

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.