate of the amount sent by Indonesians in Japan. The first table offers the cross tabulation between the mid-points in the frequency of sending and the average sent.

The resulting percentage is applied to the average amount sent and the frequency of sending the times population figures.

For example, to calculate the total amount sent by all those Indonesians who send US$280 four times a year is $3,025,512.00: {[(280 x 4) x 15%] x 18009}. The number of Indonesians sending remittances from Japan is 18009.

**Table 7.4: Percent Distribution of Average Amount Sent by Number of Times a Year Sending that Amount**

| Mid-point Range Sent | 4 | 7 | 11 | 16 | Sum (average frequency: 9.5) |
|---|---|---|---|---|---|
| 280 | 15 | 1 | 11 | 1 | 28 |
| 421 | 19 | 1 | 2 | 1 | 24 |
| 514 | 5 | 1 | 2 | 0 | 8 |
| 748 | 9 | 6 | 2 | 0 | 18 |
| 1869 | 15 | 5 | 2 | 0 | 22 |
| **Total** | **64** | **14** | **20** | **2** | **100** |

**Table 7.5: Weighted Average Remittance Sent** (US$)

| Midpoint Range Sent | Frequency of Sending 4 | 7 | 11 | 16 | Sum (average frequency: 9.5) |
|---|---|---|---|---|---|
| 280 | 3,088,954.37 | 415,820.78 | 5,880,893.90 | 950,447.50 | 10,336,116.55 |
| 421 | 5,702,684.99 | 623,731.17 | 1,960,297.97 | 1,425,671.25 | 9,712,385.38 |
| 514 | 1,742,487.08 | 762,338.10 | 2,395,919.74 | - | 4,900,744.91 |
| 748 | 5,069,053.33 | 5,544,277.08 | 3,484,974.16 | - | 14,098,304.56 |
| 1,869 | 20,593,029.14 | 11,088,554.15 | 8,712,435.40 | - | 40,394,018.69 |
| **Total** | | | | | **79,441,570.09** |

Note: Migrant population: 23,000; adult sending population: 18,009 (90% adult migrants, 90% send money).

# Appendix 1

# Regulatory Framework

# I. Introduction

This study on Southeast Asia workers' remittances aims to establish ways to encourage (i) increased remittance flows and (ii) greater use of formal remittance channels (Asian Development Bank [ADB] 2004). These objectives could largely be achieved if the prevailing regulatory environment in both the remitting and the receiving countries were conducive. Encouraging the use of formal channels is particularly important. A better understanding of the current situation should allow policy makers to identify problems that must be resolved so that remittance flows through formal channels can increase and be used for development. Formal channels are defined here as "licensed" and informal as "unlicensed" (and by implication, illegal).

### Methodology

This regulatory report summarizes the findings from a survey (see Attachment) administered to central banks and other regulatory bodies in the remitting countries (Hong Kong, China, Japan, Malaysia and Singapore) and in the remittance-receiving countries (Indonesia, Malaysia and the Philippines).[1]

The respondents' answers were supplemented by face-to-face interviews with regulators and other government and private-sector officials, and with research on related issues. First-hand knowledge of the countries was utilized in the analysis of the prevailing regulatory situation. The survey questionnaire was divided into five categories: (1) Regulatory Framework, (2) Remitting Country – Receiving Country Relations, (3) Enforcement, (4) Anti-Money Laundering Law Compliance, and (5) Information and Data Gathering.

# II. Survey Results—Comparative Summary

## A. The Regulators

The Monetary Authority of Singapore (MAS) is the sole regulator for all banks, finance companies, insurance companies, securities firms, money changers, and remittance companies in Singapore. In their respective countries, Bank Negara Malaysia (BNM) and the Bank of Indonesia have jurisdiction over the banking sector and over entities in the remittance business. The Hong Kong Monetary Authority (HKMA) supervises the banking sector and the Hong Kong, China, police register remittance agents and money lenders. The BNM, the Bank of Indonesia, and HKMA report to their ministers of finance (in Malaysia, the finance minister is also the country's prime minister).

The charter of the Philippines' central bank, Bangko Sentral ng Pilipinas (BSP), provides independence in reporting to the finance secretary. However, the secretary sits on the Monetary Board, the BSP's policy-making body under the New Bank Act, an indication of the Government's desire for close coordination between the two bodies. The board is chaired by the BSP governor, and the other five members come from the private sector.[2] BSP registers and licenses all banks and their foreign exchange affiliates or subsidiaries. Qualified persons or nonbank institutions wishing to act as foreign exchange dealers, moneychangers or remittance agents (RAs) must also register with BSP. Other regulators include the Securities and Exchange Commission (SEC), which also registers banks, remittance companies, and foreign exchange corporations.[3]

---

[1] Malaysia is both a sending and receiving country.

[2] Interview with former Philippine Secretary of Finance Anita Amatong, 1 May 2005.

[3] ADB. 2004. Technical Assistance Final Report on Enhancing the Efficiency of Overseas Workers' Remittances. Manila.

Japan's Ministry of Finance (MOF) was the main banking regulator until 1998. Today, the Financial Services Agency (FSA) inspects and supervises private sector financial institutions and monitors securities transactions. It is an external organ of the cabinet office, with expanded responsibilities to resolve bank failures, including liquidation, prompt corrective actions, and bank reconstruction.[4] MOF has jurisdiction for overall coordination and adjustment concerning the accounts of the MOF, including competent administration, investigation, planning, and drafting of the Government's financial institution system; financial crisis management; and supervision of the Deposit Insurance Corporation, among other things.[5] The Bank of Japan (BOJ) is responsible for price stability, that is, keeping the economy free of inflation and deflation. Through daily money market operations, BOJ controls the overall volume of money in the economy and the interest rates.[6]

## B. Capital Requirements

The high cost of doing business can deter investors interested in the remittance business. In countries where only licensed banks can transfer remittances, a huge minimum capital requirement may discourage small banks. Among the countries in this study, Japan is, arguably, the most expensive place to do business, but it is the only one of the four remitting countries without a minimum capital requirement for foreign bank branches (although the assumption is that the head offices are financially strong and will fully support their Japanese branches). The minimum requirement for Japanese banks is Japanese Yen (¥)2 billion (about United States dollars (US$)19 million),[7] a figure still much lower than that imposed by other remitting countries. As a general requirement, a minimum capital-adequacy ratio must also be maintained.

Domestic Malaysian banking groups (commercial and merchant banks and finance companies) must have a minimum capital funds of Malaysian Ringgit (RM)2 billion (US$526.3 million),[8] unimpaired by losses, and locally incorporated foreign banks must have Rm300 million (US$79 million). Maintenance of an 8% capital adequacy ratio is also required. To strengthen the domestic banking industry, BNM continues to encourage the consolidation and strengthening of existing local banks rather than issuing new banking licenses. Malaysia's Financial Sector Master Plan to create an efficient, progressive, and comprehensive Islamic financial system has led BNM to issue three new Islamic banking licenses to qualified foreign Islamic banking players in 2004. The year 2005 is seeing further rationalization within the financial sector, with more mergers of commercial banks and finance companies within a domestic banking group.[9]

Next comes Indonesia, with a requirement of Indonesian Rupian (Rp)3 trillion (US$333.33 million)[10] and at least an 8% capital adequacy ratio from the start of the bank's operations. Past problems experienced with small banks may have influenced the regulators to allow only larger, and hence more stable banks, into the market. However, banks wishing to establish or convert to business operations based on Sharia principles face much smaller capital requirements, ranging from Rp1 billion–2 billion (US$104,515–209,030), depending on where they plan to establish branch offices.[11]

---

[4] See www.fsa.go.jp
[5] See www.mof.go.jp
[6] See www.boj.or.jp
[7] ¥105.15 = US$1.00 (value as of closing price, 28 April 2005).
[8] Malaysian ringgit RM3.80=United States dollars (US$)1.00 (value as of closing price, 28 April 2005). For additional information, please note that Malaysia has had a fixed exchange rate since 1998 but adopted a managed float for the ringgit exchange rate, effective 21 July 2005.
[9] BNM Annual Report, 2004, p. 95.
[10] Indonesian rupiah(Rp)9,568 = US$1.00 (value as of closing price, 28 April 2005).
[11] Article 56, Bank of Indonesia Regulation Number 2/27/2000 Concerning Commercial Banks.

Singapore expects foreign banks' head offices to be in good financial standing. They must have minimum capital of S$200 million (US$122.25 million), while their Singapore branches must have at least S$10 million (US$6.11 million).[12] In addition, yearly licensing fees run from S$75,000–125,000 (US$45,844–76,406), depending on license type. Notably, nonbanks, like money transfer outfits (MTOs), can easily establish in Singapore, at least in terms of capitalization, since the only requirement is a security deposit of S$100,000 (US$61,125) for each branch of the remittance company.

Hong Kong, China, requires Hong Kong dollars (HK$)300 million (US$38.48 million) for banks; HK$100 million (US$12.83 million) for restricted-license banks; and HK$25 million (US$3.21 million)[13] for deposit-taking companies. For RAs, however, there is no capital requirement.

As for the Philippines, the minimum capital requirement depends on the type of banking license: 14 universal banks, P4.95 billion (US$91.4 million); commercial banks, P2.4 billion (US$44.3 million); thrift banks with head offices in Metro Manila, P325 million (US$6 million), with head office outside Manila, P52 million (US$960,206); rural banks vary, depending on the location of the office; and remittance companies and other entities vary depending on the type of business entity (sole proprietorship, partnership or corporation).[15]

## C. Who Is Allowed to Engage in the Remittance Business?

Japan requires a full banking license even if a company plans to engage only in the remittance business. This is because remittances fall into "exchange transactions," a core function permitted only to licensed financial institutions. As part of its savings operations under the Postal Transaction Law, the post office can also engage in funds transfers, to a limited degree.[16]

Indonesia and Malaysia also limit the remittance business to the banking sector and their post offices. In Indonesia, MTOs must form partnerships with domestic banks, whereas in Malaysia, they can partner with either domestic or foreign banks. BNM has allowed Western Union to form a partnership with Post Office Malaysia (POS Malaysia), which engages in the remittance business in the form of international money orders but without catering specifically to the migrant community's remittance needs. Under a special arrangement between the Government of Malaysia and the Government of Nepal, a Nepalese company—IME Impex Sdn Bhd—services Nepalese remittances through a private commercial venture between IME and designated licensed Malaysian banks.

When a remitting country limits participation in the remittance business to banking institutions only and makes doing business relatively costly and difficult, a bank in the remittance-receiving country whose core business is remittances will find the environment challenging, as it will have to rely solely on fee-based income and foreign exchange gains. Its pricing of remittance charges and exchange rates will depend on its break-even point for number of transactions and volume (amount) of remittances processed, and it will have to generate increases in both to stay in business.

Hong Kong, China, the Philippines, and Singapore allow nonbank entities to engage in the remittance business. Hong Kong, China, and Singapore have the most liberal environment: individuals are permitted to operate as RAs without a minimum capital requirement. Singapore, by allowing limited purpose branches (LPBs), encourages banks from countries with large migrant populations to

---

[12] S$1.6360 = US$1.00 (value as of closing price, 28 April 2005).
[13] HK$7.7948 = US$1.00 (value as of closing price, 28 April 2005).
[14] http://www.bsp.gov.ph/regulations/guidelines/guidelines_b.htm
[15] P54.155 = US$1.00 (value as of closing price, 28 April 2005).
[16] In Japan, no MTO is allowed to intermediate remittances except when it partners with licensed banks in Japan. Example: Western Union partnership with Suruga Bank; MoneyGram partnership with Ogakikyoritsu Bank.

be visible and accessible to their country's migrant workers. The LPB application procedure is simple, taking about one month, and licenses are only S$1,000 (US$611) per year.[17]

## D. Language Barrier

In these countries, it is the norm to communicate with regulators in English. However, Indonesia requires translations to Bahasa for English banking-license applications, and in Japan, Japanese is required for most business operations. A foreign bank that wants to operate in Japan must pledge to have a manager capable of communicating in Japanese.[18] These requirements are costly for foreign banks, which would have to employ translators and interpreters as well as Japanese officers and staff. Additionally, Japanese personnel may not understand the migrant workers' needs as well as would personnel from the home country.

## E. Acceptable Identification Documents for Banking Transactions

To determine the ease with which migrant workers can send money home or open a savings account, questions on the regulatory environment concentrated on the required identification documents—specifically, an unexpired foreign passport. It is assumed that a non-national entering the host country will carry an unexpired passport, which will be an acceptable identification for opening an account or transferring funds to facilitate a migrant worker's access to banking services.

In all cases, an unexpired passport held by a foreigner of the host countries is an acceptable document for opening accounts and remitting money. However, some countries require an additional supporting document. In Singapore, either the passport or the national identity card is sufficient to open an account; a work permit, passport, or the national identity card is sufficient for sending remittances. Indonesia requires the KITAS (permanent resident card). Malaysia requires a valid work permit or a letter from the employer. Japan requires the alien registration card and Hong Kong, China, the identity card, both in themselves are acceptable. In the Philippines, the identification document varies from institution to institution, with the alien certificate of registration and the passport as the minimum requirements. Mere presentation of the required documents does not, however, guarantee that the banking transactions will proceed, as banks and other institutions in these countries monitor for suspicious or potentially illegal transactions.

In all cases, except Hong Kong, China, physical presence is required to open bank accounts, but even here authorized institutions must use due diligence by obtaining certified copies of identification documents.

## F. Remittance Charges—Regulated or Freely Set?

Remittance charges can be freely set and are, therefore, unregulated in all the countries.

## G. Additional Transactions Costs

Japan, Hong Kong, China, Indonesia, Malaysia, and Singapore have no additional costs beyond the fee for the remittance transaction. The Philippines charges a documentary stamp tax and other charges, varying from bank to bank, which are borne by the beneficiary (deducted from remittance proceeds).

[17] Interview with Alex Milan, General Manager, Philippine National Bank, Singapore Branch (PNB) Singapore opened its first LPB on 24 April 2005.

[18] Interview with the general manager of a foreign bank branch operating in Japan, who has requested anonymity.

## H. Bulk Remittances

So-called "consolidators" collect remittances from individuals and transfer the monies as "bulk remittances," using formal channels. In the receiving country, the money is credited to a single account, from which the remittances are distributed to the individual beneficiary accounts, which are usually in the same bank. In keeping with Know-Your-Customer (KYC) policies requiring the identification of each remitter and the individual processing of each transaction, Japan does not allow bulk remittances. Hong Kong, China, allows it, as does Singapore, as long as the person or business doing the bulk transfer is licensed and complies with the regulations (for example, maintaining proper records on the individual clients). Indonesia, which has yet to institute policies on how to deal with bulk remittances, currently allows them.

The members of the Philippine Association of Bank Remittance Officers, Inc. (ABROI) are officers of Philippine-based banks involved in the remittance business. The regulatory authorities consult ABROI on remittance matters. The association would prefer not to accommodate consolidators, many of whom are not formally recognized in the host countries. However, some member banks (for idiosyncratic reasons, such as meeting targets) allow consolidators to use their facilities.[19]

Malaysia permits a modified form of bulk remittances, involving legitimate transfers from one licensed bank to another under a government-to-government arrangement, as is the case with the locally incorporated Nepalese remittance operator, IME Impex Sdn Bhd. The settlement of the remittance transaction is made through the banking system. Individual Nepalese remitters credit the IME receiving account in a Malaysian bank, and then they submit proof of deposit to IME, along with the necessary details on the sender and recipient. In turn, IME credits its remittance receiving account in bulk in its depository bank in Nepal, and it then delivers the remittances to the individual beneficiaries. IME incurs a single transfer charge, the savings being passed on to its individual clients, who would otherwise incur much higher transfer costs.

In Japan, to assist the 4,500 legal Nepalese migrants[20] and discourage the use of the *hundi* or *hawala* systems, regulators may consider modifying current regulations to allow for a variation of the Malaysia–Nepal model. To ensure that foreign currency earned by Nepalese migrants is repatriated to Nepal through legal channels, the Nepalese Government could create a remittance scheme involving three parties: a licensed bank in Japan and one in Nepal, and a Nepalese company approved by the Nepalese central bank. The Japanese bank would remit the money of Nepalese migrants to a "nonoperative" account, which functions as a "remittance catching [receiving] account," and would be registered and preapproved by the Nepal central bank and maintained by the Nepalese company in the Nepalese bank. The company arranges with the bank for direct delivery of the funds to the Nepalese beneficiaries, most of whom do not have bank accounts.[21] This variation of the Malaysia–Nepal model poses some regulatory problems, particularly because many remitters sending money to a single receiving account may arouse suspicion (as the anonymous account could appear to be part of a money-laundering operation). The scheme may not lower fees for individual Nepalese remitters, as the bank in Japan is not allowed, under current regulations, to send the remittances in bulk to a "nonoperative account."

---

[19] Interview with Articer Quebal, founding member, Association of Bank Remittance Officers, Inc., and fulltime consultant and executive head, Remittance Marketing, Asia United Bank, Philippines.

[20] "Statistics on the Foreigners Registered in Japan," Japan Immigration Association, Heisei 15 (2003).

[21] As described by Bigyan Pradhan, president and chief executive officer of Sun and Company P., Ltd. of Nepal, concerning his visit to Japan in April 2005, when he proposed this scheme to various Japanese banks.

## I. Anti-Money Laundering and Know-Your-Customer Policies

All the countries have anti-money laundering rules in place and have implemented programs to ensure compliance. All the countries also adhere to KYC principles, adopted by the Basle Committee on Banking Regulations and Supervisory Practice and by the banking community worldwide. This step toward preventing the misuse of the financial system for money laundering[22] requires that banks obtain the name, birth date, address, and valid identification documents of individuals transferring money, as well as additional information, such as nationality, occupation, telephone number, and visa status. All the countries require that suspicious transactions, no matter how small the amount, be reported to the authorities.

The amount triggering application of KYC requirements in the remitting countries varies. Japan's FSA requires banks to apply KYC rules to transfers above ¥2 million (US$19,020) whereas Singapore has a "zero dollar" policy. Singapore's antimoney laundering guidelines for remittance licensees state that they "shall not conduct business transactions with customers who fail to provide evidence of their identity" and "shall record relevant information from all prospective customers." BNM does not specify a threshold to trigger KYC, but banks are required to identify and verify all customers and keep transaction records for at least 6 years. Under the Malaysian Anti-Money Laundering Act 2001, banks are required to report any suspicious transactions, irrespective of amount. Hong Kong, China, strictly checks remittances of HK$20,000 (US$2,566) or more.

For remittance-receiving countries, the policy also varies. Indonesia does not require strict checking of identification, except for amounts exceeding Rp100 million (US$10,452). The Philippines requires monitoring of incoming remittances over P500,000 (US$9,233). Malaysia does not set a minimum. Japan strictly monitors incoming remittances of ¥2 million (US$19,020), just as it does for outgoing remittances.

The threshold for reporting purposes also varies. Japan's FSA requires recording all transactions over ¥2 million (US$19,020) and that the records be kept available for audit for 7 years. Amounts over ¥30 million (US$285,307) are reported to the BOJ (to compile balance-of-payments statistics), although BOJ requires major financial institutions to report aggregated transfers over ¥2 million (US$19,020) on monthly basis to increase data coverage. MAS, on the other hand, considers a minimum threshold to be impractical, as customer types and behavior vary widely. Indonesia also does not require a minimum, but transactions of over Rp500 million (US$52,258) are reported to the PPATK (Center for Reporting and Analysis of Financial Institutions). Hong Kong, China, has no minimum requirement for reporting purposes. In the Philippines, amounts exceeding P500,000 (US$9,233) are reported to the Anti-Money Laundering Council (AMLC).[23] Malaysia requires reporting of amounts over RM50,000 (US$13,157).

## J. Existence of Informal or Unlicensed Channels

Hong Kong, China, and Singapore recognize the possibility that informal channels exist despite their relatively open regulatory environment. Indonesia's central bank has trouble pinpointing unlicensed channels; Japan relies on transactions reports, media, and other information sources; and Malaysia also lacks a formal system for determining the existence of unlicensed channels. The Philippines recognizes the existence of informal channels, such the entrenched *padala* system, wherein a friend or relative returning home is entrusted with hand-carrying cash, at no charge to the sender.

---

[22] Guidelines on Money Lending and "Know Your Customer" Policy, Bank Negara Malaysia (BNM/GP9).
[23] Interview with the Compliance Office, PNB Head Office, Philippines.

## K. Enforcement

The enforcement of money-transfer regulations varies. Hong Kong, China, appears not to have problems. Japan wants to see efficient enforcement of the Financial Action Task Force requirements, whereas in Singapore, limited control over smaller remittance-market players is of concern. For Indonesia's regulators, major challenges are compliance, overlapping regulations, and the difficulty and cost involved in efficient monitoring and implementation of existing objectives and regulations. Malaysia's concerns revolve around implementation and compliance. The Philippines may find it a daunting task to ensure that informal channels do not get involved at various points in the whole value chain of remittances, which involves several players.

In Hong Kong, China, Indonesia, Japan, Malaysia, and Singapore the police are primarily responsible for identifying unlicensed channels. In the Philippines, BSP is the main enforcer, and BSP and AMLC investigate, examine, and audit MTOs. However, enforcement issues still exist for nonregistrants. In Hong Kong, China, HKMA supervises authorized institutions to ensure compliance, and the police, based on third-party reports or criminal investigations, randomly monitor RAs even though they are not formally subject to supervision. Advice is given to employees of RAs and money changers about checking declarations and running background checks. The Japanese criminal code makes transaction reporting compulsory. In Singapore, those engaging in criminal activities involving money transfers are subject to fines, imprisonment, and lashes of the cane. MAS may also revoke licenses and suspend business. Bank Indonesia gives warnings and administrative sanctions, such as cash penalties and reductions in bank ratings. When the violation is criminal in nature, the police are the enforcing body. BSP ensures compliance and sanctions offending institutions. Malaysia enforces many laws, such as the Banking and Financial Institutions Act (BAFIA), Anti-Money Laundering Act, Exchange Control Act, Payment Systems Act, the Criminal Procedure Code, among others.

*Examples of Violations and Sanctions or Administrative Guidance for Offending Institutions*

In Japan, the FSA website lists sanctions meted out to institutions that have violated banking, antimoney laundering, or KYC rules. The news media also commonly publicizes violations and sanctions. Such transparency may prove a major deterrent for other possible violators.

For Japan, at least, foreign banks seem to have trouble fully understanding various banking rules, including KYC and what constitutes acceptable foreign identification documents. FSA releases promptly the necessary information, but it is in Japanese and English versions may not be readily available. As a self-help measure, within the Banking Sector Committee (composed of more than 50 foreign banks) of the International Bankers Association (IBA) in Japan, foreign banks have formed working groups, including one on KYC. One of the aims of this committee is to identify key issues that affect the member banks and to discuss these with the relevant regulators. The IBA also offers translation services to the member banks for various documents, regulations, and announcements issued by the regulators.

## L. Critical Issues and Concerns for Regulators

The critical issues and concerns expressed by each country's regulators include:

| | |
|---|---|
| Hong Kong, China | No significant weaknesses or deficiencies were reported. |

| | |
|---|---|
| Indonesia | Sensitivity of clients to KYC. Provision of good IT support, which is very costly and may not be justified given projected profit levels for the institutions. Enforcement coordination between responsible institutions. |
| Japan | Unlicensed or informal channels) and insufficient KYC compliance. |
| Malaysia | Identification and enforcement of noncompliance by the institutions; encouraging unlicensed operators to license their businesses; and encouraging people to use formal channels. |
| Philippines | Implementation and compliance; monitoring of informal or unlicensed channels. |
| Singapore | Insufficient KYC and risk-management controls for the many licensed small private remittance companies. |

### M. Remitting Country—Receiving Country Relations

Institutional representatives from all the countries engage in some form of dialogue with their counterparts, but not necessarily specifically about remittances. Japan, however, has bilateral agreements with Malaysia and the Philippines to facilitate migrant remittances and improve migrants' access to financial institutions (concluded on 30 August 2004, and 28 October 2004, respectively). These were an offshoot of the June 2004 G8 Sea Island Summit, where a desire to improve remittance flows through a deeper relationship with developing countries was expressed.[24]

### N. Information and Data Gathering by the Regulators

Singapore has strict requirements for quarterly reporting by MTOs. Banks are not required to report specifically on remittance transactions, but they must report more generally and frequently on their operations and financial health. The Census and Statistics Department in Hong Kong, China, mandates reporting of remittance statistics, one of the components for compiling balance-of-payment data. In Japan, BOP statistics record remittance transactions by foreigners residing in Japan. In the Philippines, reports on remittance and foreign exchange transactions are required per BSP Circular No. 471. In Malaysia, banks report cross-border settlements daily through the online International Transaction Information System, whereas nonbank entities submit their reports monthly via hard copy.

All countries indicated the lack of formal, efficient methods to collect data on remittances passing through informal channels.

## III. Recommendations

### A. Encourage the Use of Formal Channels: Remitting Countries

The regulatory environments in Hong Kong, China, and Singapore appear to be the most conducive to the use of formal channels for remittance transfers, with banks, MTOs, RAs, and other small players operating in the industry. The capital requirements for banks to set up remittance businesses are reasonable, and smaller players receive more liberal treatment, including the possibility of entering the business with no required capitalization. The presence of many players and liberalization of funds-transfer costs open the way for market forces to prevail, with benefits

[24] For more details (in Japanese only), see http://www.mof.go.jp/jouhou/kokkin/japan-philippin.soukin.pdf, and http://www.mof.go.jp/jouhou/kokkin/japan-malaysia .soukin.htm

redounding to the remitters, as the competition within these territories will be strong. Despite the ease with which nonbanks enter the market, major problems have not been encountered in their supervision and control, perhaps because of these two countries' strict antimoney laundering and KYC policies.

Japan and Malaysia, the other two remitting countries, present the most challenging environment for encouraging the use of formal channels, as current regulations restrict participation in the remittance business to licensed banks and, to a limited extent, their own post offices.

In Malaysia, BNM's responsibility to report directly to the minister of finance (who is also the prime minister) indicates the tight control that the Government wants to place on the banking sector. This may be motivated by a desire not to repeat the problems encountered in 1995, when the real effective exchange rate of the ringgit against the US dollar appreciated sharply, pricing Malaysian products out of the world market, leading to a sharp deterioration in the current account of the balance of payments. Hence, cushions against future external shocks were needed (Chew 2001). The Government also views the current number of players in the financial sector as sufficient, and entry of more banks is not being encouraged. Partnerships with local banks, however, remain an option.[25] Malaysia, however, is host to many migrant workers, whose need to remit funds to their home countries cannot be overlooked. By some estimates, there are around 200,000 Filipinos and about 25,000 Indonesians in Sabah alone.

Japan hosts a large number of foreigners under various residence statuses. The 625,422 nationals from the Republic of Korea comprise the largest segment of Japan's foreign population, followed by the nationals from the People's Republic of China at 424,282. Foreigners from South America number 334,602, with the biggest blocks from Brazil at 268,333, and Peru at 51,772.[26] For the countries in this study, there are 185,237 Filipinos, 22,862 Indonesians, and 9,008 Malaysians residing in Japan. Given the size of Japan's foreign worker population, the country needs more accurate and comprehensive information on migrant workers to better assist them in remittance-transfer services.

*Recommendation No. 1: Study the Singapore Model for Limited Purpose Branches*

Japan and Malaysia may not immediately open up their economies to remittance players other than licensed banks. Nevertheless, an examination of the Singapore model of LPBs is advisable. MAS has made it relatively easy for migrant workers' home-country banks to expand their reach into Singapore to provide the migrants with improved remittance services, while ensuring better compliance and control.

Currently, Japan requires a full banking license for every additional branch (or sub- or mini-branch) of an already existing licensed bank, even if the only business that this bank wants to do is remittances. The regulators should consider the possibility of allowing LPBs to be opened by the already existing home-country banks, with simple application and approval processes but without compromising the strict antimoney laundering and KYC policies. This could be achieved by requiring a tight control of all LPBs by their respective bank headquarters.

Only two fully licensed Philippine banks operate in Japan (in keeping with the reciprocity principle, only two licensed Japanese banks operate in the Philippines). Each of the Philippine banks operates a main branch in Tokyo, and each has one regional branch (one in Nagoya and the other in Osaka). This is not proportionate to the large number of Filipino residents throughout Japan. To add

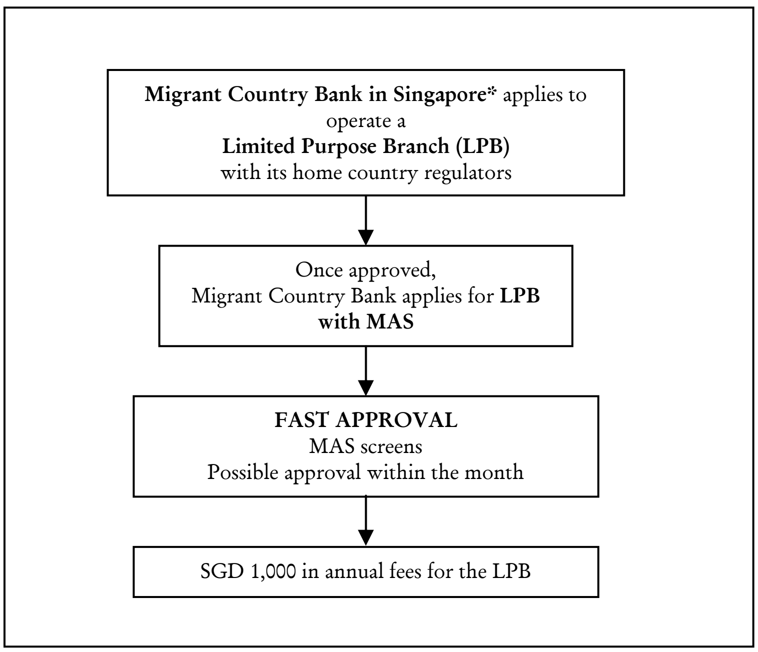
---

[25] Information from the former general manager of Bank Bumiputra Commerce Bank Berhad, Tokyo Branch, in the course of discussions for a possible partnership with his bank and a Philippine bank, to service Filipinoremittances from Malaysia.

[26] These figures refer to migrants with legal status. Data as of January 2003. See "Statistics on the Foreigners Registered in Japan," Japan Immigration Association.

more branches, it would be necessary to secure a full banking license, requiring a complicated application procedure for each new branch. Japan also has one Indonesian and one Malaysian bank, but their intended purpose is not necessarily to service the remittances of their conationals, since the limited number of those migrants' remittances do not warrant such attention. There are several Brazilian banks, and Banco do Brasil, which has the biggest presence, has its main branch in Tokyo, and six branches in other areas where Brazilian migrants are concentrated. There are more than 50,000 Peruvians in Japan but no Peruvian bank to service their needs, forcing them to patronize the "gray channels" offered by remittance outfits without banking licenses, but which deposit said collections in a formal channel, in accounts they maintain with Japanese banks.[27] Migrant workers could use post offices or nonhome-country banks, but undoubtedly, dealing with banks from the home country would facilitate communication and improve the level of service.

**Figure A1.1: The Singapore Model**




*Recommendation No. 2: In countries with a restrictive environment for bank branch expansion, existing players should develop innovative ways of reaching out to potential remitters while observing the law.*

Existing players in Japan and Malaysia should develop innovative ways to reach their main market. Key would be to service migrant-worker remittances without requiring a sender to appear in person at one of the few branch locations. To receive remittances from their nationals living throughout Japan, the Philippine banks in Japan already use the Genkin Kakitome money-envelope delivery system, operated by the Japanese post office, and the Furikomi automated teller machine (ATM) money-transfer system, operated by Japanese banks. Appropriate KYC procedures are followed at the moment of the initial business transaction, making it possible for a remitter, living anywhere from the northernmost tip of Japan to the southernmost tip, to remit without having to appear personally at the counters of these Philippine banks (Manalastas 2004). A Brazilian bank has

[27] For understandable reasons, the "grey channel" company cannot be identified, but its operations have been confirmed by the author of this study.

agreements with the Japanese post office and certain convenience stores to use their ATMs to facilitate remittance and deposit transfers to the bank.

*Recommendation No. 3: Encourage the opening of formal remittance channels between the countries with large migrant worker populations and the host country.*

Without compromising existing rules and regulations, regulators in the host country should facilitate the banking-license application process for banks from major migrant-sending countries.

*Recommendation No. 4: encourage government-to-government dialogue, and the formation of a Regional Task Force on Remittances.*

As a corollary to Recommendation No. 2, both the remitting and receiving country governments should consider conducting regular, or even ad hoc, government-to-government dialogues. Discussion should focus on how to encourage larger remittance flows and the use of formal channels, tap remittances for development purposes, provide more benefits and protections for migrant workers, and improve the management of statistical data, among other things. A first step should be the establishment of a regional task force on remittances in which government officials, remittance players (and potential players), and nongovernment organizations (NGOs) would participate, along with the migrant representatives, since they would be the direct beneficiaries of the task force dialogue.

During Brazilian President Luiz Inácio Lula da Silva's visit to Japan in May 2005, the Japanese Government was expected to announce the establishment of two panels of experts to discuss difficulties faced by Japanese–Brazilians living in Japan.[28] Japan is moving in the right direction to assist its huge Brazilian population. This initiative could be expanded to include other migrant populations, including through the formation of a regional task force on remittances, with Japan taking a leading role.

## B. Encourage the Use of Formal Channels: Receiving Countries

The choice of remittance outlet by the remitter in the sending country can influence the use of formal channels in the receiving country. The existence of convenient and reasonably priced legal channels, which attract patrons in the sending country, will result in the use of legal channels in the recipient country. This is because a bank will usually deliver the funds to a regulated bank in the migrant's home country. If the remitter chooses an MTO, like Western Union, it will have the beneficiary claim the funds at one of its outlets in the home country. When formal channels are not easily accessible or are highly priced, or when many migrant workers are disenfranchised (for various reasons, including residency or visa status), naturally, remitters and receivers will be drawn to informal channels. Therefore, remitting countries must make their environments conducive to the use of formal channels.

## C. Encourage Increased Remittance Flows: Remitting Countries

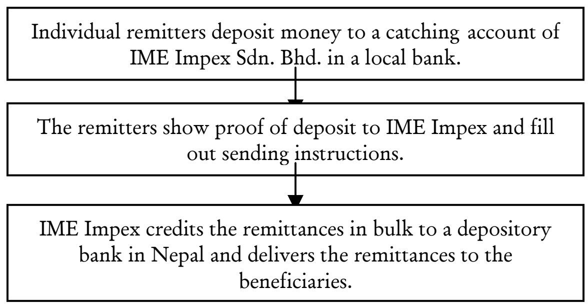
Japanese and Malaysian licensed banks should explore ways of pooling remittances to reduce workers' costs. In doing this, however, KYC procedures and current laws must be followed.

[28] "Government To Help Brazilians Adjust to Japanese Life," *The Daily Yomiuri,* May 22, 2005, headline. www.mofa.go.jp/region/latin/brazil/pv0505/joint-4.html

*Recommendation No. 5: Study the Malaysia – Nepal government-to-government arrangement.*

The regional task force on remittances could also examine the Malaysia–Nepal model and determine modifications that may be made to meet existing regulatory requirements.

**Figure A1.2: The Malaysia-Nepal Model**



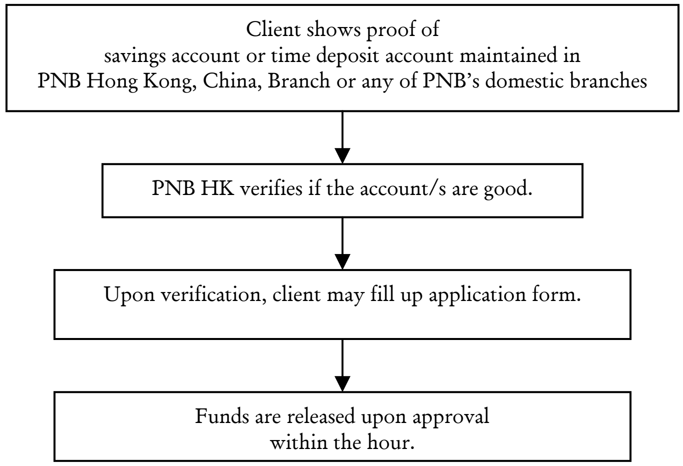

Source: The Central Bank of Nepal officially recognizes the Nepal catching account of IME Impex.
Note: The transaction by the Nepalese remitter requires only a deposit to the IME Impex catching account in one of the authorized Malaysian banks. There is some "remittance charge" for the client, for the eventual transfer of funds to Nepal, decided by IME Impex, but whose amount is lower than if the Nepalese remitter does a direct money transfer to Nepal, using any authorized banking channel.

## D. Encourage Savings for Development

The least costly form of remittance transfer appears to be between a sender's account and a beneficiary's account that are both held by the same bank. This avoids documentary stamp tax charges, out-of-pocket expenses, and delivery costs. Thus, workers should be encouraged to open a savings account before departing for the host country. This could be incorporated into the agenda of the Regional Task Force on Remittances (Recommendation No. 4, above).

Banks and other entities could offer incentives to migrant workers who maintain savings accounts, which could be collateral for short-term loans for specific or seasonal expenses (emergencies, tuition payment, etc.) and for small-business start-up loans. The loan program of PNB International Finance Ltd., a subsidiary of PNB Hong Kong, China, branch, entails lending against deposits. This is another model that the task force could study.

**Figure A.1.3: Philippine National Bank Hong Kong's "Pangarap" Loans Program**




- The "Pangarap" Loans Program uses deposit against holdout, using the account presented as the collateral.
- Up to 80% of the balance upon maturity of the account may be released.
- Loans will have maturity terms of 3 months to 2 years.

The regional task force on remittances should examine closely the possibility of cross-selling other financial products and services (e.g., insurance, pensions, etc.) by leveraging migrant savings. It should also examine how to achieve the efficient delivery of services by banks, wider outreach to rural or isolated areas, and less costly service delivery.

### E. Encourage Worker Re-integration

Another topic that the task force should examine is worker reintegration. Existing models are available. The Philippine Government, through the Overseas Workers Welfare Administration, has responded with a program run by the Labor Office of the Philippine Embassy in Tokyo, which is designed to train and prepare returning workers to start their own businesses.[29]

## IV. Conclusion

The policy recommendations to increase remittance flows through formal channels while reducing remittance costs entail two major propositions: (i) the establishment of a regional task force on remittances; and (ii) regular or ad hoc government-to-government dialogues for the legislation of policy recommendations issued by the task force. The task force is envisaged as a body composed of the legislative and regulatory officials of the concerned countries, major players in the remittance market (such as banks, MTOs, RAs and other financial institutions), and NGOs (as representatives of the individual remitters). The task force will discuss enhancing the efficiency of migrant workers' remittances, and may operate on an ad-hoc or a long-term basis.

[29] Interview with Josephine Sanchez, welfare officer, Overseas Workers Welfare Administration, Philippine Embassy, Tokyo, Japan, May 2, 2005.

The task force shall facilitate government-to-government dialogue on migrant worker remittances and related issues, the purpose of which will be to facilitate bilateral and multilateral agreements and treaties in the interests of both remitting and receiving countries. The policy recommendations would be implemented over 3 years, beginning immediately with the formation of the regional task force on remittances.

**Figure A1.4: Regional Task Force on Southeast Asia Migrant Workers' Remittances**

**Composition**

Legislative officials/policy makers
major players in the remittance market
banks, MTOs, RAs, other financial institutions
NGOs, migration and remittance experts

**Terms of Reference**

1. In-depth situation analysis, including discussion on how to improve reliability of related statistics
2. Measures to improve accessibility of remitters to formal channels
3. Study of efficient mechanisms of using remitted funds for effective developmental purposes
4. How to coordinate Know-Your-Customer and Anti-Money Laundering rules implementation in the region.

**Issues for Discussion**

1. The role of the regulator in ensuring the integrity of the remittance operator in protecting consumers
2. Cost of regulation
3. Adoption of working models from countries where remittance flows are established on formal channels (e.g., the Singapore model of limited purpose branches (LPB)s; the Malaysia-Nepal model of servicing Nepalese workers' remittances)
4. Developing innovative ways of reaching out to potential remitters
5. Encouraging the entry of formal channels from countries with large migrant worker population in the host country
6. Breaking language barriers
7. Lowering remittance costs
8. Encouraging savings for development
9. Unauthorized workers
10. Worker reintegration
11. Others

# Appendix 2

# Country Report: Hong Kong, China

# I. Objectives, Scope and Main Findings of the Hong Kong, China Study

This project's aim is to secure a systematic understanding of remittance flows in selected Southeast Asian remitting and receiving countries and to offer an informed set of policy recommendations that may help leverage the role of remittances in the development of these countries. This report describes the characteristics of Hong Kong, China's migrant worker population, including its recent trends and demographic profile, and the marketplace for remittances to the migrants' home countries, including the regulatory framework, the institutions providing remittances, the services offered, and the competitive environment. The report presents the results of a price survey that shows both the effective cost of remittances to the migrant workers and the degree of price competition. Also presented are findings from a market survey on the two principal migrant-worker groups (almost 90% of the total migrant population in Hong Kong, China). From the results, we estimate the annual remittance volumes from Hong Kong, China, to the migrants' home countries and then compare those figures with estimates from earlier research projects.

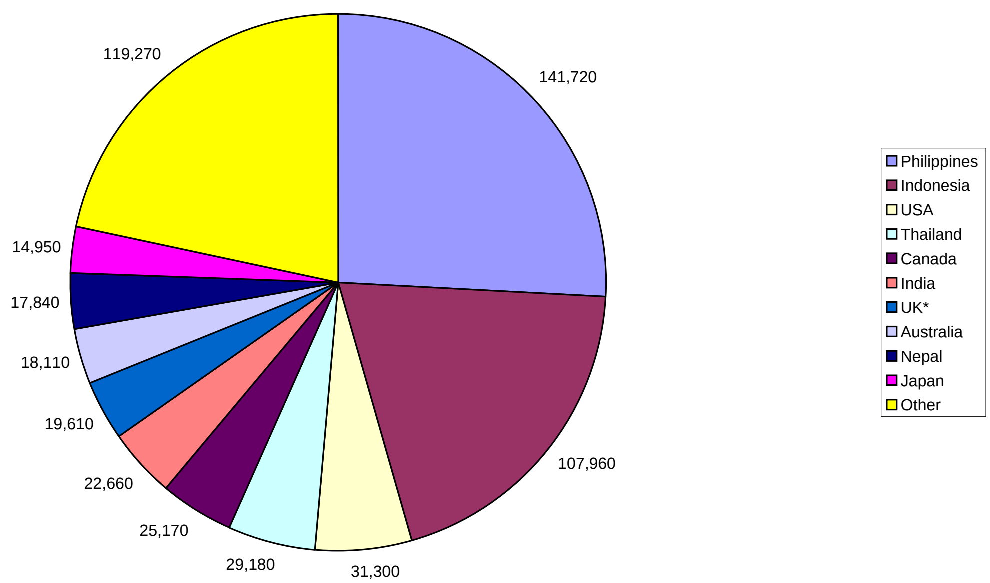
The report identifies issues that act as barriers to greater remittances, such as excessive (and illegal) agency fees and wage underpayment. Finally, the report presents recommendations for actions to combat exploitation of migrant workers and to facilitate greater remittance flows. Below are the report's main findings

- Hong Kong, China, is an open economy, and its financial services are well regulated. There is no evidence that this regulation restricts competition and innovation in the remittance market, which is very competitive and has few barriers to entry.
- Remittance costs are low; service is quick, safe, and accessible; and various institutions serve the market well.
- The Indonesian market lags behind the Philippine market in service innovation and speed. There is room for improvement, but the deficiencies are not serious.
- There is no evidence of the existence of a significant informal (unregulated) market in Hong Kong, China, for migrant remittances to Indonesia and the Philippines.
- The annual volume of migrant remittances from Hong Kong, China, to Indonesia and the Philippines is estimated, very approximately, at United States dollars (US$)280 million and US$195 million, respectively.
- Migrant workers from Indonesia and the Philippines pay high fees to recruitment agencies, often equivalent to several months of wages, and some agencies exploit workers in other ways. This is the biggest single obstacle to larger remittances.
- Many migrant workers in Hong Kong, China, especially those from Indonesia, receive less than the legal minimum wage, reducing potential remittance volumes.

# II. Hong Kong, China's Migrant Worker Population

Hong Kong, China, today numbers almost 6.8 million people, with a population density of 6,000 per square kilometer, one of the highest of any territory in the world. About 95% of the population is ethnic Chinese, but many foreigners have permanent or temporary resident status (Figure A2.1).

**Figure A2. 1: Number of Foreign Passport-Holders in Hong Kong, China, by Nationality as of 28 February 2005**




Note: This figure reflects those with permanent and temporary resident status (if they are in Hong Kong, China) and those visiting on tourist and other visas. These figures are derived from a count of arrival and departure records maintained by the Hong Kong Immigration Department, broken out by nationalities physically present in Hong Kong, China, on a particular date; the figures do not represent the total number of foreigners with resident status.

## A. Foreign Domestic Helpers

Foreign domestic helpers (FDHs) are by far the largest group of Asian migrant workers in Hong Kong, China.[1] They are almost all females, and most come from the Philippines and Indonesia.

Employment agencies, in either Hong Kong, China, or the home country, recruit the workers on a 2-year visa, subject to certain requirements and limitations. The workers and their employers sign a standard 2-year contract, specifying certain work conditions, such as days off, allowable pay deductions, and a minimum monthly wage. FDHs usually live with their employer, are not allowed to perform nondomestic work, and are not allowed to work

[1] The Hong Kong, China, Government uses the term "foreign domestic helpers" (FDHs). Many migrant organizations use the term "foreign domestic workers," which is perhaps less suggestive of menial maid's work. This report uses the official terminology, FDH.

part-time for other employers. In practice, these restrictions are sometimes ignored (for example, some supplement their wages with informal, part-time cleaning jobs at other homes).

Other Hong Kong, China, migrant workers include technicians and skilled workers admitted under the Supplementary Labour Scheme, numbering today around 1,000 (although, in the past, the figure was higher), and other Asians working in Hong Kong, China, on employment visas. The official figure for authorized migrant workers from the Philippines, Indonesia, Thailand, and other Asian countries is 240,000.

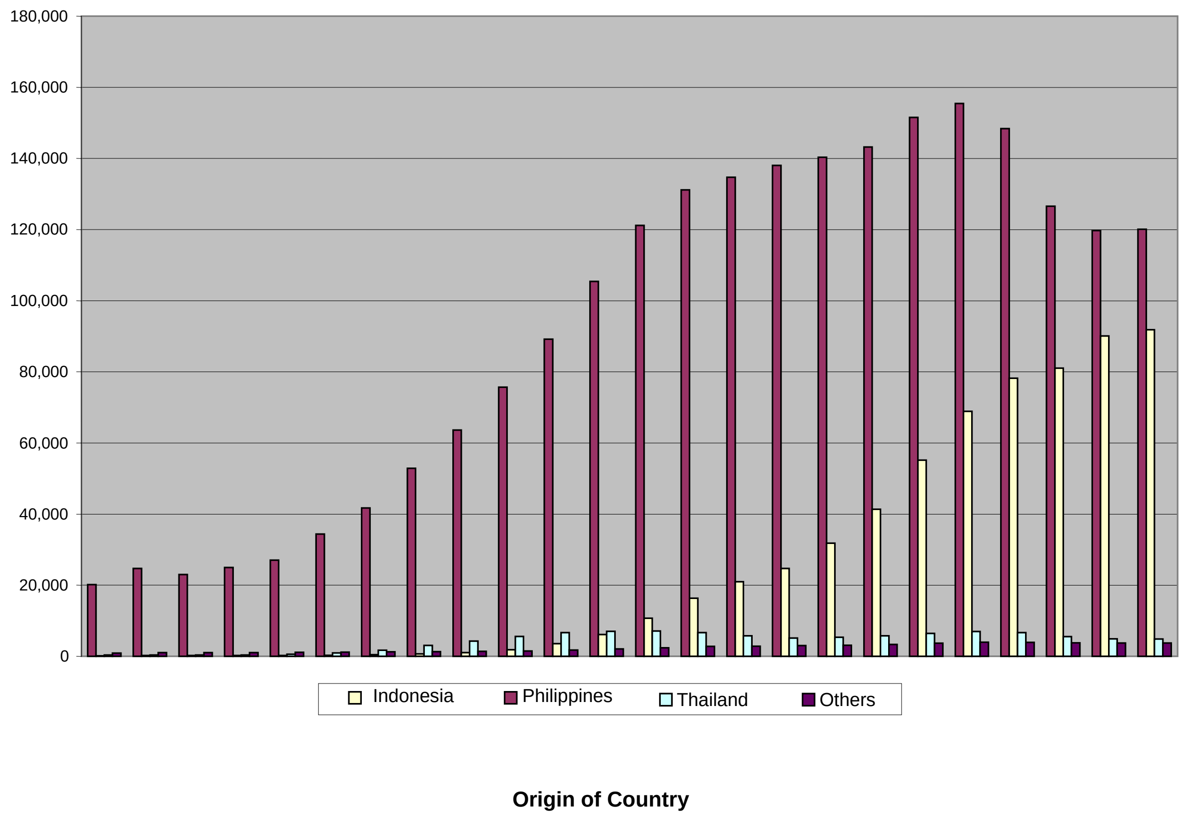
At least three groups of unauthorized migrant workers can be identified. One is on tourist visas hoping to find employment as FDHs (a Filipino practice to avoid the need to use agencies). If they are successful in securing a prospective employer, they will return home and apply to become official migrant workers. Another group is in the sex trade. Third parties organize and control some of these individuals, but most appear to operate freelance. They work for their visa period (usually 14 days to 1 month) and then return home or go to work in another country (for example, Singapore), returning to Hong Kong, China, a few months later. Whether these people are "migrants" is a moot point as the economic effect is the same: They certainly are working overseas, saving money, and remitting it or carrying it back to their families. A third group is those who have overstayed their visas, but who continue working in Hong Kong, China, (for example, in part-time domestic jobs).

In this report, we focus on the Filipino and Indonesian FDHs—96% of the FDH population and 88% of the overall Asian migrant worker population in Hong Kong, China.

***Current profile of FDHs:*** The Hong Kong Immigration Department collects official statistics on FDHs when they apply for work visas. The FDH population has grown from 20,000 in 1982 to 220,000 in 2005 (from 1% to 7%, as a percentage of Hong Kong, China's total labor force). Despite the recent economic downturn, the numbers over the past 5 years have been fairly stable, ranging from 217,000 to 237,000. This represents 3% of the total Hong Kong, China, resident population, making migrant workers a significant social and economic group.

***Country of origin:*** The number of Filipinos grew steadily from 1985 until 1995, peaking at 155,000 in 2001; since then, the numbers have fallen by 23%, stabilizing around 120,000. The number of Indonesians has grown robustly from about 1,000 in 1990 to 94,000 in 2005, with the growth rate slowing only in the past 2004-2005 years. The next largest country of origin is Thailand (about 5,000). Other countries include Nepal, India, and Sri Lanka (about 1,000 each), with even fewer FDHs coming from Pakistan, Bangladesh, Malaysia, Myanmar, and Singapore.

**Figure 2: Growth in FDH Population in Hong Kong, China, 1982–2005**




Note: Data are from 31 December for each year except 2005, when they are through 30 June.

***Vulnerability of the FDH population:*** Three factors are key to the exploitation and vulnerability of this population: age, length of stay, and educational level. The younger, newer, and less educated a worker, the more likely she will be unfamiliar with her rights and unable to assert them when they are recognized. Exploitation and vulnerability have consequences for the flow of migrant remittances.

Approximately 80% of the FDH migrant population is between 21 and 40 years of age, and only 3% is over 50. Males make up fewer than 2%, and they are significantly older than female FDHs. In short, the population is mostly in the 20 to 40 age range and almost entirely female. Various studies have shown that the Indonesian migrant population is significantly younger than is the Filipino population. A 2001 Association of Indonesian Migrant Workers in Hong Kong, China, (ATKI) survey of 1,085 workers indicated that 91% were under 30 years of age. The age differential is borne out by our own survey of migrant workers in Hong Kong, China (Table A2.1).

**Table A2.1: Age Ranges of Migrants, by Country of Origin (%)**

| Age Range | Survey Filipinos | Survey Indonesians | Survey All Migrants | Government Statistics All Migrants |
|---|---|---|---|---|
| under 21 | 0 | 2 | 1 | 2 |
| 21 - 30 | 32 | 70 | 48 | 45 |
| 31 - 40 | 46 | 27 | 38 | 35 |
| over 40 | 22 | 1 | 13 | 18 |
| **Total** | 100 | 100 | 100 | 100 |

Note: The Hong Kong Immigration Department does not have statistics on the age or gender of FDHs by country of origin so there is no direct comparison between our sample and the overall population for the two countries individually.

There is a standard 2-year employment contract in Hong Kong, China, for FDHs, but many workers renew their contracts or find new contracts, with some individuals remaining in Hong Kong, China, for many years. Most Filipinos seem to be working under their second or third contract (Table A2.2). Migrant organizations report that many FDHs, especially Indonesians, are dismissed before the end of their 2-year contract, often at the instigation of employment agencies. Official statistics on length of stay may make it possible to know the frequency with which this occurs. Table 2 shows the length of stay of only those who are still in Hong Kong, China, not those who have been sent home early.

**Table A2.2: Length of Stay for FDHs, by Country of Origin**

| Length of Stay in Hong Kong, China | Filipinos (from survey) % | Indonesians (from survey) % | All migrants (from survey) % |
|---|---|---|---|
| < = 1 year | 3 | 16 | 9 |
| 1-2 years | 16 | 29 | 22 |
| 3-8 years | 54 | 49 | 52 |
| > 8 years | 27 | 4 | 17 |
| **Total** | 100 | 100 | 100 |

Note: The Hong Kong Immigration Department does not keep figures on the length of stay of the FDHs so comparison of findings, but they were consistent with the 2001 ATKI-Hong Kong, China, survey of Indonesian migrants.

Education is the third factor indicating vulnerability. The educational level of the Indonesian migrant population was significantly lower than that of the Filipinos.

**Table A2.3: Educational Level for FDHs, by Country of Origin (%)**

| Highest Education Level | Filipinos | Indonesians | All Migrants |
|---|---|---|---|
| Primary | 1 | 9 | 4 |
| High school | 25 | 81 | 49 |
| College (no degree) | 18 | 6 | 13 |
| College (degree) | 53 | 3 | 31 |
| Post-graduate | 3 | 1 | 2 |
| **Total** | 100 | 100 | 100 |

Based on the three factors—age, length of stay, and education level—the Indonesian migrant population is significantly more vulnerable to exploitation than the Filipinos. This is borne out by underpayment and other issues and also by reports from migrant-worker organizations.

***Future trends:*** The policies of the Hong Kong, China, Government towards migrant workers are not expected to change significantly in the near term. For the foreseeable future, the migrant worker population will continue to consist almost entirely of FDHs. Future demand for FDHs is likely to be a function of Hong Kong, China's overall population size and age profile, family characteristics (number of children, working spouses), and economic growth (as well as environmental factors, such as apartment size). The Government is concerned about the rapidly aging population and is considering measures to encourage larger families. An increase in the numbers of both the very young and the very old is likely to lead to an increased demand for domestic helpers. Supply is not a limiting factor. The Government does not impose a quota on the number of FDHs, and it is likely that many more migrants from the Philippines, Indonesia, and other Asian countries would work as FDHs in Hong Kong, China, if they could, and probably at wages less than the current minimum wage for FDHs.

## B. Migrant Worker Organizations

We interviewed seven of the more than 30 organizations that have formed to assist migrant workers in Hong Kong, China. Many of these organizations receive support from churches and other charitable groups, and for the most part, they are run by migrant volunteers, donating their extremely limited free time. This creates a problem in lack of continuity since the migrants are a transient population. These organizations help individual migrant workers (for example, in cases of agency overcharging, debts, or abuse); lobby the Government; provide education and training for migrants; and offer cultural and other activities. Some focus on workers from a particular country; others focus on individual cases; still others are involved in political activities, including lobbying for regulatory change or more effective government action against abuse.

Some act as coordinating bodies, and the activities of these organizations overlap considerably. This is perhaps inevitable and it has disadvantages, as each organization needs to maintain a knowledge base of regulations, government bodies, and contact points. Additionally, governments, agencies, and other bodies must deal with many groups and people, making it difficult to establish personal rapport, which is often crucial in resolving disputes or showing flexibility. The large number of organizations impedes the emergence of a single voice, and rivalry between organizations may result, leading to a lack of cooperation.

By taking up individual cases, the organizations have done valuable work, and they have raised many issues with the Hong Kong, China, Government. In lobbying for specific policy changes, however, they have been less effective, probably due to the absence of a single, unified voice. Given the large number of migrants in Hong Kong, China, (240,000), the relatively homogeneous nature of the workforce (90% are domestic helpers from Philippines and Indonesia), their importance to the Hong Kong, China, economy, and the importance to the Philippines and Indonesian economies of their remittances, it is likely that if these workers were able to campaign on key issues in a united and focused way, they would have an impact despite their lack of formal political influence.

The groups need to coordinate in two ways. To influence the Hong Kong, China, Government (for example, to repeal domestic worker levies), they must coordinate across all migrant organizations in Hong Kong, China. To influence the Philippine and Indonesian Governments (for example, to legislate against agency exploitation), each country group must coordinate across all Asian countries. A good example of effective lobbying is the Philippines government's regulatory change allowing Hong Kong, China, FDHs to find a job without the involvement of an agency. However, this change is only for Hong Kong, China; Filipinos going to work in other countries must still use an agency. Effective coordination of Filipino groups across Asian countries might make it possible to extend this policy.

## III. The Remittance Market in Hong Kong, China

### A. Regulatory Framework

Hong Kong, China, has a very free and open financial system, with no exchange controls. There are no restrictions on the import or export of currency or on international remittances into or out of Hong Kong, China. There is no tax on the remittance or receipt of funds, but certain recording and reporting requirements exist for remittance agents.[2]

***Regulators:*** The Hong Kong Monetary Authority (HKMA), established on 1 April 1993, has responsibility for regulatingthe banking sector, and it reports to the financial secretary. HKMA performs many central-bank functions, including maintaining monetary and banking stability. Other regulators include the Securities and Futures Commission (securities sector) and the Office of Commissioner of Insurance (insurance sector). Both English and Chinese are official languages for communicating with regulators.

***Institutions engaged in remittances:*** Entities that can engage in the money transfer business include: authorized institutions—licensed banks, restricted license banks, and deposit-taking companies—established under the banking ordinance and supervised by HKMA;[3] remittance agents (RAs), registered with the Hong Kong Police Force; and others, licensed under the Securities and Futures Commission Ordinance, the Insurance Companies Ordinance, or the Leveraged Foreign Exchange Trading Ordinance. Minimum capital requirements are HK$300 million licensed banks; HK$100 million restricted license banks; and deposit taking companies: HK$25 million. There are no minimum capital requirements for RAs, and registration is not difficult or onerous, being essentially a one-time event. In Hong Kong, China, most RAs are subsidiaries of banks, money changers, or specialists, such as Western Union. However, some convenience stores, pawnshops, travel agencies, and jewelry shops also provide remittance transfers as an ancillary service.

***Documentation for opening a bank account:*** To open a bank account, a Hong Kong identity card or passport, plus proof of address, are sufficient, and the physical presence of the account holder is not necessarily required, but the bank must use due diligence in obtaining certified copies of documents. All banks are subject to Know-Your-Customer (KYC) standards (for due diligence on customers, this means verifying date of birth, nationality and address, as well as obtaining information about occupation and other matters) and ongoing monitoring. Banks routinely verify visas and addresses when establishing business relationships with non-nationals or when dealing with them for one-time transactions. Banks may open an account for a shell company (a company with no physical presence and/or business substance), if it has

---

[2] The Hong Kong, China, Government is reviewing its regulation of remittance agents, and new rules are likely to be in place in 2006.

[3] In the remainder of this section, we refer to authorised institutions rather loosely as "banks."

obtained satisfactory evidence of the identity of beneficial owner(s) in keeping with the KYC principles.

***Recording and reporting of remittances:*** Unlike some other countries, Hong Kong, China, does not require a minimum amount above which a transaction must be reported. However, both banks and RAs have a legal obligation to report any suspicious transactions regardless of the amount. They are required to verify customer identification and to record all remittances of HK$20,000 or more, a figure broadly in line with the Financial Action Task Force threshold. It should be noted that the requirement is for recording only; reporting is not required. These requirements follow the HKMA anti-money laundering guidelines. Almost all migrant workers' remittances are below the threshold of HK$20,000. As a matter of sensible business practice, of course, banks and most RAs will record and retain details of all transaction, regardless of amount.

***Bulk remittances:*** "Consolidators" collect remittances from individuals and then perform one bulk money transfer. HKMA imposes no restrictions on bulk remittances.

***Fees and charges:*** In line with Hong Kong, China's free market economy, remittance fees and charges can be freely set by institutions in the remittance business, provided that customers are informed of the charge prior to executing the transaction. Almost all RAs display their fees and foreign exchange rates clearly and prominently. However, charges levied by banks in the destination countries are not provided.

***Supervision:*** Banks are subject to HKMA's ongoing supervision (off-site review, on-site examination, etc.) to ensure their compliance with relevant legislation and requirements. So far, the banking sector's record has been good, and no significant weaknesses or deficiencies have been identified. RAs are not subject to ongoing supervision. However, the Hong Kong Police can randomly inspect RA records. The Police conduct special checks on individuals or entities that provide remittance services, to ensure that they are properly registered. The events triggering such checks include investigation of criminal activities (loan sharking, financial fraud, etc.) and complaints from third parties.

***Financial Action Task Force Anti-Money Laundering Law compliance:*** In June 2004, HKMA issued a supplement to its antimoney laundering guidelines to meet the task force's standards, including requirements specifically on correspondent banking and wire transfers. The HKMA conducts regular on-site examination of authorized institutions, and remittances are covered in that. HKMA has introduced a self-assessment framework to help authorized institutions determine if they are in compliance with these regulations and requirements.

***Informal channels:*** Although the desire to bypass exchange controls and official supervision can lead to the use of informal channels, HKMA recognizes that for entirely legitimate reasons, fund transfers handled by RAs are not always made through the banking system. For example, physical transfers of cash are especially common between mainland China and Hong Kong, China, because the mainland banks' services are slow and expensive. As far as remittances from Indonesian and Filipino migrants are concerned, we found no evidence of an informal or underground sector. This is not surprising. Remittance services in Hong Kong, China, are easy to use, fast, reliable, cheap, and readily available. There is simply no reason for migrant workers to use any channels other than the banks and official remittance companies. Equally, because regulation is light and inexpensive, there is little incentive for RAs not to comply with the regulatory system in Hong Kong, China.

***International dialogue:*** Regarding fund transfers and worker remittances, the HKMA does not have special agreements with other countries nor does it conduct regular dialogues with overseas banking authorities. However, under the antimoney laundering guidelines, banks need to honor the restrictions on the exchange controls of the countries with which they transfer funds.

*Data collection:* The Banking Ordinance does not require banks or RAs to provide data on incoming and outgoing remittances so official statistics are unavailable as are data on informal channels.

## B. Institutions Involved in Remittance Transfers and the Services Offered

*Types of institutions:* Four types of institutions provide remittance services to Hong Kong, China's migrant workers (Table A2.4): commercial banks (Filipino and Indonesian) and their subsidiaries; international money transfer companies (such as Western Union); local companies specializing in money transfer (and possibly foreign exchange and other money services); and other businesses (such as post offices, travel agencies or cargo companies), which offer remittance transfers as an additional service. Note that the commercial banks typically transfer remittances through subsidiary companies.

**Table A2.4: Types and Numbers of Hong Kong, China, Remittance Institutions (by receiving country)**

| Type of institution | Philippines | Indonesia | Total |
|---|---|---|---|
| Banks and subsidiaries | 8 | 6 | 14 |
| International MTCs | 3 | 2 | 5 |
| Local MTCs | 15 | 5 | 20 |
| Others | 2 | 12 | 14 |

MTC = money transfer company

We interviewed fourteen banks and other companies engaged in money transfer to the Philippines and Indonesia, covering all the categories (Table A2.5).

**Table A2.5: Remittance Transfer Companies Interviewed**

| Organization | Type | Main destination for remittances | |
|---|---|---|---|
| | | Indonesia | Philippines |
| Bank Mandiri | Bank | √ | |
| BCA Remittances | Bank subsidiary | √ | |
| BDO Remittances | Bank subsidiary | | √ |
| Express Padala (Equitable PCI) | Bank subsidiary | | √ |
| iRemit (iBank) | Bank subsidiary | | √ |
| PNB Remittance Centre | Bank subsidiary | √ | √ |
| RCBC Telemoney | Bank subsidiary | | √ |
| MoneyGram | International MTC | √ | √ |
| Franki Exchange | Local MTC | | √ |
| Pinoy Express | Local MTC | | √ |
| Rupiah Express | Local MTC | √ | |
| HongKong Post | Other | √ | √ |
| (general store) | Other | √ | |
| (travel agency) | Other | √ | |

BCA = Bank Central Asia, BDO = Banco de Oro , MTC = money transfer company, PNB = Philippine National Bank, RCBC = Rizal Commercial Banking Corporation

Three main services are available to the Philippine market.

*Bank-to-bank:* Funds are transferred to a nominated bank account in the destination country. The account may be at the same bank as the remitting bank or at a different bank. Nonbank money transfer companies (MTCs) are also able to offer this service through agency agreements with banks.

*Cash pickup (sometimes called "advise and pay"):* Funds are transferred to a nominated bank branch or other outlet. Cash is collected by the receiver upon presentation of identification and possibly a remittance number or code.

*Door-to-door:* Funds are transferred to a bank or other organization that arranges for courier delivery of cash to the recipient's home.

In some cases, remittance to telephone or automated teller machine (ATM) cards, essentially the same mechanism as bank-to-bank, is also available.

## C. Main Philippine Providers and Their Objectives

*Banks:* The banks remitting to the Philippines include: Bank of the Philippine Islands (BPI); Banco De Oro Universal Bank (BDO); Equitable PCI Bank; International Exchange Bank (iBank); Metropolitan Bank and Trust Company (Metrobank); Philippine National Bank (PNB); and Rizal Commercial Banking Corporation (RCBC). The banks started to serve the migrant-worker market and sharpen the service offerings only a few years ago, but now, it has become a big target market. The main aim is to open new accounts that can lead in the longer term to other profitable products (insurance, pension plans). It is not clear how successful this strategy will be. Many migrants (or their families) may open accounts purely for remittances, withdrawing all the cash immediately.

Most banks have set up a subsidiary in Hong Kong, China, to handle remittances. This avoids the remittance business being subject to the heavier HKMA regulations pertaining to a bank's main operations. It also allows management to focus on the specialized remittance business. The foreign exchange rates and fees offered to customers are similar across the banks. We were told that this is the result of an informal agreement between them, but apparently, it is not rigid, as at least one of these banks regularly offers a lower rate.

The competitive strengths of the banks include an extensive Philippine branch network; ATMs and debit cards; consumer awareness and a reputation for safety; the ability to offer additional services; and the ability to cross-subsidize remittances. However, branches have limited, and perhaps inconvenient, hours, and their presence outside major cities is limited.

The market survey indicated that the banks dominate the remittance market to the Philippines. The Filipino online news service, Global Nation, reported this year that PNB accounts for more than 35% of the Filipino remittance business in Hong Kong, China, followed by the Metrobank Group, RCBC, and BPI.

*International money transfer companies:* International MTOs remitting to the Philippines include Western Union, Travelex, and MoneyGram. Their strengths include

- an ability to offer worldwide transfers, making them less dependent on the Philippine market;
- efficient systems and years of experience in the remittance business;
- compared with banks, better operating hours in their Philippine outlets;
- flexibility resulting from using third-party agents in Hong Kong, China, rather than operating their own offices;

- flexibility resulting from an extensive third-party agent network in the Philippines, covering even isolated places; and
- the ability to expand or contract operations.

Their weaknesses are

- reliance on remittances as the sole business;
- no "natural" customer base; and
- they currently offer only cash-pickup services; it appears that they are beginning to expand their service offering.

***Local money transfer companies and others:*** These companies can operate their own remittance service or act as an agent for international MTCs or banks. They need to partner with a bank to offer the full range of services. Their strengths include the following

- remittances may be their main business; and
- they are flexible and can react quickly, and they avoid unnecessary paperwork.

Their weakness may include not having a

- "natural" customer base (some appear to be competing just on price).

## D. Main Indonesian Providers and Their Objectives

Broadly speaking, the Indonesian market's structure and competitors are similar to the Philippines: Bank Central Asia (BCA); Bank International Indonesia (BII); Bank Mandiri; Bank Negara Indonesia (BNI); Bank Niaga; and Bank Rakyat Indonesia (BRI). As with Philippine banks, the main objective is to open new accounts. However, there are some differences.

- Door-to-door services are unavailable for Indonesia. Therefore, bank-to-bank and cash pickup are the main services offered.
- Remitting to phone cards is unavailable; remitting to ATM cards is less developed than in the Philippines.
- Bank-to-bank transfers are less efficient. Because of the Indonesian clearing system, remitting to an account at the same bank takes 1 day but to another bank takes 3–4 days .
- Some international MTCs have not yet established operations for the Indonesian migrant worker market.

Indonesian shops can offer faster remittances than can banks. Some shopkeepers maintain accounts at every bank in Indonesia and can issue transfer instructions for next-day payment, but this method is perhaps less secure than using banks.

There appears to be more or less the same degree of price competition among remittance providers as exists in the Philippines, and Indonesian migrant workers are as price sensitive as Filipino remitters. However, in the main area (Causeway Bay), MTC offices are spread across several buildings, so it may be slightly harder to shop around for the best rate.

The Indonesian destination banks deduct charges from remittances, ranging from Indonesian rupiah (Rp)6,000 (HK$5) to Rp30,000 (HK$24), depending on which bank is used and how far the destination branch is from Jakarta. Why branch location should be a factor is not clear, as the funds transfer electronically. Importantly, the amount deducted is not usually revealed to the remitter. Two unverified sources (one remittance company and one migrant organization) reveal that some small RAs offer an attractive fee and foreign exchange rate, but deduct charges that represent an excessive proportion of the remittance amount.

The remittance market in Hong Kong, China, is clearly competitive. Where Filipinos congregate, thirty remittance companies operate in one building. Prices are very visible—foreign exchange rates and fees are openly displayed in shop windows—and there is little customer loyalty. Customers shop for the best deal available, and the shops offer specials and "free gifts." The market developed strongly as the migrant population grew, but the recent decline in Hong Kong, China's Filipino population has affected remittance businesses. Agents report that there are more competitors and price competition has grown stiffer.

## E. Analysis of the Price Surveys

Price surveys for each country were separated with the objectives of (i) determining the effective cost to the migrant of a typical remittance, taking into account both foreign exchange costs and remittance fees, and (ii) comparing prices of competing remittance organizations and assessing degree of price competition.

### 1. The Philippines

We compared the advertised foreign exchange (FX) rates offered on remittances to the Philippines by 26 companies in World Wide House, Central, Hong Kong, China, where some 40 outlets, operated by 30 companies, are spread over three floors. The standard rate was used. In some cases, a slightly more favorable rate was available for members or for own-account transfers, and a slightly more expensive rate was applied for door-to-door service. We conducted the same survey three times, on separate days, over a 2-week period (Table A2.6).

**Table A2.6: Foreign Exchange Rates and Fees, Remittance Transfers to the Philippines**

| Philippine Price Survey | 7 April 2005 (Thursday) | 11 April 2005 (Monday) | 20 April 2005 (Wednesday) | 3-day Average |
|---|---|---|---|---|
| FX rate—Highest[a] | 0.1466 | 0.1470 | 0.1475 | 0.1470 |
| FX rate—Lowest | 0.1435 | 0.1438 | 0.1440 | 0.1439 |
| FX rate—Average | 0.1448 | 0.1450 | 0.1455 | 0.1451 |
| FX rate—Median | 0.1450 | 0.1450 | 0.1456 | 0.1453 |
| High–Low Difference | 0.0031 (2.14%) | 0.0032 (2.21%) | 0.0035 (2.41%) | 0.0032 (2.16%) |
| Interbank Rate[b] | 0.1428 | 0.1432 | 0.1434 | 0.1431 |
| FX mark up—Highest | 0.0038 (2.66%) | 0.0038 (2.66%) | 0.0041 (2.83%) | 0.0039 (2.72%) |
| FX mark up—Lowest | 0.0007 (0.49%) | 0.0006 (0.43%) | 0.0006 (0.39%) | 0.0007 (0.51%) |
| FX mark up—Average | 0.0020 (1.43%) | 0.0018 (1.27%) | 0.0021 (1.41%) | 0.0020 (1.38%) |
| Cost for a $1,000 remittance—Highest | HK$26.6 | HK$26.6 | HK$28.3 | HK$27.18 |
| Cost for a $1,000 remittance—Lowest | HK$4.9 | HK$4.3 | HK$3.9 | HK$5.05 |
| Cost for a $1,000 remittance—Average | HK$14.3 | HK$12.7 | HK$14.1 | HK$13.83 |

[a] The exchange rates offered by the remittance companies to Philippines are conventionally quoted as HK$ to the peso. Therefore, a low rate is less costly for the customer.
[b] The interbank rate is based on reported interbank rates for HK$ and peso exchange for the day from Yahoo! Finance and FX-Rates.com. These are computed from US$ cross rates.

Often labeled a "cable charge," a flat-rate fee is generally charged on each remittance. Typically, different fees are charged for each type of remittance (Table A2.7).

**Table A2.7: Range of Cable Charges for Remittances to the Philippines**

| Area | Highest (HK$) | Lowest (HK$) | Median (HK$) |
|---|---|---|---|
| Bank to Bank—Metro Manila | 25 | 10 | 20 |
| Bank to Bank—Provinces | 30 | 10 | 25 |
| Cash Pickup—Metro Manila | 30 | 15 | 20 |
| Cash Pickup—Provinces | 40 | 15 | 25 |
| Door to Door—Metro Manila | 30 | 20 | 28 |
| Door to door—Provinces[a] | 40 | 30 | 35 |

[a] Fees up to HK$70 may be charged for the most remote *barangays* (villages).

Putting the FX spread and fees together, the cost of remitting funds to the Philippines is between 2.5% and 5% for a HK$1,000 remittance and between 2% and 3.25% for a HK$2,000 remittance, depending on the company and method used - but special promotions are always available. These charges are borne by the remitter. Additional charges may be payable by the receiver, depending on the method and bank used.

### 2. Indonesia

Using the standard rate, we compared the advertised FX rates offered on remittances to the Philippines by 20 companies in Causeway Bay, Hong Kong, China, (Tables A2.8 and A2.9), the main location for remittance companies serving Indonesia. In some cases, a slightly more favorable rate was available for members or for own-account transfers. We conducted the same survey twice, on separate days.

**Table A2.8: Foreign Exchange Rates and Fees, Remittance Transfers to Indonesia**

| Indonesia Price Survey | 10 May 2005 (Tuesday) | 15 May 2005 (Sunday) | Average (2 days) |
|---|---|---|---|
| FX Rate—lowest[a] | 1,203 | 1,207 | 1,213 |
| FX Rate—lowest (cheapest) | 1,212 | 1,213 | 1,206 |
| FX Rate—average | 1,208 | 1,211 | 1,210 |
| FX Rate—median | 1,209 | 1,211 | 1,211 |
| High-Low Difference | 9 (0.75%) | 6 (0.50%) | 8 (0.62%) |
| Interbank Rate[b] | 1,217 | 1,214 | 1,215 |
| FX Markup—Highest | 14 (1.11%) | 7 (0.58%) | 10 (0.80%) |
| FX Markup—Lowest | 5 (0.37%) | 1 (0.08%) | 2 (0.19%) |
| FX Markup—Average | 9 (0.73%) | 3 (0.25%) | 5 (0.40%) |
| Cost for HK$1,000 Remittance—Highest | HK$11.1 | HK$5.8 | HK$8.0 |
| Cost for HK$1,000 Remittance—Lowest | HK$3.7 | HK$0.8 | HK$1.9 |
| Cost for HK$1,000 Remittance—Average | HK$ 7.3 | HK$ 2.5 | HK$ 4.0 |

[a] The exchange rates offered by remittance companies to Indonesia are conventionally quoted as rupiah
to the HK$. Therefore, a higher rate is less costly for the customer.
[b] The interbank rate is based on reported rates for HK$ and peso exchange for the day from Yahoo! Finance and FX-Rates.com. These are computed from US$ cross rates.

**Table A2.9: Range of Cable Charges for Remittances to Indonesia (HK$)**

| Day Rate | Highest | Lowest | Median |
|---|---|---|---|
| Sunday Rate—1 Hour | 70 | 50 | 50 |
| Sunday Rate—1-Day | 50 | 30 | 30 |
| Sunday Rate—Standard | 30 | 20 | 25 |
| Weekday Rate—1 Hour | 50 | 40 | 45 |
| Weekday Rate—1-Day | 40 | 20 | 30 |
| Weekday Rate—Standard | 30 | 15 | 30 |

Note: On Sundays (the workers' day off), fees are generally higher but FX rates are more competitive. The precise nature of the advertised service is not always clear. For example, depending on the bank, express service can mean1 hour or the next day. Standard service can take 2–5ays.

Putting the FX spread and fees together, the cost of a standard-service remittance to Indonesia is between 1.5% and 4% for HK$1,000 and between 1%–2.5% for HK$2,000, depending on the company and method used. These charges are borne by the remitter. The remittance recipient may pay additional charges, also depending on the company and method used.

## 3. Conclusions

The remittance markets to both the Philippines and Indonesia appear competitive, and overall costs to the sender are generally reasonable, given the comparatively small sizes of remittances involved (Table A2.10). Foreign exchange cost is generally lower for Indonesia, but the fees are generally lower for the Philippines. For typical remittances (in the HK$1,000–$2,000 range), costs run between 1% and 5% of the remittance amount. Remitting HK$1,500 costs about 3% to the Philippines and 2% to Indonesia. It should be noted that fees depend on the service used and the destination province. Moreover, the receiving bank may deduct a fee from funds paid to the recipient, generally without disclosing that to the sender. In Indonesia, this fee can be as much as Rp40,000 (HK$30), adding about 2% to the overall cost of the transaction.

**Table A2.10: Foreign Exchange Charges and Fees for Remittances to the Philippines and Indonesia**

| | Philippines | Indonesia |
|---|---|---|
| FX Rate—Range | 0.5% - 2.7% | 0.2%–0.8% |
| FX Rate—Average | 1.4% | 0.4% |
| Fee—Range (HK$) | 10–40 | 15–70 |
| Fee–Average (HK$) | 25 | 30 |
| Total Cost for HK$1,000 | 2.5%–5% | 1.5%–4% |
| Total Cost for HK$2,000 | 2%–3.25% | 1%–2.5% |

# IV. Migrant Workers Remittances from Hong Kong, China

## A. Migrant Surveys

*Methodology:* Market surveys were administered to Filipino and Indonesian migrant workers in Hong Kong, China.[4] The questionnaire, based on the template for the overall research project, was modified for the Hong Kong, China, market. A 20-questionnaire pilot survey was administered to the two target groups, which led to some additional modifications of the questions and format. The final questionnaires were of the "supported self-completion" type—a trained researcher was available to provide explanations and guidance to the respondents. The forms were checked for completeness, and the respondents received a small gift. The Filipino survey was conducted in English. For the Indonesian survey, since many respondents had limited English, the questionnaire was translated into Bahasa and Bahasa-speaking interviewers were on hand to explain and assist. The surveys were administered over four Sundays (the migrants' day off) at their main gathering places (Central for Filipinos and Causeway Bay for Indonesians). The interviews did not take place directly outside remittance offices, to avoid biasing the results in favor of those remitting money. A total of 265 valid responses were obtained for the Filipino survey and 259 for the Indonesian survey. These represent sampling rates of 0.22% and 0.28%, respectively.

*Demographics:* Over 98% of both groups are female. The Indonesian population is significantly younger than the Filipino population. Marital status was very similar for both groups, with just under half being married. Around 60% of the Filipinos and half the Indonesians have children. In almost all cases, spouses and children live in the home country (or, in the case of some Filipinos, in a third country, then presumably, the spouse is also a migrant worker). Thus, there is separation for long periods from spouse and children. The educational level of the Filipinos was significantly higher than that of the Indonesians. As expected, the Filipinos have lived in Hong Kong, China, substantially longer than Indonesians. Most Filipinos seem to be on their second or third contract.

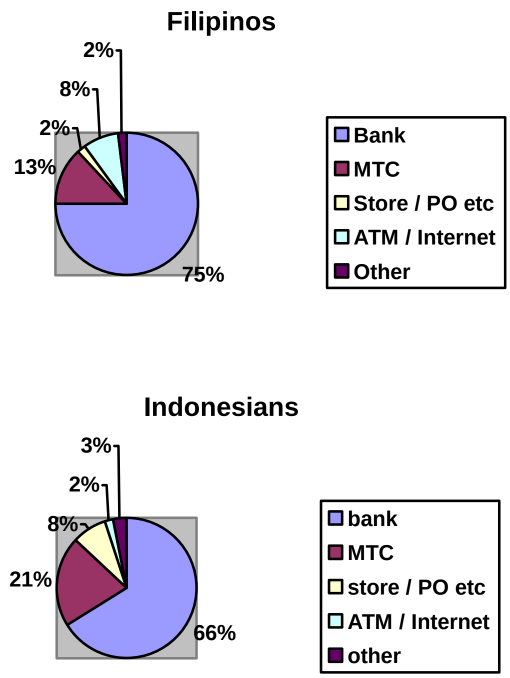
*Family contact:* Most migrants in both groups go home once a year for approximately 2 weeks. They take home relatively substantial sums, and give around half to their families. Over 90% of Filipinos and 60% of Indonesians have contact with their families once a week or more, and only 5% of Indonesians report that they rarely or never contact their families.

*Remittance pattern and frequency:* Virtually all the Filipinos and 90% of the Indonesians send money home, and the dominant pattern for both groups is to send money each month. However, 27% of Indonesians remit less frequently than once a month, compared to only 1% of Filipinos. Indonesians report sending somewhat larger amounts home each time, compared to their Filipino counterparts, but the lower frequency of remitting offsets that. Filipinos have been sending money home for significantly longer than have Indonesians, which undoubtedly reflects their longer history in Hong Kong, China.

*Methods used to remit:* In both groups, banks are by far the most commonly used RAs (Figures A2.3 and A2.4). Almost 90% of respondents use either banks or MTOs. Almost everyone used the conventional service options of bank-to-bank, cash pickup, and (for Filipinos) door-to-door (not available to Indonesians). Only 2% normally use other methods (such as sending cash via friends or cargo companies).

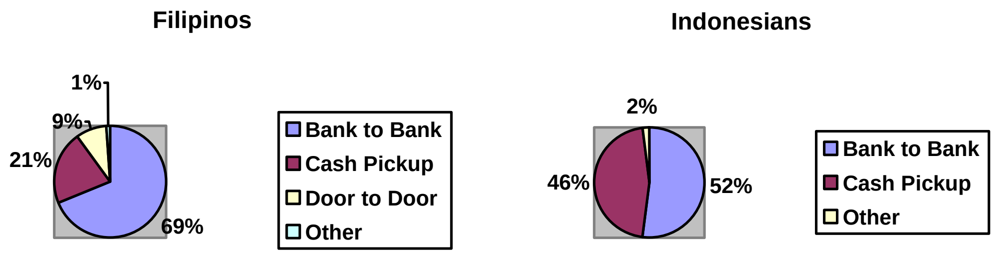
[4] Bids were solicited from four leading market research organizations, and the University of Hong Kong, China,, Social Sciences Unit, was commissioned to carry out the fieldwork and data input and analysis.

**Figure A2.3: Remittance Services Used**



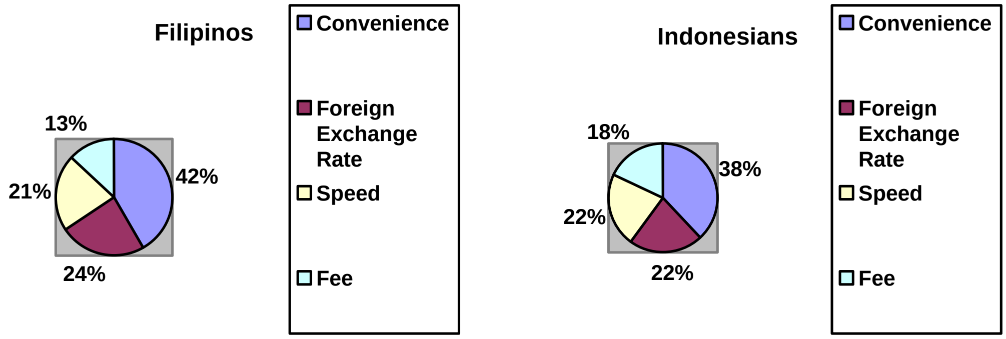

ATM = automated teller machine, MTC = money transfer company,
PO = post office

**Figure A2.4: Remittance Methods Used**



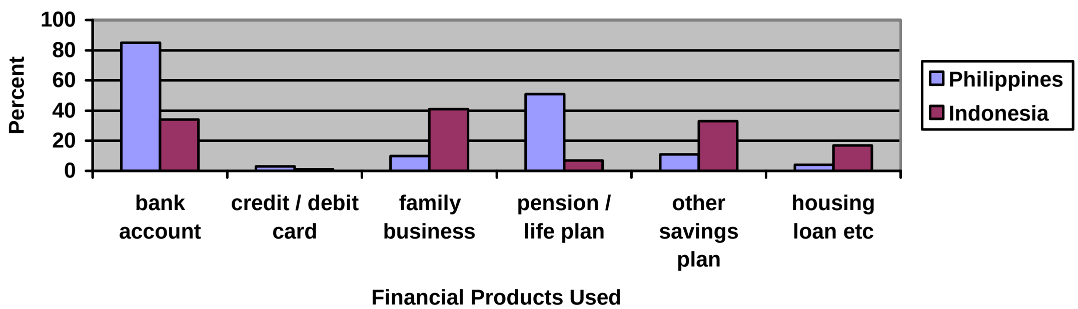

Remitters choose the method based on convenience, price, and speed (Figure A2.5). Safety does not feature highly, possibly because there is little perceived difference between the options available. On price, respondents mentioned the foreign exchange rate more frequently than the fee, possibly because it is more visible, although for small remittance amounts the fee can be more significant.

**Figure A2.5: Reasons for Choosing a Remittance Service**




***Financial products and use of funds:*** There are marked differences between the groups in their use of financial products in their home country (Figure A2.6). For example, 85% of Filipinos and 35% of Indonesians have a bank account; 70% of Filipinos and 40% of Indonesians have some kind of savings plan. However, 40% of Indonesians reported having a family or other business activity, compared to only 10% of the Filipinos. Two thirds of the Filipinos, and just over half the Indonesians, maintain a bank account in Hong Kong, China.

**Figure A2.6: Financial Products Used (multiple choices allowed)**

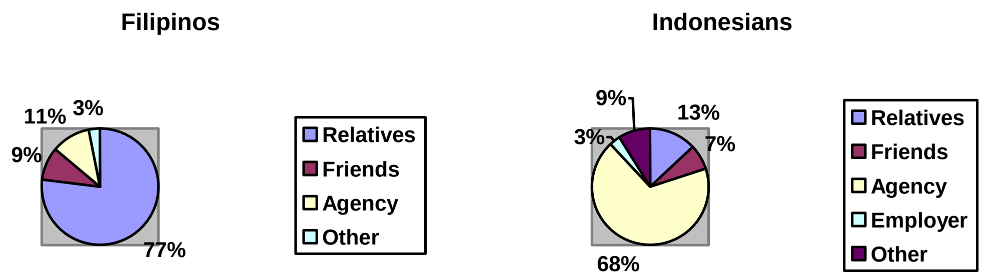



Among reasons for **not** having a bank account in Hong Kong, China, 17% of Indonesians said they did not have the required documents, which may indicate that their passports are being held by a third party, such as their agency, although there may be other explanations. There is no indication that Filipinos have this problem. Interestingly, 40% of Indonesians reported that recipients used the money for business or savings, compared to 14% of Filipinos.

*Wages:* Significantly, 10% of Filipinos and 28% of Indonesians reported receiving a monthly income below the legal minimum wage (HK$3,270) for foreign domestic helpers, suggesting substantial illegal wage underpayment. For both groups, 80% reported being paid in cash (hence no reliable audit trail exists). Approximately 60% of both groups report a monthly wage of HK$3,001–3,500. The remainder reported income above HK$3,501, with the Filipinos much more likely than the Indonesians to be in that category.

*Agency fees:* Over 80% of both groups reported paying an agency fee for placement in their current contract (the rest presumably being hired directly). This fee was generally substantial. For example, 75% of the Filipinos reported paying more than one month's wages (the legal maximum in Philippines); 35% of Filipinos paid HK$10,000–12,000; and 39% of Indonesians paid HK$20,000–21,000. These figures seem to be the going rate and are corroborated by migrant worker organizations and other surveys. The agency fee is generally paid with borrowed money. Filipinos appear to borrow this money mainly from relatives (although it is possible that the relatives in turn borrow from loan companies). Two thirds of the Indonesians borrow from their agencies (or from lenders linked to the agency) or, in some cases, from employers.

**Figure A2.7: Sources of Money Used to Pay Agency Fees**




## B. Measuring Migrant Remittances

*Official figures:* The Philippine central bank, Bangko Sentral ng Pilipinas (BSP), reports the total volume of inward remittances as being US$11.6 billion for 2004, an increase from roughly $6 billion in 1999. The increase was partly attributed to local banks opening more remittance centers and developing products for migrant workers. BSP said United States; Saudi Arabia; Japan: the United Kingdom; Hong Kong, China; Singapore; and the United Arab Emirates continued to be the major sources of remittances. We have not seen equivalent statistics for migrant worker remittances to Indonesia.

The Asian Development Bank technical assistance report, 4185-PHI Enhancing the Efficiency of Overseas Workers Remittances, July 2004, estimated, among others, remittances from Hong Kong, China, to the Philippines. Excluding remittances from sea-based workers, the estimate for 2003 was US$204 million, down sharply from 2002. The annual average between 2001 and 2004 was US$235 million. A 2003 study by the Mission for Filipino Migrant Workers (MFMW) investigated the wages and expenditure of 1,000 Filipino migrant workers in Hong Kong, China. It showed remittances for family expenses to be HK$1,003 (27% of total income) and for personal savings, HK$284 (8%). From these figures, the average FDH remits around HK$15,000 annually to the Philippines, implying a total remittance volume of US$240 million.

The interviewed RAs generally reported that the average remittance by both Filipinos and Indonesians was between HK$1,200 and HK$1,500. Migrant organizations and others have indicated that it is typical for an FDH to send money home once a month. This is borne out by our migrant worker surveys and by other published studies, for both Filipinos and Indonesians. This monthly pattern is consistent with the salary payment period, which is also monthly.

Based on this, we can roughly estimate the total volume of remittances.

**1. Philippines**

High estimate: HK$1,500 x 12 x 120,000 / 7.8 = US$277 million per year
Low estimate: HK$1,200 x 12 x 120,000 / 7.8 = US$222 million per year

Remittances from workers in Hong Kong, China, would therefore account for between 2.6%–3.2% of the total overseas worker receipts (US$8.5 billion in 2004) reported by the BSP.

**2. Indonesia**

High estimate: HK$1,500 x 12 x 94,000 / 7.8 = US$217 million per year
Low estimate: HK$1,200 x 12 x 94,000 / 7.8 = US$174 million per year

There is, of course, a likelihood of over estimation here as the average remittance amount excludes those who do not remit at all. On the other hand, these figures would not include money taken home on a holiday visit or at the end of a contract period. However, we can use the figures above as a "sanity check" on more elaborate calculations.

***Survey results:*** Estimating total volumes from the survey is not easy because it asks about both amount and frequency. Respondents may not necessarily remember how much they have sent over time or be able to give an accurate average remittance amount. In hindsight, the questions might have been phrased better, and the survey might have been structured to provide a crosscheck on the response. Nevertheless, based on the responses, we estimate a total remittance volume of US$280 million for the Philippines and US$195 million for Indonesia. These figures are consistent with our rough estimates above.

## C. Issues Affecting Filipino and Indonesian Migrant Workers

Three main sources—news items and published reports (ADB 2004), interviews with migrant worker organizations and their own surveys; and this study's survey, which asked questions about wages and agency fees—identify some important issues for the migrant worker.

- Many migrants in Hong Kong, China, receive less than the legal minimum wage.
- Many agencies in Indonesia and the Philippines charge high fees.
- Many migrants borrow to pay these fees and must work for months to pay off that debt.
- Some agencies in Hong Kong, China, encourage employers to replace their helper as soon as the fee or loan is repaid; the migrant then returns home without having received any benefit from their work or even possibly still in debt.
- Government and consular regulations, especially for Indonesia, make it difficult for the migrant worker to obtain or renew a contract without using an agency.
- Hong Kong Government rules make it difficult for the migrant worker to change employers without first returning to their home country and reapplying. This discourages exploited (underpaid) migrants from filing complaints.

These issues are interrelated. They revolve how the migrant workers are recruited and reflect their vulnerability. Compared to many other countries, Hong Kong, China, is not a bad place for migrant workers. There is a legal minimum wage and a standard employment contract that provides minimum rest days and other benefits. Importantly, Hong Kong, China, is a place where the rule of law applies. Despite this, there is evidence that some agencies and employers exploit migrant workers there. We have focused on the financial issues, which potentially influence the volume of remittances, but nonfinancial issues also exist (such as lack of legal days off or physical abuse).

***Underpayment of wages:*** There is evidence that employers frequently break the minimum wage law: 10% of Filipino and 28% of Indonesian workers are underpaid. A study by the Asian Migrant Centre indicated that over 40% of Indonesian migrants are underpaid.[5] Migrant organizations report that this problem is also serious among Nepalese and Indian workers. These figures imply that tens of thousands of employers in Hong Kong, China—essentially, ordinary people—are breaking the law.

*Agency fees:* Together with underpayment, migrant worker organizations highlighted agency fees as the biggest financial problem for migrants in Hong Kong, China. Typically, in the home country, an agency recruits the worker, while the employer registers with an agency in Hong Kong, China. The home-country agency charges the FDH a fee for its services, often one that is very high.[6] Usually, the FDH cannot pay it in cash, so a loan is arranged through an associate of the agency. On arrival in Hong Kong, China, the loan may be transferred to a lender there (perhaps connected to an agency there), who collects the repayments in monthly installments, from the FDH's earnings. Thus, effectively, the first few months of work go to pay the fees. In some cases, the employer deducts the loan repayments from the FDH's wages, although this is illegal.

Philippine law allows agencies to charge a fee equating to no more than one month of wages, but the agencies get around this in various ways. (For example, a receipt is given for the legal maximum, and the migrant takes the rest of the payment to a loan agency.) Migrant organizations say this is common, and in the survey, 75% of Filipinos reported paying more than the legal maximum, and 35% reported paying HK$10,000–12,000. In Indonesia, most agencies charge the maximum allowable, which is seven months of wages. Again, our survey corroborates this: 39% of Indonesians reported paying HK$20,000–21,000.

In Hong Kong, China, agencies are allowed to charge the FDH only up to 10% of one month's wages (there is no cap on the charge to employers). This is relevant when the FDH is changing employers in Hong Kong, China. Migrant organizations say that in many cases, agencies charge the FDH 3 months of wages, but our survey did not investigate this. According to the Labour Department, in 2004 and the first half of 2005, three agencies were convicted of overcharging.

Clearly, recruitment agency fees are a substantial financial burden on migrant workers, and this practice constitutes a significant barrier to greater remittance flows because it means the migrants have less money to send home. The high fees charged by agencies transfer much of the benefits of migration from the migrants to the agencies (from the poor to the relatively rich); reduce the amount that can be remitted by the migrants (to the extent that the benefiting agencies are in the home country, the macro economic impact is less clear); and the migrants go into debt, making them even more vulnerable.

***Other abuses:*** One especially bad practice is for agencies in Hong Kong, China, to encourage employers to replace their domestic helper after a short time, offering a "free

---

5 See "Underpayment: Systematic Extortion of Indonesian Migrant Workers in Hong Kong, China,," published by Asian Migrant Centre and other groups. Other surveys have indicated an even higher level of underpayment. In a 2001 survey of 1,095 Indonesian migrants by the Association of Indonesian Migrant Workers in Hong Kong, China, (ATKI-Hong Kong, China,), 84% reported being underpaid by their employers, most to a substantial degree, as they receive HKD2,000 or less.

6 The going rate for Filipinos seems to be HKD12,000 and for Indonesians HKD21,000, which is equivalent to almost four and seven months worth of wages, respectively.

replacement," resulting in more fees for the agency. This often happens to Indonesians just after they have repaid the loan taken out to cover the agency fee (that is, after 7 months). The unfortunate migrant is then flown home, having effectively worked for months without any pay. Hong Kong, China, law allows termination of the migrant's work contract with one month's notice but without giving a reason. The worker as well as the employer can exercise this right, but few migrants are likely to do so unless conditions are intolerable. The employer is clearly in the more powerful position. Some agencies lie to the migrants who have been terminated, telling them that they have been blacklisted, and that they should get forged documents if they wish to return to Hong Kong, China. If they break the law in that way, the migrants are unable to complain, making them even more vulnerable.

*The "two-week rule":* Under Hong Kong, China, immigration rules, if the employment contract of the FDH is prematurely terminated, the worker is permitted to remain in Hong Kong, China, for the remainder of the original allowable stay, or for 2 weeks from the date of termination, whichever is earlier (in practice, this generally means they can stay for only 2 weeks). The Immigration Department argues that the 2-week rule is essential for maintaining effective immigration control and is implemented with appropriate flexibility, and that the arrangements balance the benefits for both the employer and the FDH. Migrant organizations believe the rule is unfair because it impedes workers from taking action against exploitative employers. If a complaint is filed, the contract will be terminated and the worker sent home. Even if a new employer is found during the 2-week period, the worker still has to start all over again, by going home and paying another set of agency fees.

## D. Potential Solutions

The Government appears sincere in its efforts to tackle underpayment and to enforce Hong Kong, China,'s regulations on agency practices, but it is not responsible for government regulations and agency practices in the migrants' home countries. The Hong Kong Labour Department makes serious efforts to inform both workers and employers about the minimum wage and other rules. FDHs receive a free booklet (in several languages) on arrival informing them of their basic rights and providing some orientation to living and working in Hong Kong, China. A free videotape, "Employment of Foreign Domestic Helpers," has recently been produced (again, in several languages) and is being shown publicly at migrant gathering places. Informing migrants of their rights is an important step toward encouraging them to report infringements.

Nevertheless, relatively few cases of wage underpayment are reported. According to the Labour Department, during the first 5 months of 2005, there were 29 "convicted summonses" issued to employers of FDHs, and the department handled 79 claims from FDHs for wage underpayment. This suggests that most FDHs who are underpaid are not reporting it. Moreover, most of those who pursue claims are content with a civil rather than criminal action—not surprisingly, since their priority is simply to get the money that is owed to them.

The Labour Department also licenses employment agencies. At the end of 2004, there were 1,435 licensed agencies, of which 885 place FDHs, the department revoked eight licenses and refused to issue licenses to two applicants. There is potential for tougher enforcement on both wages and agency abuse.

*Enforcement of the minimum wage:* One possible way to reduce underpayment would be to require that all wages be paid by check or directly into the FDH's bank account rather than in cash. This would establish evidence of the amount paid. The details would need careful consideration, since, for example, some banks charge fees when the account balance falls below a minimum level. It would of course still be possible for a dishonest employer to pay the correct amount, and then to require that the FDH pay money back in the form of cash, a practice migrant workers' organizations reported sometimes happens. But for an employer to do that requires an extra step, a sin of commission rather than of omission. At present, all the employer needs to do is to pay less than the required amount in cash. It is likely that requiring payment to a bank account would reduce underpayment.

*Effects of enforcing the minimum wage:* If the minimum wage for FHDs were to be enforced successfully, it might reduce the number of migrants working, since employer costs would rise. It could also remove the cost differential between the two groups, so that potentially more Filipinos—but fewer Indonesians—would work.

*Agency fees:* Migrant workers' home governments can enforce the requirement to use an agency because, as part of the FDH application process, the governments are required to endorse the applications. The Hong Kong, China, Government includes this endorsement in the application process because the foreign government requests it but the Hong Kong, China, Government does not. In Hong Kong, China, both the Philippines and the Indonesian consulates maintain a list of "accredited" agencies (there are 325 and 180 on the Philippines and Indonesian lists, respectively). Only contracts from accredited agencies will receive the consular stamp, placing the consulates in a pivotal position in the FDH recruitment process.

*Direct hire:* Most significant step to eliminate excessive fees and other exploitation may be allowing employers to hire migrants directly without agency intermediation. Migrant organizations have lobbied for this, with a measure of success in the Philippines. A few years ago, the Philippine consulate relaxed the agency requirement if the FDH has had previous experience working in Hong Kong, China. The consulate told us that as many as half the contracts are now being processed on a direct-hire basis.

The Indonesian Government has also issued a directive that migrant workers do not need an agency when renewing a contract with the same employer, but consular rules require the production of documents that, in practice, are difficult for the FDH to obtain independently. Effectively, therefore, FDHs have to use an agency in Indonesia for every new or renewed contract in Hong Kong, China. The Indonesian consulate justifies the more restrictive rules toward direct hire by the overriding need to protect its migrant workers from employer abuse. However, the evidence of underpayment and early termination suggest that this practice is not providing that protection.

Clearly, employment agencies in both home and destination countries have an important role to play in the migrant-recruitment process. They bring migrants and employers together, provide a vetting and administrative service, and handle much of the paper work on behalf of both parties. They may also provide information and training, particularly useful for a migrant seeking work abroad for the first time. However, agencies should not have a government-enforced monopoly. There is no reason why use of an agency should be required by law and that an employer and a worker should have the option of making direct contact.

*Monitoring early terminations:* Migrant worker organizations interviewed said that the practice of encouraging employers to terminate and replace FDHs exists, how widespread it is could not be determined. Statistics on the frequency of early termination, and the length the contract had run, would shed light on this practice. Terminated contracts must be reported to the Hong Kong Immigration Department, compiling these statistics is possible although the department does not currently do so.

The Indonesian consulate is building a computerized database of migrants in Hong Kong, China, that will enable regular monitoring. Agencies will be required to submit details on migrants quarterly , and spot checks for accuracy will be done. This may help identify early terminations of Indonesian migrants and monitor the performance of individual agencies. The Philippine consulate is also in the process of computerizing its migrant records.

*Reviewing the 2--week rule:* The problem of early termination and other abusive practices would be mitigated if the migrant were free to find another employer. Hong Kong, China, rules require that in most cases, the migrant return home to reapply for a work visa within 2weeks of contract termination, even if the worker has already found a new employer. Understandably, the Government must protect ordinary families from the expense of hiring replacements for helpers who resign arbitrarily. However, some relaxation of this rule may be considered to better balance the interests of employer and worker.

## V. Policy Implications

*Encouraging greater remittances:* No major policy initiatives are needed in the Hong Kong, China, remittance market. There is no evidence of serious dysfunction, or of a lack of competition or service innovation. The best government policy would be to let the market evolve. To encourage greater remittances, the Government should enforce the minimum wage, and excessive recruitment agency fees in Indonesia and the Philippines must be curbed. Both measures would result in more disposable income for FDHs, leading to greater remittance flows.

*Encouraging formal channels:* Our survey and other research suggest that most remittances from Hong Kong, China, go through formal channels. Indeed, there is very little reason for anyone there not to use such channels, which are characterized by an absence of currency-transfer restrictions, light regulation, and a low tax burden. Hong Kong, China's remittance industry is competitive and provides ready accessibility and relatively low costs. Thus, the current regulatory system should be maintained, and other jurisdictions should be encouraged to follow Hong Kong, China's example and develop a more open market for remittances.

*The Philippines and Indonesia:* This is an impediment to the free flow of funds and may encourage the use of informal channels. Regarding the Indonesian banking system, the Government and the banks should improve the clearing process to shorten the time taken to receive bank-to-bank remittances.

### A. Should There Be a Minimum Wage for Migrants in Hong Kong, China?

Hong Kong, China, prescribes a minimum wage for only one group: migrant workers. The current minimum wage for FDHs is HK$3,270 per month for contracts signed after 31 March 2003.[7] The government argues that the minimum wage protects local jobs, but few people in Hong Kong, China, are interested in being domestic helpers, so in practice, this effect is probably minimal. A minimum wage increases the incomes of FDHs so that they and their families are better off. However, whether the economies of Indonesia and the Philippines benefit depends on the degree to which a minimum wage reduces demand for FDH labor in Hong Kong, China. The level of total surplus earnings these workers realize above what they would have earned in their home economies must also be considered. Fundamentally, a minimum wage is an anomaly in a free-market economy and a restriction on the right of

[7] The current rate reduced wages from HK$3,670. Effective on 19 May 2005, the minimum wage for FDHs is raised by HK$50, bringing it from HK$3,270 to HK$3,320 per month. For other migrants under the Supplementary Labour Scheme, the minimum wage is set at the median wage for the relevant industry.

employers and workers to freely negotiate a work contract. (This argument is weaker if the workers are not free to seek alternative employment, as is the case with FDHs.) The minimum wage keeps the price of labor above what it would otherwise be, reducing the demand for those workers. It is also another regulation that the Government must seek to enforce, with associated compliance costs. Thus, the overall effect on the Hong Kong, China, economy is probably adverse.

If the minimum wage were abolished, it would raise the issue of transitional arrangements for FDHs already in Hong Kong, China. Could an employer cut wages immediately? That would seem unjust, since the worker came to Hong Kong, China, with expectations of working for 2 years at a certain pay level. However, if employers could not cut wages, they would be likely to terminate the contract and employ another FDH at a lower wage. Wages would settle at a market level, but what would that be? Many Indonesians and some Filipinos already receive less than the minimum wage, and, presumably, they and others would still come to Hong Kong, China, and wage levels would fall to around HK$2,000–HK$2,500 per month. It is likely that Indonesians would replace Filipinos, as the former seem more willing to work for lower rates. The overall numbers of FDHs might increase, as more employers would be able to afford helpers (or, in some cases, afford more than one). Currently, the government does not impose a quota on the number of migrants working as FDHs. If that increased, it may benefit the home country economies, although probably more so for Indonesia than for the Philippines. Some loosening of the restrictions on FDHs would also need to occur, perhaps by allowing workers to supplement their wages from part-time domestic jobs, which could be good for the Hong Kong, China, economy. Understandably, migrant workers and their organizations do not support the abolition of the minimum wage. Indeed, they have been vocal in resisting and challenging the recent cut. However, the interests of those already in Hong Kong, China, are not necessarily the same as the interests of those who would like to go there.

*Other issues:* Two potential changes in government policy—taxation by receiving countries and greater regulation in Hong Kong, China—would be counterproductive initiatives. If recipient-country governments tax remittances or use the evidence of such remittances to tax workers' overseas earnings, that could motivate migrant workers to use informal channels. Taxation could also act as a disincentive to working overseas. The current regulations in Hong Kong, China, are sensible because they are designed to minimize the cost of compliance, and they target large transfer amounts (HK$20,000 or more), which migrant workers are unlikely to remit. If Hong Kong, China, imposed more regulations—by requiring the recording of even small remittances—the industry costs and hence the price of sending money via formal channels would rise. This may mean that migrants would remit less frequently, to the detriment of the recipients, and it would probably lead to the development and use of informal channels. The remittance business would become less profitable, discouraging new entrants and reducing new service innovation.

## B. Migrant Workers' Charter

The findings in this report lead us to suggest a statement of broad principles that governments in both the home and destination countries should apply to migrant workers (Table A2.11).

**Table A2.11: Government Principles to be applied to Migrant Workers**

| Principle | | Responsibility of: | |
|---|---|---|---|
| | | **Home Country** | **Destination Country** |
| 1 | Right of direct hire<br>There should be no regulatory obstacle to direct hiring of migrants, and this should be clear to all parties. | √ | √ |
| 2 | Right to change employer<br>Migrants should be allowed to change employer, and remain in the same type of employment sector. | | √ |
| 3 | Right to knowledge<br>Migrants should be fully informed of their rights (including limitations on agency fees, minimum wage, and other conditions) before leaving the home country and during the stay in the destination country. | √ | √ |
| 4 | Right of equality<br>Regulations should aim for "equality" between employer and migrant worker, recognizing the vulnerability of the migrants. | | √ |
| 5 | Open remittance market<br>The market for migrant remittances should be open to entry by nonbanks, and free from excessive regulation, and there should be no tax on the movement of funds. | √ | √ |

These principles cannot be implemented immediately, but they are medium-term objectives toward which policy should evolve. We have not attempted to recommend measures that would support these policy objectives because that is the responsibility of host- and destination-country governments, which are familiar with specific local conditions and detailed legal issues. It is our hope that governments will embrace these principles. The direct beneficiaries will be migrants and their families, but by improving the position of migrants, the economies of both home and destination countries will benefit. The only losers will be those who currently exploit the migrants.

# VI. Recommendations

| | Recommendation | Responsibility |
|---|---|---|
| 1 | The Indonesian Government should improve the domestic-funds clearing system to shorten the transfer time between bank accounts. | The Government of Indonesia |
| 2 | The Hong Kong, China, Government should encourage remittance agents to inform customers of bank charges and amounts deducted in the destination country (if this information is available) as the Code of Banking Practice for Authorized Institutions mandates.[8] | Hong Kong, China, Government |
| 3 | Governments should not restrict their citizens from working abroad by imposing requirements such as the use of employment agencies. | The governments of Indonesia and the Philippines |
| 4 | The Hong Kong, China, Government should relax regulations (such as the "2-week rule") that make it difficult for FDHs to change employers without returning to the home country. | Hong Kong, China, Government |
| 5 | The Hong Kong, China, Government should require that wages paid to FDHs be paid to a bank account, to assist in the enforcement of the minimum wage for FDHs. | Hong Kong  Government |
| 6 | Hong Kong Immigration should collect more statistics on FDHs, in particular on length of stay and early contract termination. | Hong Kong Immigration Department |
| 7 | Predeparture briefings for migrants should include information about basic employment rights in the host country, such as minimum wage and rest days, and about limits on agency fees. | The governments of Indonesia and the Philippines |
| 8 | Migrant worker organizations across host countries should collaborate to bring concerted pressure on home country governments to relax restrictions and enforce protective measures. | Migrant worker organizations |
| 9 | Governments should agree on a migrant workers' charter, similar to the one proposed here, which sets out broad principles, including the right of direct hire. | All governments |

[a] The Code of Banking Practice (Section 34: Cross-Border Payments) states that "institutions…should provide… if available, details of any overseas commission or charges which will apply, for example, those levied by the institution's overseas agencies or correspondent banks, and whether there is an option for such charges to be paid by the remitting or the recipient party."

# Appendix 3

# Country Report: Indonesia

# I. Introduction

Indonesia was regarded as one of the East Asian Miracle "tigers," with an annual growth rate of 7.5% during the period 1968–1996. However, in 1997–1998, the growth rate dropped from 4.7% in 1997 to -13.1% in 1998. Unfortunately, the condition was worsened by high inflation (57% in 1997), a rising unemployment rate (6.4% in 1999), and increasing poverty (estimated by the Central Bureau of Statistics to be 37.2% in 1999, double its pre-1996 level). The increase in poverty resulted largely from the inflation shock, which reduced the real income of the majority of the lowest income group.

Economic growth slowed and contributed to widespread poverty, unemployment, and growth of the informal sector. From 2000 to 2004, the economic growth rate was approximately 3.5–4.5%. With such slow growth, it is difficult to solve the unemployment problem. A simple simulation shows that if the growth rate of productivity is 3%, then it will leave only 0.5-1.5% to reduce unemployment and absorb new entrants in the labor market. During the crisis, unemployment became a serious challenge.

Based on economic progress during 2004, stronger economic recovery was predicted in Indonesia for 2005, although challenges remain, particularly maintaining macroeconomic stability and addressing unemployment and poverty.

During the crisis period, Indonesia's labor-intensive industries—such as the textile industry, which employs low- and middle-skill labor—faced a difficult time. During that time Indonesia turned back to more natural-resource-intensive industries. In the meantime, as a result of massive unemployment, activities in the informal sector increased in both rural and urban areas. Indonesians working abroad provided another solution to the unemployment problem by taking advantage of wage differentials between Indonesia and countries that need low-skill (especially household) workers. Indonesians working abroad—so-called Tenaga Kerja Indonesia (TKI) or Indonesian Migrant Workers (IMWs)—not only help lessen nonemployment, they also contribute to the Indonesian economy by transferring income back home (although the exact amount of remittances is hard to estimate). Despite some problems, such as illegal workers in Malaysia and the abuse of IMWs in some countries, becoming a TKI seems to be worthwhile for the workers and their families. Although it is hard to find empirical evidence, the remittances appear to increase their family income, particularly during the Asian financial crisis, when the rupiah reached its lowest level.

This study was designed to address many issues related to the remittances IMWs send home. Its main objectives are to (i) analyze overseas migration trends in Indonesia; (ii) estimate the amount of remittance sent by IMWs, (iii) analyze the profile of remittance recipients in Indonesia by conducting a market survey; (iv) identify the players in the remittance business; (v) analyze the regulatory environment governing remittances, and (vi) analyze the macroeconomic impacts of remittances received. Using this information, the study develops recommendations to address the identified problems and constraints to (i) increase remittance volumes; (ii) encourage a favorable environment for the remittance business; and (iii) encourage the use of remittances for poverty reduction.

The study addresses only migrant workers who stay overseas for some periods and remit money to their home country. Irregular workers, the ones who commute to a neighboring country for work and return back the same day, are not the subject of study; this kind of labor is widespread in Kalimantan along the border of Indonesia and Malaysia.

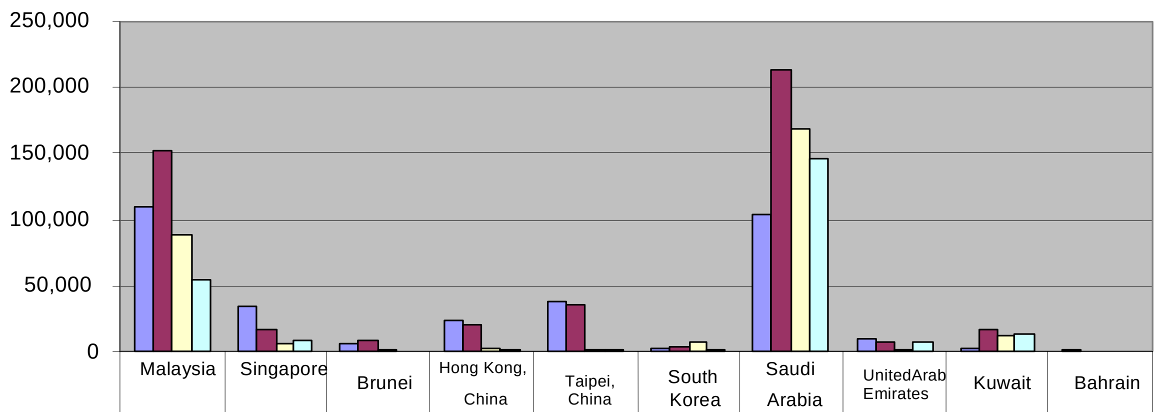
The study defines *formal channels* for transferring remittances as licensed institutions such as banks, money transfer operator, etc. *Informal channels* for transferring remittances are unlicensed institutions such as small shops, recruitment agents, etc.

# II. Migration Trends in Indonesia

## A. The Regional Scope of Migration Trends, 2001-2004

Saudi Arabia and Malaysia were the destinations of the majority of IMWs during the 2001–2004. (See Figure A3.1.) During that time, Malaysia received an average of 32% of all IMWs; Saudi Arabia's share of total IMWs increased from 36% in 2001 to 55% in 2004.

**Figure A3.1: Deployment of IMWs by 10 Major Countries of Destination 2001–2004**



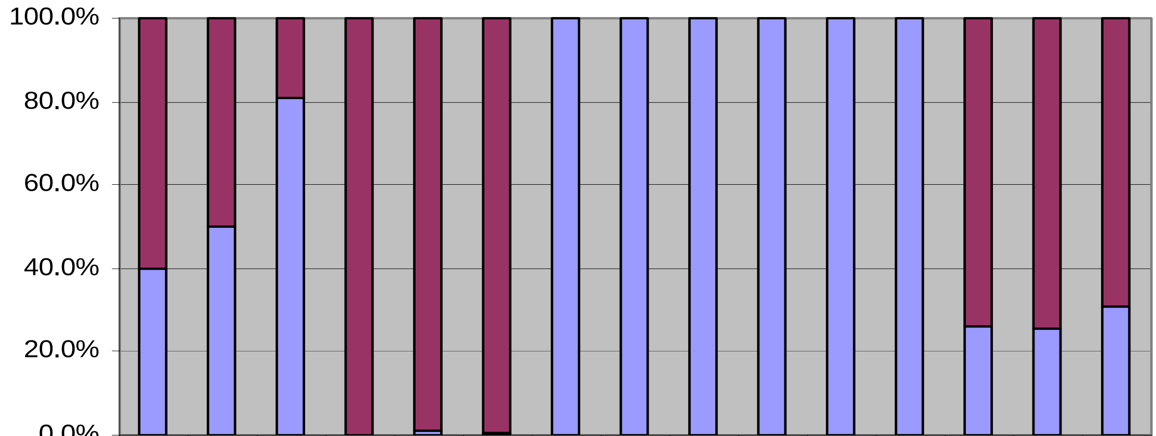

| | Malaysia | Singapore | Brunei | Hong Kong, China | Taipei, China | South Korea | Saudi Arabia | UnitedArab Emirates | Kuwait | Bahrain |
|---|---|---|---|---|---|---|---|---|---|---|
| 2001 | 110,490 | 34,295 | 5,773 | 23,929 | 38,119 | 3,391 | 103,235 | 11,027 | 3,343 | 1,558 |
| 2002 | 152,680 | 16,071 | 8,502 | 20,431 | 35,922 | 4,273 | 213,603 | 7,779 | 16,418 | 666 |
| 2003 | 89,439 | 6,103 | 1,146 | 3,509 | 1,930 | 7,495 | 169,038 | 1,475 | 12,268 | 88 |
| 2004[a] | 53,923 | 9,412 | 11 | 1,784 | 766 | 1,858 | 145,922 | 7,169 | 13,610 | 3 |

[a] Data for January–September 2004.
Source: Department of Manpower and Transmigration, 2004.

In addition to Malaysia, in the Asia and Pacific region, Singapore, Taipei,China, and Hong Kong, China, used to be popular destination countries. However, since 2002, the number and proportion of IMWs in those countries has consistently declined. There are at least three explanations for this tendency: (i) the decree stipulated by the Ministry of Manpower and Transmigration No. 104A in 2002 related to the placing IMWs overseas; (ii) a temporary government ban on sending workers to those countries due to the severe acute respiratory syndrome (SARS) outbreak; (iii) and the Indonesian Government's requirement that IMWs pass a basic language and skill tests before leaving the country. The intent of the new policy is to obtain higher salary levels for workers to send home as remittance.

The proportion of IMWs categorized as formal (skilled) workers increased from 26% in 2001 to 31% in 2003 (Figure A3.2), resulting largely from the demand for more skilled labor in the Asia and Pacific economies. Recent data indicate more than 99% of IMWs working in countries in the Middle East are categorized as informal workers; in the Asia Pacific region, only 20% are informal workers. The wide gap in the distribution of IMWs by type of work in these two regions is determined by differences in the type of work demanded by countries in the regions.

**Figure A3.2: Deployment of IMWs by Type of Work and by Destination 2001–2003**

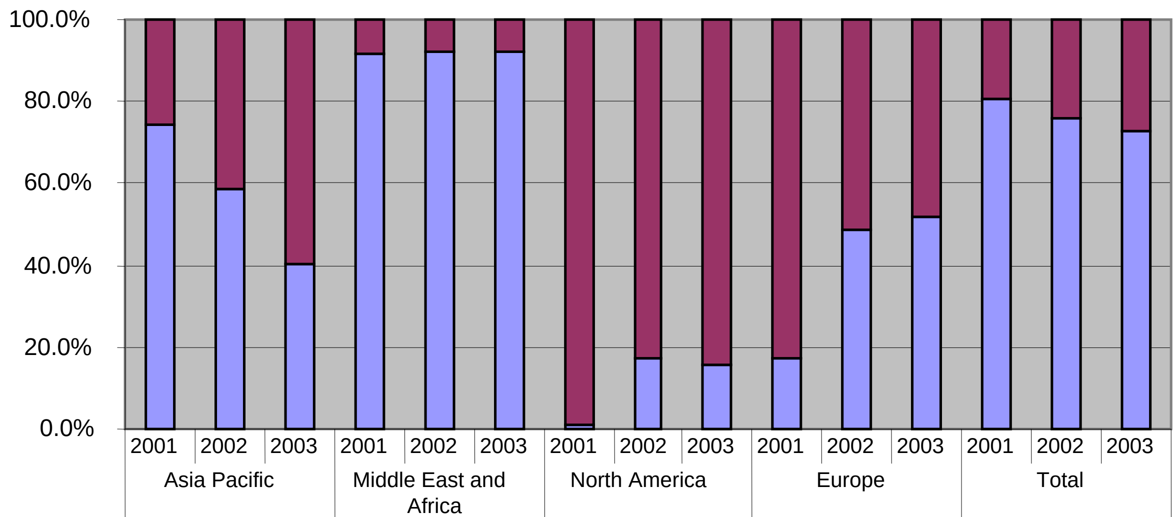



| | 2001 | 2002 | 2003 | 2001 | 2002 | 2003 | 2001 | 2002 | 2003 | 2001 | 2002 | 2003 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | Middle East and Africa | | | North America | | | Europe | | | Total | | |
| informal | 60.0% | 49.9% | 19.0% | 99.8% | 99.2% | 99.3% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 74.2% | 74.7% | 69.3% |
| formal | 40.0% | 50.1% | 810% | 0.2% | 0.8% | 0.7% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 25.8% | 25.3% | 30.7% |

Source: Department of Manpower and Transmigration, 2004.

More than 80% of IMWs are women (Figure A3.3). The feminization of IMWs undoubtedly is related to the demand for domestic workers in the destination countries—especially those in the Middle East. Looking at the regional differences, the proportion of women migrant workers in the Asia and Pacific region is lower than that in the Middle East. In the Asia and Pacific region only 60% of workers are women, whereas in the Middle East more than 90% of workers are women. This gap is mainly generated by the demand for workers in industrial, construction, and plantation sectors in the Asia and Pacific region, whereas demand in the Middle East is primarily for domestic workers.

**Figure A3.3: Deployment of IMWs by Gender and by Destination, 2001–2003**




| | Asia Pacific 2001 | Asia Pacific 2002 | Asia Pacific 2003 | Middle East and Africa 2001 | Middle East and Africa 2002 | Middle East and Africa 2003 | North America 2001 | North America 2002 | North America 2003 | Europe 2001 | Europe 2002 | Europe 2003 | Total 2001 | Total 2002 | Total 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Male | 25.8% | 41.1% | 59.4% | 8.5% | 7.7% | 7.9% | 98.7% | 82.5% | 84.2% | 82.8% | 51.5% | 48.4% | 19.6% | 24.3% | 27.2% |
| Female | 74.2% | 58.9% | 40.5% | 91.5% | 92.3% | 92.1% | 1.3% | 17.5% | 15.8% | 17.2% | 48.5% | 51.6% | 80.4% | 75.7% | 72.8% |

Source: Department of Manpower and Transmigration, 2004.

The area within Indonesia from which IMWs originate can be traced back from Department of Manpower and Transmigration (DMT) data. However, the data are biased toward Jakarta's port of embarkation, since a large number of IMWs depart from Jakarta. Empirical analysis by DMT has identified the top five provinces that provide large number of IMWs: West Java, Central Java, East Java, East Nusa Tenggara, and West Nusa Tenggara.

Additional provinces that provide IMWs include North Sumatra, West Kalimantan, East Kalimantan, South Kalimantan, South Sulawesi, and North Sulawesi (Directorate of Overseas Workers Empowerment [DOWE] 2005). The first three of these provinces are located at the border of Indonesia and Malaysia; they function as transit areas for IMWs coming from other parts of the country to work in Malaysia, Singapore, and Brunei Darussalam as irregular workers.

## B. Remittances: Volume and Distribution

DMT defines remittance as the income—including both money and other goods that have economic value (such as electronic goods, jewelry, etc.)—of IMWs that is either hand-carried or transferred through various channels to the home country (DOWE 2003).

To estimate the amount of remittance sent back home, DMT first categorizes IMWs into two types: formal (skilled) and informal (low-skilled) workers. Formal workers are assumed to remit 70% of their salary, while informal workers are assumed to remit 90%.[1]

[1] The proportion seems to be valid for Indonesian informal workers in Singapore, based on an e-mail with Mr. Thomas Chan, TA 6212-REG: Southeast Asia Workers Remittance Study, Asian Development Bank, study team leader for Singapore (May 2005).

The higher proportion assumed for informal workers stems from the fact that most of these workers' living expenses are covered by their employers. Multiplying the total number of IMWs overseas by the assumed fraction of salary sent home results in rough estimates of the volume and distribution of remittance by region.

DMT estimates about 3.1 million Indonesians were working overseas in February 2005. Using the method just outlined, DMT estimates that the total potential volume of remittance is about United States dollars (US$)578,276 million per month (See Table A3.1). This is equivalent to about US$7 billion per year.

In terms of geographic distribution, 74.4% of IMW remittances come from the Middle East and Africa region, with Saudi Arabia, Kuwait, and Jordan being the largest sources of IMW remittances in this region. The large volume of remittance from this region results from the large number of informal (low-skilled) Indonesians working in the region. The other 25.6% of total remittance comes from the Asia and Pacific region, with Malaysia, Taipei,China, and Republic of Korea being the largest sources. In Malaysia, remittances come primarily from the inexpensive labor (informal workers). Table A3.1 also shows that low -killed workers generate about the same amount of total remittance as skilled workers.

DMT's estimate is conservative since the remittances from illegal and irregular workers are not included in the calculation. Before illegal workers were banned in Malaysia in early 2005, illegal Indonesian workers in Malaysia were estimated to be about 700,000. Furthermore, the *Asian Migrant Year Book 2002–2003* estimates the number of IMWs in the Asia region to be even higher than the government estimate. Including such workers would result in a higher estimate of the volume of remittances sent home.

Banking institutions in Indonesia also believe that the volume of remittances sent is higher than DMT's figure. They estimate that the number of IMWs ranges from 3.8 to 5 million workers remitting around US$200–250 per month.[2] This would be equivalent to US$ 9–15 billion per year. Even the Organization for Economic Co-operation and Development (OECD)'s report estimated that the potential flow of remittance to Indonesia is about US$5 billion per year (Harisson 2004).

[2] Based on interview with Bank Negara Indornesia 1946 Bank representative and an article written by Paul Sutaryono, "The Competition Landscape of Three Financial Giants," Jakarta Post, 28 February 2005.

## Table A3.1: Estimated Amount of Remittance Received from IMWs

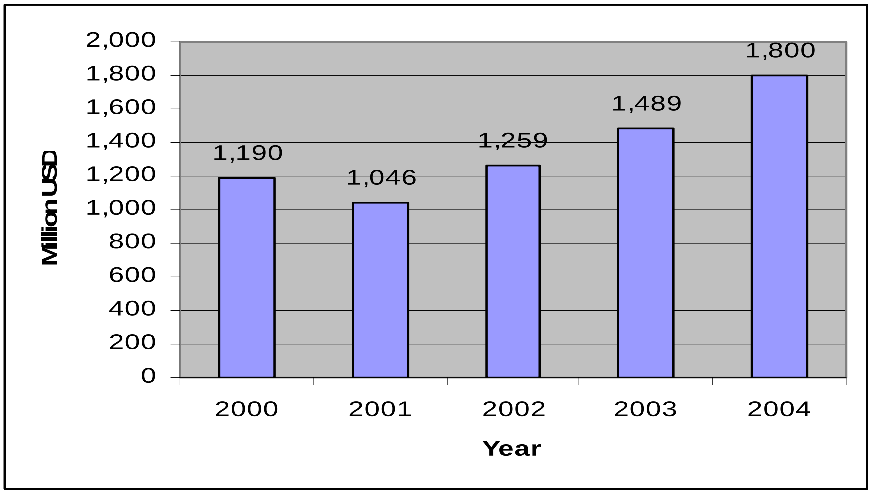
| No | Region/ Country | Estimated IMW Stock | | Local Currency | Salary/Month | | Transfer in Local Currencies | | Exchange Rate Rp | Transfer in Home Currency | | Transfer in US$ | | Remittance in US$ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Formal | Informal | | Formal | Informal | Formal | Informal | | Formal | Informal | Formal | Informal | |
| | | (1) | (2) | (3) | (4) | (5) | (6)=70%x(1)x(4) | (7)=90%x(2)x(5) | (8) | (9)=(6)*(8) | (10)=(7)*(8) | (11) | (12) | (13)=(11)+(12) |
| I | Asia and Pacific | | | | | | | | | | | | | |
| 1 | Malaysia | 474,075 | 833,559 | RM | 513 | 350 | 170,240,333 | 262,571,085 | 2,344 | 399,043,339,380 | 615,466,623,240 | 44,338,149 | 68,385,180 | 112,723,329 |
| 2 | Singapore | 17,931 | 30,271 | S$ | 340 | 240 | 4,267,578 | 6,538,536 | 5,047 | 21,538,466,166 | 32,999,991,192 | 2,393,163 | 3,666,666 | 6,059,829 |
| 3 | Brunei Darussalam | 6,086 | 8,923 | B$ | 500 | 400 | 2,130,100 | 3,212,280 | 5,047 | 10,750,614,700 | 16,212,377,160 | 1,194,513 | 1,801,375 | 2,995,888 |
| 4 | Taipei, China | 12,714 | 18,593 | NT$ | 16,000 | 15,840 | 142,396,800 | 265,061,808 | 256 | 36,453,580,800 | 67,855,822,848 | 4,050,398 | 7,539,536 | 11,589,934 |
| 5 | Hong Kong, China | 4,886 | 8,471 | HK$ | 4,000 | 3,270 | 13,680,800 | 24,930,153 | 1,142 | 15,623,473,600 | 28,470,234,726 | 1,735,942 | 3,163,359 | 4,899,301 |
| 6 | Korea, Republic of | 31,819 | 4,170 | W | 512,000 | 348,160 | 11,403,929,600 | 1,306,644,480 | 7 | 79,827,507,200 | 9,146,511,360 | 8,869,723 | 1,016,279 | 9,886,002 |
| 7 | Japan | 96 | 8 | ¥ | 120,000 | 81,600 | 8,064,000 | 587,520 | 74 | 596,736,000 | 43,476,480 | 66,304 | 4,831 | 71,135 |
| | | | | | | | | | | | | | | |
| | **Subtotal I** | 547,607 | 903,995 | | | | 11,744,709,211 | 1,869,545,862 | | 563,833,717,846 | 770,195,037,006 | 62,648,191 | 85,577,226 | 148,225,417 |
| | | | | | | | | | | | | | | |
| II | Middle East and Africa | | | | | | | | | | | | | |
| 1 | Saudi Arabia | 432,237 | 1,111,529 | SAR | 2,500 | 600 | 756,414,750 | 600,225,660 | 2,375 | 1,796,485,031,250 | 1,425,535,942,500 | 199,609,448 | 158,392,883 | 358,002,330 |
| 2 | United Arab Emirates | 2,650 | 5,203 | DH | 2,500 | 600 | 4,637,500 | 2,809,620 | 2,375 | 11,014,062,500 | 6,672,847,500 | 1,223,785 | 741,428 | 1,965,212 |
| 3 | Kuwait | 22,496 | 64,329 | KD | 600 | 150 | 9,448,320 | 8,684,415 | 29,688 | 280,501,724,160 | 257,822,912,520 | 31,166,858 | 28,646,990 | 59,813,849 |
| 4 | Bahrain | 127 | 266 | BHD | 2,500 | 600 | 222,250 | 143,640 | 2,375 | 527,843,750 | 341,145,000 | 58,649 | 37,905 | 96,554 |
| 5 | Qatar | 402 | 797 | QAR | 2,500 | 600 | 703,500 | 430,380 | 2,375 | 1,670,812,500 | 1,022,152,500 | 185,646 | 113,573 | 299,218 |
| 6 | Oman | 847 | 1,413 | OMR | 2,500 | 600 | 1,482,250 | 763,020 | 2,375 | 3,520,343,750 | 1,812,172,500 | 391,149 | 201,353 | 592,502 |
| 7 | Jordan | 2,182 | 14,047 | US$ | 600 | 150 | 916,440 | 1,896,345 | 29,688 | 27,207,270,720 | 56,298,690,360 | 3,023,030 | 6,255,410 | 9,278,440 |
| 8 | Cyprus | 3 | 0 | US$ | 1,200 | 1,200 | 2,520 | 0 | 8,908 | 22,448,160 | 0 | 2,494 | - | 2,494 |
| | | | | | | | | | | | | | | |
| | Subtotal II | 460,944 | 1,197,584 | | | | 773,827,530 | 614,953,080 | | 2,120,949,536,790 | 1,749,505,862,880 | 235,661,060 | 194,389,540 | 430,050,600 |
| | | | | | | | | | | | | | | |
| | **Total** | **1,008,551** | **2,101,579** | | | | **12,518,536,741** | **2,484,498,942** | | **2,684,783,254,636** | **2,519,700,899,886** | **298,309,251** | **279,966,767** | **578,276,017** |

B$ = Brunei Darussalam dollar, BHD = Bahrain dinar, DH = United Arab Emirates dirham, HK$ = Hong Kong dollar, KD = Kuwait dinar, NT$ = New Taiwan dollar (Taipei,China), OMR = Omani Riyal, QHD = Qatari Rial, RM = Malaysian ringgit, S$ = Singapore dollar, SAR = Saudi riyal, W = won (Republic of Korea), ¥ =Japanese yen

Source: Department of Manpower and Transmigration, 2005. Note: US$1 = Rp9,000

In contrast to DMT and bank data, the Bank of Indonesia (the central bank) recorded a lower level of remittance, averaging US$1.4 billion per year during 2000–2004 (Figure A3.4). The remittance data show an increasing trend during 2001–2003, despite a decline from 2000 to 2001. The decline may be due to the government policy imposing higher requirements for IMWs who want to work abroad, such as graduation from secondary education for prospective informal workers, passing a competency test, etc.

**Figure A3.4: Indonesian Migrant Workers' Remittance (net inflow)**




Source: Bank of Indonesia, March 2005.

There are three possible explanations for differences between the level of remittances recorded and the estimated potential: (i) DMT estimates on the proportion of income sent as remittance may be high; (ii) the actual number (stock) of IMWs may not be accurately reflected in the current data (Harrison 2004, p26); and (iii) the volume of remittance being sent through informal channels may be quite large.

Unfortunately, there is no robust method that can be used to estimate the volume of remittances, making the availability of accurate data on the number (stock) of IMWs overseas even more important. The DMT data only cover IMW deployment. Data on the stock of IMWs can be obtained from several sources (Indonesian embassies, nongovernment organizations [NGOs], etc.), but what is needed is a robust central data collection method by a responsible agency, such as Badan Pusat Statistik (BPS, Indonesia's central agency for statistics). Lack of accurate data has been identified as the major impediment in developing policies on IMWs.

## III. The Demographic and Remittance Profile of Recipients

A market survey was conducted to analyze the profile of remittance recipients in Indonesia. The household sample for the survey was based on the province of origin of IMWs and the IMW stock in destination countries. The source of IMW stock data in destination countries is from the Asian Migrant Yearbook 2002–2003, while the data on the provincial origin of IMWs is from DMT's website. It is estimated that the survey has a margin of error +/- 4%.

By focusing on the destination countries in the Southeast Asian region (Brunei Darussalam; Hong Kong, China; Japan; Malaysia; Singapore; Taipei,China; and Republic of Korea) and using proportional random sampling, the study generated 550 respondents as the sample, located in five major Indonesian provinces from which the IMWs originate (Table A3.2). The study additionally interviewed 20 key individuals for their expert opinion on the issues covered in the survey: representatives from government/international agencies (7), banking (8), and NGOs (2), as well as former migrant workers (3).

**Table A3.2: Distribution of 550 Respondents in Five Major Provinces**

| No | Provinces | Number of Respondents |
|---|---|---|
| 1 | Central Java | 153 |
| 2 | West Nusa Tenggara | 140 |
| 3 | East Java | 115 |
| 4 | West Java | 80 |
| 5 | Lampung | 62 |
| **Total** | | **550** |

## A. Demographic Profile

Respondents are almost equally distributed by gender, with 49% male and 51% female. The distribution of respondents by age shows that 61% of respondents are in their prime, 24–45 years old; 33% are 45 years old or older. The family relationship of IMW to respondent indicates that about 47% are the children of recipients, while 37% are the spouse of a recipient. These figures suggest that IMWs are mostly married and/or have children; thus being a migrant worker can be regarded as a way to fulfill financial responsibility to the family.

About 71% of respondents have household annual incomes of less than Indonesian rupiah Rp4 million a year. Since 68% of respondents live in households with four or more persons and the poverty line in 2004 in Indonesia, as defined by BPS, is about Rp1.5 million per capita per year (equivalent to US$1.30 per person per day), it is safe to say that remittance recipients are mostly poor or near-poor families. The prevalence of poverty among remittance recipients is also reflected in IMWs' primary motive for leaving the country, i.e., to be free from poverty (37%) and to respond to the lack of employment opportunities in the country (37%).

## B. Remittances

The distribution of remittances by annual amount received reflects the high proportions of IMWs engaged in low-paying jobs. About 42% of respondents received less than Rp2 million annually. The vast majority of recipients (97%) receive through banking operations, and only 26% use informal channels. The reasons for choosing the method of transfer are fairly evenly distributed, although speed ranks highest. Nevertheless, nearly half of recipients say it takes 4–7 days to collect remittances. More than 60% receive remittances three or fewer times per year. Slightly more than half of respondents (51%) said that they leave a portion of the remittance in savings. The great majority (96%) prefer to obtain remittances in local currency.

The average annual amount of remittance sent is highest from Japan, compared with the other countries examined, followed by Republic of Korea and Taipei,China. IMWs in these three countries are mostly working as skilled (formal) labor with higher salaries, so they are able to remit more money. Especially in Japan, most IMWs are trainees working in the manufacturing sector. In contrast, IMWs in Malaysia and Singapore work mostly as domestic helpers with lower salaries.

**Table A3.3: Frequency of Distribution**

| Average Annual Remittance Received | Percent |
|---|---|
| < Rp2 M | 42 |
| Rp2 - <Rp4 M | 27 |
| Rp4 - <Rp6 M | 9 |
| Rp6 - <Rp8 M | 8 |
| >= Rp8 | 14 |

Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey,2005.

**Table A3.4: Average Amount of Annual Remittance Received (Rp)**

| Remitting Country | Average Annual Remittance |
|---|---|
| Japan | 15,684,000 |
| Korea, Republic of | 11,482,000 |
| Taipei,China | 9,940,000 |
| Hong Kong, China | 7,534,000 |
| Brunei Darussalam | 6,171,896 |
| Singapore | 4,230,000 |
| Malaysia | 2,770,000 |

Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey,2005.

A closer look at the annual amount respondents receive supports this argument. About 50% of respondents receiving remittances from Malaysia say that they receive less than Rp2 million per year from their relatives in Malaysia. In contrast, 50% or more of respondents receiving remittances from Japan, Republic of Korea, and Taipei,China receive more than Rp8 million a year. The distribution of remittance amounts from those with relatives in Hong Kong, China, suggests that 43% probably receive from IMWs working as skilled workers and 33% from unskilled workers (domestic helpers).

**Table A3.5: Annual Remittance Amounts Received from IMWs in Major Remitting Countries (%)**

| | < Rp2 M | Rp2M-< Rp4 M | Rp4 -< Rp6 M | Rp6 M- <Rp8 M | > Rp8 M |
|---|---|---|---|---|---|
| Japan | 13 | 6 | 13 | 19 | 50 |
| Hong Kong, China | 33 | 7 | 2 | 14 | 43 |
| Korea, Republic of | 0 | 7 | 20 | 20 | 53 |
| Taipei,China | 4 | 0 | 27 | 15 | 54 |
| Singapore | 33 | 35 | 13 | 6 | 13 |
| Malaysia | 50 | 31 | 6 | 8 | 6 |
| Brunei | 25 | 25 | 38 | 0 | 13 |

Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey,2005.

Survey results showed that 97% of respondents overall receive their remittance through banking institutions, and only 3% say that they receive the remittance from a small shop or recruitment agent. A cross tabulation conducted by remitting countries shows that a small percentage of remittances from Hong Kong, China; Singapore; Malaysia; and Brunei Darussalam comes from nonbank origin, namely shop and recruitment agency; remittances from Japan, Republic of Korea, and Taipei,China are wholly transferred through banking institutions.

Not only do most IMWs prefer to use banks rather than nonbanking institutions, more than 70% of recipients state that their relatives overseas have never transferred their money via informal channels. Among those who had used informal channel to transfer money, almost all sent it through a friend who go home for visit or for good. A slight tendency to use informal channels other than friends nevertheless does exist among IMWs working in Malaysia.

About 88% of respondents are informed of remittance transfers by relatives abroad. However, the time needed to pick up the remittance starting from notification by the sender is quite long; about 48% respondents say that it takes 4–7 days to pick up the remittance. Banking authorities—also concerned about the speed (efficiency) of money transfer—acknowledge the problem. The respondent from the Bank of Indonesia, for example, stated how difficult it is to impose delivery time as an efficient indicator of money transfer. Bank Rakyat Indonesia (BRI), a retail bank that provides banking services at the village level, argued that the appropriate indicator of speed/efficiency should be when the bank sends notification to the recipient rather than when the recipient actually receives the money.

The problem in the length of time it takes to receive a remittance could result either from time spent for interbank transfer or from the remittance recipient living in a remote area. In either case, the delivery time of remittance money would be improved if the banking system had to compete with other money transfer operators. One solution to the problem of slow remittance delivery is to encourage remittance recipients to have an account at the same bank that their remittance sender usually uses to transfer the money. Doing so would avoid problems caused by the slow Indonesian clearing system. However, the survey found that more than 73% of remittance recipients do not have bank accounts, with more than half saying that they do not have enough money to save. This situation partly explains why the speed of delivery remains a problem in Indonesia.

The correlation between the speed of delivery and whether the remittance recipient has a bank account can also be inferred from cross tabulating bank account possession by province and speed of delivery by province. In the province of Lampung, where 92% of respondents have bank accounts, the percentage of respondents who receive the money within 1 day or less is 97%. The opposite case happens in the province of West Nusa Tenggara.

With regard to the pattern of withdrawal, slightly more than half of respondents said that they leave some of the remittance money in savings, while 47% said they collect all the money transferred. Banking sector representatives interviewed also noted the high proportion of complete withdrawal by remittance recipients. They offered two possible explanations: the poverty of recipients and recipients' strong preference for consumption rather than saving. As the pattern of remittance use discussed below suggests, poverty seems to be the more likely explanation.

Cross tabulating ranges of respondent income with the pattern of collecting remittance shows that poor households with annual incomes less than Rp2 million tend to have higher percentages collecting all the money (Table A3.6). As annual income increases, so does the proportion of people saving all the remittance money—the poor households have a lower marginal propensity to save compared with the wealthier ones.

**Table A3.6: Respondent Income by Pattern of Collecting Remittance (%)**

| Respondent Income | Pattern of Collecting Remittance | | |
|---|---|---|---|
| | Collect All | Leave Some | Save All |
| < Rp2 M | 53 | 45 | 2 |
| Rp2 M–< Rp4 M | 49 | 50 | 1 |
| Rp4 M–< Rp6 M | 50 | 48 | 2 |
| Rp6 M–< Rp8 M | 28 | 68 | 4 |
| > Rp8 M | 32 | 63 | 5 |

Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey, 2005.

The respondent's reason for receiving the remittance can affect the pattern of collecting the remittance. Higher percentages of respondents who want to enjoy nice things and who have family debt tend to collect all the remittance money (See Table A3.7).

**Table A3.7: Reason Receiving Remittance by Pattern of Collecting Remittance (%)**

| Reason for Receiving Remittance | Pattern of Collecting Remittance | | |
|---|---|---|---|
| | Collect All | Leave Some | Save All |
| Take Care of Basic Needs | 39 | 59 | 1 |
| Enjoy Nice Things | 61 | 39 | 0 |
| Pay Family's Debt | 70 | 29 | 1 |
| Help for Emergency Expenses | 36 | 50 | 14 |
| Finance Family Business | 40 | 60 | 0 |

Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey, 2005.

## C. Respondents' Uses of Remittances and Financial Relationships/Obligations

It is interesting to know how recipients use the remittances. Overall, the remittance money received is spent for food (20% of respondents), housing (16%), education (15%), and saving (13%). It seems that physical needs such as food are the first to be filled, followed closely by housing and education.

A cross tabulation analysis of respondents who say that they use the remittance for housing seems to correlate with their relative's length of working overseas (Table A3.8). Building or renovating a house needs a sufficient and stable supply of money—more likely to be provided by salaries earned from longer periods of working overseas. Other possible explanation for the correlation between the family member's length of time as an IMW and use of the remittance for housing may be because incurred debts have to be paid off in the early years; once the debts have been paid, migrant workers are able to send more money and beneficiaries have more flexibility to use the transferred money to save, to undertake physical investment, and to finance business activities. Table A3.8 shows that about 64% respondents who spend their remittance for housing expenditure have relatives who have worked overseas for more than 2 years.

**Table A3.8: Spending for Housing by IMW's Length of Time Working Overseas (%)**

| Length of Working Overseas | % |
|---|---|
| 0 – 12 months | 5 |
| >12 – 24 months | 31 |
| >24 – 36 months | 27 |
| > 36 months | 37 |

Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey, 2005.

With respect to the amounts of remittance received and their primary usage, the proportion of recipients who spend the remittance received on food and education decreases as the amount of remittance received increases. On the other hand, the proportion of those who use the money for saving, housing, and financing business are increasing as the amount of remittance received increases (Table A3.9). This pattern conforms to economics common sense.

**Table A3.9: Amount of Remittance Received by Primary Usage (%)**

| | < Rp2 M | Rp2–<Rp4 M | Rp4–< Rp6 M | Rp6–< Rp8 M | > = Rp8 M |
|---|---|---|---|---|---|
| Food | 42 | 33 | 21 | 38 | 23 |
| Clothing | 0 | 0 | 0 | 0 | 6 |
| Education | 22 | 12 | 32 | 15 | 14 |
| Housing | 31 | 34 | 29 | 39 | 45 |
| Business | 24 | 27 | 42 | 24 | 44 |
| Saving | 8 | 18 | 22 | 28 | 20 |
| Others | 62 | 64 | 56 | 60 | 65 |

Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey, 2005.

The three dominant reasons indicated as the principle reasons for receiving remittances are to help take care of basic family needs (30%), to cover incurred debts (18%), and to help with emergency expenses (16%). The first reason conforms to the dominant uses of remittance already identified—namely food.

The second reason—paying incurred debts—quite surprising. More than 80% of respondents indicated that they do not have outstanding loans for such items as house, cars, motorcycles, etc.; or for business or educational purposes (Table A3.10). Thus the incurred debt must be for other activities.

**Table A3.10: Obligations to Cover Incurred Debt**

| Obligations to cover | Yes (%) | No (%) |
|---|---|---|
| House, car, motorcycle loans | 11 | 89 |
| Business loans | 17 | 83 |
| Education loans | 14 | 86 |

Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey, 2005.

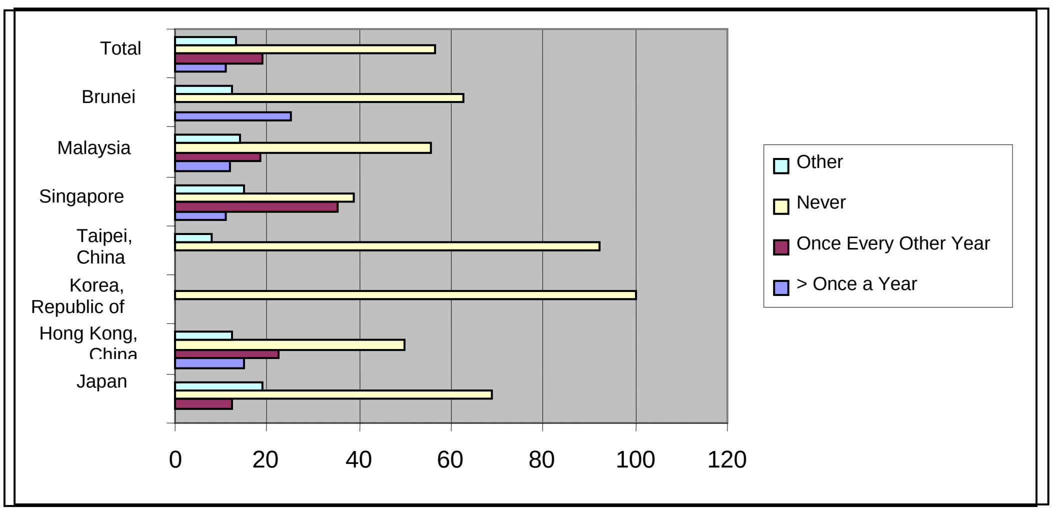
In the pretest survey, some respondents indicated that they owe debt to the recruitment agent (sponsor). The sponsor is a middleman between the prospective migrant worker and recruitment agencies. Sponsors collect service fees from migrant workers and from recruitment agencies. Some sponsors charge high interest on loans to migrant workers who need to borrow to pay the recruitment fee; these interest rates can be as high as 100% in 3 months (*Asian Migrant Year Book 2002–2003*). This phenomenon calls for a close examination of how the recruitment process actually works; the issue is being addressed by several NGOs.

A close look at respondents' answers on the kind of debts they have indicates that debt to pay the cost of leaving the home country is the most frequently mentioned; this suggests that there is an opportunity for financial institutions to provide loan services for prospective migrant workers. In addition, many respondents borrow money simply to finance daily basic family needs.

## D. Attachment between IMWs and Their Hometown

More than half of respondents report that their family members working abroad never come home for a visit during the time they are abroad. Income and distance appear to be the main factors explaining the frequency of visit. Those who work in neighboring countries (Singapore, Malaysia, and Brunei Darussalam) and those with relatively higher income (IMWs in Japan) are more likely to visit, but only once a year or once every other year (Figure A3.5).

**Figure A3.5: Frequency of IMW Visits to Indonesia (%)**

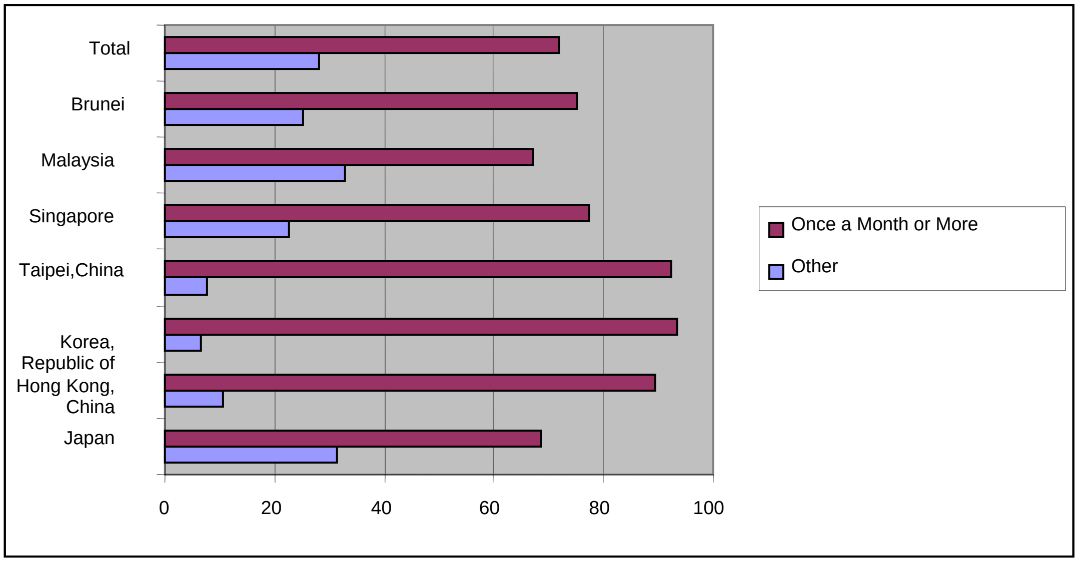



Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey, 2005.

Although most IMWs do not make visits, they maintain regular contacts with their families back home. About 69% of respondents communicate with their relative overseas at least once a month via phone calls, short message service (SMS) or letters (FigureA3.6). IMWs in Taipei,China, Republic of Korea, and Hong Kong, China, are more likely to communicate regularly (more than 90% communicate once a month or more often). This tendency may be explained by relatively higher incomes received by workers in these countries and/or their limited ability to make frequent visits.

Attachment between IMWs and their families can also be measured by whether or not they receive/request packages from home. The survey shows that 72% of remittance recipients have never sent a package to their relatives abroad—probably because the cost of sending packages overseas is too expensive for the migrant workers' families. Items sent by those who do send packages to IMWs include family photos, traditional processed foods, condiments and medicines both traditional and regular; and items to deal with homesickness and the longing for family.

**Figure A3.6: Frequency of Communication between Remitters and Recipients**




[a]Includes: rare contact, and others (unspecified).
Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey, 2005.

Some IMWs participate in charitable works in their home country. Our sample shows that the proportions of IMWs who participate and do not participate in these activities are almost equally distributed.

Which IMWs actually participate in charitable works? According to survey respondents, poorer IMWs appear to be more generous in their participation than better-off IMWs. Cross tabulation between provinces and participation in charitable works indicates IMWs from West Nusa Tenggara (the poorest province) are the most generous migrant workers. Cross tabulation between IMW participation and the amount of remittance sent (as reported by remittance recipients) shows that the larger the remittance sent the lower is participation in charitable works. Among IMWs sending less than Rp2 million per year, 52% participate in charitable works. Among those sending more than Rp8 million, only 38% participate in charitable works (Table A3.11).

**Table A3.11: IMW Participation in Charitable Works by the Annual Amount of Remittance Sent (%)**

| | < Rp2 Million | Rp2–< 4 Million | Rp4–< 6 Million | Rp6–< 8 Million | > = Rp8 Million |
|---|---|---|---|---|---|
| Yes | 52 | 45 | 36 | 57 | 38 |
| No | 48 | 55 | 64 | 43 | 61 |

Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey, 2005.

The types of charitable works remittance recipients report that IMWs contribute to include the construction of religious facilities (mosques, Islamic school, and boarding school) and contributions to orphanages and facilities for the elderly. Infrastructure works (roads, bridges, etc.) are hardly mentioned by respondents.

### E. Estimating Total Volume from the Survey

Remittance volume is very difficult to obtain since there are no valid data as a basis for estimation. The volume, however, can be estimated by using the results from the remittance recipient survey. The average annual amount of remittance sent is multiplied by the number of IMWs in each remitting countries (Table A3.12). Even though it is a rough estimation, it provides a useful basis of information.

**Table A3.12: Estimated Annual Remittance Volume from the Southeast Asia Region to Indonesia (by Country)**

| Remittance-Sending Country | Annual Amount of Remittance (Rp) | Number of IMWs [a] | Estimated Total Volume (Rp) | Estimated Total Volume (US$) |
|---|---|---|---|---|
| Japan | 15,684,000 | 28,064 | 440,155,776,000 | 48,906,197 |
| Korea, Republic of | 11,482,000 | 24,117 | 276,911,394,000 | 30,767,933 |
| Taipei,China | 9,940,000 | 93,212 | 926,527,280,000 | 102,947,476 |
| Hong Kong, China | 7,534,000 | 85,240 | 642,198,160,000 | 71,355,351 |
| Brunei Darussalam | 6,171,896 | 15,009 | 92,633,987,064 | 10,292,665 |
| Singapore | 4,230,000 | 69,494 | 293,959,620,000 | 32,662,180 |
| Malaysia | 2,770,000 | 1,307,634 | 3,622,146,180,000 | 402,460,687 |
| | | | 6,294,532,397,064 | 699,392,489 |

Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Market Survey, 2005.

[a] Figures in Asian Migrant Year Book 2002-03, except figures for Malaysia and Brunei are taken from government estimate.

The estimated total annual remittance volume from the Southeast Asia region to Indonesia is estimated at US$700 million. The figure is quite reasonable, as the total annual remittance recorded by the central bank ranges from US$1.1 billion–1.8 billion for all regions (including Europe, Middle East, and North America).

## IV. The Marketplace of Remittance Transfers

### A. The Players

Players in the remittance transfer marketplace include both formal and informal participants.

#### 1. Formal Channels

The remittance market in Indonesia is still at an early stage of development. Although Indonesian financial institutions provide transfer services, they have only recently begun to consider such services as a potential profit center. The opportunity to earn higher revenue from this fee-based activity began in the late 1990s, when the number of IMWs abroad increased significantly as a result of severe unemployment problem in the country.

Since the market is not well developed yet, the number of players is still limited. IMWs mostly use formal channels—especially banks—to transfer their remittances. This finding is consistent with results of interviews with banking officials; the respondent interviewed from Bank Negara Indonesia (BNI) estimates that 60–70% of remittances are transferred through formal channels.[3] This percentage

[3] Based on the interview with BNI Bank officer, May 2005.

is even higher for remittances sent by IMWs working in the Asia and Pacific countries, as they are relatively more educated than their counterparts working in the Middle Eastern countries.

Only six commercial banks are actively involved in IMWs' remittance transfers through the formal marketplace: BNI, Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Central Asia (BCA), Bank Niaga, and Bank Danamon. Because of its early start, and relatively more developed domestic and foreign network, BNI is currently the leader in the market; the other banks are practically newcomers. Niaga and Mandiri Banks, for example, entered the market in 1999, BCA in 2000, and BRI in 2004.

Other players in the formal channel are money transfer outfits (MTOs) such as Western Union, MoneyGram, and the postal services. Western Union operates in Indonesia through agents, including banks and the Postal Service. Who Western Union chooses as agents is observably based on the number and the geographical coverage of working units an agent owns. BRI, for example, specializes in micro and small business finance and therefore its branch offices are widespread not only in urban areas but also rural areas. Similarly, the postal service can be accessed everywhere throughout the country. In addition to BRI and the postal service, Western Union also collaborates with the Bank Internasional Indonesia (BII) and Mandiri Bank, both of which also have extensive and far-reaching networks. By taking advantage of its partnerships with local banks as agents, Western Union is estimated to have 2,000 outlets across the country.

Not all banks with large networks are willing to cooperate with Western Union. BCA, for example, chooses not to collaborate; its policy is to minimize transfer services that require cash drafts and to encourage the use of bank accounts instead—in part to meet the "Know-Your-Customer" (KYC) requirement.

MoneyGram also operates in Indonesia via agents. Although not as extensive as Western Union's network, MoneyGram's geographical coverage of transfer services is quite far-reaching. In providing transfer services, MoneyGram uses Danamon Bank, Lippo Bank, and a small number of exchange companies as agents. In smaller cities, MoneyGram is usually represented by one of these two commercial banks; in larger cities, MoneyGram transfer services are provided by both banks and exchange companies.

Number of players in the formal channelis limited because financial regulations do not allow telecommunication companies, microfinance institutions, and money changers to engage in money transfer activities.

## 2. Informal Channels

Most informal channels operate secretly and are therefore difficult to identify. According to Timberg (2003), in an informal remittance system a dealer, often a storeowner, receives cash and instructs, directly or through a chain of intermediaries, a counterpart to pay someone in the other place. Often the dealer and counterparts have a social, familial, or ethnic link. Along that chain, various remittance orders can offset against one another so that only relatively small balances have to be remitted. Storeowners and other merchants are usually involved, partially because they have remittance needs in connection with their businesses that permit such offsetting. This informal system is popular among many migrants who are not familiar with banking services, or who consider commercial services expensive or slow.

The kind of informal channel cited by Timberg (2003) seems to exist in Indonesia; interviews with banking institutions and government agencies suggest that such informal channels are particularly prevalent among IMWs working in Hong Kong, China, and Saudi Arabia.

The informal channel in Hong Kong, China, provides remittance transfer by using several methods. For example, the store providing the service may be named after a famous Indonesian bank, such as BNI Express, even though the store does not have any relationship with the stated bank. Sometimes an agent may approach IMWs when they are gathered in public places, like a park. Respondents indicated that such informal channels provide a low fee and faster delivery for remittance transfer, thus meeting the efficiency criterion. However, the safety criterion is not guaranteed since without a formal transaction the agent can run away with the money.

In Saudi Arabia, the informal channel is unique and meets both the efficiency and the safety criteria. This is how they operate. First, the remittance sender calls the recipient (relative) in his/her home country and orders him/her to collect the remittance in a specified place. After a few hours, the sender calls the recipient again to confirm whether he/she has already collected the money. If the recipient received the money, the migrant is not required to pay the remittance immediately to the remittance-service provider, but has a week to do so.

## B. The Regulatory Environment

Currently there is no regulation that particularly addresses remittance services in Indonesia. However, in general, any institution that wants to provide remittance services should take note of the Bank of Indonesia's regulation on the payment system (titled the "Institution Providing Payment System Service"). As the monetary authority and central bank, the Bank of Indonesia's main focus is on the safety and efficiency of the payment system.

BI payment system oversight focuses on the systemically important payment system (SIPS) and the system-wide important payment systems (SWIPS). Remittances do not fall under either of those categories and thus are not yet regulated. However, formal remittance service is scheduled to come under Bank of Indonesia regulatory authority.

Because of current conditions, it seems that formal remittance service is mostly provided through banking institutions. When it comes to money transfer from overseas through banking institutions, BI—as the central bank and the monetary authority— is the sole regulator. The regulation says that the remittance service provider should comply with BI's regulation, particularly when it involves transfer payment overseas. The microfinance institutions, money changers, pawnshops, and telephone companies are prohibited from engaging in money transfer service, i.e. remittance business.

MTOs—the other providers of formal remittance services—are limited in scope, consisting primarily of Western Union and MoneyGram. Because they operate in partnership with local banks, the Bank of Indonesia monitors their operations as well.

Other than banks and MTOs, the postal service also provides remittance transfers. Previously, the postal service managed only local transfers, but currently it also covers international transfers by working together with Western Union. Since the service involves a payment system, the BI closely monitors the transfer services provided by Postal Service.

### 1. Banking Operations on Remittance Transfer

Remittance transfers through banking institutions are more efficient (i.e., faster) if the remittance recipient has a banking account. Opening an account is not difficult in Indonesia. The documents needed to open a bank account is a residence certificate or driver license. A student ID is also acceptable if the person is under 17 years old. Company IDs and tax identification numbers are not accepted if they are not supported by a KTP. In other words, the residence certificate is very important for opening a bank account. A face-to-face meeting or physical presence is also required.

No document or ID is required when receiving remittances. But the KYC principle applies for regular bank customers. A walk-in customer who receives money transfers of more than Rp100 million needs to provide a valid ID, which the bank will copy and file for future reference. In cases where the remittance sender and the remittance recipient do not have bank accounts, it is difficult for the bank to get complete information on this kind of customer.

For foreign nationals, a valid passport and a foreigner's ID are the main documents required for opening a savings account. In receiving remittance, there is no difference between an Indonesian and a non-Indonesian (no regulation yet; but the KYC principle applies). A foreign unexpired passport, by itself, is not an acceptable document for a foreign national to be able to carry out a banking transaction, unless it is supported by a foreigner's ID. The validity of a visa does not need to be checked for a non-national opening an account as long as she/he has foreigner's ID and her/his visa must be valid.

To maintain safe practices, the KYC principle is applied equally to banks, other financial institutions, and securities companies. However, there is no threshold amount of transaction that must be reported to the monetary authority. The BI does not require financial service institutions to report, since it does not have the resources to do data analysis. But when a transaction involves more than Rp500 million, it must be reported to the Center for Reporting and Analysis of Financial Transaction. The center was established in 2003 to monitor suspicious financial transactions such as money laundering activities, corruption, etc.

Bulk remittances are allowed in Indonesia; there is no regulation dealing with this kind of transaction.

All necessary documents should be written in Bahasa Indonesia, since Bahasa Indonesia is the official language. Language barrier could be identified as one source of problems in conducting remittance business. English is not the official language in communicating with banking regulators in Indonesia.

### *2.* Relations between Remitting Country and Receiving Country

There is currently no special agreement with other countries regarding foreign currency or remittance transfer. However, the BI maintains regular dialogue with its counterparts in other countries regarding banking policies through forums such as the Southeast Asia Central Bank Meeting (SEACM) and the Executive Meeting East Asia Pacific (EMEAP). In addition, bilateral dialogues are conducted occasionally with other central banks in Southeast Asia.

A collaborative project on remittances is being developed among Indonesia, Malaysia, Singapore, and Hong Kong, China. Called the ASEAN Pay Project Remittance, it is sponsored by each country's central bank. The objective of the project is to provide faster, reliable, and cheaper services. However this collaboration still needs further market research before it could materialize.

On the possibility of foreign banks opening up offices in Indonesia to provide remittance transfer and other services, the BI applies the "stand still" principle, which reflects Indonesia's commitment in the World Trade Organization on the issue of globalization of the banking sector. This principle calls for the banking authority to maintain the existing number of foreign bank in Indonesia (11 banks). Therefore, BI requires foreign banks that want to open offices in Indonesia to (i) comply with regulations, (ii) be listed among the 200 largest banks in the world, and (iii) have initial capital of Rp3 trillion. Some say that the second and third requirements are simply too difficult to meet.

The BNI respondent suggested that BNI should reach its potential customers overseas—that is, remittance senders—by opening offices in remittance-sending countries. This would enable the bank to enjoy the exchange rate fee, while making the remittance transfer process faster (account to account).

The BI neither encourages nor prohibits local banks from opening offices in remittance-sending countries. Experience shows that some local banks operating overseas incur loss rather than profit.

### 3. Law Enforcement

Law enforcement in banking industries is quite strict. The BI is the regulatory body that monitors and inspects banking practices in Indonesia. If banking or other financial institutions violate regulatory law, it enforces administrative sanction in the forms of warning letter, cash penalty, lowering bank rank, etc. The particular form of sanction depends on the kind of violation. In cases where the violation is related to criminal activities, the police are called in.

Crime in money transfer activities at financial institutions is handled by PPATK. If a crime takes place at a bank institution (for example, an MTO attached to a local bank), the criminal activity can be traced through the customer profile (the KYC principle). The customer profile contains information on the customer's banking behavior, and the system detects abnormal and suspicious activity. The customer has the opportunity to explain before the information is presented to PPTATK. BI's main task in this regard is simply to identify suspicious transactions and report them to PPATK, which will further analyze the information.

BI's responsibility extends only to formal/licensed financial institutions. It does not have the ability to identify informal/unlicensed financial activity. Thus it is important for government to address the problem of how to exercise law enforcement for informal/unlicensed financial institutions, since these kinds of institution could be the place for money laundering or criminal activities.

According to the BI respondent interviewed, the major challenges in regulating money transfers involve determining (i) whether the proposed regulation can be complied with, (ii) whether overlapping regulations may exist, and (iii) whether a regulation is too detailed, too difficult to monitor, or too costly to implement relative to its objective. She recommended that any regulation on money transfer should consider these issues, noting that too much detailed regulation on money transfer activities will probably scare the customer away. She suggested further that the monetary authorities of each country should be given flexibility to have their own policy on money transfer business.

Critical issues are related to the regulation enforcement, including (i) implementation of the KYC principle, since customers may be reluctant to provide the required private information to do financial transactions; (ii) the high cost of information technology (IT) to record financial transactions; unlike automated teller machines (ATMs), IT provision does not directly produce profit; and (iii) the problem of coordination among institutions responsible for enforcing regulations.

### 4. Anti-Money Laundering Law (AMLL)

In 2001, Indonesia joined the Financial Action Task Force (FATF), an intergovernmental body whose purpose is to develop national and international policies to combat money laundering and terrorist financing. Indonesia joined the FATF because (i) Indonesia's banking infrastructure was limited, i.e., the regulatory framework and institutions dedicated to law enforcement did not yet exist, (ii) the KYC principle was at an early stage of enforcement, (iii) other financial institutions were not yet regulated, and (iv) the reporting system was limited and applied by only a few banks.

In 2002, Indonesia developed its banking regulations with minor flaws that were revised in 2003, the same year that PPATK was formed to enforce the law. The banking institutions began to apply the reporting system, and BI began to regularly audit the banking institutions' operations and to monitor their compliance. Other financial institutions also started to practice the KYC principle. In addition, the law is now being enforced; criminal activities have been detected and those responsible brought to justice. As a result of these changes and because the government was providing good banking regulations and infrastructure, Indonesia was taken off the FATF list in 2004. To guarantee AMLL compliance, BI as the monetary authority now needs to consistently and effectively implement banking regulations. Maintaining consistent banking regulation policies and infrastructure is an important issue.

### 5. Information and Data Gathering

Data gathering on the money transfer businesses is very important. Data on remittances can generally be extracted from foreign currency traffic data. When a transaction involves a movement of assets in the form of foreign currencies, it must be reported; banking institutions are required to report these kinds of transactions on a monthly basis. The report is not specifically intended for remittances transfers, since it includes other transactions as well. MTOs are required to report their transactions every 6 months. But the central bank (BI) does not have the ability to obtain information on incoming or outgoing remittances from informal channels.

## C. The Structure of Competition

Competitions among players in the remittance transfer market can take place in the form of costs, marketing, products, and services. Interviews with representatives from commercial banks suggest that there is no harsh competition among the major players; in fact, they indicate that they learn from and ask each other for advice on ways to penetrate the market.

### 1. Cost

Transfer costs consist of transfer fees, the exchange rate differential, a fee to transfer money to another bank account, and the inquiry cost. Most interviewees said that they have little control over the cost charged by their overseas counterparts. Domestically they have to charge a competitive fee and exchange rate differential; otherwise their transfer services will not be able to attract either IMWs or overseas counterparts (correspondent banks and exchange companies).

Almost all respondents agreed that the percentage of total transfer cost enjoyed by the banks is very little (less than 25%) compared with that received by their foreign counterparts. The main reason is that domestic banks generally receive the transfer in the domestic currency (rupiah) and the revenue from the exchange rate differential is collected by the foreign agent. Thus local banks get their income from such transfers from the fee but not the exchange rate differential.

Current tendencies in the remittance transfer marketplace include banks' efforts to provide cheaper and faster services by reducing the number of agents engaged in the transfer processes; to encourage customers (IMWs and their beneficiaries) to use bank accounts to receive transferred funds; and—for newcomers—to penetrate the market and expand market share.

As a market leader, BNI has shifted its focus from penetrating new markets to providing faster and cheaper service by introducing Internet banking. In addition, BNI introduced TransPlus, a product that combines money transfer service and a checking account with the purpose of serving IMWs who want to send money to their families in Indonesia. The transfer is automatically put into their checking accounts from which it can be withdrawn by either the account owner or his/her beneficiaries. However, the BNI representative admitted that the TransPlus is not very successful, because beneficiaries still prefer their family members abroad to send cash. For a transfer transaction from Singapore to Indonesia, BNI charges approximately US$5.00 per transaction. With an account, the beneficiary is able to receive the funds within 1–3 working days; otherwise, it takes 3–14 days.

BCA also encourages its customers to have an account with them. They do so by charging significantly lower fees to transfer money to an established account than to cash it out or transfer it to another bank US$2 compared with US$3 for telegraphic transfer and US$ 2.50 compared to US$ 5.00 for demand draft). To reduce cash-to-cash transfers, the bank refuses to collaborate with MTOs that usually provide such services. This approach seems to be quite successful. The BCA respondent said that 60% of their customers have an account with BCA. Another factor that might explain their success is that BCA targets low- and middle-income groups, has only a small minimum balance requirement and locates both its branch offices and ATMs in areas that are accessible to these income groups.

In contrast, Niaga Bank has decided to act only as an intermediary processing center with respect to remittance transfers. Niaga does not encourage its remittance customers to have an account because its target market is the middle-high- and high-income group; instead it tries to increase its remittance service revenues by increasing turnover. To achieve that objective, Niaga Bank charges a competitive transfer fee, provides speedy transfer service, and is working to increase its geographic coverage. Niaga operates an automatic transfer system (FTP—file transfer prototype) that is cheaper than Society of Worldwide Interbank Financial Telecommunication (SWIFT) and collaborates with the postal service to increase the number of its outlets (due to its target market, Niaga Bank has offices only in big cities). An example of a Niaga Bank remittance transfer product is *Cash Laju* (speedy cash)—a transfer product for IMWs in Malaysia. In providing this service, Niaga Bank collaborates with Malaysia Bumiputra Bank—Commerce Bank and Postal Service. To use this service, customers do not need to have an account with Niaga Bank. The money can be withdrawn at 10,000 Postal Service offices throughout the country. A customer who maintains an account at the bank can receive the remittance transfer on the same day. If a bank needs to send the funds to another bank account, the remittance recipient can withdraw the money the next day. But if the recipient would like to cash the transferred funds at a post office, it will take 3–10 days to do so. The transfer fee charged for this product is Rp23,000.00 (less than US$2.50).

For a newcomer like BRI, penetrating the transfer market is still a major focus. To penetrate the Singapore market in 2004, BRI collaborated with the Development Bank of Singapore (DBS) to develop a mechanism to transfer IMW remittances from Singapore to Indonesia. By using this service, transfer costs (fee and exchange rate differential) are charged only once, that is, when remittance senders pay the money to DBS. The transfer fee charged is S$13 (equivalent to Rp75,000.00 or US$8.00). BRI receives the funds in domestic currency with the exchange rate at the date of transaction as the conversion rate. In most cases, no additional cost is charged because most remittance recipients cash all the money transferred (and no clearance fee is charged). BRI has an extensive branch network, so there is little need to channel the money via post offices. BRI's long-term plan is to reduce the cost even more through the use of ATMs for transfer transactions and to provide the same service to IMWs in Hong Kong, China, Malaysia, and elsewhere.

### 2. Marketing Tools

Although the remittance market seems to have great potential, developing the market turns out to be a challenging task. The challenge comes mainly from the potential customers—IMWs and their beneficiaries—who often are not familiar with the banking system and services. In the interviews, key players in the remittance market indicated that they pursue similar strategies to increase market share—educating IMWs about the banking systems and introducing their remittance transfer products.

The marketing tools they use are also similar, including predeparture face-to-face orientation with prospective IMWs, putting some brochures and leaflets about the bank and its transfer products in the offices of domestic recruiting agents, giving those offices educational and promotional videos that discuss remittance transfer in popular drama formats, and organizing or sponsoring grassroots music events either in the regions where IMWs live or abroad.

Getting access to do promotional activities at IMW agent offices, however, is not always easy. A Bank Niaga respondent said the bank gives working capital loans to selected agents to gain easier promotional access.

## V. The Dynamics of Development and Remittances in Indonesia

### A. Distributive Impact

From a distributive-impact point of view, remittances can be expected to improve the condition of poor or near-poor families. The poverty line in Indonesia in 2004 was about Rp1.5 million per year. (Table A3.13). Using this definition of poverty, the survey results indicate that about 38% of poor or near-poor families (respondents with incomes less than Rp2 million) could be improved by using the remittance payments for productive activities. However, research conducted in some regions in Indonesia shows that remittances do not spur productive economic activities in IMWs' hometowns (DOWE 2003, p. 15)—a conclusion supported by the survey findings that the spending patterns of poor families tend mostly toward consumptive use.

**Table A3.13: Poverty Line by Sample Provinces, 2003–2004 (Rp/capita/month)**

| Province | Urban | | Rural | | All | |
|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 |
| Lampung | 135,357 | 146,566 | 99,922 | 108,611 | 111,092 | 117,135 |
| Jawa Barat | 135,598 | 152,144 | 99,969 | 122,475 | 130,503 | 137,929 |
| Jawa Tengah | 130,809 | 140,391 | 103,700 | 116,998 | 119,403 | 126,651 |
| Jawa Timur | 131,594 | 138,792 | 112,855 | 119,405 | 121,695 | 127,524 |
| Nusa Tenggara Barat | 122,411 | 144,001 | 94,588 | 99,686 | 112,960 | 116,145 |
| **Indonesia** | **138,803** | **143,455** | **105,888** | **108,725** | **118,554** | **122,775** |

Source: LPEM-FEUI (Institute for Economic and Social Research, Faculty of Economics University of Indonesia) Central Agency Statistics Data, 2005.

Recognizing the problem of recipients spending remittance on consumption, DMT's Directorate of Overseas Workers has launched a program to encourage remittance spending for productive use. The program seeks the active involvement of all stakeholders (local government, recruitment agencies, banking institution, etc.) in educating migrant workers and their families about how to spend the remittance smartly. Local governments are encouraged to develop informal productive activities suitable for the local economy to generate employment.

### B. Macroeconomic Impact

Table A3.14 shows that the Indonesian economy has maintained macroeconomic stability since 2002. Both exports and workers' remittances have been stable during 2000–2004. In contrast to the pre-crisis period, foreign direct investment (FDI) has fluctuated during the economic crisis.

**Table A3.14: Remittance and Other Macroeconomic Indicators, 2000–2004** (US$ millions and %)

| Ranking | Variable | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|
| 1 | GDP | 166,500 | 164,309 | 200,615 | 238,412 | 261,636 |
| 2 | Export, FOB | 65,407 | 57,365 | 59,165 | 64,109 | 71,785 |
| 3 | Foreign Direct Investment | (4,550) | (2,977) | 145 | (597) | 1,043 |
| 4 | Worker's Remittance, inflow | 1,190 | 1,046 | 1,259 | 1,489 | 1,800 |
| | as % of GDP | 0.71 | 0.64 | 0.63 | 0.62 | 0.69 |
| | as % of Export | 1.82 | 1.82 | 2.13 | 2.32 | 2.51 |
| | as % of FDI | na | na | 868.28 | na | 172.58 |

FDI = foreign direct investment, FOB = free on board, GDP = gross domestic product
Source: Bank of Indonesia, 2005.

Net exports are a larger contributor to gross domestic product (GDP) than either FDI or workers' remittances. Other variables, not shown in the tables—for example, private and government consumption—have a positive trend in contributing to GDP. In addition, the FDI to GDP ratio also indicates a fluctuating trend during 2000–2004.

Workers' remittances have become more significant, especially during 2002–2004. This finding is supported by an Organization for Economic Co-operation and Development (OECD) report that stated that remittances have a significant effect on Indonesia's GDP (Harrison 2004, p 15). It concluded that workers' remittances became more significant and stable during 2000–2004 compared with exports and FDI.

## VI. Recommendations

Indonesia has sent more migrant workers into the Southeast Asia region than any other country. Although the amount of remittances those IMWs send back to Indonesia is still relatively small compared with earnings on exports and FDI, the remittance flow is relatively stable and even increases during economic recession.

The survey indicates that remittance recipients mostly use remittances to help in taking care of basic family needs, including food and education. For remittance recipients' families, who mostly live with less than US$1 per person per day, investment in human capital formation via more nutritious diets and access to the educational system is an effective tool to cut the intergenerational poverty link.

Unlike the direct relationship between remittances and poverty reduction, the relationship between remittances and development finance is more complex. The use of remittances to support development depends upon several factors: (i) the amount of remittance accumulated and channeled for productive purposes; (ii) whether remittances are used to finance IMWs' and recipients' business activities; and (iii) IMWs' and beneficiaries' participation in charitable works.

The study points out that low levels of saving among remittance recipients is the main problem hindering the ability of remittances to finance the development process. Factors accounting for low savings include (i) the concentration of IMWs in low-paying jobs due to the low human capital; (ii) poverty among remittance recipients, making saving a luxury; and (iii) IMWs' and remittance recipients' obligations to repay debts incurred to get the overseas job or to finance daily basic family needs.

The interviews with the banking sector supported the low level of savings found in the market survey, noting the insignificant amount of remittance accumulated and channeled to productive purposes. However, the market survey also found that the proportion of remittance saved and used to finance business and physical investment tends to increase the longer IMWs work overseas and as the amount of remittance sent increases, indicating that remittances have the potential to become a source of development finance.

To optimally benefit from the remittances' potential as source of development finance, a strong government commitment in addressing this issue is required. A task force on migrant workers, remittance, and development should be established whose members are stakeholders in these issues. The task force should include representatives from DMT, the Directorate General for Immigration, BI, the Department of Foreign Affairs, recruitment agents, and nongovernment organizations.

Based on this study's findings, the task force should address the following areas.

1. *Improving the quality of IMWs' human capital*. With higher human capital investment, IMWs have access to higher-paying jobs. Predeparture training for prospective migrant workers that focuses on the language ability and skills demanded of the overseas labor market is a direct way to address the issue. Alternatively, an indirect way to deal with this issue is to attract better-quality workers by reducing the costs of migration. The decision to migrate is basically made on cost and benefit considerations. Workers with better qualifications have better ability to grasp the true costs and benefits of this activity. The most significant costs of working abroad are the risk of hostile treatment in the destination country, the risk of experiencing injuries or illness, and the risk of family disintegration while working overseas. A government commitment to protect IMWs will substantially cut the cost of working abroad. Government action in this area could include (i) requiring overseas employers follow standard contracts that not only define the job description, working hours, and payment but also clearly address workers' rights to leave/vacation, health care, and compensation for injuries and occupational illness; and (ii) providing victim services at consulates and embassies where IMWs are located. While the Government (in this case the DMT) has actually been aware of and addressed these issues, poor coordination and the lack of a monitoring mechanism have obstructed the effectiveness of the implemented policies.

2. *Providing credits to cover predeparture costs.* Due to the absence of means that can be used as collateral, most IMWs and their families have limited access to borrowing from the banking sector. As a result, they tend to borrow from alternative sources (usually agents or brokers) that charge excessive interest rates to finance the predeparture costs. The banking sector has actually identified a potential role in this market, but the risk of default is still considered too large. Through a well-designed incentive mechanism, BI could encourage the banking sector to provide credits to prospective IMWs.

3. *Stimulating banks to provide remittance-related services*. Banks have been reluctant to invest in the research, product development, and marketing necessary to expand remittance-related services. Both IMWs and remittance recipients would respond positively to remittance-related products tailored to address their particular needs and situations. However, in the interviews, respondents from the banking sector mentioned that without a favorable signal (such as a strong government commitment to handle IMW issues) or incentives from the Government, banks would consider investment in such activities as too risky to carry out.

4. *Promoting more alternatives in the remittance transfer market*. Experience from other countries demonstrates that a wider range of institutions involved in the money transfer market leads

to reduced transaction costs and increased quality and variability of services. This study identified that only a limited number of banks and MTOs participate in Indonesia's remittance transfer market. Moreover, government interventions to stimulate competition among players (for example, enforcing explicit and transparent information on transfer costs, reducing legal and barriers to entry, etc) do not exist. For these reasons, a favorable regulatory environment promoting more alternatives in remittance transfer is needed to encourage more players (for example, pawnshops and microfinance institutions) to participate in providing remittance services and to enhance competition in the market. However, opening the market for a wider range of remittance-service providers will require a monitoring role for BI.

5. *Developing a data collecting method*. Studies on international migration in Indonesia have so far generally addressed particular cases and have not discussed the issue comprehensively enough. One of the main obstacles has been the unavailability of macro data.

Currently, the responsible agency, the Central Bureau of Statistics (BPS), has not produced statistic on migration issues. Although formal data on migrant workers published by DMT are available on the Internet, these data are limited to IMWs deployed by destination country and by the port of embarkation. These data provide little information about migration patterns. Indonesian embassies abroad probably have data on the number of legal migrant workers (stock) in the respective countries, yet there is no attempt to systematically compile these scattered data into useful information for policy purposes.

Methodology for estimating remittances has developed rapidly in recent years, but data on remittances in Indonesia are based on crude estimations and ununified assumptions. As a result, estimates produced by various government agencies vary widely. For a country that has an active policy on labor export and expects to optimally benefit from remittances, a reliable database on the stock on migrant workers and on the remittances they send home is key for sound planning and policy on labor and remittance utilization.

## VII. Conclusion

This study gathered and analyzed primary data from the market survey and interviews with stakeholders as well as secondary data from official government statistics to develop a larger picture of remittances' role in financing development and reducing poverty in Indonesia.

The study, which focused on IMWs and remittances from the Asia and Pacific region, found that remittance recipients are mostly poor families who spend a large portion of the remittances they receive on consumption and on meeting financial obligations. Increased consumption by poor families is often considered an instantaneous benefit of remittances in terms of poverty reduction. In the longer term, the positive effect of remittances on sustained poverty reduction comes from improvement in the quality of human capital among the poor remittance-recipient families.

The role of remittances in financing development in Indonesia is currently insignificant due to (i) the more urgent need for consumption by poor remittance-recipient families, and (ii) the lack of efforts by banks to develop remittance-related products and services. Although the role of remittances in financing development is still limited, remittances have strong potential to perform this function. IMWs and their beneficiaries tend to save and invest more once they can cover basic needs and meet financial obligations. This potential unfortunately is not promoted and developed by the banking sector because of the large default risk involved. The role of banks and MTOs in the remittance business is currently still limited to providing transfer services. In this instance, government commitment to comprehensively handle IMW and remittance issues is key to obtaining optimal benefits from remittances.

Finally, this study points out two areas worthy of further study.

- technical aspects of the recommended policies (for example, how to design an effective incentive scheme and how to identify bank products and suitable for IMWs and beneficiaries); and
- the relationship between remittances and poverty reduction (for example, by comparing the consumption and savings behaviors of remittance recipients and nonrecipients to determine whether remittances encourage consumption rather than productive behavior).

# Appendix 4
# Country Report:
# Japan

# I. Introduction

Migrant workers to Japan, especially from Asian countries, are increasing, and workers' remittances from Japan to Asian countries seem to be increasing as well. However, limited data on workers' remittances make it difficult to know with certainty what the impact of these remittances is on balance of payments (BOP) statistics. There is an urgent need to understand international flow of workers' remittance as correctly as possible and improve the quality of BOP statistics.

In an attempt to address this issue, research surveys on migrant workers' remittances from Japan to their home countries were conducted from mid-March to early May 2005. The research had two dimensions.

A s*urvey of regulatory authorities and financial institutions*. Questionnaires were sent to 24 ministries and financial institutions, of which 13 returned answers. Supplemental interviews were conducted with 11. In addition, websites of relevant organizations, including the Ministry of Justice and the Japan Post Corporation, were used for reference.

A *survey of migrant workers*. Questionnaires were administered to 500 migrant workers in Japan from three countries: Indonesia, Malaysia and Philippines. Of the 500, 432 completed surveys were returned (of which, 256 were Filipino, 134 Indonesian, and 42 Malaysian). The targeted number of samples was based on country shares, as identified in "Statistics on Foreigners Registered in Japan" (Ministry of Justice). Existing networks such as bank clients, churches, students studying in Tokyo, and other community associations and groups cooperated in conducting the questionnaire survey. In addition to the survey, several focus group meetings—among Filipino, Indonesian and Malaysian immigrants—were organized.

Majority of migrant workers and students remit money to their home countries regularly. Majority of Filipinos and Malaysians use formal channels, but among Indonesians, a high percentage rely on friends to bring cash back home. Many workers claim that using banks to make remittances involves time-consuming procedures and high costs. Recently, such systems as international cash cards have developed, and migrant workers want more information than they generally get from banks and other financial institutions on how to use these.

Japan is now an aging society and opportunities for foreign workers are increasing. Thus, as this study shows, there is need for more and newer measures to facilitate sending remittances from Japan. One recommendation is for an efficient agent system that expands the network of places where workers can make remittances. Developing automated teller machines (ATMs) with scanners and an online TV communication system could help facilitate remittance operations. Inviting people to use formal channels more easily and with lower cost would create a new funding channel usable for each country's development. Systematic information dissemination on both sides—the migrant-sending country as well as the country receiving the migrants—is also important for inviting people's understanding on the merit of using banking facilities, making them familiar with the procedures, including legal requirements such as the Know–Your–Customer (KYC) rule and antimoney laundering regulations.

# II. Migration Trends in Japan

## A. Regional Scope of Migration Trends in Japan

There are about 2 million officially registered foreign residents in Japan. The annual net increase of migrants (from all countries) in Japan in 2003 over the previous year was more than 100,000.[1] About 72% of migrants in Japan were from Asian countries.

At the end of 2003, Japan had more than 185,000 Filipino residents, nearly 23,000 Indonesian residents, and about 9,000 Malaysian residents. (Table A4.1) Majority of these migrants live in the central part of Japan, in the Tokyo area (Tokyo, Yokohama, Chiba, and Gumma prefectures), the Nagoya and Shizuoka area, and several other industrial zones (See Figure 1).

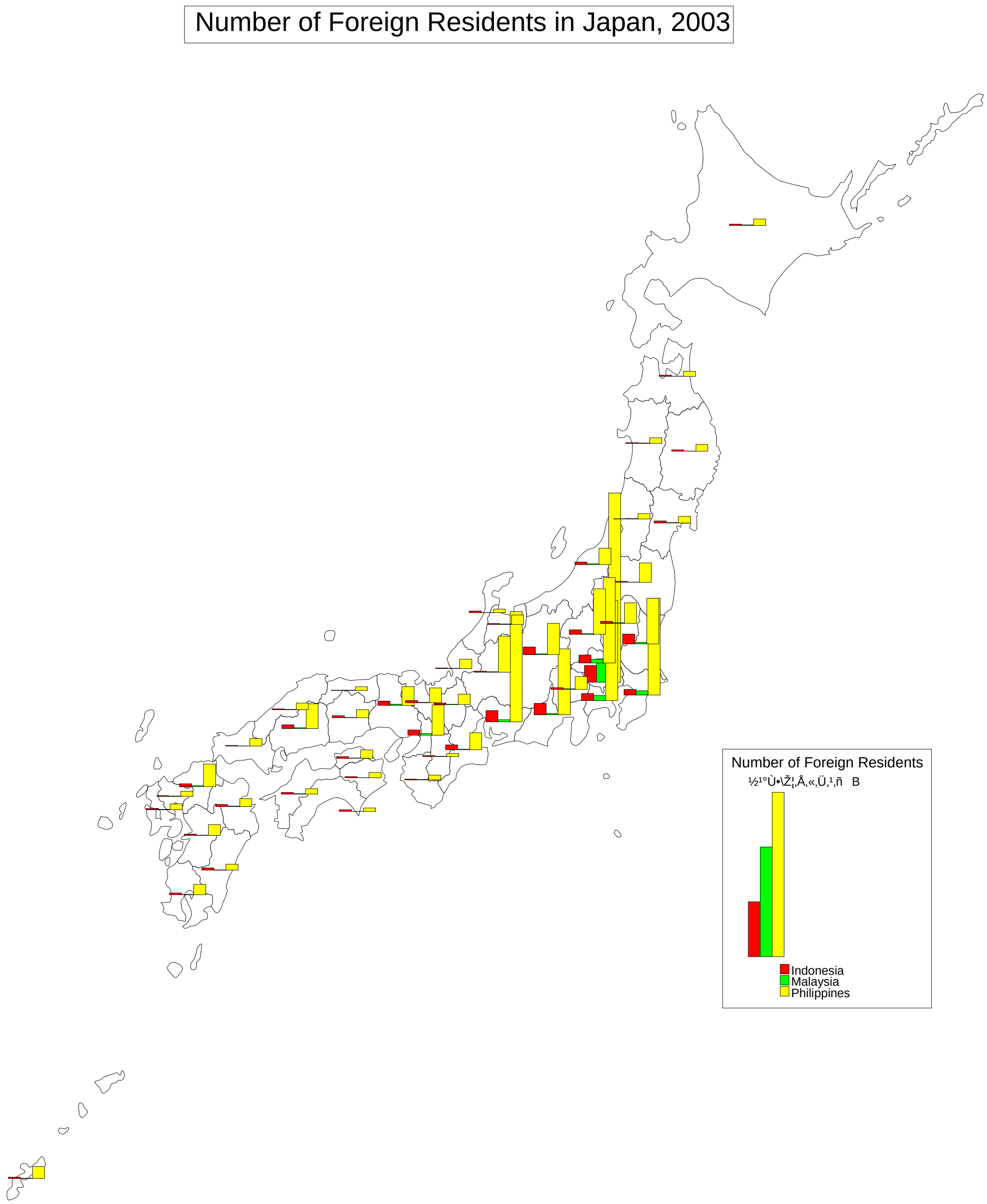
**Table A4.1: Number of Migrants in Japan, 2000–2003**

| No. of Migrants | 2000 | 2001 | 2002 | 2003 | Annual Rate of Increase 2000–2003 |
|---|---|---|---|---|---|
| | | (thousands of persons) | | | (%) |
| Total | 1,686.4 | 1,778.5 | 1,851.8 | 1,915.0 | 4.3 |
| Asia | 1,244.6 | 1,311.4 | 1,371.1 | 1,423.0 | 4.6 |
| Philippines | 144.9 | 156.7 | 169.4 | 185.2 | 8.5 |
| Indonesia | 19.3 | 20.8 | 21.7 | 22.8 | 5.7 |
| Malaysia | 8.4 | 9.2 | 9.5 | 9.0 | 2.4 |

Source: Ministry of Justice, Migration Control Department, "Statistics on Foreigners Registered in Japan."

[1] Japanese Immigration Association, *"Statistics on The Foreigners Registered in Japan by Qualification & Purpose"*.

## Figure A4.1: Geographic Distribution of Foreign Residents in Japan: Filipinos, Indonesians, Malaysians



## B. Definition and Measurement of Remittances[2]

The larger study, of which this report on Japan is a part uses the definition of remittances in the *Balance of Payment Manual, Fifth Edition (BOPM5)*, published by the International Monetary Fund (IMF). BOPM5 defines remittances as "current transfers by migrants who are employed in new economies and considered residents there," and a migrant as "a person who comes to an economy and stays, or is expected to stay, for a year or more;" [3] in other words, migrants are considered as residents of that economy. But Japan's balance–of–payments statistics are compiled primarily under its Foreign Exchange and Foreign Trade Law (FEFTL) and are highly dependent on reports from transactions submitted under the requirements of the law. As a result, there are some differences in the definition of migrant remittances between guidelines defined in the IMF manual and BOP statistics as they are reported in Japan; residency is one of these differences.

Statistics on workers' remittances in Japan are compiled using data reported by banks and data published by the Japanese Immigration Association. The latter is published annually based on official visa status extended by the Immigration Office of Japan to nonnationals, with detailed breakdowns by gender, age, location, sector of activity, and type of visa. Currently there are several categories of residents: *Japanese citizens* (born overseas from Japanese parents) and *non-Japanese* residents. Among *non-Japanese* citizens, there are *permanent visa holders* who are permanent residents, *spouse or child of Japanese national*, *spouse or child of permanent resident*, *long- term resident*, and *nonpermanent* visa holders. *Nonpermanent visa holders*, in turn, can be classified into the following five categories:

(i) those who have visas that allow them to stay in Japan one year or more: professor, artist, journalist, religious activities, business manager, legal and accounting services, medical services, engineer, international services, etc. (Under the BOPM5 definition, this category should be classified as migrant workers),

(ii) those with visas that could be classified as travel: cultural activities and temporary visitor;

(iii) those with student visas (college, pre-college, and trainee);

(iv) those who have diplomatic and other official visas (that is, their central legal interest remains with their country of origin); and

(v) those with short-term visas (generally up to 3 months, but extendable to a maximum of 1 year), for example, entertainers and seasonal workers.

Among all of these categories, Japan includes in the "workers' remittances" section of the BOP foreigners holding permanent resident status and those in category (i) above. In addition, transfers by foreigners working in companies/offices in Japan and by those who are staying in Japan 6 months or more are also included in workers' remittances. But transfers by other nonpermanent visa holders, if any, are registered in "trade," "others of current transfer," or "capital account."

These definitions differ from those in IMF's BOPM5 in regard to length of stay (under BOPM5, foreigners are not considered as residents unless they stay 1 year or more), treatment of corporate employees (both foreigners working in Japan and Japanese working out of the country), whether remuneration to short-term and seasonal workers should be considered transferred (when paid or taken out of the country), treatment of transfers by retirees living abroad, treatment of pay to local staff working in Japanese foreign embassies abroad and of Japanese working at foreign embassies in Japan, and remunerations to foreign travelers while they are in Japan.

[2] Based on the Web sites of the Bank of Japan and the Ministry of Finance of Japan, and Toyokeizaishinpo-sha 2000, *Nyuumon Kokusaisyuusi (Introduction to BOP)*, by Bank of Japan, BOP Study Group.

[3] Balance of Payment Manual, Fifth Edition, Paragraph 302.

## C. Remittances and Other Payments

According to current BOP statistics, remittances from Japan to the world in 2004 were Japanese Yen (¥)100.1 billion in 2004. (Table A4.2). Although this amount appears to be significantly lower than in previous years, this seemingly dramatic drop is the result of a change in reporting requirements that became effective in April 2003. At that time, the threshold at which FEFTL mandated that banks report individual payments increased from ¥5 million to ¥30 million (about $300,000). Thus the number of unregistered transactions increased, and the official BOP remuneration statistics are understood to be much lower than the actual flow of money. According to Bank of Japan (BOJ) officials in charge of BOP statistics, the BOJ and the Ministry of Finance (MOF) are in the process of reviewing the methodology of BOP data compilation.

Details of remittances from Japan are not available on a country-by-country basis. Despite the apparent decline in remittance amounts because of changes in reporting requirements, the increasing number of migrants suggests that remittances are increasing as well. BOJ officials imply that the annual amount of remittance from Japan to the Asia region as whole may be about ¥40 billion, including about ¥10 billion to the Philippines, although they declined to publish details by country because of limited reliability of the data.

**Table A4.2: Worker Remittances and Related BOP Statistics, 2000–2004 (¥100 million)**

| (debit side) | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Workers' Remittances | 2,435 | 2,542 | 3,015 | 1,437 | 1,001 |
| Travel for Business Purposes | 6,172 | 6,374 | 5,139 | 5,585 | 7,279 |
| Personal, Cultural, and Recreational Services | 1,375 | 1,690 | 1,498 | 1,094 | 1,169 |
| Government Services [a] | 1,268 | 1,485 | 1,667 | 1,473 | 1,628 |
| Compensation of Employees | 293 | 308 | 332 | 317 | 309 |

[a] Transfer by workers in embassies might be included in remittances but the amount would be very small.
Source: Bank of Japan, *Balance of Payments Monthly* 463 (February 2005).

Other balance of payments categories that might entail some remittance amounts are "Travel" (debit). "Travel" of Japan to these countries (in 2002) was about ¥400 million with the Philippines and Malaysia and about ¥700 million with Indonesia.

Since the remittance category covers only part of total amount that may be transferred from Japan to other countries, and since remittance data on a country basis are not yet published, it may be better to examine recent aggregate trends adding together the following BOP categories: "Workers' Remittances"; "Compensation of Employees"; "Personal, Cultural, and Recreational Services"; and some percentage of "Travel for Business Purposes" and of "Government Services." Using the share of "Compensation of Employees" and "Personal, Cultural, and Recreational Services" by country as a guide, it can be estimated that the country share of remittances for the Philippines, on a gross basis, might be around 20–30%; 5–10% for Malaysia, and 2–3% for Indonesia.

# III. Demographic and Remittance Profile of Sender

The survey of migrant workers in Japan was conducted March–May 2005. It consisted of individual questionnaires given to 500 migrant workers (200 from the Philippines, 150 from Indonesia, and 50 from Malaysia) and focus group meetings. The questionnaire survey was supplemented with oral interviews at the time that the questionnaires were collected. Table A4.3 shows the number of successfully completed and returned questionnaires. For each country, 84–89% returned the questionnaires.

**Table A4.3: Migrant Survey in Japan**

| | Targeted Number | Collected Number | % Response |
|---|---|---|---|
| Philippines | 300 | 256 | 85 |
| Indonesia | 150 | 134 | 89 |
| Malaysia | 50 | 42 | 84 |
| **Total** | **500** | **432** | **86.4** |

Samples were chosen randomly, although there was some inherent bias because, in the absence of workers' associations and associations of foreign residents or foreign workers, contacts were limited to church congregations (Christian and Islamic), students groups, and some individual and family networks. We also asked the cooperation of a Philippine bank's network of clients, especially with the Filipino workers in Tokyo and Nagoya. The sample included very few workers such as entertainers, construction workers, and seamen.

## A. Demographic Characteristics

Of the 256 Filipino respondents, majority (more than 80%) were 21–40 years old. Two thirds (67.7%) were female, and nearly two thirds (63.3%) had a college degree; including those with at least some college, fully four fifths had more than a high school education. In terms of annual income, relatively equal proportions of those who completed the survey earned less than ¥1 million (29.7%), one to ¥2 million (27.9%), ¥2–3 million (21.5%), and over ¥3 million (21%). In general, Filipinos had lived in Japan for considerable lengths of time. The simple average was 6 years, but the median (because some had been there for very long periods) was 4 years. Among those interviewed, the range was 1–48 years; more than 30% had lived in Japan for some or more years (Table A4.4). The distribution of the Filipino population in terms of length of stay can be seen in Table A4.5.

**Table A4.4: Demographic Characteristics: Filipino, Indonesian, and Malaysian Migrants**

| Age Category (%) | Filipino | Indonesian | Malaysian |
|---|---|---|---|
| 15–20 | 1.6 | 6.9 | 21.4 |
| 21–30 | 42.2 | 53.4 | 71.4 |
| 31–40 | 40.2 | 31.3 | 2.4 |
| 41–60 | 15.5 | 8.4 | 4.8 |
| Over 60 | 0.4 | | |
| | 99.9 | 100 | 100 |
| **Gender (%)** | | | |
| Male | 32.3 | 81.7 | 50.0 |
| Female | 67.7 | 18.3 | 50.0 |
| **Education (%)** | | | |
| College Degree | 63.3 | 58.8 | 90.5 |
| Some College | 17.1 | 12.2 | 4.8 |
| High School | 18.7 | 27.5 | 4.8 |
| Primary School | 0.4 | 1.5 | |
| Unknown/No Response | 0.4 | | |
| | 99.9 | 100 | 100.1 |
| **Annual Income (%)** | | | |
| Less than ¥1 million | 29.7 | 36.6 | 19.4 |
| ¥1–2 million | 27.9 | 23.8 | 36.1 |
| ¥2–3 million | 21.5 | 6.9 | 8.3 |
| ¥3–4 million | 12.8 | 8.9 | 8.3 |
| Over ¥4 million | 8.2 | 21.8 | 27.8 |
| Unknown | | 2 | |
| | 100.1 | 100 | 99.9 |
| **Length of Stay in Japan (years)** | | | |
| Average | 6.1 | 4.6 | 4.0 |
| Median | 4.0 | 3.0 | 3.0 |
| Standard Deviation | 6.1168 | 4.555 | 2.271 |
| Minimum | 1 | 2 | 1 |
| Maximum | 48 | 23 | 10 |

**Table A4.5: Distribution of Filipino Workers in Japan, according to Length of Stay**

| Length of Stay | % |
|---|---|
| 1 year | 18.8 |
| 2 years | 13.1 |
| 3 years | 10.2 |
| 4 years | 11.8 |
| 5 years | 10.2 |
| 6 years | 3.7 |
| 7 or more years | 32.2 |
| **Total** | 100 |

As with the Filipino respondents, the majority of the 134 Indonesian respondents were between 21–40 years old (nearly 85%) and male (81.7%). Nearly three fifths (58.8%) had college degrees. Most respondents had an annual income at one extreme or another: less than ¥2 million (approximately 60%) or more than ¥4 million (21.8%). The average length of time Indonesian respondents had been in Japan was 4.6 years, with the range running from 2 to 23 years (Table A4.4).

Among the 42 Malaysian respondents, the demographic data suggest that many are students, perhaps on scholarship, plus a few businesspeople. They are young, college-educated, and evenly divided between male and female. The majority (71.4%) are in the age group 21–30, and more than 90% have a college degree. An annual income of ¥1–2 million is around the usual scholarship amount (that is, ¥100–200 thousand per month plus some temporary work); among respondents, more than 55% fell in the categories of under ¥2 million annual income. At the other extreme, more than a fourth of Malaysian respondents (27.8%) had an annual income of more than ¥4 million. Although they are rather young, Malaysian respondents had been in Japan an average of 4 years, with the range running from 1 to 10 years (Table A4.4).

## B. Remittance Behavior

### 1. Amounts Sent

Filipino respondents on average sent remittances to their home country 10.7 times per year. The number of times varied from 1 to 40, with 12 the most frequently cited number. The average frequency was 10.74 times per year. The most frequently mentioned was 12 times (once a month). In general, those with parents or children in the Philippines tend to remit money every month to provide general and education support for their families. On average, Filipino respondents sent ¥60,651 (US$578) each time. The range varied (from ¥5,000–¥300,000), but the most frequently mentioned amount was ¥50,000 (US$476). Annual remittances amounted on average to ¥648,847 (US$6,179) (Table A4.6).

Indonesian workers sent remittance home much less frequently than Filipino respondents. The average among respondents was five times per year, with three times per year the most often cited interval. This reflects the fact that the majority of Indonesians were trainees and students whose length of stay in Japan is shorter than that of the Filipino workers. On average, Filipino workers remit ¥88,850 (US$846) each time. Remitted amounts varied widely (from ¥10,000–¥5,000,000) but the most often mentioned amount was ¥50,000 (US$ 476) each time. On an annual basis, the average amount sent was ¥411,905 (US$3,923) (Table A4.6).

Malaysian workers were found to send remittances home two to three times per year. The average among respondents was 3.6 times, the most frequently cited response 2 times, and the range 1 to 12 times. The average remittance amount each time is ¥102,631; the most often cited response was ¥40,000. On an annual basis, the average amount is ¥208,157 (US$1,982). (Table A4.6).

**Table A4.6: Remittance Behavior: Filipino, Indonesian, and Malaysian Migrants**

| Frequency of Remittance (no. of times) | Filipino | Indonesian | Malaysian |
|---|---|---|---|
| Average | 10.7 | 5 | 3.7 |
| Median | 12.0 | 3.0 | 2 |
| Standard Deviation | 5.193 | 4.592 | 3.297 |
| Minimum | 1 | 1 | 1 |
| Maximum | 40 | 24 | 12 |
| Remittance Amount Each Time (¥) | | | |
| Average | 60,651.16 | 88,849.51 | 102,631,58 |
| Median | 50,000.00 | 50,000.00 | 40,000.00 |
| Standard Deviation | 45,872.89 | 89,041.02 | 139,087.99 |
| Minimum | 5,000 | 10,000 | 10,000 |
| Maximum | 300,000 | 500,000 | 500,000 |
| Annual Remittance Amount (¥) [a] | | | |
| Average | 648,847.37 | 411,905.88 | 208,157.89 |
| Median | 480,000.00 | 210,000.00 | 110,000.00 |
| Standard Deviation | 574,685.61 | 434,923.11 | 242,974.68 |
| Minimum | 10,000 | 20,000 | 30,000 |
| Maximum | 4,000.00 | 1,800,000 | 1,000,000 |

[a]The annual amount of remittance can be calculated as follows: the remittance amount each time multiplied by the frequency of remittance per year. Respondents who lived in Japan less than 1 year were excluded in this calculation in line with the statistical definition of balance of payment remittances

## 2. How Sent

Nearly 70% of Filipino workers interviewed said they remit money via banks. About 9% use the post office's express mail service (EMS), normal mail, and transfer using post office network. But about 15% entrust friends to bring cash home (Table A4.7). Interviews with key persons indicate that people tend to choose banks as a channel for security. Those who prefer banks most frequently use Metrobank or Philippine National Bank (PNB). Those who prefer using a door–to-door service (that is, asking someone reliable) say that it is convenient. According to interviews, door-to-door services are conducted mainly by restaurants and store owners.

When asked in the survey their reasons for choosing their particular channel, Filipino respondents cited speed (26% of responses), convenience (25%), fee (11%), and reputation (10%) (Table A4.8).

Among Indonesian respondents, only 39% responded that they remit money via formal network such as banks (20.0%), money transfer companies (MTCs) (11.3%), and post office (7.3%). A higher percentage (52%) entrust friends to transfer cash to home. This relatively high percentage of use of friends may reflect the lower credibility given by the people the to banking sector (Table A4. 7).

The reasons Indonesians give for their higher reliance on friends as a remitting channel include issues related to: fee (24%), speed (22%), exchange rate (18%), and convenience (13%), all of which rank higher than reputation (credibility and safety). During group interviews, many people noted time-consuming procedures and the uneasiness they feel when banks request them to present identification to check compliance in accordance with Know-Your-Customer (KYC) rule. The same comments were mentioned in group interviews with the Filipino migrant workers (Table A4.8).

Majority (more than 80%) of Malaysian respondents use formal channels to remit money: banks, postal service, and MTCs. One reason for the high percentage of the use of banks is because students need to have bank accounts to receive scholarships; it is also possible that Malaysian people give higher credibility to the banking system. The focus group discussions indicate that many students are familiar with and use such tools as international bank cards. Since there is only one Malaysian bank operating in Tokyo, the same situation as for the Indonesian migrants, they use the city bank or Japanese banks to remit money back home (Table A4.7).

Malaysians cite the following reasons for their choice of channeling remittances home: speed (33%) and convenience (about 30%). Fee (12%) plays a much smaller role than for Indonesian workers and has nearly the same importance as for Filipino workers (11%). (Table A4.8).

**Table A4.7: How Money Is Transferred: Filipino, Indonesian, and Malaysian Migrants**

| Transfer Channel | Filipino | | Indonesian | | Malaysian | |
|---|---|---|---|---|---|---|
| | % of Total Responses | % of Respondents[a] | % of Total Responses | % of Respondents[a] | % of Total Responses | % of Respondents[a] |
| Money Transfer Company | 8.0 | 9.2 | 11.3 | 14.5 | 3.8 | 4.3 |
| Bank | 60.0 | 69.6 | 20.0 | 25.6 | 50.0 | 56.5 |
| Postal Methods | 8.0 | 9.2 | 7.3 | 9.4 | 26.9 | 30.4 |
| Friend | 15.0 | 17.2 | 52.0 | 66.7 | 3.8 | 4.3 |
| Other | 8.4 | 9.6 | 9.3 | 12.0 | 15.4 | 17.4 |
| | 99.4 | | 99.9 | | 99.9 | |

[a] Percentages do not add to 100 because respondents could give multiple responses.

**Table A4.8: Reasons for Choice of Transfer Channel: Filipino, Indonesian, and Malaysian Migrants**

| Reason | Filipino | | Indonesian | | Malaysian | |
|---|---|---|---|---|---|---|
| | % of Total Responses | % of Respondents[a] | % of Total Responses | % of Respondents[a] | % of Total Responses | % of Respondents[a] |
| Fee | 10.7 | 22.9 | 24.1 | 63.2 | 11.9 | 21.7 |
| Recommendation | 7.9 | 16.9 | 5.5 | 14.5 | 7.1 | 13.0 |
| Reputation | 10.2 | 21.7 | 6.2 | 16.2 | 4.8 | 8.7 |
| Speed | 26.0 | 55.4 | 22.1 | 58.1 | 33.3 | 60.9 |
| Exchange Rate | 7.9 | 16.9 | 17.6 | 46.2 | 7.1 | 13 |
| Convenience | 24.7 | 52.6 | 13.4 | 35 | 28.6 | 52.2 |
| Customer Service | 6.6 | 14.1 | 8.1 | 21.4 | 0 | 0 |
| Other | 6.0 | 12.9 | 2.9 | 7.7 | 7.1 | 13.0 |
| | 100 | 213.3 | 99.9 | 262.4 | 99.9 | 182.6 |

[a] Percentages do not add to 100 because respondents could give multiple responses.

### 3. Recipients of Remittances

Filipino workers look as if they are remitting money to support large families, sending to mother/father, wife, children, nephews, nieces, brothers, and sisters. Most Indonesian respondents remit money to their parents (61%), wives (18%), and siblings (9%). Among Malaysians, majority (87%) send remittances to their parents (Table A4.9).

**Table A4.9: To Whom Migrants Send Remittances: Filipino, Indonesian, and Malaysian Migrants** (%)

| | Filipino | Indonesian | Malaysian |
|---|---|---|---|
| Wife | 18.3 | 17.9 | |
| Mother/father | 53.0 | 60.7 | 87.0 |
| Children | 12.7 | 0.9 | |
| Siblings | 6.8 | 8.5 | 8.7 |
| Grandparents | 2.0 | 0.9 | |
| Other Relatives | 5.2 | 4.3 | |
| Others | 1.2 | 5.1 | 4.3 |
| No Response | 0.8 | 1.7 | |
| **Total** | 100 | 100 | 100 |

As for the use of remitted money, 45% of Filipino respondents use the money for daily expenses to sustain family life and 65% if we include expense for education, but there are about 28% who invest the money into housing (12%), business (3%) and/or to make savings (12%). As for the use of remitted money, 23% of Indonesians use the money for daily expenses such as food and clothing and 42% if we include expense for education. But there are about 43% who invest the money into housing (12%), business (13%), and/or savings (18%). Although there are many Malaysians who answered that the way of using the remitted money is for daily consumption including education (45% in total, and of which educational purpose is 22%), fairy good number of people answered that they were using remitted money for housing (14%) and savings (19%) (Table A4.10).

**Table A4.10: Use of Remittances: Filipino, Indonesian, and Malaysian Migrants**

| | Filipino | | Indonesian | | Malaysian | |
|---|---|---|---|---|---|---|
| **Use of Remittance** | **% of Total Responses** | **% of Respondents** | **% of Total Responses** | **% of Respondents** | **% of Total Responses** | **% of Respondents** |
| Food | 26.0 | 74.1 | 15.5 | 34.5 | 16.7 | 26.1 |
| Clothing | 19.6 | 55.8 | 7.0 | 15.5 | 5.6 | 8.7 |
| Education | 19.9 | 56.8 | 19.4 | 43.1 | 22.2 | 34.8 |
| Housing | 12.6 | 35.9 | 11.6 | 25.9 | 13.9 | 21.7 |
| Business | 3.4 | 9.6 | 13.2 | 29.3 | | |
| Savings | 11.7 | 33.5 | 18.2 | 40.5 | 19.4 | 30.4 |
| Other | 5.3 | 15.1 | 11.2 | 25 | 13.9 | 21.7 |
| No Response | 1.5 | 4.4 | 3.9 | 8.6 | 8.3 | 13 |
| **Total** | 100 | | 100 | | 100 | |

## 4. Duration of Remittances

Among Filipinos, the length of time they had been remitting money was relatively even among the following categories: less than a year (27%), 1–3 years (26.5%), and three to five years (28.5%), with a smaller proportion having remitted for more than 5 years. In contrast, about half of Indonesians had been remitting for less than year, and 75% of Malaysians had been remitting for less than 3 years. (Table A4.11). These numbers in large part reflect length of stay.

**Table A4.11: Length of Time Migrants Remitted**

| Length of Time | Filipino | Indonesian | Malaysian |
|---|---|---|---|
| Less than 6 Months | 17.3 | 28.2 | 17.4 |
| 7–12 Months | 9.6 | 22.2 | 17.4 |
| 1–3 Years | 26.5 | 22.2 | 39.1 |
| 3–5 Years | 28.5 | 10.3 | 8.7 |
| Over 5 Years | 15.3 | 12.0 | 4.3 |
| Unknown/No Response | 2.8 | 5.1 | 13.0 |
| **Total** | **100.0** | **100.0** | **100.0** |

## C. Financial Relationships/Obligations

### 1. Economic Activity in Migrant Home Countries

About 60% of Filipino migrants have transactions with banks (bank accounts or loans) in their home country. Among Indonesians, about 45% have bank accounts and about 13% have loans in Indonesia. More than 65% of Malaysian migrants have bank accounts in their home country, about 14% are repaying loans, and about 7% are investing money into family businesses. About 3% of Malaysian migrants in Japan have pension plans in their home country.

### 2. Contribution to Home

In response to whether they "support or contribute to hometown associations or clubs that help their home country," about 30% of Filipino respondents indicate that they keep relations with hometown associations or clubs even after coming to Japan and may, from time to time, make contributions to them. A considerably higher percentage of Indonesians do so (43%), and 26% of Malaysians. (Table A4.12).

**Table A4.12: Relationship with Hometown Associations (%)**

| Response | Filipino | Indonesian | Malaysian |
|---|---|---|---|
| No | 70.3 | 57.1 | 73.9 |
| Yes | 29.7 | 42.9 | 26.1 |
| **Total** | **100.0** | **100.0** | **100.0** |

### 3. Bank Account in Japan

Among Filipinos, 79% indicated they have bank accounts in Japan; 21% of respondents did not, citing complicated and time-consuming procedures, uneasiness surrounding identification requirements, and language barriers. Some 91% of Indonesian respondents said they have bank accounts in Japan; those who do not, cited the lack of a bank near home or the work place. During the focus group meetings, Indonesians commented that even if they have bank accounts, they do not always use the bank for sending remittances; instead, they use a friend or other channels. All Malaysian respondents indicated they have a bank account in Japan. (Table A4.13).

**Table A4.13: Bank Account in Japan (%)**

| | Filipino | Indonesian | Malaysian |
|---|---|---|---|
| No | 20.9 | 8.9 | 0.0 |
| Yes | 79.1 | 91.1 | 100.0 |
| **Total** | 100.0 | 100.0 | 100.0 |

Private financial institutions in Japan are categorized as follows: city banks, foreign banks, regional (or local) banks, Shinkin banks, credit cooperatives, etc., with the post office also having banking responsibilities. When asked what kind of banks they participate in, respondents with bank accounts in Japan responded as shown in Table 15.

**Table A4.14: Migrants with Bank Accounts in Japan, by Type of Bank (%)**

| | Filipino | Indonesian | Malaysian |
|---|---|---|---|
| City Bank | 37.1 | 51.5 | 4.8 |
| Foreign Bank | 20.3 | 4.5 | |
| Local Bank, Shinkin, Others | 12.1 | 9.0 | |
| Post Office | 5.9 | 9.0 | |
| N/R | 24.6 | 24.6 | 45.2 |
| **Total** | 100.0 | | 100.0 |

More than 40% of Filipino respondents, 35% of Indonesian respondents, of Malaysian respondents own credit cards. More than 50% in the case of Filipino and Indonesian migrants and approximately 43% in the case of Malaysian migrants own neither a credit nor a debit card. (Table A4.15).

**Table A4.15: Own Credit or Debit Card**

| | Filipino | Indonesian | Malaysian |
|---|---|---|---|
| Both | 6.9 | 19.5 | 13.0 |
| Credit Card Only | 35.1 | 15.9 | 43.5 |
| Debit Card Only | 0.8 | 12.4 | |
| Neither | 57.3 | 52.2 | 43.5 |
| **Total** | 100.0 | 100.0 | |

### 4. Obligations in Japan

Migrants have a range of obligations in Japan, such as business, education, home, and other loans. Among Filipinos, 34% have loan obligations in Japan, of which 20% are education and housing loans.

## D. Cross Section Analysis

For each country we identified some significant relationships between various issues examined.

### 1. Filipino

In examining the relationship between the *channels used to transmit remittance and the reasons for use*, it can be seen that those who use banks cite the merit of speed and convenience. But nearly the same percentage of people consider transmission through friends to be as speedy and convenient as banks. Banks seems to have higher reliability than other channels (e.g., relatively higher percentage cite "Reputation"), as well as a greater variety of customer services (Table A4.16).

**Table A4.16: Remittance Channel by Reason for Use: Filipino Responses** (multiple choice, %)

| | | Fee | Recom-mendation | Reputation | Speed | Exchange | Convenient | Customer Service | Other |
|---|---|---|---|---|---|---|---|---|---|
| Channel | MTC | 21.7 | 26.1 | 21.7 | 69.6 | 8.7 | 34.8 | 8.7 | 8.7 |
| | Bank | 23.0 | 16.7 | 25.3 | 59.8 | 19.0 | 58.0 | 17.2 | 10.9 |
| | Postal | 18.2 | 27.3 | 18.2 | 40.9 | 27.3 | 36.4 | 4.5 | 22.7 |
| | Friend | 23.3 | 14.0 | 7.0 | 60.5 | 11.6 | 51.2 | 9.3 | 14.0 |
| | Other | 25.0 | 25.0 | 16.7 | 41.7 | 16.7 | 58.3 | 12.5 | 33.3 |
| All Respondents | | 22.9 | 16.9 | 21.7 | 55.4 | 16.9 | 52.6 | 14.1 | 12.9 |

In examining the relationship between *the recipient of remittances and how the remittances are used* it is clear that spouses who are recipients have the highest savings rate of any group (Table A4.17).

**Table A4.17: Remittance Recipient by Use of Remittance: Filipino Responses** (%)

| | Food | Clothing | Education | Housing | Business | Savings | Other | NR | Total |
|---|---|---|---|---|---|---|---|---|---|
| Spouse | 22.0 | 21.4 | 20.8 | 11.9 | 4.8 | 17.3 | 1.8 | 0.0 | 100 |
| Mother/ Father | 28.7 | 19.5 | 17.5 | 11.5 | 3.0 | 10.4 | 6.8 | 2.7 | 100 |
| Children | 24.1 | 19.4 | 25.9 | 13.9 | 0.9 | 12.0 | 2.8 | 0.9 | 100 |
| Siblings | 23.4 | 14.9 | 25.5 | 14.9 | 4.3 | 6.4 | 8.5 | 2.1 | 100 |
| Grandparents | 35.7 | 28.6 | 7.1 | 21.4 | 7.1 | 0.0 | 0.0 | 0.0 | 100 |
| Other Relatives | 26.7 | 13.3 | 16.7 | 10.0 | 6.7 | 10.0 | 16.7 | 0.0 | 100 |
| Others | 16.7 | 16.7 | 16.7 | 33.3 | 0.0 | 16.7 | 0.0 | 0.0 | 100 |
| NR | 25.0 | 25.0 | 25.0 | 25.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| All Respondents | 26.0 | 19.6 | 19.9 | 12.6 | 3.4 | 11.7 | 5.3 | 1.5 | 100 |

An analysis of the relationship between *annual income* and *amount remitted* indicates that in general Filipino migrants are remitting around 1–6% of their annual income (Table A4.18).

**Table A4.18: Annual Income by Amount Remitted: Filipino Responses (%)**

| Annual Income | <30 | 30–60 | 60–90 (¥'000) | 90–120 | 120–150 | >150 |
|---|---|---|---|---|---|---|
| < ¥1 Million | 32.7 | 48.1 | 7.7 | 9.6 | 1.9 | 0.0 |
| ¥1–2 Million | 37.7 | 24.5 | 11.3 | 18.9 | 1.9 | 5.7 |
| ¥2–3 Million | 28.6 | 35.7 | 16.7 | 16.7 | 2.4 | 0.0 |
| ¥3–4 Million | 25.0 | 37.5 | 8.3 | 20.8 | 0.0 | 8.3 |
| >¥4 Million | 25.0 | 31.3 | 6.3 | 12.5 | 18.8 | 6.3 |
| All Respondents | 31.6 | 35.8 | 10.7 | 15.5 | 3.2 | 3.2 |

Cross-checking *annual income and remittance channel used* shows, among other things, that the larger the amount of remittance, the more likely Filipinos are to use banks as the remitting channel (Table A4.19).

**Table A4.19: Annual Income by Remittance Channel Used: Filipino Responses (multiple choice %)**

| | Remittance Channel | | | | |
|---|---|---|---|---|---|
| Annual Income | MTC | Bank | Postal | Friend | Other |
| <¥1 Million | 7.9 | 68.3 | 9.5 | 17.5 | 7.9 |
| ¥1–2 Million | 11.9 | 69.5 | 10.2 | 25.4 | 13.6 |
| ¥2–3 Million | 6.4 | 74.5 | 4.3 | 12.8 | 10.6 |
| ¥3–4 Million | 14.8 | 74.1 | 7.4 | 18.5 | 11.1 |
| >¥4 Million | 5.6 | 88.9 | 5.6 | 0.0 | 0.0 |
| All Respondents | 9.3 | 72.4 | 7.9 | 17.3 | 9.8 |

## 2. Indonesian Responses

In addition to the survey of 142 migrants, five focus group discussions were held with Indonesian migrants, including businesspeople, engineers, housewives, restaurant workers, trainees, teachers, and students. Key-person interviews were also conducted in Fuchu, Higashikoganei, and Minato-mirai of Tokyo metropolitan area, where many Indonesians reside. The tables in this section are based on the survey results, but findings from these interviews are incorporated in the discussion.

An analysis of the *channels used to transmit remittances* and *the reasons for their use* by Indonesian migrants suggests that speed and convenience are key factors in the choice of remittance channel, but even higher percentages of people consider fees important. Those who care about fees tend not to use banks (Table A4.20). Focus group discussions substantiate the finding that the most popular method of transferring money to their home country is asking close friends to carry money back to Indonesia or to bring it themselves; this is considered the most convenient and cost-saving means of transferring remittances. In general, MTCs are used primarily in case of emergency.

As identified in the focus groups, each association has its representatives, principals, or presidents (in *Bahasa* Indonesia, *ketua* or *wakil*) and each Indonesian community in Japan has its own leaders. The leader is trusted and respected by the community members. When the leader goes back to Indonesia, community members ask him to bring cash to their homelands in Indonesia. For example, a principal of an Indonesian school was selected by other teaching staff of the school to carry their savings from Japan to Indonesia. In addition, participants commented that they felt very comfortable when meeting other Indonesians at a mosque, parties, *halal* food restaurants, etc., and that student unions and religious organizations also provide contacts.

Those who have lived in Japan for many years said they have no hesitation about using bank-to-bank transactions in sending remittances.

**Table A4.20: Remittance Channel by Reason for Use: Indonesian Responses (%)**

| | | Fee | Recom-mendation | Reputation | Speed | Exchange | Convenient | Customer Service | Other |
|---|---|---|---|---|---|---|---|---|---|
| Channel | MTC | 25.0 | 7.8 | 9.4 | 17.2 | 20.3 | 7.8 | 9.4 | 3.1 |
| | Bank | 16.3 | 5.0 | 8.8 | 26.3 | 10.0 | 20.0 | 11.3 | 2.5 |
| | Postal | 30.4 | 8.7 | 4.3 | 21.7 | 21.7 | 13.0 | 0.0 | 0.0 |
| | Friend | 26.5 | 5.4 | 4.5 | 22.4 | 18.8 | 10.8 | 9.0 | 2.7 |
| | Other | 28.1 | 0.0 | 9.4 | 21.9 | 15.6 | 18.8 | 3.1 | 3.1 |
| All respondents | | 24.6 | 5.5 | 6.4 | 22.3 | 17.3 | 12.8 | 8.5 | 2.6 |

MTC = money transfer company

An examination of the relationship between the *recipient of remittances* and *how the remittances are used* shows, that siblings in Indonesia who receive remittances are most likely to use them for education and savings (Table A4.21).

**Table A4.21: Remittance Recipient by Use of Remittance: Indonesian Responses (%)**

| | Food | Clothing | Education | Housing | Business | Savings | Other | NR |
|---|---|---|---|---|---|---|---|---|
| Spouse | 19.3 | 14.0 | 24.6 | 10.5 | 5.3 | 17.5 | 8.8 | 0.0 |
| Mother/Father | 14.6 | 5.1 | 17.2 | 12.1 | 16.6 | 19.7 | 10.8 | 3.8 |
| Children | 0.0 | 0.0 | 20.0 | 20.0 | 20.0 | 0.0 | 20.0 | 20.0 |
| Siblings | 12.5 | 0.0 | 25.0 | 12.5 | 6.3 | 25.0 | 18.8 | 0.0 |
| Grandparents | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100.0 | 0.0 |
| Other Relatives | 20.0 | 10.0 | 10.0 | 20.0 | 10.0 | 10.0 | 0.0 | 20.0 |
| Others | 20.0 | 10.0 | 30.0 | 0.0 | 20.0 | 10.0 | 10.0 | 0.0 |
| No Response | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 50.0 | 50.0 |
| All Respondents | 15.5 | 7.0 | 19.4 | 11.6 | 13.2 | 18.2 | 11.2 | 3.9 |

Indonesian migrants, like Filipino migrants, generally remit around 1–6% of their annual income, although the proportion who remit larger amount is higher. Table A4.22 examines the relationship between *annual income* and *amount remitted.*

**Table A4.22: Annual Income by Amount Remitted: Indonesian Responses (%)**

| Annual Income | How Much Sent (Banded) | | | | | |
|---|---|---|---|---|---|---|
| | <30 | 30–60 | 60–90 | 90–120 | 120–150 | 150< |
| | (¥'000) | | | | | |
| <¥1 Million | 22.5 | 48.4 | 3.2 | 19.3 | 0.0 | 6.5 |
| ¥1–2 Million | 17.6 | 23.5 | 11.8 | 11.8 | 5.9 | 29.4 |
| ¥2–3 Million | 0.0 | 33.3 | 0.0 | 33.3 | 0.0 | 33.3 |
| ¥3–4 Million | 0.0 | 42.9 | 0.0 | 28.6 | 0.0 | 28.6 |
| >4 Million | 23.5 | 23.5 | 17.6 | 23.5 | 0.0 | 11.8 |
| All Respondents | 17.9 | 35.6 | 7.7 | 20.5 | 1.3 | 6.7 |

Examining the relationship between *annual income and remittance channel used* shows that at higher levels of income larger proportions of Indonesian migrants use formal channels such as MTCs and banks. At lower annual income levels, they are more likely to use friends as remittance channel. (Table A4.23).

**Table A4.23: Annual Income by Remittance Channel Used : Indonesian Responses (%)**

| | Remittance Channel | | | | |
|---|---|---|---|---|---|
| Annual Income | MTC | Bank | Postal | Friend | Other |
| <¥1 Million | 5.0 | 15.0 | 12.5 | 60.0 | 7.5 |
| ¥1–2 Million | 8.0 | 16.0 | 4.0 | 60.0 | 12.0 |
| ¥2–3 Million | 0.0 | 25.0 | 0.0 | 62.5 | 12.5 |
| ¥3–4 Million | 21.4 | 35.7 | 0.0 | 35.7 | 7.1 |
| >4 Million | 13.9 | 27.8 | 11.1 | 38.9 | 8.3 |
| All Respondents | 9.8 | 22.0 | 0.1 | 51.2 | 8.9 |

### 3. Malaysian Responses

In addition to the survey of 42 Malaysian migrants, three focus group sessions were held and several key-person interviews were conducted with Malaysians in Japan. Participants were from various categories of jobs (visa status changed from housewives to university students including postgraduate students, company officers, and construction workers). The interviews were conducted in various locations in Tokyo such as Ikebukuro, Arakawa, Kayabacho, Shimbashi, and Shin-Okubo. The tables that follow tabulate survey results but are supported by additional evidence from the interview/focus group process.

An examination of the *channels used to transmit remittances* and *the reasons for their use* by Malaysian migrants suggests that formal channels (banks and MTCs) are used for speed and convenience but those who are sensitive to fees and exchange rates use the postal service or a friend to remit money.

Participants in the focus group discussions favored using the bank-to-bank remittance channel, and said they rarely asked friends to carry their savings to Malaysia. Many said they use an international cash card for remittance purposes. They send a cash card to their families in Malaysia and deposit cash to the account in Japan. Their family members can then withdraw money through PLUS member's ATM in Malaysia using the cash cards, thus paying only ¥210 (about US$2) for each transaction.

**Table A4.24: Remittance Channel by Reason for Use: Malaysian Responses (%)**

| Channel | Fee | Recom-mendation | Reputation | Speed | Exchange | Convenient | Customer Service | Other |
|---|---|---|---|---|---|---|---|---|
| MTC | 0.0 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bank | 7.4 | 7.4 | 7.4 | 40.7 | 7.4 | 29.6 | 0.0 | 7.4 |
| Postal | 14.3 | 7.1 | 0.0 | 21.4 | 14.3 | 21.4 | 21.4 | 14.3 |
| Friend | 50.0 | 0.0 | 0.0 | 50.0 | 0.0 | 0.0 | 0.0 | 50.0 |
| Other | 28.6 | 0.0 | 0.0 | 14.3 | 14.3 | 42.9 | 0.0 | 28.6 |
| All Respondents | 13.7 | 5.9 | 3.9 | 33.3 | 9.8 | 27.5 | 5.9 | 13.7 |

In looking at the use of the remittances, a smaller percentage is used for food and clothing than is the case for the remittances sent home by Filipino workers (Table A4.25).

**Table A4.25: Remittance Recipient by Use of Remittance: Malaysian Responses (%)**

| | Food | Clothing | Education | Housing | Business | Savings | Other | No Response |
|---|---|---|---|---|---|---|---|---|
| Mother/Father | 16.7 | 6.7 | 23.3 | 13.3 | 16.7 | 16.7 | 6.7 | 16.7 |
| Siblings | 25.0 | 0.0 | 25.0 | 0.0 | 25.0 | 0.0 | 25.0 | 25.0 |
| Others | 0.0 | 0.0 | 0.0 | 50.0 | 50.0 | 0.0 | 0.0 | 0.0 |
| All Respondents | 16.7 | 5.6 | 22.2 | 13.9 | 19.4 | 13.9 | 8.3 | 16.7 |

An analysis of *annual income by amount remitted* indicates that the majority of respondents remit less than ¥90,000 per year regardless of their annual income, although some report remitting more than half of their annual earnings (Table A4.26).

**Table A4.26: Annual Income by Amount Remitted: Malaysian Responses (%)**

| | Amount Remitted (¥'000) | | | | | |
|---|---|---|---|---|---|---|
| **Annual Income** | **<30** | **30 -60** | **60 -90** | **90 -120** | **120 -150** | **>150** |
| <¥1 Million | 0.0 | 50.0 | 50.0 | 0.0 | 0.0 | 0.0 |
| ¥1–2 Million | 50.0 | 0.0 | 0.0 | 16.7 | 0.0 | 33.3 |
| ¥2–3 Million | 0.0 | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ¥3–4 Million | 0.0 | 33.3 | 33.3 | 0.0 | 0.0 | 33.3 |
| >¥4 Million | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| All Respondents | 26.7 | 26.7 | 13.3 | 6.7 | 0.0 | 13.3 |

Table A4.27 shows people with lower income use more diversified channels than those with higher income.

**Table A4.27: Annual Income by Channel Used: Malaysian Responses (%)**

| | Remittance Channel | | | | |
|---|---|---|---|---|---|
| **Annual Income** | **MTC** | **Bank** | **Postal** | **Friend** | **Other** |
| <¥1 Million | 33.3 | 33.3 | 33.3 | 0.0 | 33.3 |
| ¥1–2 Million | 0.0 | 50.0 | 50.0 | 0.0 | 0.0 |
| ¥2–3 Million | 0.0 | 50.0 | 25.0 | 25.0 | 0.0 |
| ¥3–4 Million | 0.0 | 33.3 | 33.3 | 33.3 | 0.0 |
| No Response | 0.0 | 0.0 | 0.0 | 0.0 | 100.0 |
| All Respondents | 5.3 | 42.1 | 36.8 | 15.8 | 5.3 |

MTC = money transfer company

## E. Estimation of Total Volumes of Remittance Using the Survey Result

### 1. Findings from Interviews with Financial Institutions

We contacted over 20 financial institutions from big city banks to local banks, Japanese institutions, and foreign banks' branches. Ten financial institutions sent back answers to the questionnaire commonly used for this survey. Table A4.28 shows the core findings of the questionnaire and interview survey vis-à-vis financial institutions and a few money transfer-like companies operating in Japan.

According to the interview survey with each country's bank branches in Tokyo, the average amount of remittances seems to be ¥70,000–¥100,000. Workers remit money than they used, generally two times, in some cases three times, per month. Filipino workers remit more frequently than Indonesians and Malaysians. In general, workers remit about ¥140,000-¥200,000 per month. By country and monthly, the remitted amount is about ¥160,000–¥206,000 per month for a Filipino worker and about ¥140,000–¥160,000 for an Indonesian worker.

If we simply multiply the average amount of remittance by the number of foreign migrants, the result of calculation of annual amount of remittances is around ¥407 billion for the Philippines and around ¥38 billion for Indonesia. In contrast, current BOP statistics [4] by country are ¥7 billion for the Philippines and ¥68 billion for Indonesia and about ¥13 billion for Malaysia (in 2003). But the base of calculation is a rough and cannot usable for statistical estimation.

[4] Workers' remittances are included in the "Other sector" of the "Current transfers" of the BOP. A breakdown between current transfers and other transfer is not yet published.

**Table A4.28: Summary of the Current Remittance Situation in Japan**

| | Estimated Monthly Transactions | | | Customers | |
|---|---|---|---|---|---|
| **Bank** | **Number** | **Average Amount (¥)** | **Charge** | **Receiving through Account** | **Receiving through Mail, Telephone, etc.** |
| **City Bank A** | 10,000–15,000 | 80,000–85,000 | normal 4,000–4,500<br>Special 2,000 | 60–70% | Telephone |
| **Local Bank B** | 1,600 | 3.4 million | Normal in Yen 4,500<br>EB Transfer 4,000 | Transfer to a/c | Na |
| **Local Bank C** | Debit 3,500<br>Credit 3,000 | 3,531,314<br>5,377,000 | 4,500–6,000<br>Check 4,000<br>Lifting Charge 1/20 | Majority are Transfers to a/c | Na |
| **Local Bank D** | 5,000 | 82,000–100,000 | Up to 20,000—1,000–1,500<br>44,001–55,000—4,500 | 50% | Telephone |
| **Local Bank E** | 2,000 | 2.7 million | Ditto | 90% | Na |
| **Foreign Bank Branch F** | Debit 48<br>Credit 48<br>TT 576 | 666,000<br>4.5 million<br>2.7 million | Minimum 2,500 | Na | Na |
| **Foreign Bank Branch G** | 28,000 | 80,000 | 2,000 Delivery Service with 1,000 Transfer to other Local Banks 500 | Client registration about 50,000—60,000 | Mail a/c |
| **Foreign Bank Branch G** | 12,000 | 103,000 | 2,000 | Necessary | Mail |
| **Foreign Bank Branch G** | 700–800 | 70,000–80,000 | Up to 50,000—2,000 More than 50,000—3,500 | Majority | 60–70% by Mail |

## 2. Result of the Individual Questionnaire Survey

According to the result of the survey, the average amount of remittances by Filipino workers is ¥60,651. They remit money on average 10.74 times per year; thus the estimated annual amount sent per person is ¥649,000 per year (Table A4.6). This amount ranges from around 15% to more than 40% of workers' annual earnings. As there were 185,000 Filipinos in Japan as of end–2003, it can be estimated that the total amount of remittances from Japan to the Philippines may be around ¥120 billion for the year 2003. If we break down the remittance by resident visa status based on supplemental information from interviews, the annual amount of remittance from Japan to the Philippines may be around ¥109 billion. If we multiply the percentage of share of banks as remittance channels, the result is about ¥65 billion.

According to the survey of Indonesian migrants, the average amount of remittances is ¥88,850. The Indonesian respondents remit money on average five times per year, resulting in an average annual remittance of ¥412,000 per year (Table A4.6). This amount ranges from around 10% to more than 40% in some cases of workers' annual earnings. As there are 22,900 Indonesians in Japan as of end–2003, the total amount of remittances from Japan to Indonesia is estimated at ¥9 billion for the year 2003. If we break down the remittance by resident visa status based on supplemental information from interviews, the annual amount of remittance from Japan to Indonesia is ¥9 billion. If we multiply the percentage of share of banks as remittance channels, the figure will be ¥1.9 billion.

In the case of Malaysia, the survey has two limitations. First, the number in the sample was very small, and second, the majority of participants were students. Thus the findings reflect only a trend of students, and not that of businessmen, housewives, or other key groups. The average amount of remittances is ¥102,631; participants remit money on average 3.6 times per year, resulting in an average annual remittance of ¥208,000[5] per year (Table A4.6). This amount is around 10% of workers' annual earnings. As there are 9,000 Malaysians in Japan as of end–2003, the result is that the total amount of remittances from Japan to Malaysia may be around ¥1.9 billion for the year 2003.

These estimates based on the survey results are still rough because the data include all other items that should be classified in various other BOP categories such as travel; entertainment; compensation of employees; personal, cultural, and recreational services; and other transfers. It is necessary to make more detailed survey and cross comparisons with the BOP statistics of counterpart countries to increase the reliability of the estimates.

# IV. The Marketplace of Remittance Transfer

## A. The Players

According to the current FEFTL, only licensed financial institutions are qualified to intermediate remittances from Japan. There are some banks that use international transfer company networks (such as Western Union and MoneyGram) to send money from Japan instead of using Society of Worldwide Interbank Financial Telecommunication (SWIFT). The Suruga Bank contracted to use the Western Union network and the Ogaki Kyoritu Bank, uses MoneyGram. MTCs are not licensed banks and they are not allowed to accept deposits or withdraw money from an account to make a transfer. Thus, for example, Western Union has only a liaison function for technological support to the Suruga Bank.

## B. The Regulatory Environment Governing Money Transfers

There are three major laws and regulations that oversee remittances in Japan: the Bank Law, the Foreign Exchange and Foreign Trade Law (FEFTL), and the Know-Your-Customer (KYC) Law. The Bank Law requires that only authorized financial institutions are allowed to do banking operations, including money transfers.

The FEFTL allows transfers of less than ¥30 million without any reporting requirement but with the condition that banks check customers' compliance with KYC rule for such transactions as transfers/remittances to foreign countries, receiving foreign currency deposits equivalent to and over ¥2 million. In addition, MOF and BOJ request financial institutions to report total amounts of transactions equivalent to and over ¥2 million for BOP statistics compilation purpose. Financial Services Agency (FSA) also requires them to report on any suspicious transactions regardless of the amount of the transaction. New revisions of the FEFTL enacted in March 2005 require exchange bureaus and banks whose volume of monthly foreign currency transactions exceeds ¥1 million are to report to MOF/BOJ on total selling/buying transactions and amount of foreign currencies. In addition, they are required to submit a notice of suspicious transactions in accordance with the related government ordinance and with the antimoney laundering law when such activity is observed or suspected.

[5] Weighted average of remitted amount of annual income is ¥2,527 (Table A4.6). Based on the calculation, the percentage of remitted amount to the weighted average annual income is about 8%.

In addition to the FEFTL regulations and KYC rules, the Tax Law requires individuals and companies to submit notice to the Tax Authority, regardless of the amount of transfer, except when the transfer was made between deposit accounts of senders/receivers already held at banks.

When taking cash, securities, and papers valued at more than ¥1 million out of Japan or bringing them into Japan, the person must make a declaration to customs offices and at the MOF. Because of these legal requirements, remittances from and to Japan should be made via banks using mainly the banking network, and all such transfers, regardless of amount, are, in principle, to be reported to the relevant authorities (FSA, MOF, and BOJ).

## C. Structure of Competition: Transfer Cost and Competitions

Competition is not particularly severe, as there are not many suppliers of remittance services who are willing to increase services to foreign workers and demand is ongoing. Because of this lack of competition, charges are often quite high, as was frequently mentioned during the interviews for this study. One foreign bank manager commented that, in some cases, nearly 50% of the remitted amount may be paid as intermediation charges (including foreign exchange commissions).

MTCs such as Western Union and MoneyGram opine that under the current situation they are well competitive with charges as high as ¥6,500—equivalent to about 5–6% of the average remitted amount. In their view, their worldwide network, reliability, and the speed with which they transfer money are the reasons of using them.

Legislation regulating the wider use of e-money or plastic money for remitting money from Japan to countries abroad has not yet been passed. Discussions are under way about how to regulate and monitor the flow of money in such transactions from the antimoney laundering point of view.

It is not required for individuals to have a bank account to remit money from Japan. But without a bank account, one is required to give notification each time one remits money. In contrast, with a bank account, one can send money to banks using mail and ask them to transfer money from one's own account communicating by telephone, fax, and Internet (although it is necessary to send proof of identity).

Post offices also offer facilities to transfer money abroad with fairly low charges, using EMS or telegraphic transfer. But, because of legal requirements, the Japanese post office offers transfer from post office to post office, not door to door. EMS is one of the cheapest hand-to-hand facilities, as the mailing charge is only ¥1,000 plus an insurance charge if senders want to insure the mail. Some examples of charges are shown in Table A4.29.

**Table A4.29: Comparison of Selected Transfer Service Facilities in Japan**

| | City Bank | | | Post Office | | | Loyds TSB | Western Union | | | Reference A | B | Case of an Informal Transfer |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Network | TT | | Check | Ordinary Transfer | | | TT | TT | | | SWIFT | In-house Network | Transfer via banks |
| Way of Sending Money | OTC Tel | Internet | OTC | OTC | | | Transfer | OTC, ATM, Fax, Phone, Mail | | | - | - | - |
| Currency | US$ | | | US$ | | | US$ | US$, Rp, P | | | US$ and local currency | US$ and local currency | ¥, P |
| Charges | ¥4,000 at (deposit with over ¥1 million) ¥2,500 each | ¥3,500 at (deposit with over ¥1 million) ¥2,000 each | ¥2,800 / piece | Less than ¥100T :¥1,000 | Less than ¥100T: ¥1,000 | Less than ¥1 million:¥2,500 | ¥2,000 | 20 classifications by amount up to US$7,500<br>¥100T: ¥6,500 | ¥500T : ¥6,500 | ¥7,500 : ¥6,500 | $2,000 | ¥2,000 d-d+¥1,000, transfer to other banks:+¥500 | Up to ¥50T:¥2,500, 5–25% of amounts of which up to ¥50T middleman charges 2%, charge for intermediary banks about 1% |
| Time | 2–10 business days | | Up to transporting companies | 5–10 days | | | within the same day | immediately | | | Within the same day | immediately | Immediately–several days |
| Note | Intermediary banks may add some % of charge | | Mailing charge will be added | Mail check ¥400 EMS up to ¥100T | | | overseas handling charge US$10+ receiving bank adds some charges, for yen transfer 0.1% minimum ¥1,500 charged | <commissions (¥)> Ex. 33,001–44,000:3,900 44,001–55,000:4,500 | | | Open on Sundays, mail acceptable | Open on Sundays, mail acceptable for depositors | Transfer to deposit of intermediator, receivable by mail, bulk transfer via banks' network but dividing into lots lower than ¥5 million |

## V. Dynamics of Development and Remittances in Asia: Findings from the Questionnaire Survey

Japan is now an aging society, with 17% of its population over 65 years old in 2000. It is estimated that by 2010 more than 22% of the population will be older than 65. In 1999, the average age in Japan was already over 40. Thus Japan is in need of a young labor force to support its current industrial and economic activities.

In this connection, inviting more foreign workers to Japan is an important means of maintaining industrial productivity. Japan will be actively discussing issues around attracting more foreign workers with skills and knowledge and how to supply them better facilities, including remittance opportunities.

# V. Recommendations

## A. Practical Measures to Facilitate Remittances from Japan

The number of remittance service providers and opportunities for remitting money from Japan to migrant workers' home countries are rather limited because of difficulties related to use of different languages, particularly outside of large urban areas. Language-related difficulties are a major problem in other ways as well, especially for small size financial institutions. The presence of undocumented workers and increasing crimes committed by foreigners cause a reluctance to expand services and support structures for foreign migrant workers.

The following measures are recommended to address the issue of too few suppliers of remittance services.

(i) Introduce ATMs usable in English and other major languages and/or centralized online answering system using TV phone and scanners for transfer operation. A good example is already introduced by the United Financial of Japan (UFJ) Bank to remit money to Brazil from Japan.

(ii) Expand banking services available from companies that employ migrant workers, and automated transfer operations from salaries paid to migrant workers directly to the bank accounts of families in their home country. There would be no big problems for banks and companies to comply with the KYC rules if migrant workers submitted necessary documents beforehand when they open an account at the bank, for example, and pre-registration for the transfer operations.

(iii) Introduce an agent system to increase the number of places from which one can remit money, allowing such companies as travel agents and convenience stores to act as agents of banks. These more convenient sites could accept requests for transfers with a lower threshold amount, say ¥100,000 at a time or ¥200,000 per month. Such a system could be workable and maintain current KYC compliance requirements.

## B. Information Dissemination

Throughout our interview surveys with foreign migrants staying in Japan, there were many who mentioned that they lacked information. Indonesian trainees working in the Gumma Prefecture—in the suburban area of Tokyo a 2-hour train ride from the central Tokyo station—stated that they have limited information about procedures for opening an account at a Japanese bank, what kind of services and options banks supply to their customers, the possibility of making transfers through registered mail or an international card, and the fee for remitting money from Japan, etc.

Some organizations such as the Association for International Manpower Development of Medium and Small Enterprises (IMM), Japan, provide some assistance to foreign workers, but workers express that they need more intensive explanation and information about banking services in Japan. IMM Japan is a public organization established in 1991 to assist trainees from developing countries, mainly from Indonesia and Thailand; it provides capacity building of staff of small and medium enterprises in Asia.

MOF is in the process of studying how to enhance information dissemination to foreign workers from the Philippines and Malaysia in line with the Partnership Agreement concluded with both governments last year.

The following measures are recommended for introducing a systematic information dissemination mechanism for foreign workers in Japan.

(i) Create an introductory seminar on banking facilities and regulatory framework for trainees coming to Japan in a group, using the training centers of the Japan International Cooperation Agency (JICA) and the Association for Overseas Technical Scholarships (AOTS), among others.
(ii) Prepare pamphlets that give necessary information to foreign workers;
(iii) Prepare a relevant information page for MOF website, linking it with the websites of other relevant ministries.
(iv) Organize regularly introductory seminars in Japanese Embassies or representative offices of JICA in counterpart migrant-sending countries.

## C. Possibility of Efficient Use of Remitted Money

According to the survey result, about half of the money remitted by migrant workers may be monetized as soon as it is received in the home country by the recipient. But about 10–20% of recipients are making savings, pension plan, and/or family investment with the remitted money. Some remittance amounts are fairly large, over ¥2 million, to buy land or a house or to start a business at home. Those migrant workers whose remittances are for savings and investments may be open to considering alternative ways of investing money.

For example, some percentage of remitted money is likely to be held in the bank accounts of recipients; it may even be held in the intermediary banks or organizations for several days. Based on responses to the question in the survey about percentage of savings, the percentage of remittances kept in bank accounts as savings could be around 10–15%. It may be possible to mobilize this kind of money in short-term placements in the money market and/or investments in securities including government bonds.

Remittances could also be used as collateral for loans. By using future remittances to guarantee repayment, banks may be able to help families in the home country by extending loans with favorable terms if they are convinced that the recipient has a secured source of income including remittances.

Branch officers of foreign banks in Tokyo, responding to the survey, indicated that they are not able to sell government bonds of their home countries in Tokyo. They indicated that people are very sensitive to exchange loss and prefer to hold dollar cash than securities denominated in the currency of their country, because, generally speaking, the currency of their country of origin is volatile against the United States dollar, euro, and Japanese yen. The Philippine Government tried to sell government bond to overseas migrant workers in 2001 before but it was not a success because of the instability of peso exchange rate and relatively lower interest rate (rate of return). [6] Thus it appears that a necessary precondition to getting migrant workers to buy bonds from their home countries while working abroad is either that they be in US dollars or in a currency linked or pegged to theUS dollar or that they offer a positive rate of return after taking conversion loss into calculation.

## D. Revision of BOP Statistics Compilation Methodology

Current BOP data compilation methodology includes asymmetrical data loss, largely because the threshold triggering reporting requirements under the International Transactions Reporting System[7] was changed: the threshold for reporting worker's remittances was raised from ¥5 million to ¥30 million beginning in April 2003. However, the BOJ requests that commercial banks submit

[6] Information provided by a Metrobank Tokyo branch officer reveals that the government of the Philippine issued a bond called Hero Bond in 2001 but very few were undertaken in Japan.

[7] The International Monetary Fund Committee on Balance of Payment Statistics prepared this system as an international standard of reporting for BOPstatistics compilation.

reports of transactions over ¥2 million for the BOP statistics compilation purpose; some banks comply and some even report all relevant transactions; thus source data are inconsistent.

Although individual country remittances are not published, BOJ officials interviewed indicated that they have done an analytical study on the effects of the changes in reporting requirement and found that data coverage was not satisfactory and undercoverage has increased. The data do not exactly conform to BOPM5 requirements to distinguish nonresident-to-nonresident transfers. Reports from travel agents and credit card companies have been used to estimate and compile statistics on the effects of travel services on the BOP. As noted elsewhere, the data may include some transactions that should be classified in worker's remittances. Thus there is need for a study of survey and estimation methods.[8]

Finally, we recommend that a cross-border comparative analysis be undertaken of statistics of workers' remittances and BOP data among Asian countries. The ASEAN Secretariat has already conducted an intensive technical analysis to identify and try to fill gaps of macroeconomic statistics and for member countries. IMF has started statistics assessments of member countries. It would be useful for the Asian Development Bank to organize a regional working group to check discrepancy of statistics among member countries. Statistics of workers' remittances would be a good starting point for increasing reliability of data in the region.

[8] According to BOJ officials in charge of BOP statistics such a study was in process at the time of publication of this report.

# Appendix 5

# Country Report: Malaysia

# I. Introduction

## A. Historical Perspective

Malaysia is a multiracial, multiethnic, and multireligious country where about 40% of its 25 million population are of immigrant stock. By virtue of its location at the crossroads of Southeast Asia, it has for centuries been open to traders and travelers from both the East and the West. But it was British colonialism that brought in Chinese and Indian migrants and molded Malaysia into the multiethnic society that it is today. Multiethnicism and ethnic-based politics make the issue of cross-country labor mobility in Malaysia more complex than in other more homogeneous societies in the region (Pillay 1992).

Malaysia has a dualistic economic structure that accentuates opportunity and income differentials within the economy, thereby encouraging international labor mobility. This dualism is seen in the existence of a plantation-based agriculture sector and a manufacturing sector, which developed in separate historical and economic contexts. The openness of the Malaysian economy and the vulnerability of both the commodity and manufacturing sectors led to fluctuations in the world economy and contributed to both labor shortages and surpluses. As the manufacturing sector grew, labor demand shifted from the agriculture sector and the highest employment growth was seen in the manufacturing sector. Further, national development strategies and the fluid global economic environment induced labor supply-demand imbalances. These imbalances have been a catalyst for and a consequence of internal and international labor mobility.

Malaysia's geographical location and features also encouraged immigration. It is the only country in Southeast Asia that shares common borders with all its Association of Southeast Asian Nations (ASEAN) neighbors. Moreover, the long coastlines of Peninsular Malaysia and East Malaysia, located on the island of Borneo, are difficult to patrol so are easily transgressed by illegal immigrants.

Malaysia's cultural and economic affinities with certain neighbors add another dimension. Indonesia was one of the first countries Malaysia turned to as a source of labor, partly because of language, ethnic, religious, and ideological affinities (Lim 1988). Religious affinities also explain the inflow of Muslims from southern Thailand and from the Philippines into Sabah.

In 2004, the labor force in Malysia was 10.6 million (Bank Negara Malaysia [BNM] 2004); according to the Immigration Department, foreign labor contributed 1.45 million workers of the total labor force. In 2001–2002, foreign labor contributed 4.4% directly and 6% indirectly to the gross domestic product (GDP) (United Nations High Commission for Refugees [UNHCR] 2005).

The Government thus continued to allow the recruitment of foreign workers to alleviate labor and skills shortages and to tap synergies that enhance productivity and competitiveness. For the semiskilled and unskilled foreign labor, the number recruited in 2004 declined, despite the strong growth in the economy, partly because of a slowdown in the construction sector. In addition, employers have increased capital intensity in their businesses, thereby reducing dependence on foreign labor.[1]

Foreign workers are drawn to Malaysia for several reasons. The main reason being Malaysia's better economic performance and therefore better prospects. Wages are higher than in their home countries and jobs are plentiful because most Malaysians are no longer willing to do the "3D" jobs—dirty, dangerous, and difficult—due to greater industrialization, urbanization of the economy, and higher education levels. These "pull" factors are compounded by "push" factors such as high unemployment rates in their home countries—8.7% in Indonesia, 11.4% in the Philippines; 40% in

[1] Economic Report 2004/5 as at July 2004.

Bangladesh; and 9.5% in India. These four countries together have 83.5 million unemployed people.[2] In contrast, the unemployment rate in Malaysia in 2003 was 3.6% (BNM 2004).

Not included in the official data are undocumented workers. Despite a government-offered amnesty program in early 2005, there remain about 400,000–500,000 undocumented migrant workers in Malaysia, according to the Immigration Deparment.

## B. Immigration Policies and Procedures

Two acts of Parliament govern the recruitment of foreign labor in Malaysia, namely the Immigration Act and the Employment Act. Migrant workers are allowed to work in Malaysia as long as they are granted a working permit with the proper employer. Official policy allows controlled imports of foreign workers as an interim solution to meet demand for low-skilled workers, but it discourages continued reliance and stresses the importance of long-term measures to foster industrial maturity. Accordingly, immigration and related foreign labor policies have evolved to regulate the inflow of migrant workers to manage the competing goals of growth and economic restructuring (Kanapathy 2001).

The major instrument that regulates the inflow of migrant workers into Malaysia is the work permit. Unlike some developed economies, Malaysia does not have an economic policy to offer residential status to migrant workers. Work permits are issued to all foreign workers to authorize their entry and employment. By varying the terms and conditions attached to the work permits, immigration policies are used to target labor and skills needs of the country. Skilled and semiskilled migrant workers are allowed to work in the agriculture, construction, manufacturing, and services sectors and as housemaids.[3] They may work for 5 years, after which the worker has to attend a course and proficiency test to obtain a certificate from the Malaysia Labor Vocational and Knowledge (MLVK) or the Construction Industry Development Board (CIDB) before pass renewal is granted. The maximum period allowed is 10 years, according to the Malaysia Immigration Deparment.

There are basically two types of work permits used to target skills needs. The unskilled and semiskilled workers—generally called migrant or foreign workers— are those earning below Malaysian Ringgit(RM)2,000 United States dollars [US$]526[4] per month. Those earning RM2,000 (US$526) and above are classified as professional workers (popularly called "expatriates"), and they are issued employment passes if their employment contracts are at least 2 years. Expatriates on short-term contracts (less than a year) are issued visit passes for professional employment (Kanapathy 2001).

There is a perceived conflict as far as the implementation of the policies and procedures are concerned. This conflict seems to exist between the Home Affairs Ministry, under whose purview the immigration department falls, and the Human Resources Ministry that looks into the labor needs of the country. Moreover, various Immigration Departments in Malaysia do not have a uniform set of rules and procedures to follow.[5]

Immigration policy attaches conditions such as duration of employment, age, nationality, skills, employment sectors, and sometimes even gender to work permits, to ease the entry of those with professional and technical skills and to discourage the inflow of migrant workers. The main objective is to foster the development of skill-intensive industries and to gradually phase out labor-intensive ones.

---

[2] CIA World Factbook (http://. cia.gov/cia/publications/factbook/)

[3] Immigration Department, Malaysia

[4] Malaysia practiced a fixed exchange rate of US$1 to RM3.80 as of June 2005. This is the rate used throughout this report, but in July 2005, Malaysia adopted a managed float for the ringgit.

[5] MTUC/ILO Regional Workshop, 18–19 April 2005

The migrant worker must be in the country of origin and allowed to enter Malaysia once the application for temporary employment has been approved. He or she must be certified medically and physically fit by any government recognized clinic or hospital. He or she must be within 18–25 years (25–45 years old for housemaids) and have a passport valid for more than 12 months. Migrant workers are not allowed to bring along their family members while employed in Malaysia. They must not be a prohibited immigrant as categorized under section 8 (3) of the Immigration Act 1959/63 and must abide by the laws and regulations that are being enforced. They are not allowed to change their work sector or employer without prior approval from the Department of Immigration Malaysia. However, construction sector workers are allowed to change their employer and a government body is currently handling this issue. Migrant workers are only allowed to stay for a stipulated period and renewal must be done 30 days in advance. The workers must leave the country once they have been terminated, cease their contract, overstayed or contravened the conditions of the pass. The workers' employers or agencies are responsible for the payment of deposits, visa, pass, processing fees, and levies to the Immigration Department. The deposit will be refunded once the employer or sponsor can prove the worker has returned to his/her country of origin. The annual levy varies by sector and skills, but ranges from RM300 to RM1,200 per year for each worker (Immigration Department February 2005). The main aim of the levy is to raise the cost of hiring and discourage the use of foreign workers.

Despite these stringent guidelines, there are frequent policy shifts to accommodate demands from employers to ease critical labor shortages, and the amnesty program to document and legalize the large number of undocumented migrant workers created more problems that were tackled haphazardly. This has been frequently described as "stop-go" or adhoc measures.

## II. Migration Trends in Malaysia

Migration trends in Malaysia, like many other issues, need to be looked at separately in the West Malaysia and East Malaysia because of complex political and cultural differences between them. Although a part of Malaysia, East Malaysia is independent and different in many aspects.

### A. Migrant Workers in West Malaysia

As the end 2004, the number of documented foreign workers in Malaysia was 1,470,090, or 14.4% of total employment. They were mostly engaged in manufacturing, followed by agriculture, services (including domestic services), and the construction sector. About 69.7% were Indonesian nationals; workers from Nepal and India constituted the second and third largest groups, with 10.2% and 5.4%, respectively (BNM 2004).

Of the 1,470,090, there were 34,358 foreign professionals and highly skilled workers employed in Malaysia, mainly in the manufacturing and services sectors, in 2004 (BNM 2004). Called expatriate workers (in contrast to the less skilled migrant workers), they came in the largest numbers from Japan, India, and Singapore.

### B. Migrant Workers in East Malaysia

East Malaysia consists of the two states of Sabah and Sarawak across the South China Sea, on the island of Borneo. Immigration policies and procedures in East Malaysia are a state matter, and detailed statistics, including data on illegal immigrants, are not published. Sabah and Sarawak joined Malaysia through a 20-point agreement in 1963; they still maintain separate control over immigration matters. However, a composite picture may be assembled from published reports and other sources.

Migrant workers in East Malaysia are concentrated in Kota Kinabalu, Tawau, Sandakan, and Lahad Datu. There are about 30,000 documented Indonesian migrant workers and about 200,000 Filipinos in Sabah alone. The Indonesian foreign workers in Kota Kinabalu work in the construction industry; in Tawau and Lahad Datu and some parts of the interior, they work in the large oil palm and rubber plantations owned by multinational corporations.

Although Filipinos make up a relatively small proportion of foreign workers in Peninsular Malaysia, they are a significant proportion in East Malaysia, where they are estimated to number 200,000 (including 100,000 who are undocumented) (Table A5.1). The number of undocumented Filipino migrants is difficult to establish, especially in Sabah, due to its porous border with the southern Philippines. Whereas in Peninsular Malaysia, the majority (75%) of Filipino migrant workers are female household workers, in East Malaysia, most Filipino workers are involved in the agriculture/plantation (31%), construction (21%), services (20%), and manufacturing sectors (16%), with the rest (12%) in logging, household work, fishery/livestock and mining.

Most of the Filipinos working in the east of Sabah are from the surrounding islands of Mindanao and Zamboanga and belong to the Muslim faith. Thousands of Filipino refugees fled to Sabah in the early 1970s to escape the civil wars in the southern Philippines and have been allowed to stay and work in the state after being issued visit passes called IMM13.

**Table A5.1: Filipinos in Malaysia as of December 2004**

| Location | Sector | No. | % |
|---|---|---|---|
| **Peninsular Malaysia** | Professionals (engineers, architects, supervisors, information technology specialists, managers) | 2,421 | 19 |
| | Islamic students | 24 | 0.19 |
| | General workers/construction workers | 578 | 4.6 |
| | Domestic helpers | 6,601 | 52.2 |
| | Holders of dependent visas | 2,500 | 20 |
| | Undocumented | 500 | 4 |
| **Subtotal** | | **12,642** | **100** |
| **Sabah and Sarawak** | Holders of work permits | 9,000 | 4.5 |
| | Holders of IMM13 (stateless/refugee visa) | 70,000 | 35 |
| | Holders of permanent residency visa | 21,000 | 10.5 |
| | Undocumented | 100,000 | 50 |
| **Subtotal** | | **200,000** | |
| **Total** | | **212,624** | **100** |

Source: Philippines Embassy in Malaysia, December 2004.

# III. The Demographic and Remittance Profile of Senders

## A. Demographic Characteristics

Selected samples of major groups of migrants in Peninsular (Western) Malaysia and in East Malaysia were surveyed to develop information about the remittances they send home. A total of 510 foreign workers from five migrant-sending countries were surveyed: Indonesia (210, of which 10 were in East Malaysia), Nepal (100), Bangladesh (50), India (50), and Philippines (100, half in Peninsula Malaysia, half in Sabah).

With some variation among migrant groups, most respondents fell in the 21–40-year-old bracket. Among the Indonesian migrants in Peninsular Malaysia, 61% were in the 31–40-year-old group and 33% were in the 21–30-year-old group; among Indonesian migrants in Sabah, all were in these two age groups. Filipino migrants (in both Peninsular Malaysia and Sabah) were spread more evenly across the age groups, as were Bangladeshi migrants. Both Indian and Nepalese migrants were younger (77% and 58%, respectively, were in the 21–30-year-old range) (Table A5.2).

Except for Filipino migrants and a small proportion of Indonesian migrants, most respondents were male. A large proportion of Filipino migrants work as domestic maids.

The Filipino, Indian, and Bangladeshi respondents were generally more educated than respondents from other migrant groups. Nearly 40% of Filipinos and 20% of Indians had college degress, and well over 50% of respondents from all three countries had at least some college education (Table A5.2).

The majority of all migrant groups interviewed except for Indonesians earn an average annual income of less than RM12,000 (about US$3,158 at June 2005 exchange rates). Many Indonesians work in the construction industry, which pays higher wages because the jobs are considered skilled or semiskilled.

Based on the demographic data, immigrant communities in West Malaysia are somewhat similar to one another—they tend to be in their prime productive ages, have some basic education, are largely male, and have an average income of RM1,000.00 (US$263) per month. With the low rate of unemployment in Malaysia, it can be assumed that immigrants are mainly taking jobs shunned by Malaysians as dirty, dangerous, and/or difficult.

# Table A5.2: Demographic Characteristics of Migrant Workers in Malaysia (%)

| Characteristic | Indonesians in Peninsular Malaysia (sample=200) | Indonesians in Sabah (sample=10) | Nepalese in Peninsular Malaysia (sample=100) | Bangladeshis in Peninsular Malaysia (sample-50) | Indians in Peninsular Malaysia (sample=50) | Filipinos in Peninsular Malaysia (sample=50) | Filipinos in Sabah (sample=50) |
|---|---|---|---|---|---|---|---|
| **Age Category** | | | | | | | |
| 15–20 Years old | 1 | 0 | 1 | 0 | 0 | 0 | 0 |
| 21–30 Years old | 33 | 50 | 77 | 46 | 58 | 38 | 40 |
| 31–40 Years old | 61 | 50 | 22 | 30 | 18 | 38 | 36 |
| 41–60 Years old | 6 | 0 | 0 | 24 | 24 | 24 | 24 |
| Over 60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| **Gender** | | | | | | | |
| Male | 75 | 100 | 100 | 94 | 100 | 36 | 36 |
| Female | 26 | 0 | 0 | 6 | 0 | 64 | 64 |
| **Total** | | | | | | | |
| **Education** | | | | | | | |
| College Degree | 3 | 0 | 4 | 2 | 20 | 38 | 40 |
| Some College | 6 | 20 | 46 | 10 | 34 | 28 | 24 |
| High School | 40 | 40 | 40 | 42 | 46 | 34 | 36 |
| Primary School | 36 | 20 | 8 | 24 | 0 | 0 | 0 |
| Primary Not Completed | 11 | 20 | 0 | 10 | 0 | 0 | 0 |
| No Reply | 5 | 0 | 2 | 12 | 0 | 0 | 0 |
| **Total** | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| **Annual Income** | | | | | | | |
| <RM12,000 | 13 | 0 | 75 | 64 | 56 | 60 | 58 |
| RM12,001–RM20,000 | 78 | 20 | 25 | 30 | 18 | 32 | 36 |
| RM20,001–RM30,000 | 9 | 40 | 0 | 4 | 26 | 8 | 6 |
| RM30,001–RM40,000 | 0 | 20 | 0 | 2 | 0 | 0 | 0 |
| >RM40,000 | 0 | 20 | 0 | 0 | 0 | 0 | 0 |
| **Total** | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

## B. Remittance Behavior

According to the Parliamentary Secretary to the Ministry of Finance, Dr. Hilmi Yahaya, in 2004, migrant workers remitted RM15.2 billion (US$4 billion) to their countries of origin, an increase of RM5.2 billion (US$1.37 billion) over the previous years. The sharp increase in remittances sent out of the country resulted primarily from more than 300,000 illegal or undocumented migrant workers returning to their countries between October and December 2004 under the amnesty program offered by the Government (Sun Newspaper, 16 May 2005).

### 1. Indonesian Migrant Workers in West Malaysia

Indonesian respondents remit money regularly, with 94% remitting less than RM1,000 or US$263 per month. In fact, respondents send about about RM600 (US$158) almost every 2 months, thus saving on transaction costs. Another means of saving on transaction costs is to pool remittances together, sending them under one name. Since respondents earn an average of RM12,000 per year and remit about RM600 (US$157) every 2 months, it is assumed that 30% of their income is remitted.

Two thirds of respondents use formal channels to send remittances—bank-to-bank transactions (38%) and the post office (25%). The post office may also be a reference to Western Union, for whom the post office is an agent. A high 37% use other methods, possibly carrying cash back personally. The primary reasons respondents gave for their choice of method were low fees and recommendations from another source. Another possible explanation is that Bumiputra-Commerce Bank gives special offers to transactions with Indonesia; Western Union also has a special offer for Indonesian migrant workers. Throughout Malaysia, post offices and most major banks are located within a walking distance of about 20 or 30 minutes from anywhere.

Of the respondents, 79% said they send their remittances to their spouse. The primary uses for those remittances are food (99% of respondents), clothing (99%), education 92%), and savings (59%). The vast majority (95%) said they return to Indonesia every year, staying 1–2 weeks. More than 60% take under RM1,000 with them on those trips, with more than half of respondents giving half of that entire amount to their families.

It is assumed that many save as cash, as 56% do not have a bank account in Malaysia. The primary reasons they cite for not having a bank account are that the process is complicated, bank is not near enough to home, and language issues. Another possible explanation may be that they are undocumented workers and as such cannot open a bank account. This is further substantiated by the fact that 82% do not have any type of bank card at all.

Forty-five percent have a bank account—a necessity for documented foreign workers. Their employers, for purposes of salary crediting, usually open the accounts for them. The most popular bank is Maybank. The largest quota of respondents lived with 20 or more persons and this could mean that they lived in dormitories (*kongsi*) for construction workers. Most want to stay for 2–3 years, which means that they have intentions of returning home. A huge 81% contact their families by telephone and 50% use the post office or write letters.

### 2. Indonesian Migrant Workers in East Malaysia

The pattern of remittances for the Indonesian migrant workers in Sabah, East Malaysia, is similar to their counterparts in Peninsular or West Malaysia, although the workers come from Kalimantan and Sulawesi on the island of Borneo.

Of the workers surveyed, many send money back regularly and in the same amounts of US$300, almost monthly. More than 50% generally use banks to send remittances, and 30% use the post office. The 20% who use other means of remittance transfer (perhaps the services of a friend or relative) cite "low fees" as the reason. Respondents send the money to their spouse (40%) and parents (20%), who spend it on food, clothing, education, and housing.

A surprising 80% use short message service (SMS) one to five times a day to contact their families, perhaps a reflection of the close proximity of the host and originating destinations of the respondents. All the respondents live in group houses with 10 persons or more.

### *3.* Nepalese Migrant Workers in West Malaysia

Since the amnesty program, Nepalese are the second largest migrant group in Malaysia. Nepalese migrant workers send slightly more money home than the Indonesians, with 49% sending RM1,000–RM3,000 per month. The Nepalese are mostly engaged in the manufacturing sector or work as security guards and thus have salaries that make possible the larger remittances.

Sixty-two percent generally use formal channels to send remittances—banks (50%) and post office (12%)—but more than a third (36%) generally rely on friends. Bank-to-bank transfers are facilitated by a locally incorporated money transfer agency from Nepal called IME Impex that is sanctioned by both governments. The money to be remitted is deposited into the IME Impex account maintained at three local Malaysian banks—Maybank, Rashid Hussain Berhad (RHB) Bank, and Bumiputra Commerce Bank. The IME Impex officials then verify the deposit slip and a form is filled out where details of the sender and beneficiary are recorded. IME Impex then arranges for the bulk transfer of funds to the IME Impex bank account in Nepal. IME Impex has branches all over Nepal at which beneficiaries can receive the funds into an account or pick them up. A 1% remittance charge is applied at the request of the Nepal Government.

The remittance recipients are spouses (48%) and parents (50%). Respondents indicated that the remittances are used primarily for housing (64% of respondents), savings (31%), and business (28%).

Most respondents indicated that they contact their families once a month (63%), with another 19% contacting more frequently than that. Ninety-five percent of respondents indicate that they contact by telephone, 45% by mail. Only 37% had a bank account in Indonesia, but 86% had a bank account in Malaysia, which is required for documented workers. Twenty-five percent said they have a loan to pay for family investments, which this could be the amount borrowed as agency fees to go to Malaysia. More than 50% have an ATM card, and nearly 50% contribute to local associations of their country.

### 4. Bangladeshi Migrant Workers in West Malaysia

Until the amnesty exercise, Bangladeshis were the second largest immigrant group in Malaysia. The drop since the amnesty program suggests that many were undocumented workers. Eighty-six percent remit less than RM1,000 (US$ 263), with most sending remittances 6–10 times per year. In terms of channels used to send remittances, 18% use bank-to-bank transfers, 10% use the post office, and 16% use friends to carry the money home. More than half of respondents (56%) said they use other channels; research and interviews were used to determine that an informal, effective and popular channel called *hundi* is a common means of remittance transfer among Bangladeshi migrant workers. Low fee (100% of respondents), reputation (100%), speed (84%), and convenience (84%) were cited as reasons for their preferred means of remittance transfer.

Seventy percent of respondents send their remittances to their spouse, 30% to their parents. Remittances are spent on food (100% of respondents), clothing (92%), education (82%), with much smaller percentages citing business (22%), housing (16%), and savings (16%). Almost all respondents contact their families monthly by telephone and the post. Eighty percent have a bank account in their home country and 24% responded that they have a business loan. One third of respondents do not have a bank in Indonesia, and 96% have neither credit nor debit card. Apart from business, education, or housing loans (of which there were few) 30% indicated they have other loans to pay; this could be the money they borrowed as agency fees.

### 5. Indian Migrant Workers in West Malaysia

Indians form the third largest group of immigrants. They work mainly in the service industry like restaurants and in manufacturing. About 74% send less than RM1,000 (or US$263) per month. The average salary for restaurant workers is about RM900 (US$236) per month, although cooks earn a little bit more. Room and board is usually included for restaurant workers, and the working hours are from 12–14 hours per day. Some restaurants pay a little less like RM600 (US$157), but the working hours are also less. The salary for those working in manufacturing is higher. Indians also form the second largest group of expatriate or professionals; they earn on average RM5,000 (or US$1,315) per month.

Ninety-two percent of respondents had lived in Malaysia for more than a year. More than half (54%) generally use banks to transfer remittances, but the rest use other methods, presumably the informal channels that Indians commonly call *hawala*.

Parents are the recipients for 76% of the respondents; spouses for 18%. Respondents said their families spend major part of the money for food and clothing. Fully 94% contact their families at least once a month, with more than half contacting at least every 2 weeks. The primary methods of contacting are telephone (94%) and mail (74%). All of respondents have a bank account in their home country, 72% have a bank account in Malaysia, and 64% have ATM cards. None of the respondents indicate that they have any outstanding loans to pay. Sixty percent live with 6–10 persons in their homes, and another 32% live with even more, which suggests that they are restaurant or hotel workers.

### 6. Filipino Migrant Workers in West Malaysia

All the Filipino respondents said that they remit less than RM1,000 (US$263), with most sending that amount monthly. To transfer the money, 46% generally use banks, 10% use the postal service, and 42% state that they use other means. For the Filipino community in Malaysia, freight forwarding companies are the most usual other means to remit money to the Philippines. These companies charge twice the fee of domestic banks (RM20), but there is fast door-to-door delivery, fewer formalities.

A freight forwarding company uses its own business account to transfer the money, and uses individuals to send the money to the recipients in the Philippines. A tip is then given to the person who delivers the cash, but it is not compulsory. It is popular with many Filipinos. Four freight forwarding companies that provide this service are located in the the Kota Raya Shopping Complex in Kuala Lumpur, where Filipinos gather almost every Sunday after church service, to meet and exchange information.

Fifty percent send the remittances to their parents, 28% to their spouses, and 10% to their children, with the rest to siblings and grandparents. Respondents said their beneficiaries spend the money on food (90% of respondents), education (84%), clothing (72%), and housing (56%).

A third of respondents said they return to the Philippines once every 3 years, another third said they return every year, with half of those staying a week or less and half staying up to 2 weeks. Seventy-six percent contact their families more than twice a week. Telphone is used by all the respondents, but short message service SMS is also used by 86%—the highest amongst all the immigrant communities. Fifty percent have a bank account in their home country and 40% have a small business. Filipinos are well known for running small stalls selling all kinds of wares and food on Sundays after church in the St. John's church vicinity in Kuala Lumpur. A majority of them go to this church for Sunday mass and the church conducts Tagalog mass on alternate Sundays. Fifty-eight percent do not have a bank account in Malaysia. Eighty-eight percent do not have either a credit or a debit card. Only small percentages have business, education, and housing loans, but 36% responded that they have other loans, which could mean that they have agency fees to pay.

### 7. Filipino Migrant Workers in East Malaysia

Most of the respondents are from Mindanao, which is a large island fairly close to Sabah. The remittance pattern is similar to that of Filipino migrant workers in West Malaysia. The methods they generally use to tranfer remittances are banks (44%), post office (8%), and others (48%). This is a higher percentage of informal channel use than among other immigrant groups, but is particularly convenient for Filipinos in Sabah. They are closer to home than their counterparts in Peninsular Malaysia, and many are also undocumented workers. They send their remittances to parents (46%) and to spouses (28%), with smaller percentages sending them to children, siblings, and other relatives. According to respondents, remittance recipients spend the money on food (90%), education (84%), clothing (72%), and housing (60%). Twenty-percent of respondents indicated that they have housing loans to repay, and 38% said they have other loans (that is, not business, education, or housing).

A very high 92% return home every year, unlike their counterparts in Peninsular Malaysia, and this, too, may be due to proximity. Seventy-two percent contact their families twice or more per week and 100% use the telephone to do so. Seventy-eight percent use SMS, and 30% responded 1–5 times a day. Forty-six percent said they have small business; 54% have a bank account in Indonesia and 46% have one in Malaysia. Ninety percent said they have neither a credit nor a debit card; 10% have both.

## C. Remittance Receivers in Malaysia: Malaysians Working in Singapore

Malaysia is both a migrant-receiving and a migrant-sending country. As such, its population receives as well as sends remittances. For this reason, the study examined behavior of remittance recipients as well as remittance senders, by sureveying 100 respondents who have children or spouses working in Singapore. Singapore is an island south of Malaysia that was part of Malaysia until it separated and embarked on a fast- track industrialization program. As a newly independent nation, it needed both skilled and unskilled manpower, for which it naturally turned immediate neighbors with whom it had historical and cultural links (Lee 2001). Many Malaysians went to Singapore to work because of the better and higher paying jobs. Singapore was able to maintain an impressive growth rate, and continued attracting Malaysians to work there.

The survey respondents all live in Johore Bahru, a city 30 minutes across the causeway from Singapore, and are mainly daily commuters. Of the respondents, 23% were male and 77 were female. Forty-two percent were in the age group 24–34 years, which means that they are relatively young, or recent school leavers. Thirty-five percent were in the 35–45 year age group; 18% were older than 45 years.

Sixty-three percent had households with 4–5 persons living together—the average family size of most nonbumiputras (ethnic Malays) in Malaysia. Fifty-two percent responded that the husband supported the families while 19% replied that it was their wives. The remittances are used for savings (81%), education (64%), food (62%), clothing (56%), and housing (54%). Fifty-three percent responded that they had been working for 5–8 years.

All the respondents had bank accounts, 86% had mortgage loans as economic activities, and 57% helped the family while 48% paid loans. Forty-seven percent had a credit card and 51% has a debit card. Twenty-six percent responded that the reason was reputation and 20% because there was easy access. The transmission of the remittance is within the day the amount is credited to the account; they could go across the causeway and withdraw cash using their ATM cards. Thirty-eight percent responded easy, while 19% responded very easy.

Many Malaysians working in Singapore change their Singapore dollars (S$) for cash needed at the money changers at Jurong Point Shopping Center in Singapore. This is very convenient as it is near the Boon Lay Metro Rail Transit (MRT) station and many Malaysians work in the surrounding factories. The amounts are usually about S$500 converted into Malaysian ringgit. Alternatively, many Malaysians also withdraw their S$ and bring it across the causeway where there are an equal number of money changers who are prepared to change the US$ for Malaysian ringgit at attractive rates, and they are able to get more Malaysian ringgit. Alternatively, for convenience, there are also Malaysians who withdraw cash using their ATMs on the Malaysian side, if they maintain accounts with Maybank as many do.

## IV. The Marketplace of Remittance Transfers

### A. Formal Players

#### 1. Banks

There are 26 commercial banks, of which 10 are domestic or Malaysian owned and offer conventional banking facilities,[6] three are Islamic banks, and the rest are foreign owned. There are also six finance companies and ten merchant banks but they are in the process of merging with the commercial banks.

The following authorities regulate all commercial banks in Malaysia.

- *the Banking and Financial Institutions Act (BAFIA) 1989*
- *Bank Negara Malaysia Guidelines*
- *the Exchange Control Act and Regulations (ECM), 1985*
- *Bills of Exchange Act, 1949*
- *Rules and Regulations of the Association of Banks Malaysia (ABM)*
- *the Companies Act, 1965*
- *the prevailing Uniform Rules for Collection (URC), as published by the International Chamber of Commerce*

[6] Monthly Statistical Bulletin, November 2004, BNM

- *Terms and Conditions of Nostro agents*
- *Uniform Commercial Code (UCC) of the United States of America* [7]

Only banks are allowed and regulated to offer outbound remittance services for the migrant workers besides IME Impex. The biggest players are the domestic commercial banks like Bumiputra-Commerce, RHB Bank, and Maybank. They are also the largest domestic banks by assets and branches. They are all locally incorporated and publicly listed, and each is the result of mergers that occurred in the past few years. Another player, Bank Simpanan Nasional (BSN), has a special arrangement with some overseas banks for remittances, especially to Indonesia.

With the thrust from the central bank, domestic banks in Malaysia are undergoing massive restructuring and reorganization. How this is going to benefit or hinder foreign remittances is yet to be seen. But the key emphasis of the Financial Services Masterplan (FSMP) is to move toward a more diversified and balanced financial system, with strong institutional framework, comprehensive market infrastructure, world-class best practices, and conducive regulatory environment. As the financial system transitions into Phase 2 of the FSMP, the thrust of initiatives for 2005 is two-pronged, i.e., to continue the efforts to strengthen the institutional development of domestic financial institutions to be well-positioned in a more liberalized and deregulated environment, and to review the current policies and regulatory framework to level the playing field between various market players. Equally important is for institutions to be able to adapt, adjust, and respond to changing economic conditions, in particular to support new areas of growth. Having robust financial institutions that are able to withstand potential shocks and have the agility and adaptability to embrace future challenges is key in ensuring long-term sustainability in a more competitive environment, as well as the preservation of financial stability (BNM 2004).

Both savings and current accounts are relevant in a study of migrant remittances. A bank savings account is mainly a deposit account; a current or checking account has check privileges attached. Savings accounts earn interest while current accounts do not.

The central bank has set broad minimum requirements that must be fulfilled before a checking or savings account can be opened. *Local citizens* must produce their national registration identification card or in some cases the driver's license. There is a minimum deposit of RM20 (US$5.26) to RM250 (US$65), depending on the individual bank. In the case of *migrant workers*, besides an instrument of identification that can be the work permit or passport, some banks require a letter from the employer or visa confirming the status of the migrant. But this letter is discretionary, depending on the individual bank. Usually it is the employer who opens the account for convenience of salary crediting.

For current accounts, the requirements are more stringent. For local citizens, in addition to the above requirements, the minimum deposit can vary from RM500 (US$131) to RM1,000 (US$263). A confirmation is also made with the relevant authorities whether the individual has been blacklisted for issuing bad checks or defaulting on a loan. Foreign migrant workers are discouraged from opening current accounts, although there are always exceptions.

In setting exchange rate transactions costs, banks earn an average of 8% in commissions. Added to this are other costs like wire charges, service charges, and administrative fees. Therefore, the transaction cost for each remittance can be as high 10%. This does does not take into consideration special offers that the three major local banks and Western Union may be offering for some countries.

---

[7] Monthly Statistical Bulletin, November 2004, BNM

### 2. Money Transfer Outfits

There is little formal competition in Malaysia for the remittance business, except among banks. Banks are the traditional and long-standing players and dominate the business. Recently, a few new entrants have joined the fray, but they have yet to display their mettle. Western Union is one of them, but it has at most 3% of the market share, according to the represenative interviewed. Western Union came into Malaysia in 2001 but was not aggressive initially. The other entity is MoneyGram, but the local bank with which it is partnered is not a major player in the business. The other player is IME Impex, but it caters only to Nepalese migrants.

#### a. Western Union

In Malaysia, *Western Union* works with Bumiputra-Commerce Bank (BCB) and POS Malaysia. For remittances by BCB customers, the limit is US$2,500—the maximum level of risk the bank is prepared to take. The global limit for Western Union is US$7,500. For POS Malaysia, a more recent entrant, the limit is US$500 because POS Malaysia is not a financial institution and Bank Negara sets the limit.

The average number of Western Union transactions per month for the different corridors are Philippines 5,000; Vietnam 4,000; Indonesia 2,600; Nepal 1,000; India 500; and Bangladesh 70, for a total of about 14,070 transactions per month. Amounts in US$ values were not available, although one estimate is that the value of all remittance transfers by Western Union amount to US$9.2 million per week. Because it is trying to expand its market, Western Union gives special rates for some corridors.

On average, Western Union charges 15% of the principal amount. There is no commission charged on the exchange rate; rates are very competitive—better than banks in the case of Indonesia and India. Western Union decides on the exchange rate based on various factors like demand and supply for that currency. Although people may consider the rates attractive, when there are no alternatives available, if speed or convenience is an issue, they use Western Union.
Recipients are contacted by telephone and e-mail. The remittance can be paid out in either U.S. dollars or the local currency, if the recipient so wishes, with the company again deciding the exchange rate. Different countries are charged different commissions.

Western Union takes 50% of the charges. The other 50% is shared equally between the bank and the agent. But to simplify the process, Western Union does all transactions in US dollars and also pays the recipient in US dollars. As such, all remittances are converted to US dollars. However, if the recipient wishes to receive the proceeds in the local currency, it is then reconverted.

#### b. IME Impex Sdn Bhd

*IME Impex Sdn Bhd* is a money transfer company catering to the Nepalese community. The Government of Nepal was concerned about remittances returning home, and so requested, on a government-to-government basis, that IME Impex be allowed to setup office in Malaysia and facilitate Nepalese migrant workers' remittances. IME Impex then entered into a commercial arrangement with three banks on an individual basis.

The remittance sender deposits the money he wishes to send into IME Impex's account in one of the three Malaysian banks, that is, RHB Bank, Maybank, or Bumiputra-Commerce Bank. He/she would then take the deposit slip to the IME Impex office in downtown Kuala Lumpur, and an IME Impex official would then make a copy of the deposit slip and request the sender to fill out a form giving particulars of both the sender and the recipient and charge a fee of 1%. The maximum amount allowed at one time is RM10,000.00 (US$2,623). The beneficiary can receive the money on the same day, as it is immediately credited into an IME Impex account in Nepal. IME Impex has 52 branches all over Nepal and thus the beneficiary can conveniently collect the money upon proof of identification.

## B. Informal Channels

The informal and illegal remittance system is well entrenched and popular with the migrants from India and Bangladesh. The survey conducted for this study revealed that the reasons for using this method are varied, but widely perceived as convenient, cheaper, and, most importantly, fast. There is door-to-door delivery and the recipient faces no hassle at all. The central bank admitted that it is aware of this method but since it is difficult to identify and there is no audit trail, not much could be done. Bank Negara officials indicated in interviews that their biggest challenge is how to encourage more formal remittances.

### 1. Freight Forwarding Companies

They are basically cargo and freight forwarding companies, but they assist Filipino migrant workers to remit money back home. Four such companies are located in a popular shopping complex called *Kota Raya* in the heart of Kuala Lumpur. The surrounding area is a popular haunt for migrant workers during public holidays and Sundays and they gather in large numbers to meet and exchange information. There are also many popular eating places that charge decent prices and entertainment outlets with video games, etc., in the area. Many outlets cater specifically to the migrant community. On weekdays, it is the central place for buses, taxis, and other public transport. The light rail transit and outward-bound bus station (*Pudu Raya*) are also nearby.

Although there is little research information, interviews with key individuals in one such company yielded interesting information about how freight forwarding companies actually transmit remittances. Because the company is not a licensed money transfer outfit, it does not advertise its services, but reaches its target market through word of mouth, fliers, and sponsorship of activities in Filipino community associations.

The money is transferred by wire through their own business accounts. For identification, they require the passport to be produced, because they have not incorporated many technological innovations. Sometimes, they do offer free phone calls to the remittance senders. The charge is RM20 (US$ 5.26) for delivery to the city areas and RM25.00 for delivery to the rural areas. Although interviewed officials would not reveal the commissions charged or the exchange rate, they said that the banks decide the exchange rate, implying that they monitor and adapt to the banks' rates. However, the rate was acceptable to the senders.

The company contacts the recipients, although the sender sometimes does so as well. The company accepts Malaysian ringgit and delivers in Philippine peso. There are no competitors and they do not serve other corridors. Remittances are not their core business; their main line of business is cargo and freight forwarding. The clients are all described as friendly, and there are no barriers because they are all Filipinos who use the service.

The interviewees would not comment on the regulatory or policy aspects of the money transfer business. They are also aware that remittances are also sent through trusted relatives and friends who are returning home, and they, too, generally carry Philippine pesos. They consider the door-to-door delivery as their biggest competitors; bank transfers require the remittance recipients and senders to actually go to the bank, which is often inconvenient.

### 2. Hawala, Padala, or Hundi

*Hawala, padala, or hundi* refer to informal channels popular with Indian, Filipino and Bangladeshi nationals. The remitter approaches an identified "runner" or agent and is given an account number of a bank and a telephone number. He then credits the said money into the said account and informs the individual via telephone of the details. Sometimes it is necessary to fax the deposit slip.

Upon confirmation of necessary details, the recipient can receive the cash—sometimes as fast as the same day or the following day. The sender pays no fee, but a tip may be given. The system is perceived as fast, efficient, convenient, cheap, and trustworthy, but there is an element of risk, as this is not an official or legal business.

In interviews, the central bank acknowledged the existence of this method, but because the operators are able to camouflage it with a legitimate money changing business, prosecution is difficult. These informal channels are fairly large, with an estimated 30% market share.

## C. Microfinance Institutions

A broad objective of this study was to examine the role and scope of microfinance institutions in remittance sending and receiving countries. The rationale was that migrant workers would be able to seek assistance from these institutions to start small businesses. This cue was taken from studies done in North America, where the financial services industry is well advanced and vigorous, and credit and microfinance institutions play a major role.

Malaysia does not have specific institutions or entities that provide micro-financing like western countries. But the Government as part of its efforts to lift people out of poverty and improve living standards has formulated specific policies and guidelines for this purpose. The commercial banks are expected to allocate, and they do, a certain percentage of their loans for microcredit financing. The Government through the central bank sets the amount and monitors progress. This is done on an ad hoc, short- or long-term basis.

There are also financial institutions like Bank Rakyat, a cooperative bank, BSN Bank and Bank Pertanian (farmers' bank), which engage in microfinancing to special sectors and target markets, although it may not be their core business. The central bank then monitors the progress and ensures compliance. But all these institutions only lend to the local population and do not cater to the immigrant population.

Amanah Ikhtiar Malaysia (AIM) is the only true microfinance institution in Malaysia According to the AIM spokesperson interviewed, it caters especially to the poor and rural folk. It started as an applied research project of the Center for Policy Research (CPR) of a local university, University Sains Malaysia (USM) in 1986. It was based on the success of the Grameen Bank micro credit program on poverty eradication in Bangladesh. The Ikhtiar Project was registered as a registered private trust or AIM, the acronym in Bahasa Malaysia, in September 1987. This was a year after the launch of the pilot project in Sabak Bernam, Selangor, a rural community in Malaysia. It aimed to reach as many poor people as possible in the shortest time possible. Their objectives are to complement the government program to reduce poverty in the nation to 0.5%. Their core activity is poverty alleviation and the area of interest is provision of microcredit. The activities promoted are training and credit provision.

Under this scheme, borrowers do not need collateral or external guarantors. They have a choice of loan activities. The financial products and incentive schemes are designed to fit the needs of their clients. The repayments are frequently small and they are eligible for repeat or subsequent loans upon repayment and performance of past loans.

Cumulatively, AIM disbursements have amounted to more than RM1,309,650,642 million or US$344,645 million, with soft loans from the government, commercial banks, and their own personal efforts. The loan cycle is from RM1,000 (US$263) to RM20,000 (US$5,263). There is a fixed administrative charge of 10%. AIM boasts of having reached the poorest of the poor in Malaysia. It complements the Government's poverty program and is the most successful poverty eradication program in Malaysia. It also contributes to the economy by creating self-employment.

The AIM model is a rare institution with full government support and funding in line with the wealth associated with a middle-income country. It has reached more than twothirds of the poverty households in the whole country. It has achieved 72% repayment, and 95% of female borrowers repaid their loans. It has 144,695 members, and its slogan is "out of poverty within four loan cycles." It has generated almost US$18.4 million in savings.

## D. Bank Negara Malaysia: The Central Bank

The financial sector in Malaysia comes under the purview of the Ministry of Finance and is closely managed and monitored by the central bank or Bank Negara Malaysia (BNM). BNM is an independent entity within the Government. The powers for controlling and managing remittances come from two Acts of Parliament, namely the Exchange Control Act 1953 (Act 17), Sections 8, 9, and 20 and the Payments Systems Act 2003 (Act 627), Section 5.

The administration of the Exchange Control Act is in the hands of the controller of foreign exchange who is also the governor of the central bank

### 1. Anti-Money Laundering Act

The Anti-Money Laundering Act (AMLA) 2001 came into force on 15 January 2002. It does the following:

- criminalizes money laundering,
- imposes obligations of customer identification,
- imposes obligations on record keeping,
- obligates institutions to report suspicious transactions,
- allows the seizing, freezing, and forfeiture of properties that are proceeds of money laundering activities, and
- provides protection of person reporting information on money laundering.

Prior to passage of the AMLA, money laundering was dealt with mainly through the "know–your-customer" (KYC) requirement. All incoming and outgoing remittances are now monitored closely by banking officials and will be investigated if they are suspicious in nature. Banks are obliged under the Anti-Money Laundering Act 2001 to report suspicious transactions irrespective of the amount.

The adoption of the KYC policy by the banking community worldwide is a step toward preventing the use of the financial system for money laundering purposes. All transactions are reported to BNM, usually in bulk reporting by the commercial banks, but the threshold limit is RM50,000 where a specific form needs to be filled and submitted.

### 2. Reporting Structure and Procedures

On 1 January 1991, the central bank introduced the cash balance-of-payments (cash BOP) reporting system to facilitate the banks' monitoring of cross border transactions between residents and nonresidents for the compilation and analysis of timelier BOP data. The system captures all payments/receipts between residents and non-residents through three conduits; the domestic banking system, intercompany accounts maintained by residents with their nonresident counterparts, and the approved overseas accounts maintained by residents with financial institutions abroad. This system was replaced in 2003 with a new reporting system.

The system requires all cross-border settlements that meet the reporting threshold to be identified by purpose, currency, amount, and country through the completion of the relevant forms KPWP or KPWR (for payments and receipts, respectively). In effect from 1 September 1998, after the Asian financial crisis, the reporting threshold for bulk transactions was reduced to cover initial transactions between RM5,001.00 and RM10,000.00. Currently it is for amounts above RM50, 000 (US$13,158). Amounts above US$1 million are reported separately. All commercial banks must report daily on their ringgit transactions. The reporting is done online via a computer software system called International Transaction Information System (ITIS), which has its own guidelines. Nonfinancial institutions or organizations are required to submit hard copies monthly.

## V. NGOS and Migrant Workers

Migrant workers are a significant segment of the country' population, representing 14% of the total labor force. As such, various organizations and interest groups have taken up problems and other issues related to them. Some of these groups are discussed below.

The *Malaysian Trade Union Congress* or MTUC is the umbrella body for unions in Malaysia. They are mainly involved in protecting the rights of Malaysian workers but migrant workers also fall into this category. MTUC does not discriminate local or foreign workers but views workers on a universal scale. Its concerns are mainly with physical abuse and human rights issues. As an umbrella body, MTUC does not get involved directly but assists its various affiliates to resolve whatever problems or issues are faced by foreign workers. Police brutality and abuse of power against migrant workers are some issues that they have taken up.

*Tenaganita* is a nongovernment organization (NGO) mainly involved with migrant workers' rights and abuses. A vocal NGO, it provides a small level of assistance to Bangladeshi and other foreign workers by educating and creating awareness on remittances and other matters like saving for the future. It has an education program assisted ably by volunteers.

*Hakam* is an NGO registered under the Societies Act that is concerned with human rights abuses, especially immigrants whose status as refugees is either complex or uncertain. Hakam is currently working with the Achenese in Malaysia. This is a unique situation, as the Achenese are not considered immigrants but seeking refugee status. There are about 15,000 who have been given refugee status, but do not live in refugee camps. They live in the urban areas trying to eke out a living. There are another 15,000 who are permanent resident holders because they have been in the country for a longer time. The immigrants from Archeh can be broadly classified into three categories: economic migrants, forced migrants, and refugees. At a rough count, there are about 25,000 working as construction workers in factories and other low skilled and unskilled jobs. They are mainly concentrated in the Klang Valley and Penang and are exploited because of their status.

*Suaram* is a Malaysian human rights NGO whose main focus with respect to migrant workers is helping them with their social problems and rights, as well as abuses by employers or the authorities.

United Nations High Commission for Refugees (UNHCR), the UN agency for refugees, is helping Archenese and Rohingyas from Myanmar who are in Malaysia as political refugees, although the Malaysian Government does not recognize them as refugees. It is a political problem and a sensitive issue.

## VI. Recommendations

The common problems faced by employers in recruiting of foreign labor are delays in obtaining approvals (72.4%) and constantly changing policies (67.1%). Added to these are the bureaucratic procedures that contribute to 50% of the problems.

The Malaysian Employees Federation has recommended that the Government implement a comprehensive and consistent system and policy of recruiting of migrant workers in an organized and systematic manner that would enhance the productivity and efficiency of companies. This is to ensure that industries do not experience a shortfall in productivity and sales growth as experienced by many sectors.

The government should form a national council on foreign workers.[8] There should be government interventions to control the flow during robust growth. There should also be policy measures to regulate the inflow of migrant workers, which must be simple and transparent, easy to execute, and supported by adequate legal framework and institutional capacity to monitor and enforce (Kanapathy 2001).

Transfer charges for sending remittances can be about 8%. Reducing these charges would encourage more remittances through formal channels. Increased competition among transfer service providers could also lower costs and save hundreds of millions of dollars a year, with the benefit flowing to migrants and their family members.

Countries that send migrants need to promote financial instruments to make it more attractive for them to remit. Greater efforts must be made to reach out to migrant communities in developing countries and their families to ensure access to basic banking services. Creating the appropriate policy environment to facilitate the transfer of remittances would be an important step toward harnessing their enormous potential to foster social and economic development, according to Brunson McKinley, Director General of the International Organization for Migration.

Many shortcomings stem from the following: a lack of understanding and perceptions of the different types of migration (an input issue); the way the problem is approached (a management process issue); and existing policy, legistlative, and institutional mechanisms (inadequate management tools).

Fundamentally all cases of migration concern a desire to improve the quality of life. Policies must be promoted that maximize the contribution of migration to development; this is an essential component of a comprehensive policy to address the global context of migration. Urgently required are measures to reduce the cost of remittance transfers as well as incentives to promote productive investment of remittances.

[8] International Labour Organization Conference, April, 2005, Kuala Lumpur.

List of Organizations and People Interviewed

| Organization | Person(s) |
|---|---|
| Affin Bank | Nasaruddin Jalil (Executive, Statistical Department.) |
| | Salina Hassan (Vice President, Balance of Payments Section) |
| | Azahar Othman (Head, Corporate Strategy) |
| | Dayang Kamariah (Acting Branch Manager, KK Branch) |
| | Ishak Martin (Head, Operations, Tawau Branch) |
| | Sheikh Dawood (Vice President, Branch Operations) |
| AIM | Ranjini Shanmugam (Public Relations Manager) |
| Bank Negara Malaysia | Za'aba Kamaruddin |
| | Baloo Pitchai (Executive, Corporate Services ) |
| | Normasita Sidek (Executive, Payment Systems Department) |
| | Chong Mei Kuen (Manager, Payments Systems Department) |
| | Aniza |
| Bank Simpana National | Haslind aHaron (Head, Remittances) |
| | Ahmad Othman (General Manager) |
| Bumiputra-Commerce Bank | Leong Kum San (Asst. Vice President, WU Section) |
| Employer | G. Nadarajan (Independent Consultant) |
| Filipino Workers' Association | Attendees for 'Sunday Training Sessions' |
| HAKAM (NGO) | Alice (Volunteer) |
| | Shanmugam (Volunteer) |
| | Jennifer (Volunteer) |
| HSBC Bank | Nelson Peters ( Customer Services Executive) |
| IME Impex Sdn Bhd | M. Arjun (Manager, Operations) |
| Immigration Department | Ahmad Shukri Majid |
| | M. Mahadevan |
| | Aminuddin |
| | Amirul |
| | Ahmad Mudi (Foreign Workers Section) |
| Indian High Commission | Salleh (Immigration Officer) |
| Japanese Embassy | Susumu Yoshida |
| Makakaisa (Filipino NGO) | Lulu Nuguid (President) |
| | Christy Almeida (Secretary) |
| Maybank | Prakash Ramesh (Asst. Manager, Public Affairs) |
| | Wan Norhiyati binte Ibrahim (Head, Remittances) |
| | Tham Kong Wee (Manager, Payments) |
| | Andrew Lee (Executive, Public Affairs) |
| MIER | |
| Migrant Representative | Norray (Sabah – Indonesians & Filipinos) |
| Myanmar Ethnic Rohingya Human Righrs Org. | Zafar Ahmead |
| Ministry of Human Resources (Manpower) | Mohd Rashid |
| | Aninuddin |
| | Nor Azila |
| MTUC | R. Rajeswari (Research Officer) |
| | Balasubramaniam (President of Metal Workers Union) |
| NEAC (Govt. Think-tank) | Dr. Govindan (Head, Secretariat) |
| Philippines Embassy | Brenda Villafuerta (Labor Attache) |
| | Racqui Kunting (Executive) |
| Public Bank | Faizi Aslam (Executive, Remittancs, Raja Chulan Branch) |
| Royal Embassy of Nepal | Deepak Dittal (First Secretary) |
| Sabah Filipino Association | Amalia Toledo Lim (President) |
| SUARAM (NGO) | Arul (Secretary General) |
| Tenaganita | Irene Fernandez (President) |
| | Agile Fernandez |

| Organization | Person(s) |
|---|---|
| UNDP | Angel Lam (Communications Officer) |
| | Saira Shameem (PRO) |
| UNHCR | Dr. Volker Turk (Representative) |
| University Tun Abdul Razak | Dr. R. Ravindran (Assoc. Professor) |
| Western Union | Teoh Ooi Heng (Operations Head) |

## Methodology

The research study was conducted via a series of research methods. This included market surveys conducted by two companies. One was City Advertising Enterprise—based in Taman Seri Serdang and involved in creative advertising, market research, and ICT and 'AriSu Management Consultants'. The market survey was conducted by personal interviews where migrant workers from Indonesia, India, Bangladesh and Nepal live or work. The interviews were conducted after their dinner and small gifts were given as a token of appreciation. The Filipinos in Western Malaysia were interviewed on a Sunday where they gather at the St. John's Church in the vicinity of Kuala Lumpur. Interviews were also conducted at their Training Centre in Jalan Ampang where the Philippines Embassy conducts classes every Sunday.

Focused group discussions were held with migrant workers. The Central Bank, some domestic banks and other organizations involved with migrant workers like the UNHCR and NGOs were given a prepared set of questionnaires followed by face-to-face interviews. Further research from published manuals, journals, and the Internet were extensively examined and studied. Information was also gathered by attending seminars and conferences on migration issues and remittances.

The market survey was conducted professionally and measures were taken to ensure that there was a good and fair representation of migrant workers where they would congregate in numbers. An interpreter was always present to translate the questionnaire and to clarify any doubts raised. The total sample size was 610 and distributed as follows.

| | | |
|---|---|---|
| Indonesians in Peninsular Malaysia | – | 200 |
| Indonesians in Sabah | - | 10 |
| Nepalese in Peninsula Malaysia | - | 100 |
| Bangladeshis in Peninsula Malaysia | - | 50 |
| Indians in Peninsula Malaysia | - | 50 |
| Filipinos in Peninsula Malaysia | - | 50 |
| Filipinos in Sabah | - | 50 |
| Malaysians working in Singapore | - | 100 |
| **Total** | | **610** |

# Appendix 6

# Country Report: Philippines

# I. Migration Trends in Country under Study

## A. The Regional Scope of Migration Trends in the Philippines

The present landscape of international Filipino migration can be better understood by evaluating the deployment statistics on overseas Filipino workers (OFWs) published by the Philippine Overseas Employment Administration (POEA).

The POEA statistics capture only the documented and processed records of OFWs who pass through the employment facilitation services of POEA. Workers included in the measurement qualify under the temporary migrant status. Their residence and employment in a foreign country are based on formal or sometimes informal employment contracts and work permit specifications.

Because permanent Filipino migrants have acquired immigrant status or foreign citizenship abroad, they fall outside these international migration estimates and cannot be categorized as OFWs. However, it is pertinent that the POEA deployment statistics do not include the movement of the irregular Filipino migrant workers. These workers, having passed through the backdoor of international migration, are undocumented and thus lack valid passports or, if documented, they have no valid residency or work permits, or have overstayed their visas. At any given time, seven million Filipinos work overseas according to the official records of POEA. The actual figure may be significantly higher, up to double that number, if undocumented migrant Filipinos were included.

The study examines migration flows from the Philippines to leading destination countries in the region, namely Hong Kong, China, Singapore, Japan and Malaysia. It should be noted that Malaysia is both a key receiver and sender of migrant workers.

This comparative analysis of the flows and occupational composition of aggregate Filipino migration to these four key destination countries uses data on the number of deployed workers according to occupation and destination. The analysis covers the past 8 years (1997–2004) and reveals the shifts in occupational choices of Filipino migrant workers, considering the labor climate for particular destinations.

By 2001, changes were made in the structure of the occupational categories of the data on deployed workers. Classifications were made more specific to internalize the dynamism of the labor market. Nevertheless, during the periods specified, notable and verifiable trends can be observed continually in spite of classification changes.

From 1997 to 2004, the largest group of overseas workers was deployed in production, machine operations, and transportation. These semiskilled workers gained specific training in the industries in which they were employed. However, from 2003–2004, the number of workers deployed in plant and machine operations showed a cumulative decrease of 12.11%.

Another noteworthy observation is that service workers, including domestic helpers, comprise a numerically and socially significant part of the migrant labor distribution. During 1997 and 1999, 149,000 service workers were deployed abroad, representing the largest volume of this OFW segment. This number, however, decreased to 136,000 workers deployed during the year 2004.

The crucial aspect of this measure is its relationship to the recent market demand for medical aides or caregivers. These occupations still fall under the category of service workers although a reason for the periodic decrease in volume can be attributed to the transition gap of the composition mix.

In these observations, inferences can be drawn on the variations in the trend determinants by analyzing the supply and demand specifications in particular work categories. The trend has shown an increase in migrant workers from countries such as Malaysia and Indonesia who directly compete with Filipino workers.

**Table A6.1: Number of Deployed Overseas Filipino Workers by Year and Occupation**
('000)

| Year/ Occupation | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| Professional, Technical and Related Workers | 120 | 107 | 148 | 137 |
| Administrative, Executive and Managerial | 3 | 5 | 11 | 7 |
| Clerical | 28 | 39 | 33 | 42 |
| Sales Workers | 14 | 14 | 19 | 17 |
| Service | 419 | 379 | 419 | 372 |
| Agricultural | 6 | 3 | 4 | 8 |
| Production Related, Trans, Equipment Operators, Laborers | 418 | 355 | 408 | 393 |

**Table A6.1: Number of Deployed Overseas Filipino Workers by Year and Occupation**
('000)

| Year/Occupation | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| Officials of Government and Special Interest Organizations | 17 | 26 | 24 | 27 |
| Professionals | 101 | 106 | 93 | 81 |
| Technicians and Associate Professionals | 73 | 100 | 95 | 91 |
| Clerks | 30 | 36 | 32 | 42 |
| Service Workers | 116 | 116 | 107 | 136 |
| Farmers | 5 | 6 | 3 | 5 |
| Traders | 163 | 168 | 164 | 150 |
| Plant, Machine Operators | 173 | 155 | 161 | 161 |
| Laborers | 346 | 342 | 355 | 312 |
| Special Occupations | 6 | - | 5 | 1 |

Source: National Statistical Coordinating Board data

From 2000 to 2004, Hong Kong, China, consistently received the highest number of Filipino workers, as shown in the data estimates on overseas OFWs deployed to Hong Kong, China, Japan, Singapore and Malaysia. Filipino workers in Hong Kong, China, predominantly were household workers, factory workers, and caretakers or nursing aides, earning a minimum salary rate of HK$ 3,270.00.[1]

The growth rates across the four destination countries in this study have varying implications. Absolute increases from 2003 to 2004 in the volume of deployment to Hong Kong, China, and Japan are also partnered with negative growth rates using cross-tabulation during this period. These observed periodical decreases may be due to seasonal policy memoranda on labor importation in the countries involved.

Another key factor is the pull of demand from other destinations, including the United States (US) and even Australia, which have the largest market demand share for health workers. Moreover, European countries are now seeking Filipino health workers, especially caregivers and nurses, with the United Kingdom employing the largest share. This demand may be another reason that accounts for the overall negative growth rate in Asia.

Policy decisions of the destination countries in this study—including stricter employment requirements, visa granting climates, and internal political occurrences—may have contributed to the decrease in the deployment of Filipino workers captured in the statistics. For example, in Hong Kong, China, employment opportunities are granted only to professional and skilled workers who qualify under the Admission of Talents Scheme by the Hong Kong Immigration Department. Moreover, Filipino domestic helpers in Hong Kong, China, face tougher times now that the Hong

[1] TA 6212/ Hong Kong, China, Study.

Kong, China, Government requires employers to pay an additional Hong Kong dollars (HK$)400 per month, an amount that would eventually be deducted from the employees' wages. On the other hand, in Japan a market update issued last year reported that performing artists such as stage actors, singers, dancers, and musicians, must comply with either one of two requirements.

(i) The applicant for entertainer visa has spent a minimum of 2 years at a foreign educational institution, studying subjects relevant to the type of performance in which he/she will engage

(ii) The applicant must have a minimum of 2 years' experience outside Japan in the type of performance in which he/she will engage.

In Singapore, policy directives have been aimed toward the importation of labor. Employment opportunities in Singapore with a salary range of US$200–US$1,000 include medical workers, Information Technology professionals, construction workers, and household workers. The last category of domestic helpers has been affected by the latest regulations. Effective January 2005, the age requirement has been raised to a minimum of 23 years old. By April 2005, foreign domestic helpers were also required to pass an English language proficiency test within three days of their arrival. These mandates will further constrain the outflow of Filipino workers to Singapore.

Malaysia, however, is a different case. While the deployment data showed a decrease between 2003 and 2004, and Malaysia has the smallest share in the total number of immigrant workers among the four destination countries, there was a marked increase in labor importation of Filipino workers, as compared to the 2000 and 2004 data. The latest decreases in Filipino labor exported to Malaysia are due to stricter immigration policies and the Malaysian Government's heightened campaign against illegal immigrants. The conditions have probably contributed to the decrease in the practice of Malaysia to procure Filipino workers for its thriving industries.

**Table A6.2: Number of Deployed Land Based Overseas Filipino Workers by Year and Country**

| Year | Hong Kong, China | Japan | Malaysia | Singapore | Others |
|---|---|---|---|---|---|
| **2000** | 121,582 | 63,041 | 5,450 | 22,873 | 63,965 |
| **2001** | 113,583 | 74,093 | 6,228 | 26,305 | 50,363 |
| **2002** | 105,036 | 77,870 | 5,721 | 27,355 | 59,443 |
| **2003** | 84,633 | 62,539 | 7,124 | 24,737 | 64,124 |
| **2004** | 87,254 | 74,480 | 6,319 | 22,198 | 64,301 |

Source: National Statistical Coordinating Board data

OFW remittances have exceeded the US$6 billion mark per year since 1999 and actually hit US$8.5 billion for 2004. The official amount is larger than that of annual tourism receipts, foreign direct investments, and portfolio investments combined. OFW remittances also run a close second to value-added for manufactured exports, which is the Philippines' leading foreign exchange generator.

For the countries in this study, there was a 45.42% growth rate in year-on-year data, comparing 2004 and 2005 remittances from foreign Asian countries. This growth rate is the largest rate compared to growth rates from the Americas, Oceania, Europe, the Middle East, and Africa.

The increase in OFW remittances from Japan, Singapore and Hong Kong, China, can be attributed to two specific factors.

The first factor is the increase in the volume of workers deployed to these countries. The *2004 Survey on Overseas Filipinos* from the National Statistics Office shows that among 820,000 OFWs in Asia, the largest increase was in Saudi Arabia with 29.3%, followed by Hong Kong, China, with 12.4%, Japan with 11.8% and Taipei,China with 8.2%.

The second factor is the change in the occupational mix in these countries. Recent news reports speak of the prevalence in both supply and demand sides for caregivers, nurses, and other medical-related occupations. One specific draw to these occupations, leading to an outward shift of the supply curve, is the higher wage rate paid by these jobs. Considering an increase in the volume of workers and, likewise, an increase in the worker wage rate, it is possible to project a further increase in remittances from OFWs.

# II. Demographic and Remittance Profile of Senders and Recipients

## A. Demographic Characteristics

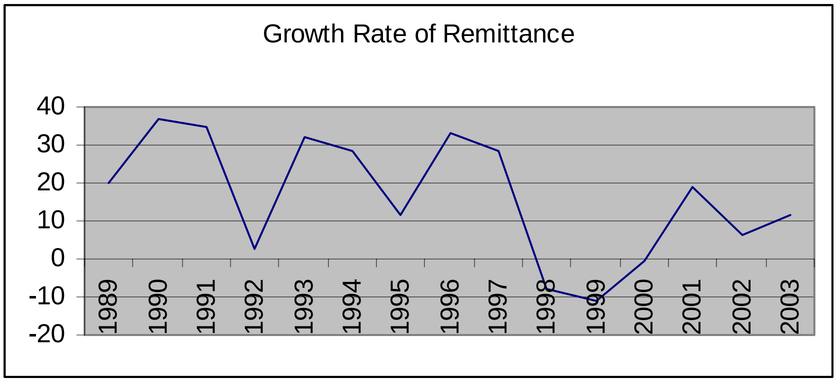
Filipino migrant workers come from different regions of the Philippines, although the majority is from the National Capital Region (NCR) and the Southern Tagalog Region, the geographic region nearest to Metropolitan Manila. In 2004, the regions around Metropolitan Manila (Central Luzon and Calabarzon) sent more migrant workers than in 2003. The rising trend is due to the high global demand for Filipino labor.

In 2004, the Philippines, as a whole, sent more than 81,000 additional migrants to countries worldwide. Remarkable growth rates are observed for NCR and Region IV-A, with growth rates of almost 7% and 11%, respectively. The Autonomous Region of Muslim Mindanao had the highest growth rate for OFW deployment at 138.46%.

## B. Remittances and Survey Results

As noted earlier in this study, OFW remittances have been increasing steadily in the recent years. Currently, the Bangko Sentral ng Pilipinas projects that remittances could reach up to US$10 billion in 2005. Remittances began to show a negative growth rate in 1998 during the period of the post-Asian financial crisis. This negative growth may be attributed to rising transaction costs for remittances or simply to the reduction in the volume of deployment of OFWs. However, in 2001, the remittances gained ground again. It was only in 2003, the last year measured, that remittances reached the US$8 billion mark.

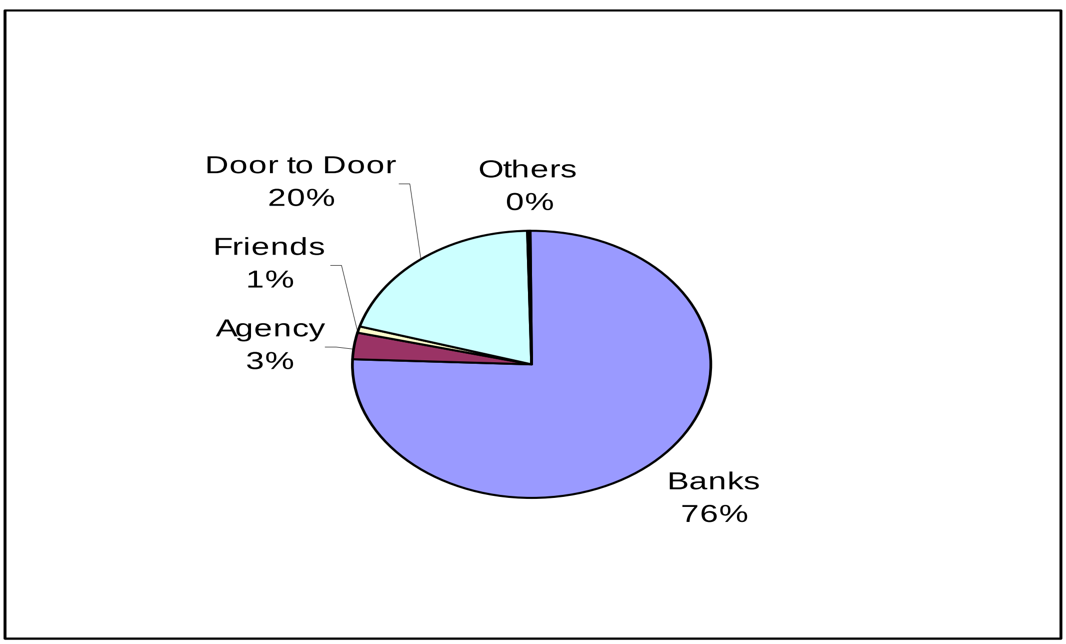
**Figure A6.1: Growth Rate of OFW Remittances**




Source: Bangko Sentral ng Pilipinas

In 2003 and 2004, a majority of OFWs used the formal channels (channels of the banking system directly under the Bangko Sentral ng Pilipinas) as opposed to the informal channels. Informal channels were those not considered to be through "formal" agencies, for example sending remittances through friends or officemates (*padala*) and door-to-door (couriers). The increased volume of remittances directed through formal channels may be attributed to a more intensive marketing effort on the part of Philippine banks and a progressive decrease in the price that formal channels charge for remittances.

**Figure A6.2: Selected Modes of OFW Remittances**




Source: *Survey on Overseas Filipinos 2004,* National Statistics Office.

**Basic Market Survey of OFW Remittance Beneficiaries**

A survey of remittance beneficiaries was conducted at the Philippines Duty-Free Shop to study the beneficiaries of OFW remittances and develop basic demographic and profile information on them. The site was chosen because the duty-free shop is a usual stopover for arriving OFWs and their families welcoming them home at the airport. The survey covered OFWs who arrived and visited the Philippines Duty Free Shop during 15 March to 30 April 2005. The target sample size was 300, which yielded a total of 274 valid survey returns.

The survey questionnaire was administered in English and also translated into the vernacular (when needed). The administration of the survey allowed for open-ended probes that further elucidated the perceptions, attitudes, and motivations of OFW remittance beneficiaries.

Two focus group discussions (FGDs), composed of eight discussant OFW remittance beneficiaries, were conducted in the month of April 2005. One FGD, composed of eight discussant OFWs (the remittance senders), was conducted in May 2005. The FGDs were conducted to gain more information and enrich the findings from the basic market survey. Approximately 80% of those interviewed were aged 35 years or older, and 71% were female.

Of the respondents 32% said that their annual personal income was below Philippine pesos (P)10,000; 29% reported annual personal incomes of over P250,000 (approximately P20,000 per month). Of those interviewed 40% claimed that they are the main income earner in their families. The remaining 60% claimed that they are not the main income earner. Of those surveyed, the main income earner in 71% of families earned more than P140,000 annually, with 32% earning over P500,000 a year.

Respondents receive remittances from multiple senders. The most common sources are the spouse (28% of respondents), children (28% of respondents) and siblings (26% of the respondents). Table A6.3 shows the distribution of the average annual remittances received by recipients. Approximately 60% receive remittances amounting to P140,000 or more annually, 36% receive remittances of P250,000 or more annually, 18% receive remittances of P500,000 or more annually, and 12% of recipients receive remittances of P10,000 or less, annually.

**Table A6.3: Average Annual Remittance**

| Amount | % |
|---|---|
| Not Over P10,000 | 12 |
| P10,001–P30,000 | 3 |
| P30,001–P70,000 | 12 |
| P70,000–P140,000 | 15 |
| P140,000–P250,000 | 20 |
| P250,000–P500,000 | 18 |
| Over P500,000 | 18 |
| No Response | 1 |
| **Total** | 100 |

n = 274

The respondents reported the most common frequency of receipt of remittances was 11–12 times a year or on average one remittance per month. The regularity of receiving remittance is presumed. Of the respondents 8% claim that they receive remittances only when necessary. Of the recipients 60% receive remittances 11 times or more during a year. Of the recipients 18% receive remittances 1–3 times a year. Twenty percent of respondents report that they have been receiving remittances for more than 15 years while 32% have received remittances for only 1–3 years.

When asked what the primary reason is for receiving remittances, 65% of respondents replied that they received remittances to take care of basic family needs. This reality is illustrated by the fact that 74% of respondents claim to use remittance money mostly to purchase food, while 58% cited clothing as their main expense item. Fifty-three percent of recipients use remittance money for education, while 34% dedicated money to housing. The second most common reason for receiving remittances among the group seemed to be emergency expenses.

Recipients engage in what may be considered "basic" financial activities, namely maintaining a savings account (82%), keeping a small family or commercial business (19%), and taking out a mortgage loan (15%). It is worthwhile to mention that in the Philippine context rarely is the regular savings account considered an account for actually accumulating savings. Savings accounts in this context are the most basic account media for holding money in or passing money through the bank. In many instances, a savings account is used as a "wallet" and safekeeping account.

The majority of the remittance recipients surveyed claimed that they have bank accounts, with only 12% of participants reporting no bank account of any kind. Taken in conjunction with the 82% who own savings accounts, it is evident that there are recipients who actually maintain other bank accounts, not specifically savings accounts. In the Philippine context, this covers the full range of accounts from checking accounts to time deposits, and similar (or even more complex) deposit products that Philippine banking institutions offer. It is interesting to note that out of those remittance recipients who did not own a bank account, many responded that they did not have one because they felt that they did not need one, or that they felt they did not have enough money to justify opening a bank account. Only 62% of those surveyed have used ATMs.

Fifty-nine percent of respondents reported that they have neither a credit card nor a debit card, while only 36% do claim to have credit cards. No conclusions could be made as to creditworthiness of the recipients since the survey did not investigate the reasons for not possessing a credit or debit card. However, as banks remain the biggest distributor of credit and debit card products, the fact that so few have credit or debit cards could be correlated with the relatively low number of respondents who have bank accounts.

Most recipients receive notification of the incoming remittance directly from the sender. This notice triggers a series of actions on the part of both the recipient and the remitter. For example, it is not unusual for the recipient to send a confirmation message to the remitter to confirm receipt of the remittance. Seventy percent of respondents claim that it takes 1–3 days for them to pick up the proceeds of their remittance.

The results of this survey seem to indicate that the remitters based abroad tend to be decisionmakers who select the money transfer agency used in remittance transactions (the "purchase decision," in marketing parlance). Only 40% of those questioned report that the remittance recipient chooses the money transfer agency to be used in transactions. However, it must be noted that the responses do not preclude the possibility that someone else could make the decision, (a highly unlikely option), or that the decision could be a joint one that both the sender and recipient make together.

The key to marketing initiatives is understanding who the decision maker is since service providers may target decision makers to influence them to "switch" from informal channels to formal channels for remittance services. Proper identification of the decision maker influences decisions of remittance service providers and policymakers since they target those who select remittance services. The design of marketing-related initiatives of service providers and policy initiatives of policymakers must consider knowledge about the decision maker and factors that influence the decisionmaker's choice of remittance channels.

Once the decisionmaker is identified, marketing and policy initiatives must then examine the factors that influence the decision-maker's choice of remittance channels. In 205 instances, the respondents cited the listed reasons for a choice of money transfer agency. The survey allowed for multiple responses. However, there were a substantial number of respondents (no less than 69 or 25% of the base) who could not cite the reason for the choice of money transfer agency.

**Table A6.4: Reason for Choice of Money Transfer Agency**

| **Reasons for Choice of Money Transfer Agency** (multiple responses allowed) | % |
|---|---|
| (Low) Fee | 1 |
| Recommendation | 7 |
| Reputation | 9 |
| Speed | 14 |
| Favorable Exchange Rate | 2 |
| Easy Access to Company | 41 |
| Customer Service | 0 |
| Other (specify) | 1 |
| **Total** | **75** |

n = 205

The nature of the decisionmaking process may be more complex than one may assume. A mixture of factors evidently influences this decision. Even when asked to indicate the most important factor influencing the choice of money transfer agencies, the responses provide little insight into the reasons why respondents select a particular agency.

Easy access to a company is the most frequently cited reason for the choice. However, a follow-on question arises concerning what the components of easy access are. Based on FGDs, it was clear that the concept of easy access covered the range of factors such as proximity of the location where a remittance is received in cash to the remittance recipient's home, office, or even a third location that is convenient to the recipient. Thus, easy access can refer to proximity to any of these places. The "not-so-stringent" requirements for opening an account are a matter of perception, depending on the particular profile of the remittance recipient, as well as the variety of access channels. Recipients can access remittances over-the counter at a bank, through ATM access and its built-in access points, including mall/supermarket shopping, paying bills, etc., through checking accounts, or simply using person-to-person or door-to-door delivery.

All those remittance senders who gave responses reported that they find it easy to locate their money transfer agency. This is understandable as the remittances continue to be sent through their choice of money transfer agency. However, it is reasonable to speculate that ease of locating the money transfer agency from the recipient's end may be a major "dissatisfier" if it is not perceived as convenient by the recipient.

In a dual factor model, or "satisfier-dissatisfier analysis," a dissatisfier is usually not meeting a basic minimum requirement for the product or service being marketed or sold. Without this attribute or characteristic being present the user has a reason for nontrial or nonrepeat of purchase of the product or service.

What is the value of the analysis? If the objective is to increase the volume of remittances sent via formal channels, this increase may be realized through initiatives targeting formal channel users, informal channel users, or a combination of both. There are two types of formal channel users, those who now use formal channels exclusively (Type 1), and those who use multiple channels, including but not limited to formal channels (Type 2). The remittance magnitude objective refers to the goal of increasing the volume of remittances transferred through formal channels by remitters who are already using formal channels. This means increasing the total remittance amount (an increase in either salaries or the portion of salaries remitted). For those who are currently sending remittances using multiple channels, the objective is to rechannel more of the remittance amount through the formal channels (the rechanneling objective).

On the other hand, an informal channel user (Type 3) is a remitter who uses only informal channels, without using any formal channel. The objective is to motivate the user to "switch" to either a Type 1 or Type 2 by becoming a formal channel user. Thus there are three types of channel users to target for increasing remittances, and each type will require a different marketing program. Another avenue to explore is transforming those channels now considered to be informal channels into formal ones. This issue may be better addressed via policy or regulatory initiatives as well as the use of unofficial incentives to induce informal channels to become formal.

Seventy-two percent of recipients received their remittance proceeds in the local peso currency, 28% received them in US dollars, and 3% of respondents received remittances in currencies other than those listed. On the question of the preferred currency of remittance proceeds, 62% of recipients preferred receiving their remittance in local Philippine pesos, and 35% preferred to receive the proceeds in US dollars.

When asked about their satisfaction with the exchange rate used by the money transfer agency for their remittance (if it was converted), 74% of respondents said they found the exchange rate appropriate. The remaining 26% did not find the exchange rate appropriate. This point of dissatisfaction may be significant in two ways. First, it is a source of dissatisfaction that may lead to a possible shift in channel from the present money transfer agency to another formal channel. Second, there is the risk of a shift to an informal channel since one of the "satisfying" attributes of informal channels is the ability to offer flexibility in exchange and conversions (via timing of conversions, as well as rate flexibility).

There appears to be no mutual exclusivity in the choice and use of formal and informal channels. Thirty-eight percent of respondents claim they have used or use informal channels, while 62% have never used or do not use informal channels.

The FGDs reveal that informal channels in general remain a viable option for sending remittances. The continued use of these channels by remittance senders and recipients and their inclusion in the "evoked set" of remittance alternatives lies in the perceived added value that users attach to them. The advantages are

- near-instant access (no documentation required, "have money, will transfer" simplicity), built-in trust, and confidence associated with these remittance methods; in other words, the experienced OFW can check on the reliability/integrity of the informal channel through referral endorsements of previous users or their successful trial remittances in the past;
- the availability of the same channel for instant/emergency credit (extension of interest-bearing quick loans for emergency fund needs); and
- the perceived lower effective costs of sending remittances via these channels. The cost of remitting is really the net effective cost of remittance charges and currency conversion costs.

Of the 132 mentioned, 74% cited couriers as informal remittance transfer method they used. This is an informal channel commonly referred to as the *padala* system. Twenty-six percent used an informal channel remittances were paid locally by an intermediary, a process known as the *kaliwaan* system, as their informal channel.

There is a higher preference for formal channels with the given sample. However, 28% of the respondents preferred the informal channel. This information becomes even more important in the light of the multichannel behavior of remittance senders and recipients.

# III. The Marketplace of Remittance Transfers

## A. Players

### 1. Philippine Banks

There are about 17 commercial banks currently involved in the business of remittances. A smaller number (about seven thrift banks) are also involved in the remittance business. They handle the remittances of the receiving bank.

The Association of Bank Remittance Officers, Inc. (ABROI) plays a key role in promoting the banks' interests in the remittance industry, particularly regarding regulatory matters.

Five major players hold 80%–90% of the market. Market concentration and association, including pricing, may be considered factors in strongly promoting the banks' interests in the remittance equation.

The price of remittance services, such as fees and margins associated with foreign exchange rates, is a key factor in the choice of remittance service provider. In a highly concentrated market—with five major players controlling 80%–90% of the total market for remittances—pricing is bound to be controlled by the service providers.

The Bangko Sentral ng Pilipinas (BSP) has taken issue with pricing of remittances. Congress has likewise pushed for lowering of remittance service pricing through its committees.

Regardless of whether or not the recipient or sender has a relationship with the bank service provider, he or she can make remittances through a bank account.

If the recipient or sender does have a bank account with the bank remittance service provider, he or she can directly credit the remittance to the bank account. Proceeds may take on any available denomination (peso, US dollar, Japanese yen being the most common). Otherwise, Advise-and-pay mechanisms may cost a little more. Peso-denominated accounts at the receiving end require that the sending party or the receiving party or any other intervening party convert the remittance amount from its original currency into Philippine pesos, which is the bank account's denomination. These parties may or may not be financial institutions. Because of the conversion requirement, a bank may offer a low price on the remittance service and still make a much bigger spread or margin on the currency conversion.

Pricing remittances therefore involves a play on pricing to cover the direct costs associated with the transfer of "financial value" (physical transfers need not happen anymore), the indirect costs of both the sending party and the receiving party (and any intervening party), and margins or spreads on the conversion of currency.

The foregoing discussion becomes more relevant in the light of the survey findings that indicate pricing and accessibility are major decision factors. Thus, they serve as basic minimum requirements in the choice of a bank remittance service provider.

### 2. Philippine Money Transfer Agencies

Players in this segment of the industry began operating as cargo handling companies, making their profits in door-to-door delivery of cargo. The major players include iRemit, LBC Express, Inc.

and Aboitiz. The estimated volume, cited by Bagasao et. al., is in the range US$25–500 million each per annum.

### 3. International Money Transfer Agencies

Western Union is considered the largest money transfer agency in the country, with five major agencies and a subagent network of over 6,000 representatives, primarily through Bank of the Philippine Islands, Radio Communications of the Philippines, Inc. (RCPI), various rural banks, and Cebuana Lhuillier pawnshops.

MoneyGram (through its Philippine representative PeraGram) has a network size of over 2,000 agents including three banks (RCBC, Equitable PCIBank, and Bank of Commerce). Their obvious selling point is derived from their network coverage. Thus, they are able to address OFW remittance recipients' desire for accessibility, convenience, and quickness, remitters' basic minimum requirements in the choice of a remittance service provider.

### 4. The Padala System

Literally, *padala* means send via another person. The other person has been selected for his reliability (security that the money will be brought along by the chosen delivery agent and received by the intended recipient in the right amount and at the right time). The chosen delivery agent can be anyone who has the trust of the remittance sender and/or receiver to insure that the remittance will be delivered and received as intended. There is an implication of "repeat purchase" as this trust builds with each successful delivery.

The remittance transaction occurs under the purview of the regulatory authorities, which assure that physical cross-border flows of currency notes are implemented within the legal regulatory limits allowed.

### 5. The Kaliwaan System

Although the *Kaliwaan* system in not widely known, it operates through a well-tested network of currency exchange. The link in the chain is primarily the remittance operator's agent at the source country and the operator at the destination country.

Prior to departure, the prospective remitter and recipient enter into an agreement that remittances will be directed through the operator's agent at the destination country. The operator's agent is an individual who need not be licensed to operate as a remittance service provider in the source country. Upon remittance, remittance sender goes to an agent and turns over the foreign currency in addition to fees charged. The operator's agent calls the operator at the destination country to confirm that funds have been received. The operator then pays off the intended recipient.

The *kaliwaan* system has been referred to as the local version of *hawala* . There is no clear evidence of the existence of the *kaliwaan* system that approximates the well-entrenched system and network of relationships as in *hawala*. However, in recent months the "*kaliwaan*" system has become the subject of congressional inquiries because of its possible use in laundering monetary proceeds from the illegal numbers game known as *jueteng*.

### 6. The Handcarry System/"Cash Brought Home"

OFWs who are returning home for a vacation or who are temporarily or permanently moving back because of their contract expiration physically bring the foreign exchange with them.

The estimates of the actual volume of those who use these informal channels vary with every major player in the remittance industry, including the government and regulators.

### 7. Telecommunications Companies

In 2000, Smart Telecommunications' SMART Money paved the way to online service for remittances by YesPinoy.com.

Total Solution Software, the developer of YesPinoy.com, introduced a remittance service whereby OFWs can send money to the Philippines using a credit card. Money is transferred electronically to the recipient's Smart Money account, which also can serve as a credit card.

Smart later introduced a short message service (SMS) or text messaging version of cash remittances. OFWs simply use a partner remittance center, which in turn uses text messaging to transfer funds to the recipient in the Philippines. Remittance partners exist in Hong Kong, China, Athens, London, Madrid, Dublin, Japan, and the United States. Smart charges 1% processing fee for remittance services.

A recipient receives a text message indicating the Smart Money account number and the amount that was sent. The recipient may opt to use either a Smart Money card or directly claim the remittance in cash at local Smart padala centers (Smart wireless centers). Recipients may also claim money at selected McDonald's outlets, SM department stores, SeaOil gasoline stations, and Tambunting pawnshops.

Globe Telecoms' G-Cash integrates the remittance system into existing subscriber identity module (SIM) cards. Users are able to purchase merchandise or pay services and make person-to-person transactions, domestic money transfers, and overseas remittances, all through text messages. Users convert their cash into electronic money at G-Cash Centers like Globe Hubs, LBC outlets, Tambunting outlets and pawnshops, and 7-11 stores among others. Electronic money can be used at participating stores like National Bookstore, Mercury Drug, and Burger King. The sender sends a text message indicating the amount and the pin code to a number code (2882), and includes the recipient's phone number. Senders who do not have a Globe subscription can remit by visiting a G Cash affiliate and requesting that the affiliate transfer the amount to the recipient's phone.

Globe has partners in Taipei,China; Singapore; the United Kingdom; Bahrain, Hong Kong, China, and Italy. Globe charges a 1% processing fee for both local and international fund transfers

## B. Regulatory Environment Governing Money Transfers: Rules, Compliance, and Restrictions

Due to the financial liberalization laws, enacted in the late 1990s, the BSP does not really regulate commercial bank operations, including the handling of remittances. Only the Anti-Money Laundering Law can be viewed as a limiting factor to impede the transfer of huge and questionable remittance amounts. The BSP's lack of regulation contributes to the temporary decline in the continuing strict implementation of Counter-Terrorist Financing (CTF) regulations in the Middle East. Saudi Arabia, in particular, now asks for complete documentation upon remittance.

A banking license is not always necessary to engage in money transfers. BSP Circular No. 471 (Series of 2005) implicitly recognizes that prior to its issuance, there were other entities (individuals or nonbanks) engaged in the business of money transfer or remittances.

Under BSP Circular No. 471, Sec. 1,

> "Qualified persons or non-bank institutions wishing to act as foreign exchange dealers (FXDs)/money changers (MCs) and/or remittance agents (RAs) are required to register with the Bangko Sentral ng Pilipinas (BSP) before they can operate as such."

For purposes of the BSP regulation, the term MCs, interchangeably referred to as FXDs, refers to those regularly engaged in the business of buying and/or selling foreign currencies.

RAs, on the other hand, refer to persons or entities that offer to remit, transfer, or transmit money on behalf of any person to another person and/or entity. These include money or cash couriers, money transmission agents, remittance companies and the like.

While these entities originally may have been required to register businesses under the Department of Trade and Industry (as proprietorships) or under the Securities and Exchange Commission (SEC) (as partnerships or corporations), and with local government units (LGUs) for permits to operate their businesses, BSP Circular 471 now places these entities under the aegis of BSP regulation, and requires them to register under prescribed processes.

The minimum capital requirement depends on the type of banking license that the institution operates:

1. Universal banks
2. Commercial banks
3. Thrift banks (which includes savings and mortgage banks, stock savings and loan associations, and private development banks)
4. Rural banks
5. Cooperative banks
6. Islamic banks
7. Other classifications of banks, as may be determined by the Monetary Board

For commercial entities engaged in remittances, the required capital for a license to operate as such will depend on the type of business entity (sole proprietorship, partnership, or corporation).

In the Philippines, the businesses of remittance and foreign exchange conversion have been carried out by banks, institutional money changers, Western Union, pawnshops, retail stores, telecommunications companies (like Globe Cash, Smart Padala, etc.), travel agencies, and individual money changers and foreign exchange dealers (both registered or unregistered). Under BSP Circular No. 471, they are now all required to register, thus placing them under BSP regulation. A player that chooses not to register will definitely be in violation of BSP Circular No. 471.

BSP considers all channels that handle a volume of remittance services to be informal if those transactions do not pass through the banking sector. Under BSP Circular No. 471, there will be better control over all the other parties (although this does not mean that they were considered informal according to pre-Circular 471 standards). Evidently volumes moving through money changers, foreign exchange dealers and similar entities, pre-Circular 471, were likewise partially directed through the banking system, if not completely.

BSP and SEC are the main banking/financial regulatory bodies in the country.

## 1. Opening Bank Accounts for Remittances

For both the opening of an account and/or receiving of remittances, proper identification of accountholder/recipient is now required of all entities. Proper identification is required both under the Anti-Money Laundering Act (AMLA) (Republic Act No. 9160, as amended by Republic Act No. 9194), and by BSP Circular No. 471.

Instruments required for identification vary from institution to institution. There are apparent differences in the actual identification requirements, the treatment of identification documents presented, and rules about governing which ones they will accept. One major challenge of this study is to determine how to rechannel the flows from informal to formal channels. Circular No. 471 is an apparent attempt in this direction. The actual enforcement guidelines of Circular No.

471 and its actual implementation have yet to be seen. As mentioned in the discussions, some of these entities able to register may choose to remain outside BSP regulation. The deadline for compliance has been moved to a later date.

Enforcement of Anti-Money Laundering laws and related legislation is accomplished through BSP and Anti-Money Laundering Council (AMLC) investigation, examination, and audits. The obvious enforcement issue that comes to the fore is how to enforce the law against nonregistrants.

As to the informal unlicensed business sector, there is an admission of its existence; but many agree on the difficulty of measuring the actual flow through informal channels. Estimates run from 25% to around 100% more than the volume that passes through formal channels.

## C. Structure of Competition: Transfer Costs and Competitors

The previous study of ADB, TA 4185, already mentioned the competitiveness of the remittance industry in the Philippines, as evidenced by the growing number of banks that are taking part in remittance services. These banks have been increasing their marketing efforts. At the same time they are reducing their cost structures to price their services competitively and entice OFWs to use them as a channel. In the United States (US), a typical US$200 remittance will cost from $15 to $26. A recent International Monetary Fund (IMF) study shows that the Philippines has an average remittance transaction cost of 13.5%, which, given the volume of remittances in the country, is relatively high.

This study also looks at the location of the banks in each region to verify if there is a problem with distribution in the remittance industry. Table A6.5 below suggests that the banks also locate themselves in areas where there are plenty of OFWs. Thus, it can be safely concluded that the availability of formal channels in the regions may not be the problem. This argument is also strengthened by the influx of new ways of remitting, which the telecommunications companies have introduced in the Philippines. Table A6.5 includes commercial banks, rural banks, and cooperative banks. These were selected because companies such as Western Union, Smart, and Globe, which use pawnshops and fast food chains as links for remittance, are highly variable, and information on them is sometimes unavailable.

**Table A6.5: Regional Distribution of Banks**

| Overall/Total | Total Number of Banks | OFW Number | Ratio of Banks to OFW |
|---|---|---|---|
| **Nationwide** | 7,494 | 1,063,000 | 141.8468 |
| | | | |
| **NCR** | 2,601 | 194,000 | 74.5867 |
| | | | |
| **Luzon** | 2,966 | 550,000 | 185.4349 |
| Region 1 | 373 | 86,000 | 230.563 |
| Region 2 | 205 | 57,000 | 278.0488 |
| Region 3 | 801 | 149,000 | 186.0175 |
| Region IV A | 1,149 | 191,000 | 166.2315 |
| Region IV B | 117 | 11,000 | 94.01709 |
| Region V | 216 | 32,000 | 148.1481 |
| CAR | 105 | 24,000 | 228.5714 |
| | | | |
| **Visayas** | 1000 | 165,000 | 165 |
| Region VI | 389 | 92,000 | 236.5039 |
| Region VII | 488 | 49,000 | 100.4098 |
| Region VIII | 123 | 24,000 | 195.122 |
| | | | |
| **Mindanao** | 877 | 121,000 | 137.9704 |
| Region IX | 109 | 22,000 | 201.8349 |
| Region X | 243 | 28,000 | 115.2263 |
| Region XI | 234 | 34,000 | 145.2991 |
| Region XII | 165 | 30,000 | 181.8182 |
| ARMM | 26 | 31,000 | 1192.308 |
| CARAGA | 100 | 10,000 | 100 |

Source: Survey on Overseas Filipinos 2004, National Statistics Office, Bangko Sentral ng Pilipinas

There must be no servicing constraints since relatively few banks are available in each region. It is only in ARMM that OFWs will have a problem accessing remittance services since the number of banks in the area is relatively low compared with the number of OFWs in that region. Each bank services an average of 141 OFWs, but it should be noted that this number of service providers will greatly increase if one were to include the number of pawnshops and fast food chains that the companies listed above actually use.

## IV. Dynamics of Development and Remittances in Asia

### A. Distributive and Social Issues

The OFW remittances make a substantial contribution to the Philippines' gross national product (GNP). It is acknowledged that OFW remittances are an important factor in economic development issues. The integrative characteristics of the relationship between economic growth prospects and relevant social issues warrant a holistic discussion of the large-scale effects of remittances and the importance of channeling OFW remittances.

As the diaspora involves the spreading out of possible human and social capital, it is considered a major source of foreign direct investment (FDI), market development (including outsourcing of production), and technology transfer, among other effects. In the case of the Philippines, specialized features distinguish the Filipino diaspora from the experience of its effects.

The policy and strategy of the Philippine Government related to migration is geared more toward temporary, even temporary circular labor migration. The Government has instituted administration agencies to facilitate the marketing of the Filipino worker, regulation of labor flows, and legalization of recruitment processes and agencies. Aside from these services, the policy in the Philippines has created incentives to draw in the returns from OFW remittances. Overvalued exchange rates and mandatory remittance quotas have been ruled out, and instead, tax breaks and privileged investment options for overseas residents appear to be the favored direction.

The Philippine case as it relates to international labor migration can be described as maximizing the income stream from remittances that are directed at households. Consequently, one can observe the direct impact of remittances on poverty reduction. Remittances are primarily used for household expenditures and for basic needs such as food, shelter, education, and health care. As spending on basic needs also has a multiplier effect in the community, the Government's overseas employment program is said to trigger consumption-based development.

This income stream, however, is realized only during the period of overseas employment. Thus, the initial motivation of sending workers abroad, which was created as a stop-gap measure to alleviate high rates of domestic unemployment problem, has now developed into a cyclical, long-term, Philippine practice of exporting labor.

## B. Macroeconomic Impact

Several articles have stated that a significant number of OFWs and their families do not know how to spend their remittances productively and invest them strategically. There is still lack of information and campaigns for increased saving among households that receive remittances. Thus, the multiplier effect of remittances that can boost economic growth and development is not realized. It may be the case that remittances are solely used for consumption needs, but households channel their savings into "lavish" and "wasteful" resources.

It appears that the role of remittances in economic development should still be questionable in the Philippines. The primary conclusion seems to be that, in the Philippines, remittances do not act like capital flows, which can be positively correlated with gross domestic product growth. This conclusion simply means that the role of remittance as a development tool in the Philippines is still unclear. Remittances in the Philippines behave more like a compensatory transfer, which is used for consumption and nonprofit activities. The results of the regressions are consistent with the survey completed in the sense that remittances are primarily used for purchasing goods to maintain the household including food, clothing, electricity, furniture, appliances, mobile phones, etc. Remittances do not play a role in saving, thus they do not stimulate investing behavior in households. Nevertheless, they still play a direct role in solving problems of poverty since remittance funds are a source of temporary income for households, enabling them to afford daily living. Because families can purchase goods for daily sustenance, there is a decrease in poverty indexes. In addition, educational spending seems to be very significant in decreasing family saving because families with migrant workers postpone saving to invest more in human capital. Thus, the development effect is transgenerational. When workers' remittances are used to reduce short-term poverty, they cannot be used for long-run growth, unlike capital flows such as foreign direct investment (FDI). It could be hypothesized that remittances do not have a multiplier effect, as opposed to the effects of FDIs and official development assistances.

Moreover, remittances in Filipino households are sometimes used to pay debts. Thus, they do not directly contribute to the household's increase in income. Another inquiry should be made into the behavior of recipient households. It may be prevalent in the Philippines that a household greatly depends on remittances and substitutes the proceeds for labor income. The recipient head of household exerts a lower level of effort to increase income since the household expects a constant stream of remittances. They substitute remittance income for labor income. Aggregated across the country this behavior results in the nonincrease of income in OFW households; they purchase the same consumption bundle or a slightly larger one that is insignificant in comparison.

Although the remittances as a share of GNP growth are not significant, the migration of workers still plays a key role in development. It is highly likely that lump-sum cash transfers that migrant workers bring home are the same amounts invested in productive assets. Workers' experiences in foreign countries also expose them to new ideas for business development that directly benefit Philippine development. Thus, foreign working experience translates more as a technology or human capital transfer that benefits Philippine development.

## V. Recommendations

Regional technical assistance No. 6212 has two key objectives:

(i) increasing formal channel usage (channeling objective)
(ii) leveraging remittances for development (development)

The objective on channeling pertains to increasing the preference for formal over informal channels. In the context of multi-channel behavior the objective pertains to increased preference and use of formal channels both in terms of frequency and remittance amounts.

The development objective, on the other hand, has a positive effect on the savings propensity (and behavior) of OFWs. As savings accumulate, the funding provides an impetus for investment-based development (as opposed to consumption-led spending). Likewise the development objective pertains to empowering OFWs and their families as they choose to pursue the entrepreneurship route (via microenterprise, small and medium enterprises) during or following their stints as OFWs.

As more is known about OFWs and the environment in which remittances are made, these objectives can be better understood and tackled in their proper context. Both objectives require behavioral and attitudinal changes in OFWs and their intended remittance beneficiaries. Their accomplishment will require changes in the overall outlook, approach, and strategy of remittance service providers as well as new government policy and strategic initiatives to provide the legal, regulatory, and policy framework to support the desired multi-level changes in OFWs, remittance service providers, and other key remittance players.

### A. The OFW Market

Our basic market survey of remittance senders and recipients reveals the following knowledge and intelligence about the OFW market.

(i) Their predisposition toward banks is not very high. Several factors may account for this. Studies abound that detail possible factors and problems leading to a low savings rate for the Philippines as whole. Their concept of saving is not limited to owning a savings or an investment account in a financial institution.
(ii) The OFW approaches money management of his remittance with a mind-set of "currency portfolio," playing the currency exchange rates for private gain.

(iii) The OFW has a multichannel approach in viewing the remittance of his earnings. It is not a matter of developing loyalty to or preference for a specific channel that results in repeated use of that channel.

(iv) The problem may not be the lack of remittance channels, but rather building awareness, trial, and preference for channels, which are able to serve the remittance needs of OFWs in a distinctive manner beyond basic minimum requirements for a remittance service.

(v) The purchase decision relating to a choice of channel is based on a combination of factors. Minimum basic requirements are convenience/ easy access and speed of remittance, and other attributes like low fee and favorable exchange rate (both pricing related), company reputation, and recommendation are other factors driving the preference for establishing product-service distinctiveness

(vi) The decision is quite an involved one. The remitter and the recipient are jointly responsible for making a decision

(vii) The use of alternative channels to formal channels can be traced primarily to the perception of both the remittance sender and receiver of following attributes of alternative channels that make them seem distinctive or unique:

  (a) Informal channels provide an easy, hassle-free service without the requirements for documentation and identification.

  (b) Informal channels operate on the basis of close community ties and established relationships of trust between the service provider and the remittance sender and remittance recipient. These connections develop through the years with the support of referrals/endorsements from users of the informal channel service.

  (c) The remittance sender–informal channel relationship extends beyond a single type transaction and may include simple credit/lending-borrowing relationship secured only by a claim of future remittance flows.

For the OFW market then, the channeling objective is met by presenting formal channel options that are approximate and, in fact, improve upon the "benefits" offered by informal channels.

There is a growing awareness of the benefits of savings on the part of the OFW and the country as a whole that meets the development objective. The OFW has a greater choice of entrepreneurship routes and more probability of a business being successful.

## B. The Remittance Service Providers

In terms of the channeling objective, if remittance service providers wish to be the preferred channel over informal channels, they would do well to enhance their services along the lines of the product and service attributes identified in the surveys. As indicated, the minimum basic requirement for the purchase decision on the choice of channel is based on a combination of factors, including convenience/easy access, speed of remittance, and other attributes. These include low fee and favorable exchange rates (both pricing related), company reputation, and recommendations. These attributes serve as possible anchors for establishing product-service distinctiveness and should drive user preferences for remittance services.

Smaller players, including rural banks, nongovernment organizations (NGOs), cooperative banks, pawnshops, and other businesses, provide point-of-access distribution points. Ease of access comes with increased costs to the sender and receiver of the remittances. The greater the number of hand-offs in the chain from the recipient to sender, the higher the cost will be to transfer the remittance from the sender to the recipient. Seamless transfers by more efficient, low-cost providers will address the pricing and ease of access requirements.

To the extent that large and small service providers can meet the other requirements (credit availability, empowerment in enterprise setup, development, and management), they will position themselves as choice providers. Also, these service providers are key in tackling the objective of increasing the saving propensity of Filipinos and of OFWs in particular. Admittedly, while price-related factors may offer a valid reason for saving, the general consensus is that Filipinos in general are not savers.

Industry players, in particular, banks, may influence people's choice in saving rather than spending, but only to a limited extent. Today, the task falls on industries to encourage saving through funding seasonal marketing communications, for example, Savings Consciousness Week, which addresses the market at large.

Remittance service providers would do well to approach the OFW market with focused marketing strategies and initiatives. Clearly, providers that include the OFWs in their chosen markets know the income potential of serving this market. Several big institutional players, including the Bank of the Philippine Islands, the Philippine National Bank, Equitable PCIBank, Rizal Commercial Banking Corporation, and insurance companies like the Philippine American Life Insurance Company (Philamlife), have dedicated OFW business segments or "desks" that develop products and services (fee-based or otherwise) for this market.

Aggressive marketing efforts have increased the market share of OFW targeted business for institutions. Their efforts, however, go beyond product development and marketing and include sales blitzes, OFW road shows, and expansion of distribution points for service delivery. Business from the OFW segment has largely been in the form of fee-based income generated by remittance services.

Major bank remittance players have not been as aggressive in the area of generating savings and investments from the OFW market. As the survey reveals, owning bank accounts and the propensity to save do not seem to be general characteristics of the OFW market segment. Several reasons have been propounded for the lack of this behavior:

(i) The absence of money to save—the recipients of remittances, at least seem to say there is just enough money to meet needs
(ii) A feeling that banks are not too approachable—The general consensus among OFWs is that banks are snobbish. This attitude is borne out in market surveys conducted by individual privatelyowned banks.
(iii) A feeling that money in the bank is not saved—The feeling is that inflation causes the devaluation of money in the bank relative to the interest rates banks pay.

Remittance industry players that include OFWs as part of their market would do well to develop OFW-oriented products and services that specifically address OFW saving needs. These products and services should address the perceived need for higher interest earnings to foster the accumulation of savings and, if possible, address the need for savings that are shielded from devaluation.

Likewise, this line of products and services may include improved credit access for OFWs to address short-term needs as well as long-term credit. Long- term credit would include business loans to OFWs and their families who choose to be entrepreneurs following employment abroad.

Access to credit comes at a cost to the industry player. Most players may not find it financially viable to provide easy access to credit without governmental policy and regulatory support for this effort. The Government must provide support that matches the capability of institutional providers to develop OFW-oriented loan products and services to market.

## C. Government Policy, Regulation and Strategy

The objective to increase savings consciousness is a challenge to both the Government and the private sector. Truly the Government must develop more creative communication efforts aimed at increasing the savings consciousness among Filipinos in general and OFWs and their families in particular.

It is not enough that the Filipino population and especially the OFW market have increased their saving awareness. Awareness alone will not create a growing propensity to save. The banks and other financial institutions must ensure that the general public and the OFW are provided with easy-access action points when they approach the actualization phase they are ready to save. Government's role then may lie in providing the policy and regulatory support to make OFW-oriented products and services financially viable for the financial institutions. Some suggest that this support may come from discounted taxes or tax breaks for OFW-oriented savings products to address (even partially) the value erosion issues related to savings. Their role goes beyond providing other remittance distribution point to OFWs. Devaluation-shielded savings for OFWs may be viewed as slightly aggressive, but financial institutions may come up with similar products with price support from the Government.

On the credit side, the Government initially may support financial institutions by providing a window for OFW lending that is aimed at micro, small, and medium enterprise development. Various models exist for such lending including credit guarantees, loan rediscounting windows, etc. The responsibility is to tailor these models or schemes for lending to OFWs' needs.

Savings accumulation by OFWs (when it occurs) also provides an additional collateral option for financial institutions that find the risks associated with this type of lending unacceptable. The extension of credit through an association or mutual benefit fund based on membership is not a novel idea, but it certainly will provide OFWs with greater access to credit when they need it.

Regulators may likewise provide financial institutions with credit ratings that allow for more favorable risk-ratings and induce the institutions to participate in OFW lending.

Rural banks, cooperative banks, and NGOs, acting as end of the chain players, have an important role to play in making entrepreneurship a viable option for OFWs. Moreover, these players may prove effective in enabling would-be entrepreneurs among OFWs to pursue viable business ventures with a greater probability of success. Their function of empowering OFWs may be realized by helping OFW groups to set up enterprises instead of focusing on individual OFW enterprise ventures. The institutions can provide enterprise management knowledge and skills that enhance the probability of enterprise success and mobilize resources for enterprise development.

Quite recently, the legislature has been conducting congressional hearings intended to address the problem of the high cost of remittance services. While it is possible to regulate the costs of remittance services, it seems that authorities would not want to regulate currency conversion prices. As discussed, the net effective remittance price hinges on two things: the cost of remitting the money (including payment to the sending and receiving bank or any other entity in the chain of remittance) and the cost of currency conversion. Currency conversion rates will continue to be dictated by the market. The price or effective cost to the remittance sender/recipient may then only be lowered through a reduction in business margins.

What this then means is that regulators and service providers can anticipate a larger share of remittances when providers come together to provide the necessary products and services intended to increase OFW saving behavior. When OFWs accumulate savings and their remittances follow formal channels, service providers will be able to leverage it for savings/ investment-led development, enabling OFWs to pursue enterprise development.

# Appendix 7

# Country Report: Singapore

# I. Introduction

Singapore is a major remitting country in Southeast Asia. This study's main objective is to better understand Singapore's remittance marketplace, particularly the remitting behavior and remittance volumes of Filipino, Indonesian, and Malaysian migrant workers. The report recommends policy changes to increase remittance volumes and encourage the use of formal channels (defined as those permitted by law), including foreign and domestic banks and licensed remittance companies.

Market surveys of Filipino, Indonesian, and Malaysian migrant workers gathered data on the demographic profiles of the remitters and recipients, remittance behavior, economic activities in Singapore and the home countries, and the migrants' level of contact with their home countries. Interviews with personnel from government agencies, banks, and remittance companies gave a fuller picture of the overall competitive and regulatory environment for the remittance industry, and data on the costs and scope of remittance services offered by banks and remittance companies were collected. Interviews were also conducted with embassies, employment agencies, and non-government organizations (NGOs) to ascertain migration trends and assess the key issues faced by migrant workers in Singapore including remittance activities.

The Republic of Singapore is a small island city-state with a land area of 699 square kilometers (approximately 270 square miles), situated at the southern tip of the Malay Peninsula. It is linked to Malaysia to the north by two causeways. Indonesia is 70 kilometers (45 miles) to the south by sea. Singapore established independence from the Federation of Malaysia in 1965, and despite its small size, population, and limited natural resources, it has become one of the most economically successful nations in Asia and one of the most affluent in the world. In June 2004, its population was 4.24 million, comprising an ethnic mix of Chinese (76%), Malays (14%), and Indians (8%).[1] Singapore has an open, corruption-free, and highly developed free-market economy. Among other accolades, the Cato Institute ranks it "the second freest economy in the world." Its port is one of the world's busiest, and the city-state is a financial hub for Southeast Asia. Its largely manufacturing-based economy is led by exports of electronics and other high-tech goods, with retail and wholesale trade and financial services also major contributors.

# II. Migration Trends in Singapore

Singapore's foreign workers—at times, half its total workforce—have played a vital role in its development since the 1970s, when the economy began to grow rapidly. As the domestic workforce increased its knowledge base and upgraded skills, demand increased for unskilled and low-skilled workers to fill the relatively undesirable jobs left behind. Because of their proximity to Singapore and similarities in language and culture, Malaysian workers initially filled the gap. This led Singapore's Ministry of Manpower (MOM) to label Malaysia the "traditional source" for surplus labor. However, in the 1980s and 1990s, as Malaysia's own developing economy created jobs for its workers, Singapore turned to other countries. As of 2004, foreign workers constituted 28% of Singapore's total workforce, and they continue to be critical to the economy.[2]

## A. Policies on the Employment of Foreign Workers

MOM issues three categories of work permits: the Work Permit, the employment pass, and the "S" pass. The work permit, which has country-of-origin restrictions, is granted to low-skilled or

---

[1] Singapore Department of Statistics.
[2] Ministry of Manpower.

unskilled foreign workers, in the construction, manufacturing, marine, domestic help, and low-skilled service industries, who earn no more than Singapore dollars (S$)2,500 monthly, among other criteria. The employment pass, without any country-of-origin restrictions, is issued to foreigners with certain degrees, professional qualifications, or specialist skills, who work in the finance, real estate, and high technology sectors, as specialists, managers, executives, and entrepreneurs, and whose monthly salary is above S$2,500, among other criteria. Workers in this group are generally wealthier and more independent than are work permit holders. Employment pass holders are allowed to bring their families to Singapore, which reduces their economic links to their countries of origin. The "S" pass, also without country-of-origin restrictions, is issued to midlevel skilled foreign workers with at least a postsecondary education, and a monthly salary of at least S$1,800. There is no maximum duration of employment, and no maximum age of for the worker (a condition for the holders of work permits). MOM's approved source countries for work permit holders are categorized as traditional source (Malaysia), nontraditional source (India, Bangladesh, Thailand, Myanmar, Philippines, Sri Lanka, and Pakistan), North Asia source (Hong Kong, China, Macau, Republic of Korea, and Taipei,China), and the People's Republic of China.

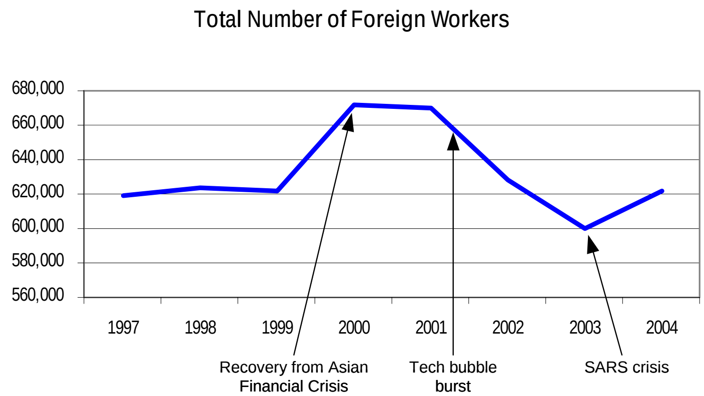
MOM regulates and controls the inflow and employment of foreign workers with two policy tools: the dependency ceiling (DC) and the foreign worker levy (FWL). Both are set individually for each industry sector, and they are adjusted periodically to meet industries' changing needs and Singapore's revised policies on foreign workers. The DC determines the ratio of foreign workers to Singaporean workers that an employer is allowed to hire. For example, in the construction industry, the DC is 1:4 or for every Singaporean, an employer can hire four foreign workers. The FWL, a monthly levy paid by the employer to the Government, is based on the industry and skill level of the foreign worker.

## B. The Current State of Foreign Labor in Singapore

In December 2004, the 621,400 foreign workers in Singapore represented 28.2% of Singapore's total workforce of 2.2 million. Of this, an estimated 500,000 foreign workers were work permit holders—low and unskilled foreign workers.[3] Over the past 8 years, the number of foreign workers has correlated closely with the general health of Singapore's economy (Figure A7.1).

[3] Ministry of Manpower.

**Figure A7.1: Effect of Economic Climate on Number of Foreign Workers in Singapore**




Source: Ministry of Manpower

Singapore's largest source of low and unskilled foreign labor is South Asia (India, Sri Lanka, Bangladesh), followed by Malaysia and the PRC. Most are employed as domestic help or in the construction and manufacturing sectors. Foreign workers in the construction and marine sectors are all male; domestic helpers are all female. The service sector—which includes hospitals, hotels, retailers, and restaurants—employs a mix of male and female foreign workers (Table A7.1).

**Table A7.1: Work Permit Holders, by Source Country and by Industry**

| Source Country | Number | % of Total |
|---|---|---|
| Malaysia | 85,000 | 17 |
| China, People's Republic of | 80,000 | 16 |
| Philippines | 76,000 | 15 |
| India | 65,000 | 13 |
| Indonesia | 60,000 | 12 |
| Bangladesh | 45,000 | 9 |
| Myanmar | 40,000 | 8 |
| Thailand | 35,000 | 7 |
| Sri Lanka | 14,000 | 3 |
| **Total** | 500,000 | 100 |
| **Industry** | | |
| Domestic Help | 150,000 | 30 |
| Construction | 135,000 | 27 |
| Manufacturing, Marine, Service, Other | 215,000 | 43 |
| **Total** | **500,000** | **100** |

Source: Consultant Estimates. For industry data, Ministry of Manpower.

## 1. Foreign Domestic Helpers

Singapore's foreign domestic helpers (FDHs) are all women, recruited by employment agencies to work on standard 2-year contracts. The domestic help sector employs 150,000 migrants (90% Filipinos and Indonesians; 10% Sri Lankans), and they hold 30% of all work permits, making it one of the largest of employment sectors for foreign workers.

There is a clear dichotomy in the treatment of Filipino and Indonesian FDHs. Singapore does not have a minimum wage law for foreign workers, and until recently, MOM has allowed the market to establish standards of practice for the employment of FDHs. According to employment agencies, the typical monthly wage for a Filipino is S$350, whereas an Indonesian FDH receives 30% less, only S$250. The Filipino typically gets one rest day every 1 or 2 weeks, whereas the Indonesian usually gets none. Placement fees for Indonesians are higher, averaging over S$2,000 or wages for 8 months, compared with Filipinos, which average S$1,800 or wages for 5 months. Indonesians are younger, less educated, and less proficient in English, and it seems that employers are willing to pay higher wages to (supposedly more highly skilled and experienced) Filipinos. The educational level and the established support systems for Filipino FDHs cannot be underestimated as reasons for their gaining better labor terms and conditions.

To its credit, the Indonesian Government has implemented measures to help improve the conditions of its citizens working as FDHs. These include having the Indonesian Embassy in Singapore certify employment agencies, and restricting the point of departure to Batam, so that the Government can better monitor the safety and whereabouts of its workers and provide training, health checkups, and other tests before the FDH departs.[4] Indonesia also has stipulated that employers of Indonesian FDHs should sign an agreement guaranteeing 2 years of employment, 12 days of annual leave (or payment in lieu), return airfare for home leave (or its cash value), three meals per day, Sundays off, protection from violence, and no cleaning of window exteriors or hanging out of clothes in high-rise homes.[5] These terms would greatly improve the condition of the Indonesian FDHs, but no evidence of implementation exists.

### 2. Informal Labor

In addition to the officially sanctioned sources of labor, significant numbers of foreigners come to Singapore on tourist visas and social visit passes, but they actually work during their stays. Most are Malaysians with 90-day social visit passes and nationals of the PRC and Thailand on 2-week to one-month tourist visas. Malaysians usually find "temporary employment in factories or the numerous small food service outlets; the tourist visa holders generally freelance in the social vices, including drugs and prostitution.

## C. Recent Labor Policy Changes

In recent years, Singapore's economy has weathered many shocks, beginning with the 1997–1999 Asian financial crisis and the 2001 downturn in the global high-tech industry. The PRC's economic rise has also pressured Singapore's export-oriented manufacturing economy. The 2003 Severe Acute Respiratory Syndrome (SARS) crisis further compounded these systemic shocks. With the economy contracting, unemployment rose to 5.7% in the third quarter of 2003,[6] making it a serious issue for the first time since 1985. The economy rebounded strongly in 2004, growing by 8.4%.[7] However, independent analysts forecast short-term growth of only 3%–5%, with structural unemployment remaining a problem as Singapore remakes itself into a high-tech, high-value economy in the mode of the United States (US) and Western Europe. Both the Government and the private sector have been re assessing short- and long-term strategies, including addressing the new and sensitive

---

[4] *The Electric New Paper*, September 18, 19, and 20, 2003. PAGES?
[5] *Straits Times*, July 30, 2003.
[6] Ministry of Manpower.
[7] Singapore Department of Statistics.

problem of unemployment in light of the large foreign workforce. Prime Minister Lee Hsien Loong has acknowledged the importance of these workers to Singapore's economy, but he stresses striking the right balance by managing the numbers.[8] Over the past few years, many foreign workers, mostly in construction and manufacturing, have been repatriated. Additionally, efforts have been made to upgrade the skill level of foreign construction workers and to apply more rigid age and competency requirements for domestic helpers. The Government has also sought to redesign low-value, low-paying jobs to make them more attractive to Singaporeans.[9]

Singapore's changing economic conditions and repositioning as a high-value economy will mean that the overall demand for low-skilled and unskilled foreign workers will decrease. However, demand for significant numbers of foreign workers to fill labor-intensive jobs and jobs shunned by Singaporeans in the construction, marine, and manufacturing sectors will continue, and so will the demand for domestic helpers as Singaporean women continue to participate widely in the domestic workforce.

## D. Labor Developments in the Domestic Help Sector

In January 2005, to raise the quality and skill level of domestic helpers, MOM required all domestic helpers who have not worked in Singapore previously be at least 23 years old (raised from 18), have at least 8 years of formal education, and pass a written language and skills competency test in English to ensure that they can understand basic safety instructions and perform basic household tasks.

Employment agencies that specialize in recruiting Indonesians believe these requirements are biased in favor of Filipino FDHs, who are generally older, have college degrees, and are more fluent in English than their Indonesian counterparts. Some agencies are reporting an 80% decline in the supply of eligible Indonesians due to the new requirements,[10] The requirements are also having ripple effects, such as increasing agency fees to employers and the average FDH monthly wage, which has risen by S$50, to S$280, to entice eligible Indonesians who would otherwise go to Hong Kong, China, Taipei,China, or Republic of Korea, where wages are higher.[11]

In contrast, the new requirements are benefiting Filipinos. Some employment agencies are reporting a threefold increase in Filipino FDH placements and even the Philippine Government "views this development as beneficial to Filipino domestic helpers, given their better education and proficiency of the English language over their foreign counterparts. Lately, an increase in the number of agencies applying for registration with the POEA[12] and the Embassy, as well as in the number of processed contracts for newly hired domestic workers, has been observed."[13] The increased effective overall costs of employing Indonesian FDHs is now comparable to that for Filipino FDHs, who are perceived as being of higher quality. Thus, the demand for Filipinos is expected to rise and remain high, even over the long term, despite appeals from employment agencies to open new source countries for the recruitment of FDHs.[14]

[8] Prime Minister's 2005 Budget Speech.
[9] *Agence France-Presse*, 27 March 2005.
[10] *The New Paper*, 8 February 2005.
[11] *Straits Times*, 21 February 2005.
[12] Philippine Overseas Employment Agency.
[13] Philippine Overseas Labor Organization (POLO) Report, December 2004.
[14] Today Online, 24 January 2005.

## E. Characteristics of Malaysian, Indonesian, and Filipino Workers

### 1. Malaysian Workers

Singapore became a part of the Malaysian Federation in 1963, separating two years later to become an independent state. Its cultural, business, and familial links to Malaysia remain strong, however. Malaysia is Singapore's largest export and import partner, and Singapore relies heavily on Malaysia for basic necessities, such as fresh water and foodstuffs. Because Malaysians were the first and the preferred workers in Singapore, Malaysia is also Singapore's "traditional source" country for foreign workers.

Given the similar languages, ethnicity, and culture, Malaysian workers easily blend into Singaporean society. However, many choose to live just across the border, in Johor state, where the cost of living is lower. On an average day, 50,000 Malaysians cross the two land immigration checkpoints on their commute to work in Singapore. To speed the border crossing, Malaysia issues a special restricted "blue" passport, and Singapore issues special machine-readable access cards for Malaysian workers.

In addition to documented workers, daily commuters also include a significant number of Malaysians without work permits but with proper travel documents, who, in reality, cross the border to work in Singapore. Independent estimates put them at 20% of commuters, with most working in the food services and manufacturing industries. The number of Malaysian WPs is independently estimated at 85,000, and with undocumented workers, employment and "S" pass holders and permanent residents, the number of Malaysians working in Singapore totals close to 165,000. The majority of WPs are in the manufacturing and service sectors; the employment pass and permanent residents work in skilled professions.

### 2. Indonesian Workers

Indonesia, despite being a close neighbor of Singapore, is not among the approved source countries for workers in the construction, manufacturing, marine, or service industries. Approximately 60,000 Indonesians hold work permits, virtually all of them FDHs, with a tiny handful working in the harbor crafts industry (pleasure craft or work vessels); 8,000 Indonesians hold employment passes, and work in the skilled professions. Indonesians constitute 40% of all Singapore FDHs. They work on standard two-year contracts, renewable by mutual agreement with the employer. Local employment agencies place the FDHs for a fee of about S$2,000, equivalent to eight months of wages. The employer typically pays the fee, as a loan to the worker, with repayment deducted from wages. Indonesian FDHs are all female and generally younger and less educated than their Filipino counterparts. They are paid less (on average, S$250 per month) and they do not get any days off.

### 3. Filipino Workers

There are an estimated 90,000 Filipino workers in Singapore; 76,000 are FDHs, 50% of all the FDH workers. The remaining 14,000 Filipinos hold employment passes and work in skilled professions. As is the case with their Indonesian counterparts, employment agencies place the FDHs for a fee of about S$1,800, equivalent to 5 months of wages. The employer usually pays the fee up front, and subsequently deducts it from the employee's monthly wages. They are employed on standard 2-year contracts, earn an average S$350 per month, and generally get 1 day off, every 1–2 weeks. They are also generally older, more fluent in English, and better educated than their counterparts from other countries. Many even hold college degrees. The expatriate professional community prefers these Filipino workers, due to their greater fluency in English, maturity, and better skills.

# III. Defining and Measuring Remittances

The State Department of Statistics (SDS) includes estimates of foreign worker remittances in Singapore's official balance-of-payments report, but the Government does not release any other remittance statistics.[15] The SDS estimate is based on data from various sources including MOM and the Monetary Authority of Singapore (MAS). Notably, nonresidents (Malaysian workers commuting to work in Singapore) are excluded from this estimate. SDS plans to work more closely with MAS in the future to obtain more concrete data on foreign worker remittances.

## A. Volumes and Geographic Distribution

Net current transfers of foreign-worker remittances (Other Sectors) were an estimated negative S$ 1.75 billion in 2004, a net outflow.

The MAS Banking Supervision Department, which oversees Singapore's licensed remittance companies, requires them to report remittance volumes: S$7.7 billion in 2001, S$9.2 billion in 2003, and S$8.9 billion in 2003 (these statistics are not published, but they are released to the public on request). The MAS data do not distinguish between corporate and individual remittances, identify destination countries, or include remittances handled by commercial banks. Thus, this statistic does not accurately represent foreign worker remittances, but it does provide a useful gauge of the total size of the remittance marketplace in Singapore. If the SDS estimate of S$1.7 billion in 2004 is more representative of total foreign worker remittances, it would seem that about 20% of remittance companies' business is with foreign workers, the remainder being corporate customers. Since the MAS figures do not include remittances transferred by banks, the actual portion of total foreign worker remittances transferred by the remittance companies would be even smaller. Thus, the remittance companies are primarily dependent on their corporate customers and are more sensitive to macroeconomic factors, such as trade flows, than they are to trends in the foreign worker population.

## B. Estimates of Remittance Volumes for Indonesia, Malaysia, and the Philippines

Rough estimates of worker remittances to Indonesia, Malaysia, and Philippines are derived from independent estimates based on foreign worker numbers, type of permit (work permit, "S" pass, and employment pass holders from each study country were included), average wages, and average remittance amounts. Data on number of workers, wages, and remittance behavior were obtained from employment agencies, remittance companies, embassies, industry associations, and worker surveys. The independent estimate of remittance amounts includes all channels: formal, informal, and physical transport back to home countries. As a comparison, we also tried to obtain official government statistics on overseas workers and their remittances (Table A7.2). Only the Philippine and Indonesian

[15] Monetary Authority of Singapore and Singapore Department of Statistics. The SDS estimate is itemized as "Current Transfers (Net)," a subcomponent "Other Sectors" under the current account balance. Net current transfers are generally defined as transfers between Singapore and the rest of the world, for both the official and private sectors. Transfers are transactions that are not in exchange for goods, services, or financial assets. Current transfers would include remittances by foreign workers to their home countries, donations, tax and subscription fees, and government's contributions and subscriptions to international organizations. Current Transfers has two main components: "General Government" and "Other Sectors" with the latter representing the estimated foreign worker remittances.

Governments provide these data, and the figures for Indonesia diverged considerably from the market data gathered. For Malaysia, no official government statistics were available.

**Table A7.2: Estimates of Annual Remittance Volumes**

| | Annual Remittance Volume (US$ million) | |
|---|---|---|
| **Recipient Country** | **Government Estimate** | **Independent Estimate** |
| Philippines | 178.3[a] | 198.3 |
| Indonesia | 3.3[b] | 121.5 |
| Malaysia | NA | 1,086.0 |

Note: An exchange rate of S$1.65 = US$1.00 was used for conversion.

[a] Philippine Overseas Employment Agency 2004 statistics.

[b] Bank Indonesia, prorated from figure for 8 months.

Estimating remittance volumes for Malaysia was more complicated. A total of approximately 160,000 Malaysians work in Singapore (work permit holders, 85,000; permanent residents and "S" and employment pass holders, 65,000; and undocumented workers, 10,000).

The Malaysian case strains the definition of what constitutes a remittance. Malaysians are the largest group of foreign workers in Singapore, but they behave differently from other groups. Significant numbers reside in Malaysia, where they spend their Singapore earnings. Those who both live and work in Singapore regularly cross back into Malaysia, where they exchange their Singapore dollars, depositing them into bank accounts for the benefit of their relatives. It would be inaccurate to exclude Singapore dollars that have been physically transported into Malaysia from the remittance estimates. This money has a very real and positive impact on the Malaysian economy, especially directly across the border in Johor Bahru. However, this mode of transfer is not a formal channel and, therefore, no government statistics track it. This leaves the Malaysian Government unable to develop policy that could leverage these large inflows from Singapore.

## IV. Market Survey of Senders: Indonesia, Malaysia and Philippines

Surveys—conducted on a face-to-face basis with some prescreening—were completed by 429 Indonesian, Malaysian and Filipino workers. The Filipino survey was conducted over 3 weekends in April 2005 in Lucky Plaza, Philippine National Bank (PNB), and remittance companies; and 127 surveys were completed. No screening occurred although, by virtue of the location, respondents would be biased toward the bank branch and remittance companies. A total of 1,531 Indonesian domestic helpers and Malaysian workers were solicited for the survey, island-wide, resulting in 302 surveys completed, a 20% success rate. Half of that sample consisted of Malaysian workers (work permit and employment pass holders) and the other half consisted of Indonesians. Fieldwork ran for 3 weeks from mid-March to mid-April 2005. The main reason for survey failure (32% of the total or 42% of all Indonesians) was due to the refusal of Indonesian FDHs to participate, because of time constraints or employer disapproval. Screening ensured that the respondents had worked and lived in Singapore for at least 6 months, sufficient time to give an individual the opportunity to remit. Of the Malaysians, 15% did not pass screening because they had not remitted money in the past 6 months compared with 9% of the Indonesians. This is consistent with the belief that Malaysian workers prefer to personally carry money back to Malaysia. Given that the surveys were conducted near residential areas and shopping centers, the sampling captured those Malaysians working and living in Singapore rather than commuters.

## A. Demographic Profile

In the Indonesian survey, all respondents were female FDHs. Most were 21–30 years old, with a secondary education, earning on average of S$285 per month. Over 50% had lived and worked in Singapore for 2–3 years, and 40% expected to continue for another year or two. Of the surveyed Filipinos, 90% were female, 76% were FDHs, 51% earned between S$250–S$500 (with 33% earning more than S$500) (Table A7.3). Two-thirds of Malaysian Work Permit holders interviewed were male, between 21–30 years of age, with a secondary education, earning an average monthly income of S$1,358. They had lived in Singapore for an average of 4 years and planned to remain there for a similar length of time. Malaysian employment pass holders were skewed toward males, 21–40 years of age, earning an average of S$2,031.

**Table A7.3: Monthly Personal Income** (%)

| Income in (S$) | Indonesian FDHs N=151 | Malaysian WPs N=101 | Malaysian EPs N=50 | Filipinos N=127 |
|---|---|---|---|---|
| Below 250 | 36 | - | - | 2 |
| 250–500 | 64 | - | - | 51 |
| 501–1,500 | - | 67 | 20 | 16 |
| 1,501 and Above | - | 32 | 78 | 17 |
| Refused | - | 1 | 2 | 11 |
| No Answer | - | - | - | 3 |
| Mean | 285.42 | 1,358.00 | 2,031.11 | 1,193.99 |

EP= employment pass , FDH= foreign domestic helper, , S$= Singapore dollar ,WP=work permit

## B. Remittance Channel Awareness and Usage Behavior

Asked what method they used to remit money, Indonesian workers most frequently cited money transfer companies, followed by banks (Table A7.4). For small remittance amounts, up to S$300, money transfer companies (57%) appear to be the mode of choice among the Indonesians, perhaps because of the lower service fees. For larger amount (S$301 and above), banks are preferred for reliability. Malaysians cited the money transfer companies. Indonesians tend to remit smaller amounts (average of S$476) than do Malaysians (average of S$659). Filipinos opt for bank branches (59%) for the convenience and speed of service they offer.

**Table A7.4: Preferred Remittance Channels (%)**

| Remittance Channel | Indonesian FDHs N=151 | Malaysian WPs N=101 | Malaysian EPs N=50 | Filipino Workers N=127 |
|---|---|---|---|---|
| Bank Branch | 40 | 23 | 26 | 59 |
| Money Transfer Company | 45 | 64 | 68 | 17 |
| Post Office | 7 | - | - | 1 |
| Self/ Friends, Relatives | 4 | 8 | 2 | 2 |
| Courier Service | 2 | 3 | 4 | 3 |
| Employment Agency | 1 | - | - | 1 |
| Credit/ATM Card | - | 1 | - | 11 |
| Internet (Online Banking, Remittance Service) | - | 1 | - | 4 |
| Telephone Company | - | - | - | 1 |
| Other Company (e.g., Travel Agency) | - | - | - | 1 |

ATM= automated teller machine, EP=employment pass, FDH=foreign domestic helper, WP= work permit

Malaysians are twice as likely to use money transfer companies (54%) than a bank branch (24%), regardless of the amount being remitted. Again, this may be because of lower service fees and the conveniences banks offer. On average, Malaysians remit 5.55 times per year, twice as often as Indonesians, who remit 2.79 times. Interestingly, one in four Malaysian work permit holders remits almost monthly. Of the Indonesians, 98% remit no more than 6 times a year.

The principal remittance recipients were the respondents' parents (66% Indonesians, 74% Malaysians, and 58% Filipinos) followed by spouses (about 23% for all respondents). Across all the samples surveyed, the remittance is used mainly for food and clothing, although the Filipinos also spend on education. Additionally, Malaysian employment pass holders spend the money on housing loans.

In at least 75% of the cases, the remittances are deposited into the recipient's bank account (Table A7.5). Only about 16% of the Indonesians and Malaysians collect the remittance in person. Filipinos have the option of having the remittance delivered to the recipient's home. Most Filipinos (94%), Indonesians (72%), and Malaysians (82%) indicated their recipients do not pay a fee to receive the transfer. Among those who do, Indonesians and Malaysians pay on average Malaysian ringgit (RM)51,898 (US$9) and RM6.13 (US$1.60), respectively.

**Table A7.5: Modes of Receipt for Remittance Transfers (%)**

| Mode of Receipt | Indonesian FDHs N=151 | Malaysian WPs N=101 | Malaysian EPs N=50 | Filipinos N=127 |
|---|---|---|---|---|
| Paid into Recipient's Bank Account | 75 | 81 | 86 | 74 |
| Collecting Money from Bank or Agency | 19 | 14 | 12 | 5 |
| Delivery of Money to Recipient's Home | 3 | 5 | 2 | 18 |
| Telephone, Debit, or Credit Card | 2 | - | - | 1 |
| No Answer | - | - | - | 1 |

EP= employment pass, FDH = foreign domestic helper, WP = work permit.

## C. Contact with Country of Origin and Personal Delivery of Remittances

Malaysian employment pass holders and Filipinos contact their families most frequently (4.58 times per month) while Indonesians do so the least often (2.66 times per month). Almost everyone surveyed contacted relatives by telephone. Seven in 10 Filipinos also use short message service (SMS) to stay connected, on average 16 times a week. Among the Indonesians and Malaysians who use SMS (14% overall), the average contact is 10 times per week. Notably, 37% of the Indonesians surveyed still write letters sent via ground mail.

Nearly three of five Indonesians have not traveled home since coming to Singapore to work (Table A7.6). Among those who do go home, they average 1.46 visits per year. By comparison, Malaysians average 3.37 visits. Filipinos and Indonesians tend to stay longer (an average of 23.4 days and 18.5 days, respectively) whereas Malaysians stay for only 6.5 days.

**Table A7.6: Frequency of Visits to Country of Origin (%)**

| Frequency of Visits | Indonesian FDHs N=151 | Malaysian WPs N=101 | Malaysian EPs N=50 |
|---|---|---|---|
| Every OtherYear or less Frequently | 14 | - | - |
| 1–2 Times per Year | 27 | 57 | 66 |
| 3–4 Times per Year | 1 | 19 | 20 |
| 5–6 Times per Year | - | 10 | 4 |
| 7 or More Times per Year | 1 | 9 | 10 |
| Have not Traveled to Home Country since Migrating | 58 | 5 | - |
| Mean | 1.46 | 3.37 | 3.37 |

EP= employment pass, FDH = foreign domestic helper, WP = work permit.

Indonesians send home an annual average of S$1,200 compared with S$1,100 for Malaysian work permit holders and S$1,400 for employment pass holders. Filipinos send home close to S$1,900. Despite taking more money home, Malaysian employment pass holders gave the least in terms of proportion (46.83%) to their family. Indonesians gave more than half (55.65%). On average, Filipinos handed over the most (more than S$800) to their family whereas Malaysian work permit holders gave less than S$500.

## D. Financial Relationships

Almost nine of 10 Malaysians have a bank account in their home country, compared with about seven of 10 Indonesians and Filipinos (Table A7.7). Additionally, more than eight of 10 Malaysians and one of two Filipinos have a bank account in Singapore, whereas fewer than four in ten Indonesians have one. The Development Bank of Singapore (DBS) appears to be the bank of choice across the groups surveyed. Those without a bank account in Singapore said the key reason was that they did not need one. Not surprisingly, almost all Indonesians (99%) and most Malaysian work permit holders (88%) do not have a credit or a debit card.

Interestingly, only one of 10 respondents contributes to a hometown association.

**Table A7.7: Financial Commitments in Home Country (%)**

| Financial Commitment | Indonesian FDHs N = 151 | Malaysian WPs N = 101 | Malaysian EPs N = 50 | Filipinos N = 127 |
|---|---|---|---|---|
| Has a Bank Account | 65 | 88 | 90 | 74 |
| Has a Mortgage | 13 | 23 | 22 | 15 |
| Has a Small Family or Commercial Business | 11 | 6 | 10 | 15 |
| Lends Money for Family Investments | 5 | 6 | 6 | 6 |
| Has a Student Loan | 3 | 1 | 2 | 7 |
| Has a Pension Plan | 1 | 2 | 6 | 14 |
| Has a Loan to Maintain a Personal Business | - | 1 | - | 3 |
| None | 16 | 5 | - | - |
| Refused | 8 | 4 | 4 | - |
| No Answer | - | - | - | 13 |

# V. The Marketplace for Remittance Transfers

## A. Market Players

Singapore has a well-established and mature remittance marketplace, consisting of domestic banks, local branches of foreign banks, and licensed remittance companies (Table A7.8). Remittance companies dominate by virtue of their sheer numbers: 103 companies with over 190 locations. Singapore's "Big Three" domestic commercial banks—United Overseas Bank (UOB), Oversea-Chinese Banking Corporation (OCBC), and DBS—are not players. Only DBS, through its wholly owned subsidiary Post Office Savings Bank (POSB), expressly targets the foreign worker remittance business. Almost all local branches of foreign banks that have significant numbers of their nationals working in Singapore cater to their remittance needs. Cost, speed, and service quality vary greatly, depending on the corridor. Although there are only 15 foreign banks, some have as much as 30%–60% of the market share of the remittances to their home country, which means they are important players in the remittance marketplace.

**Table A7.8: Players in Remittance Marketplace**

| Type | Number of Locations |
|---|---|
| Domestic Banks (POSB) | 2 |
| Foreign Banks[a] | 15 |
| Remittance Companies | 197 |
| **Total** | **214** |

Source: Monetary Authority of Singapore and industry estimates.

[a]There are 108 foreign banks in total; this figure counts only those banks from nontraditional source countries, Malaysia, Indonesia, and the People's Republic of China.

Informal channels are significant only in certain corridors, particularly India, Bangladesh, and Sri Lanka, where an estimated 70% of total remittances are transferred informally.[17] Called *Hawala* and *Hundi*, these systems rely on known and trusted syndicates that provide remittance services more cheaply or faster than remittance companies or banks can. According to industry sources, some syndicates have existed for over 50 years and have networks in every country where significant numbers of South Asians live and work. Over time, they have established a reputation of trust and reliability and have become fixtures in South Asian migrant communities.

For other major corridors, the volumes of informal transfers are comparatively small (for example, in Indonesia and Thailand an estimated 10% to 33%[18] go through informal channels), or virtually nonexistent, as is the case for remittances to the Philippines. These informal channels consist mainly of employment agencies, courier companies, and travel agents providing the point of contact for the money transfer service.

## B. Remittance Companies

The remittance market is saturated and highly competitive, with the licensed remittance companies that serve the same corridor competing against each other, based on price, speed, and service reliability. The 197 branches of these companies are located throughout Singapore in neighborhood shopping centers and near worksites, factories, and shipyards. Many are concentrated in areas of ethnic congregation, such as Lucky Plaza (Filipinos), Golden Mile Complex (Thais), Little India, and Chinatown. Most are small, one-branch operations catering to one, two, or three niche corridors, where they have specific competitive advantages. The largest private remittance company has 17 branches and services over 10 corridors. Which corridor a branch services is largely location dependent. For example, companies in Little India service South Asian remittances and those in Lucky Plaza service the Philippines. However, remittances to Indonesia and Malaysia are serviced throughout Singapore because no single area serves as an ethnic gathering point. Most companies rely on word-of-mouth and direct marketing, such as fliers or handouts, but some larger companies also advertise to a limited extent in ethnic newspapers and magazines, and on public buses. Many also have complementary money exchange businesses or are connected to courier services.

### 1. Price and Service

Price and service quality vary depending on the corridor served. Transfers generally take 3–5 working days, and the companies charge a flat service fee not exceeding S$20. The basic service consists of taking cash in Singapore dollars from a walk-in customer and crediting the equivalent amount in local currency to the recipient's bank account or cash collection at a bank or agent's office in the destination country. Other value-added services, such as mail-in remittances, home collection of remittances, and door-to-door delivery are also offered for some corridors. New technologies have greatly increased speed and convenience while decreasing costs. By far, the Philippine corridor is the most advanced and efficient, offering the latest technological conveniences at the lowest prices. Filipino remitters have the choice to top up recipient debit cards, use SMS transmission, and directly pay bills in the Philippines. Transfers can be completed in as little as 5 minutes at an average cost of S$5, the lowest cost in the industry (see the section on the Philippine corridor for further details).

---

[17] Independent market estimate.

[18] Independent market estimate.

## 2. Money Transfer Methods

Remittance companies use two main methods to transfer money to recipients in destination countries. In the first, they partner with correspondent banks. Remitted funds are wire transferred via the Society of Worldwide Interbank Financial Telecommunications (SWIFT) from the remittance company's Singapore bank to the correspondent bank, which then converts the Singapore dollars to the local currency, at an agreed-upon wholesale exchange rate and credits the amount to the recipient's bank account, at either the correspondent bank or another bank in the country. These wire transfers are usually transacted on a wholesale basis, minimizing cost to the company and the remitter. The second and more widely used method is having a foreign partner in the destination country. The company deposits the Singapore dollars into its partner's bank account in Singapore. Once that deposit is confirmed, the foreign partner makes the required local currency available for collection or direct deposit into the recipient's bank account. In this method, Singapore dollars are not actually transmitted to the destination country. Instead, the transaction is an offsetting entry in the foreign partner's accounts. This second method has the advantage of greater speed and lower cost as clearance is effected between local banks in local currency (in both Singapore and the destination country) without a more costly and time-consuming foreign bank-to-bank clearance.

Notably, this second method has largely made informal channels redundant in corridors other than South Asia because it is virtually identical to the mode employed by informal channels and offers similar speed, low cost, and reliability. By avoiding moving remitted funds across borders, MAS has effectively brought informal channels into regulated formal channels, while still imposing strict requirements aimed at protecting the sender and the recipient. It would be difficult to rationalize opting for the risk of informal money transfer operations given the advantages and ease of establishing a licensed formal channel operation.

## 3. Two Special Cases: Western Union and Singapore Post:

These two companies are not considered dominant players in the market, but their sheer physical presence and brand recognition make many market players view them as major competitors. Western Union has 56branches or agents. Service is limited, with mandatory physical delivery and collection of cash at agent locations, but these are numerous and conveniently located in ethnic gathering places. Additionally, transfers are fast (averaging 15 minutes), and service is very reliable, as all remittances are tracked with separate control numbers.

Singapore Post (SingPost) has 62 branches, of which 40 currently offer remittance services. It was publicly listed in 2003 and is majority owned by SingTel, Singapore's dominant fixed-line and mobile telecommunications company. SingPost entered the remittance business only in 2001, with six branches offering Western Union service. It recently introduced its own branded remittance service. Its large distribution network and brand quality have given it a high profile in the remittance marketplace. It currently offers remittance services to anywhere in the world through Western Union at 39 branches. It also offers competitive remittance services to the Philippines, Indonesia, and People's Republic of China through other partners. In 2003, SingPost began offering its own branded, low-priced, high-speed service to the Philippines: CasHome, a debit card service in partnership with Equitable PCI Bank of the Philippines. Some market participants have noted that SingPost has not yet made a noticeable impact on the market and that with costs already very low and efficiency and reliability high, as well as the entrenched loyalty and habits of customers, SingPost will likely not have a significant impact. However, other market participants are more concerned given SingPost's large network of branches and good reputation. They believe that if SingPost begins to aggressively market its services and can offer competitive pricing and exchange rates, it will seize significant market share.

## C. Domestic Banks

Although the "Big Three" domestic commercial banks dominate the financial services environment in Singapore, they are not major players in the foreign worker remittance market, with the exception of DBS's wholly owned subsidiary, POSB. Domestic banks do not plan to enter the remittance market in the near future because of its strong competitiveness, thin margins, high start-up and operating costs, and a perceived negative impact to the banks' brand images. Despite the indirect encouragement of MAS, which has made possible the establishment of limited purpose branches that service remittances with minimal costs, for the banks, this market is not yet sufficiently attractive.

### POSB Remittance Centre

POSB is the only domestic bank that participates in the foreign worker remittance market. POSB was acquired by DBS in 1999 and maintains its own brand, which has historical appeal to the middle- and lower-income retail customers. It entered the foreign-worker remittance market in 2003. Currently, its two limited purpose branches (POSB remittance centres), strategically located in Lucky Plaza and Little India, offer remittance transfer services to walk-in customers and account holders. The centers serve seven key remittance corridors: Bangladesh, India, Indonesia, People's Republic of China, Philippines, Sri Lanka and Thailand. The service is competitively priced and offered through correspondent banks in each destination country.

## D. Foreign Banks

There are 108 licensed foreign banks operating in Singapore,[19] of which 12 provide remittance services for their migrant nationals. Most focus on trade finance and business loans, but remittances constitute a significant part of their total business. For some, such as the PNB, remittances are virtually their entire business. To date, the Industrial and Commercial Bank of China, Indian Bank, and PNB are the only foreign banks to have taken advantage of the limited purpose bank option to expand their remittance business cost effectively, although many are considering using this mechanism in the near future.

## E. Remittance Markets of Study Countries

### 1. Philippine Corridor

Twenty-one remittance companies and two banks located in Lucky Plaza handle most remittances to the Philippines. PNB is the dominant player, with an estimated 60% of the market. It is a licensed offshore bank with its main branch office strategically located in Lucky Plaza. Over 90% of its business is worker remittances to the Philippines. PNB opened a limited purpose branch in April 2005 and has plans to open more to serve the large number of Filipino remitters. Other major players in this corridor are I-Remit (owned by I-Bank), KC Dat, LBC Remittance, and MetroRemit (owned by MetroBank). POSB also has one of its two remittance centers located in Lucky Plaza.

The Philippine corridor is the best developed in terms of price, speed, technological innovations, and scope of services offered. It has the lowest transaction fees (averaging S$5), shortest transaction time (usually the same day, and in many cases, within a few minutes), widest breadth of service (door-to-door delivery, cash collection), and the most advanced technologies (remit to top up debit cards, via mobile phone SMS, direct bill payment).

[19] Monetary Authority of Singapore.

### 2. Indonesian Corridor

There are obvious places where Filipino, Thai, and South Asian workers congregate, but none exists for Indonesians. This may be because they are all FDHs, without days off, so there is no opportunity to socialize with their conationals. As a result, the 30+ remittance companies serving Indonesia are scattered throughout Singapore, in the neighborhood shopping centers surrounding key residential areas. Two licensed Indonesian banks operate in Singapore, Bank Negara Indonesia (BNI) and Bank Mandiri (BM). Both provide remittance services, but only BNI has a significant share: 20%–30% of the total volume of Indonesian transfers (BM handles less than S$20,000 per month).

The Indonesian corridor has some unique characteristics. Service is rudimentary, with transfers taking 3–5 days. The money goes directly into bank accounts or is held for pickup (no door-to-door delivery, debit cards, or other technologically advanced services are available). It is also relatively costly, with fees averaging S$13. This is the only corridor that offers mail-in and home collection of funds, and employers often do the remitting for their domestic helper. Those characteristics are undoubtedly related to the fact that FDHs cannot take the money themselves since they have no time off. For an employer doing the remitting, reliability, not price or service, would be top priority. The domestic worker, in turn, would not have the time, or possibly the sophistication, to shop aggressively for the best price or to demand more services. The relatively higher costs and poorer service of the formal channels, as well as the limitations that the Indonesian domestic helpers face, propitiates the use of informal channels, which are often run by employment agencies and courier companies with which the FDH has some familiarity.

### 3. Malaysia Corridor

Because of the ease of border crossing between Singapore and Malaysia, combined with Malaysian currency controls, remittances in this corridor are often carried home in person by the worker. Many remittance companies offer rudimentary remittance service, primarily direct deposit into a bank account, which takes up to 3 days and costs on average S$10. Of the five licensed Malaysian banks in Singapore, only one, Maybank, offers remittance services that are somewhat competitive with the remittance companies. The other banks cite higher costs, longer execution time, and exchange-rate uncertainty due to currency controls on the Malaysian ringgit as the primary reasons they can no longer offer competitive individual remittance services. Remittance companies, due to their foreign-partner relationships, offer better service than the banks, but given the close proximity of Malaysia, its workers continue to hand-carry their remittances. This is especially true of the many commuters working in Singapore who choose to live in less expensive Malaysia. Furthermore, in Johor Bahru, there are an abundance of money changers offering attractive exchange rates as well as bank branches and automated teller machines (ATMs) to ensure cash is available to family in other parts of Malaysia.

## F. Pricing Comparison

Prices were compared for the total cost of a remittance (the service charge and a mark-up on the foreign exchange rate from a wholesale rate) to the Philippines, Indonesia, and Malaysia (Table A7.9). Banks that charge standard premium telegraphic transfer rates were excluded since few workers would use this more expensive option. For a S$1,000 remittance, Malaysia had the lowest overall cost (2.47%) while Indonesia had the highest (3.33%). Despite having the lowest up-front service fees, the Philippine corridor had the highest average foreign exchange markup, leaving it with the highest overall cost for sending larger amounts of money. However, this has little impact on worker remittances, which are usually under S$500, and thus more sensitive to the service fee.

**Table A7.9: Remittance Price Comparison (%)**

| Remittance Amount (in S$) | Philippine Service Fee | Philippine FX Markup | Philippine Total Cost | Indonesia Service Fee | Indonesia FX Markup | Indonesia Total Cost | Malaysia Service Fee | Malaysia FX Markup | Malaysia Total Cost |
|---|---|---|---|---|---|---|---|---|---|
| 500 | 1.06 | 2.50 | **3.56** | 2.59 | 2.04 | **4.63** | 2.16% | 1.39% | **3.55** |
| 1,000 | 0.53 | 2.50 | **3.03** | 1.30 | 2.04 | **3.33** | 1.08% | 1.39% | **2.47** |
| 2,000 | 0.27 | 2.50 | **2.77** | 0.65 | 2.04 | **2.68** | 0.54% | 1.39% | **1.93** |

### G. The Future of the Remittance Market

Many industry players believe that over 100 remittance companies are too many. Such a highly competitive market is likely to drive out smaller players, most of whom specialize in a handful of niche corridors and who may not be nimble financially strong enough to withstand this tough environment, the development of new technologies, and shifts in corridors and volumes due to changing macroeconomic and foreign labor trends. Many predict that the number of remittance companies will decrease by roughly half, to about 50, most of which will be large companies that can offer competitive services to many corridors and to both individual and corporate customers.

Technological advances will continue to be introduced into the market. The Philippine corridor currently leads the way with debit card, SMS, and direct bill-payment services. Other corridors will emulate these technologies in the near future. Systems improvements under way in major banks in Indonesia will also reduce the time and cost of remittances to Indonesia.

With limited purpose branches, the banking sector is expected to greatly increase its presence in the remittance market. Four banks already have these branches and more are considering them as a way to expand their remittance business. SingPost is expected to continue adding more branches to its remittance network as well as offering more services to more corridors. Western Union is also expected to add to its large network, and MoneyGram and Travelex are expected to increase their currently slight presence.

In the medium to long term, private remittance companies are expected to play a more diminished, though still significant, role in the remittance market; commercial banks, SingPost, and international money transfer companies are expected to play a greater role. This development would also be consistent with stricter MAS policies to combat money laundering and the financing of terrorism, as well as generally higher standards for risk management, operational controls, and professionalism for the industry.

## VI. Regulatory Environment

MAS regulates the banking, insurance, securities, and futures industries; implements monetary policy; issues currency; and manages Singapore's official foreign reserves. It is the sole regulator of the banking and finance industries, including all foreign and domestic commercial banks, merchant banks, finance companies, insurance companies, money changers, and remittance companies.

## A. Regulation of Commercial Banks

As of September 2004, there were 111 commercial banks licensed to operate in Singapore under the Banking Act.[20] Commercial banks, classified as full banks, wholesale banks, or offshore banks, based on their scope of activities, may undertake general banking, such as deposit taking, checking services, and lending, as well as other authorized businesses, including financial advising, insurance brokering, and capital market services. In general, all categories of licensed banks are permitted to engage in the remittance business. All other companies not falling under the Banking Act and wishing to engage in the remittance business must apply for a remittance company license with MAS.

### 1. Capital Requirements and Licensing Fees

Commercial banking licenses require that domestic banks have S$1.5 billion in capital reserves and foreign banks, S$10 million (of which S$5 million can be in the form of approved assets), with head offices having at least S$200 million in capital. All licensed banks must pay an annual licensing fee depending on type of license (Table A7.10).

### 2. Limited Purpose Branch (LPB)

In 2003, MAS allowed the establishment of limited purpose branches (LPBs) for any licensed commercial bank in Singapore for the express purpose of conducting money changing and remittance businesses. There are no additional fees save an annual licensing fee of S$1,000. No limits are placed on the number of LPBs each licensed bank may have though each branch requires separate approval from MAS. Currently only four banks: POSB, Industrial and Commercial Bank of China, Indian Bank, and PNB, have established LPBs offering money changing and remittance services.

**Table 10. Annual License Fees of Licensed Commercial Banks (S$)**

| Type | Branch | Annual Fee |
|---|---|---|
| Full Bank | Head office | 125,000 |
| | Each branch | 10,000 |
| | Each limited purpose branch | 1,000 |
| Wholesale Bank | Head office | 100,000 |
| | Each limited purpose branch | 1,000 |
| Offshore Bank | Head office | 75,000 |
| | Each limited purpose branch | 1,000 |

Source: MAS Banking (License Fees) Notification 2003.

### 3. Account Opening

Physical presence is required for opening a bank account in Singapore. Acceptable identification includes an unexpired passport and the Singapore national resident identity card (NRIC). The initial deposit for a basic passbook savings account is S$500–S$1,000 with a S$2 penalty if an account falls below the minimum balance of S$500.

[20] Monetary Authority of Singapore.

## B. Licensing and Regulation of Remittance Companies

The Money-Changing and Remittance Business Act governs all non bank remittance business, defined as "the business of accepting moneys for the purpose of transmitting them to persons resident in another country."[21] Companies must possess a valid license issued by MAS or face a fine of S$50,000 and/or imprisonment of up to 2 years. An annual license fee of S$500–600 is levied for the main office and each branch of a remittance company. Remittance licenses are issued at the sole discretion of MAS, although three key criteria are evaluated: (i) the general character of the applicant, (ii) the financial condition of the applicant, and (iii) whether granting the license will serve the public interest.[22] All remittance companies must be majority owned by Singapore citizens, except in the case of international money transfer companies and foreign banks.

### Key Operational Requirements

The Money-Changing and Remittance Business Act stipulates requirements for remittance companies.

*Security Deposit:* All approved licensees must provide a S$100,000 security deposit to MAS to ensure due performance of their obligations to their customers. Each additional branch requires a separate S$100,000 deposit.

*Record Keeping*: Books, transaction records, accounts, registers, and customer receipts must be kept for a minimum of 6 years after the date of transaction. Fines of up to S$10,000 are imposed for noncompliance.

*Reporting:* Quarterly reports must be furnished to MAS summarizing, among other items, total remittance volumes, number of transactions, fees earned, and profitability. Unaudited financial statements are also required to be reported quarterly to MAS. Failure to comply could entail a fine of up to S$5,000.

*Inspections:* At any time, MAS has the right to enter the premises of any licensee and inspect any book, document, or record to ascertain whether a contravention of the Act has occurred.

*Annual Audit*: An independent auditor must carry out a full, annual audit of business. The report must be submitted to MAS, which may expand the scope of the audit as it deems necessary.

*Customer Funds Separated*: A current or deposit account in the name of the licensee must be maintained at a bank with the words "customers' account" added to the title of the account. No money can be deposited or withdrawn from this account except for proper customer remittance-related activities, including payment of fees and services rendered. Such account will not be considered property of the licensee in case of debt proceedings or bankruptcy. Failure to comply can result in fines of up to S$50,000 and/or imprisonment of up to 2 years.

*Funds Transfer:* Customer funds must be transmitted to the beneficiaries or an agent in the destination country within 4 business days. If an agent, funds must be received by the beneficiary within 10 business days from the date of transmission. Licensees must maintain proper documentary evidence that beneficiaries have received the funds transmitted.

*Business Insurance*: Adequate insurance must be kept for cash-in-transit, cash-at-premises, and employee fidelity to cover business risks. The amount of insurance is determined by the licensee but must be adequate to reasonably cover these potential risks.

---

[21] Money-Changing and Remittance Businesses Act. 1996.

[22] Money-Changing and Remittance Businesses Act 1996.

## C. Anti-Money Laundering and Combating the Financing of Terrorism

As a world financial center, Singapore is vigilant against abuse of its financial system by those managing criminal or terrorist funds. Singapore has been a member of the Financial Action Task Force (FATF) since 1991 and participates in FATF work, including the revision of the FATF 40 Recommendations. Singapore is also a member of the Asia Pacific Group on Money Laundering, which encourages the adoption of international antimoney laundering standards within Asia and the Pacific. MAS has adopted strict rules and regulations against money laundering and terrorist financing. The AML and CFT policies and regulations pertaining to banks are in MAS Notice 626, issued in 2000 to address predominantly AML concerns. It has been revised numerous times since then. A draft revised Notice 626 was issued in January 2005 to highlight CFT concerns as well as to align AML concerns with FATF 40+8 recommendations.

### 1. Anti-Money Laundering Measures

MAS defines money laundering as "a process intended to mask the benefits derived from drug trafficking or criminal conduct so that they appear to have originated from a legitimate source." Remittance companies are governed by the MAS Guidelines on Prevention of Money Laundering for Money-Changing Licensees and Remittance Licensees, based largely on Notice 626, and the provisions of the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act. Bank AML requirements are generally more detailed, stringent, and exhaustive given the much larger scope and complexity of their businesses. Given the smaller operations of remittance companies, it is worth noting the four key principles in combating money laundering that they must observe

*Know your customer*: Satisfactory evidence of identity must be obtained for all customers as well as effective procedures for verifying new customers' bona fides. No transactions shall be conducted without proper identification.

*Compliance with laws*: Business must be conducted with high ethical standards and adherence to laws and regulations. Service should not be provided where there is good reason to suspect that transactions are associated with money laundering.

*Cooperation with law enforcement agencies:* Licensees shall cooperate fully with law enforcement agencies, including the reporting of suspicious transactions to the Commercial Affairs Department (CAD) of the police department. A single officer in the company should be designated to whom staff are instructed to report suspected money laundering transactions promptly.

*Policies, procedures, and training:* Banks and licensees must adopt policies consistent with the principles set out in the respective guidelines and ensure that all staff are made aware and properly trained in matters covered in the guidelines.

All licensees must have a system for reporting suspicious transactions to CAD. To assist licensees in identifying suspicious transactions, MAS provides examples of such transactions, grouped into two categories: transactions that do not make economic sense, and transactions involving large amounts of cash. Fines and penalties for money laundering offenses can be severe. Overt offenses, such as directly engaging or assisting in money laundering activities, carry a fine of up to S$200,000 and/or imprisonment of up to 7 years, and minor offenses such as failure to report suspicious transactions or cooperate with law enforcement agencies carry a fine of up to S$10,000.

Two sets of regulations govern CFT in Singapore: The Terrorism (Suppression of Financing) Act 2002 and the MAS (Antiterrorism Measures) Regulations 2002. The object of these regulations is to assist in implementing Resolution 1267 (1999), Resolution 1333 (2000), Resolution 1373 (2001), and

Resolution 1390 (2002) of the United Nations Security Council. The regulations apply to all branches and offices of any financial institution incorporated or operating in Singapore.

In 2003, the International Monetary Fund and World Bank's Financial Sector Assessment Program team assessed Singapore's framework for compliance with the FATF standards and deemed that Singapore has a sound and comprehensive legal, institutional, policy, and supervisory framework for AML and CFT.

## VII. Conclusions and Recommendations

### A. The Remittance Marketplace and Financial Intermediation

Singapore's local and foreign banks and numerous remittance companies are adequately serving the remittance needs of its large foreign worker population with inexpensive, efficient, and reliable service. Remittances to the Philippines are functioning efficiently with most FDHs remitting monthly and through formal channels. Many Malaysian workers prefer personally carrying cash back to Malaysia for conversion into ringgit and depositing into a Malaysian bank. Given the commuters in particular do not have strong economic ties to Singapore, this practice will likely continue to constitute a large percentage of Malaysian remittances.

There are no known informal channels for the Philippines or Malaysia. In contrast, Indonesians do use informal channels, run mostly by employment agencies and courier services with which the FDHs are familiar. These Indonesians cannot seek out and demand low-cost, high-quality remittance services because they have no free time and often lack the education and life experience required to do that. Better education and the institution of mandatory rest days for Indonesian FDHs would resolve this problem.

#### Recommendations

*Increase bank accounts for Indonesian domestic helpers in home country:* The survey found that only 65% of Indonesian domestic helpers had bank accounts in their home country. More accounts would increase the likelihood of both remitting and using formal channels. Only 75% of remittances go to bank accounts; over 20% are received in person or through some form of delivery service. In Indonesia, given that there is no formal door-to-door remittance service offered, more bank accounts would be of even greater importance in formalizing remittances through the banking system. Enhanced modes of delivery for remittances could also be achieved with more bank accounts and the availability of ATM cards.

*Further study of Malaysian remittances:* The total amount of money brought into Malaysia from Singapore is estimated to be US$1.1 billion per year. It is not clear how much is carried by hand and how much goes through regulated channels. To give the Malaysian government this vital data so that it can make informed policy decisions to leverage these flows should be a major objective for future research.

### B. Regulatory Environment and Government Relationships

Given the efficiency and adequacy of the remittance marketplace in Singapore, neither direct government-to-government discussions specifically on remittances have occurred nor are they deemed to be necessary. The remittance marketplace is well structured and well regulated and generally viewed by the market as strict but fair. Banks and remittance companies have strict financial and reporting requirements to MAS. Singapore is a member of FATF and the Asia Pacific Group on Money Laundering, and AML and CFT policies are strict and meet international standards.

The allowance of special limited purpose branches has made it easier for licensed banks to enter or expand their remittance businesses. The increased presence of banks, international money transfer companies, and SingPost in light of very limited new issuance of remittance company licenses in recent years would indicate a trend toward larger, more formal institutions.

## C. Labor Policies

Singapore's foreign workforce was 28% of the total workforce in 2004, and it will continue to be a significant portion of that workforce in the future. It is well managed and strictly controlled by the Ministry of Manpower. Key industries employing foreigners include domestic help, construction, manufacturing, marine, and service sectors. With the exception of domestic helpers, all foreign workers are subject to government imposed quotas, that vary according to industry. Informal and illegal labor does not currently present a serious problem in Singapore and consists mainly of legal visitors without formal work permits and to a more limited extent, those overstaying their visas.

### Recommendations

*Equalize working conditions for Indonesian domestic helpers:* Singapore has already moved to increase and standardize the skills level of domestic helpers by setting minimum age and educational requirements, and requiring the passing of an English proficiency and basic skills test. However, this does not directly address the unequal working conditions of the Indonesian FDHs, who are paid substantially less than their Filipino counterparts and who do not receive mandatory rest days. MOM could ensure a homogeneously high-quality FDH workforce by requiring standard contractual terms, including standardized wages and mandatory rest days for all domestic helpers without regard to nationality. Such equalization will give Indonesian domestic helpers more income and the time to investigate and make informed choices about what to do with their income, including remittances. Given the efficiency and availability of formal channels, remitting through informal channels would significantly decline as a result.

*Increase pre-departure and post-arrival education for Indonesian FDHs:* Mandatory orientations or video presentations and brochures describing rights, support organizations, and remittance channels would be of great value in allowing Indonesian domestic helpers to make more informed social and financial decisions. A rudimentary orientation is attended before departure from Indonesia, but the Indonesian Government could do much more to educate and support the FDHs as they embark on a new land and new culture. As an employer country, Singapore can also do more to ensure that the Indonesian FDHs understand their basic rights and know how to contact support organizations in case the need arises. MOM could implement this by requiring employment agencies to provide the information and education. MOM has recently begun to require that all new employers attend a video orientation on managing their domestic helpers. It can continue to improve the quality of the industry by further providing basic educational services to newly arriving Indonesian domestic helpers.

The Indonesian Government has attempted to institute more favorable terms and conditions (such as higher wages and mandatory rest days) for its domestic helpers but with little effect. MOM must take the lead in promoting such policies. It is to the benefit of all parties involved that all foreign domestic helpers in Singapore, regardless of country of origin, conform to similarly high standards of knowledge, skills, and professionalism; are able to work in an open, safe, and fair environment; and are accorded similar terms and conditions for their employment.

## Survey Methodology and the Backgrounds

There are no available official data of this kind yet in the Asia and Pacific region. Requiring statistical objectiveness is good but in some cases statistical reasonability that appears to be objective may rather mislead the actuality if we do not know the real situation. In this connection, it should be highly emphasized that member countries should be more keen to check reliability of related statistics of each country by establishing a mechanism of systematic cross-border comparison and analysis, if they wish to have more reliable data and make efficient use of this funding resources that is becoming increasingly important.

Compilation of balance-of-payments (BOP) statistics is based on the reports from financial institutions (FIs). Estimation could be possible using the official immigration statistics. But no exact data are available because of statistically nonnegligible leakages of transfers into and out of Japan such as transfer of cash and transfer via informal channels may exist.

Even making international comparisons, we cannot eliminate the statistical discrepancies between countries, at this moment, because of some differences of definition: such as difference of definition of residency, Timing of data record and submission of reports to the authorities, and recognition of nationality of intermediating FIs (if transfers were made via foreign banks it may be possible that the nationality of intermediating FIs are considered to be the original sender country).

Official statistics on migrants are provided by the Ministry of Justice and the Japanese Immigration Association: “Statistics on the Foreigners Registered in Japan by Qualification and Purpose”. Statistics on foreigners illegally staying in Japan are also provided. But it is widely recognized that there are foreign workers illegally entering and staying in Japan and not officially recorded. There are no available data to identify total number of such workers staying in Japan.

No reliable data on an organized body for estimating the total foreign workers in Japan and for statistical verification. If we have a national association of foreigners or number of established associations of foreign residents and workers that can communicate with majority of foreigners in Japan, it would be possible to collect information or data for estimating with high probability the current situation of foreign workers in Japan. But existing associations, including churches, cover only a limited number of foreigners in Japan.

Considering the difficulties in choosing appropriate samples and eliminating some bias of sampling the survey, we finally chose the following methods to select samples for the survey.

(i) The number of samples was based on a rough standard error check, about 5–6% with 250 samples for the Philippines based on official statistics, “Statistics on the Foreigners Registered in Japan by Qualification and Purpose.” The remaining was shared by Indonesia and Malaysia, considering the proportion of number of migrants of Indonesian and Malaysian (the official statistics mentioned above) and the remaining number of targeted sample (approximately 500 in total which is an indicated sample number to be targeted by each country for this survey.)

(ii) The survey was conducted on voluntary basis.

(iii) Places to conduct the survey mainly centered on Tokyo and Nagoya where the majority of workers from the three targeted counterpart countries stay.

(iv) Church network, both Christian and Muslim, is chosen as a core body to conduct the survey vis-à-vis the Philippines, Indonesia and a part of Malaysia. National language schools are chosen as another main body for the survey vis-à-vis Indonesians in Tokyo. Teachers of the school and parents of students are the targeted samples. Banks clients network, especially that of the Philippine National Bank with its full cooperation, is another core body for the Philippines. Clients of restaurants and stores, including in the suburban area of Tokyo, are also included for the Philippines and Indonesia. We could not get any cooperation from Japanese companies who receive foreign workers: they paid special attention to privacy-related issues of their workers.

According to official statistics, majority of Malaysian workers are company employees. Considering this and the limited time for conducting the survey, we used student networks in graduate schools and universities, as well as some restaurants and churches, to approach them. We could not eliminate inclusion of students themselves to answer the survey questionnaire.

(v) In addition to these networks, we organized several focus group meetings (FGM) to collect general information about people's attitude toward remittances. We used the information to check whether the average data acquired from the questionnaire survey have some bias or not. The information acquired through FGMs revealed that the survey data of Malaysians show a clear bias that there were two piles for the survey samples: students and businesspersons working in companies.

(vi) Workers' remittances should be limited by definition to money transfer by workers. Together with the limited number of samples we recognized that the survey results for Malaysia, especially numeric data, should be considered as reference data.

(vii) According to official data, nearly 30% of Philippine workers in Japan are entertainers. They generally stay in Japan for 3–6 months and receive all remunerations or fees at a time in cash at the airports just before they leave Japan. There are some who borrow money at home before coming to Japan and repay the loan with their compensation in Japan (little transfer takes place). All these should not be included, statistically speaking, in the workers' remittances of BOP (this information are from FGMs, and endorsed by the Philippine National Bank officials, such information is also published in newspapers). So although the coverage of sample of entertainers is very low in this survey, it is acceptable.

## References


Asian Development Bank. 2004. *Enhancing the Efficiency of Overseas Workers Remittance*. Technical Assistance PHI 4185. ADB, Manila.

Asian Migrant Year Book 2002–2003 (2003), Asian Migrant Centre and the Migrant Forum in Asia, Hong Kong, China, page 166.

Bank Negara Malaysia. 2003. *Annual Report, 2003.*

———. 2004. *Annual Report, 2004.*

———.2004. *Monthly Statistical Bulletin,* November 2004.

Central Intelligence Agency World Factbook (http://. cia.gov/cia/publications/factbook/)

Chew, Kevin. 2001. *Ringgit Policy—A Confidence Game.* New Straits Times. 28 April 2001.

Directorate Overseas Worker Empowerment (DOWE). 2005. "Empowerment Program for Overseas Migrant Worker." Mimeo. Directorate General Overseas Worker Facilitation and Allocation-Department of Manpower and Transmigration, Jakarta.

———. 2004. "Activities Report on the Development of Remittance Usage." Mimeo. Directorate General Overseas Worker Facilitation and Allocation—Department of Manpower and Transmigration, Jakarta.

———. 2003. Implementation Guideline; Remittance Program for Indonesian Migrant Worker 2003. Mimeo. Directorate General Overseas Worker Facilitation and Allocation—Department of Manpower and Transmigration, Jakarta.

Federation of Malaysian Manufacturers, Annual Report 2004. Malaysia.

Gunasegaran, S., and Sullivan Gerard. 1992. *Cross Border Labor Flows in Southeast Asia: Patterns and Prospects.* Singapore.. Institute of Southeast Asian Studies

Harrison, Anne, et.al. 2004. *Working Abroad: The Benefits Flowing from Nationals Working in Other Economies*. Roundtable on Sustainable Development Paper. OECD General Secretariat, Paris.

International Labour Organization Conference, April, 2005, Kuala Lumpur. Malaysia.

Kanapathy, Vijayakumari. 2001. International Migration and Labor Market Adjustments in Malaysia: *The Role of Foreign Labor Management Policies.* ISIS

Lee Kuan Yew. 2001. *The Man and his Ideas*. Singapore. Times Publishing.

Lim, Lin Lean. 1984. *The Consequences of International Migration for Social Change: The Case of Malaysia.* Singapore University Press, Singapore.

———. 1988. *Labor Markets, Labor Flows, and Structural Change in Peninsula Malaysia.* Singapore University Press, Singapore.

Malaysian Employees Federation. 2000. Survey on Foreign Workers. Malaysia.

Malaysian Trade Union Congress/International Labour Organization Regional Workshop, 18–19 April 2005.

Ministry of Finance, Malaysia. 2004. *Economic Report, 2004/5.* Malaysia.

Ministry of Human Resources (MOHR), Malaysia. 2004. *Labor and Manpower Report, 2004*. Putrajaya. MOHR.

Nayagam, J, and Abdullah Sepien. 1979. Trends in Labor Utilization of Peninsula Malaysia. *Planter's Bulletin,* No. 61. Kuala Lumpur. Rubber Research Institute of Malaysia.

Nayagam, J. 1991. Labor Issues in the Plantation Sector. Paper presented at the National Seminar on Agricultural Primary Commodities. Kuala Lumpur. Malaysia.

Orozco, Manuel. 2004. *The Remittance Marketplace: Prices, Policy, and Financial Institutions.* Pew Hispanic Center, Washington DC.

Pillay, Patrick. 1992. People on the Move: An Overview of Recent Emigration and Emigration in Malaysia. *Institute of Strategic and International Studies Issue Paper*.

Reinke, Jens and Neil Patterson. 2005. *Remittances in the Balance of Payments Framework.* International Technical Meeting on Measuring Remittances, World Bank. Washington DC, 24–25 January 2005.

Timberg, Thomas A. 2003. *Black Money and Rural Development: Remittance Services*. Partnership in Economic Growth (PEG) —United States Agency for International Development, Jakarta.

United Nations High Commission for Refugees (UNHCR). Roundtable on Migration & Refugee Issues, 13–14 June 2005.