

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 in the 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

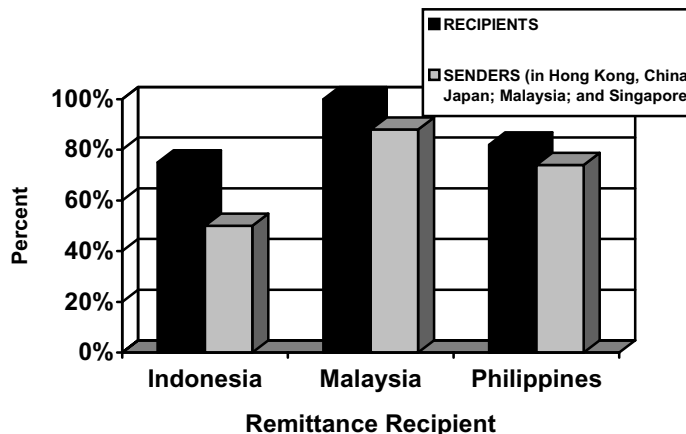
A remittance sender is generally a low-income individual with significant obligations in two places. Ensuring greater opportunities is a relevant policy goal on development. Some immigrants may have a demand for mortgage loans, while others may need medical and life insurance services. Moreover, offering 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).

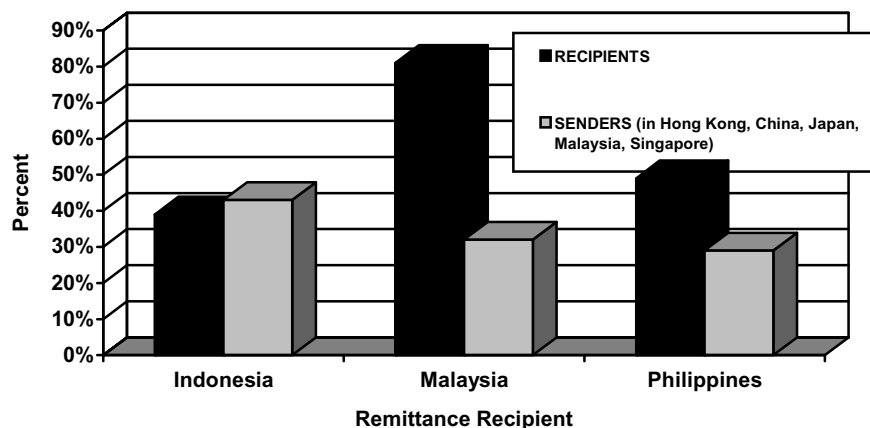
Figure 5.1: Percentage of Remittance Recipients and Senders Who Have a Bank Account in the Country of Origin



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.