

9th National Convention on Statistics (NCS)
EDSA Shangri-La Hotel
October 4-5, 2004

**Promoting Greater Use of Formal Remittance Systems by
Overseas Filipinos**

by
Zeno Ronald R. Abenoja

For additional information, please contact:

Author's name: Zeno Ronald R. Abenoja
Designation: Bank Officer VI
Agency: Financial Market Research Group
Department of Economic Research
Bangko Sentral ng Pilipinas
Address: A. Mabini St. cor. P. Ocampo St.,
Malate Manila, Philippines 1004
Telefax: +632-5231272
E-mail: zabenoja@bsp.gov.ph

PROMOTING GREATER USE OF FORMAL REMITTANCE SYSTEMS BY OVERSEAS FILIPINOS

by

Zeno Ronald R. Abenoja¹

ABSTRACT

The magnitude of workers' remittances has risen to significant levels in recent years. A World Bank study estimated that workers' remittances that flowed to all developing countries exceeded US\$70 billion in 2001. The top recipients of remittances are India, Mexico and the Philippines. The total volume of remittances is much higher than total official flows and is about 40 percent of foreign direct investment flows to developing countries during that year. This paper looks closely at the experience of the Philippines. Official figures on remittances of overseas Filipino workers indicate continued growth to reach about 9.5 percent of GDP in 2003. However, the official figures understate the actual volume of remittance flow, with estimates of remittances passing through alternative channels ranging from 25 to 70 percent of the total. Factors that hinder a more widespread use of formal channels include constraints in access to overseas markets by Philippine banks, increased competition from alternative channels, difficulties in accessing banking facilities by Filipinos and payments infrastructure difficulties. In response, economic authorities as well as market participants are currently pursuing various initiatives at the local and international level to improve remittance services and promote the use of formal remittance channels. These initiatives include product innovation, bilateral cooperation and the conduct of an in-depth study to guide future policy actions.

INTRODUCTION: GROWING IMPORTANCE OF REMITTANCES

Much attention has been devoted to the effects of globalization on developing economies in the past years. The discussions center mostly on such topics as the appropriate exchange rate regime, proper sequencing of reforms, strengthening of domestic banking systems and developing capital markets. More recently, the migration and remittance aspects of globalization have been receiving increasing attention from policymakers, academicians, international organizations and market practitioners. As the overseas workers' remittances increase in magnitude, remittance related issues continue to gain prominence in the policy agenda of governments and multilateral institutions.ⁱ A World Bank study estimated that workers' remittances that flowed to all developing countries exceeded US\$70 billion in 2001.ⁱⁱ The top recipients of remittances are India, Mexico and the Philippines. This total volume of remittances is much higher than total official flows and is about 40 percent of foreign direct investment flows to developing countries in that year. In the same study, it has been observed that remittances tend to be relatively more stable than private capital flows. Furthermore, remittances tend to move against the business cycle, rising in times of economic downturn in the recipient country. Given the size of these flows,

¹ Bank Officer VI, Financial Market Research Group, Department of Economic Research, Bangko Sentral ng Pilipinas

remittances can be an important source of financing for alleviating poverty and supporting growth in developing countries.

REMITTANCE MARKET IN THE PHILIPPINES

Size, composition and geographical source of remittances

Remittances may be defined broadly to cover all financial resource flows arising from the cross-border movement of a national of a country.ⁱⁱⁱ Alternatively, in a narrow sense, remittances may be defined to cover only cash transfers sent by immigrants and overseas workers to their home country. This paper will adopt the narrow definition of cash transfer inasmuch as it focuses on the use of funds transfer system by overseas Filipino workers (OFWs) and immigrants.

The Bangko Sentral ng Pilipinas (BSP) collects data on the wages and salaries of overseas Filipino workers which are inwardly remitted through the banking system. During the 1990s, these remittances continued to be a major source of foreign exchange for the country. From about US\$3.0 billion in 1994, remittances grew to more than US\$7.6 billion in 2003. Remittance inflow is expected to grow by 6 percent this year to reach US\$8.1 billion and further to US\$8.6 billion in 2005.

In general, more than 80 percent of these remittances came from land-based Filipino workers. The remaining 20 percent is accounted by sea-based Filipino workers. It may be noted that remittances from sea-based workers has been on a steady uptrend compared to the slightly volatile trend for remittances from land-based workers. This is due in part to existing regulation of the Philippine Overseas Employment Administration (POEA) requiring sea-farers to remit a fixed percentage of their income to their beneficiaries in the Philippines.^{iv} In contrast there is no similar regulation for land-based workers.

The bulk of the remittances came from the Americas (particularly the US), Asia (Japan, Hong Kong, Singapore) and the Middle East (Saudi Arabia, United Arab Emirates). It may be noted that notwithstanding the fact that most of the OFWs are deployed in Asia and the Middle East, the US appears to be the major source of remittances. However, the data are not truly reflective of the actual country source of remittance or country of deployment of migrants due to the common practice of remittance centers in various cities and abroad to course remittances through correspondent banks which are mostly located in the US. Since banks attribute the origin of funds to the most immediate source, the US therefore appears to be the main source of remittances which may not actually be the case.

Importance of remittances for the Philippines

How important are the OFW remittances to the Philippine economy?

OFW remittances contribute significantly to the foreign exchange resources of the economy. In 2002 and 2003, remittances were equivalent to

more than 20 percent of exports of goods and services. The magnitude of remittances has also consistently exceeded the net inflows of foreign direct investment since the 1990s. Moreover, the annual flows of remittances in the past two years approximate 45 percent of the country's stock of gross international reserves.

The magnitude of remittances is also significant in proportion to the size of the economy. The share of OFW remittances to GDP has increased from 4.7 percent in 1994 to 9.5 percent in 2003. Furthermore, as a source of income, remittances are important to a lot of Filipino families. The 2000 Family Income and Expenditure Survey conducted by the National Statistics Office suggests that about 7.25 percent of Filipino families derived their main source of income from remittances.^v

Remittances can contribute to economic growth by supporting higher levels of consumption. In recent years, it has been observed that the economic expansion has been driven in large part by consumption expenditures. This robust performance of consumption, despite the slow recovery of bank credit, has been attributed partly to the steady growth of compensation income from overseas Filipinos.^{vi} However, statistical exercises to examine this link in the Philippines have been few and results are mixed.

Table 1
OFW remittances (in percent)

(1)	(2)	(3)	(4)	(5)	(6)
Year	OFW Remittances (\$ mil)	Exports	Gross FDI	GIR	GDP
1990	1,203	10.52	218.73	58.73	2.71
1991	1,649	13.33	297.65	36.43	3.63
1992	2,222	15.25	286.34	41.63	4.19
1993	2,276	14.18	183.84	38.43	4.19
1994	3,009	14.86	170.58	42.25	4.70
1995	3,869	14.43	183.19	49.84	5.22
1996	4,306	12.86	656.40	36.66	5.20
1997	5,742	14.23	469.89	65.49	6.97
1998	7,368	19.93	324.87	68.18	11.31
1999	6,794	19.86	393.86	44.97	8.92
2000	6,050	16.22	449.81	40.28	7.97
2001	6,031	19.30	614.15	38.55	8.37
2002	7,189	20.91	647.07	44.46	9.22
2003	7,640	22.13	1,650.96	45.30	9.50

Notes:

1. The figures for the OFW remittances are as reported in the balance of payments statistics.

2. The OFW remittances from the BOP were used in comparing the size of remittances with the GDP. Alternatively, data on compensation income from abroad from the National Income Accounts may be used with similar results.
3. Percent share relative to foreign direct investments (FDI) and exports refer to the January-September 2003 period.

Remittance channels: formal and alternative channels

Formal funds transfer or remittance systems may be defined as composing of institutions that transfer value or funds from one geographic location to another and are operating within the regulated financial sector.^{vii} These institutions are supervised by government agencies and by laws that determine their establishment, scope of operations and closure. Based on standards set by the FATF and the Basel Committee on Banking Supervision, aside from licensing and registration, formal remittance institutions must have in place mechanisms for customer identification, record keeping, on-going monitoring of accounts and transactions and due diligence. The formal systems may include banks, credit unions, money transfer operators and postal services. The informal remittance systems refer to institutions that engage in remittance business outside the regulated financial sector. This may include ethnic stores, courier services and hand-delivery.

The composition of formal and informal remittance systems may vary from one country to another, depending on their regulatory regimes. In the Philippines, the formal remittance system is composed mainly of the banks. However, as the implementation of the provisions of AMLA progresses, the definition of formal remittance channels may cover more institutions.

The BSP official statistics on OFW remittances show a sizable amount of remittance inflows. However, these figures only refer to those that pass through the banking system. BSP remittance data are based from foreign exchange transaction reports of commercial banks, thrift banks, offshore banking units and foreign exchange corporations that are subsidiaries of banks.

In 2003, more than 30 commercial banks reported undertaking remittance transactions but there are only about 10 major players in the bank remittance business. The share of the top 3 banks reached about 74 percent of total remittances sent through the banking system while the top 10 accounted for about 97 percent of the total.

It has also been observed that the pricing for remittance services among banks is quite competitive. A survey of a few banks by the BSP and the Association of Bank Remittance Officers, Inc., (ABROI) showed that service charges for remittances from the US to the Philippines range from US\$7 to US\$8 for credit to account transactions; US\$10 to US\$12 for credit other bank service; US\$8 to US\$12 for advice and pay services (within Metro Manila; and US\$12- US\$15 for door to door services within Metro Manila. Mellyn (2003) notes that banks' remittances charges are reasonable priced compared to the rates offered in Latin American standards. However, there is still a significant room for

improvement. The study reports that Philippine bank charges range from \$5 (book transfer within one bank, foreign account to local branch account) to \$16 on the high-end, which can include door-to-door courier delivery.

Aside from banking channels, there are alternative remittance channels through which overseas Filipinos can remit cash to the Philippines. Cash can be sent through the recruitment agency or through the local office of the employer; friends or relatives traveling back to the Philippines; money transfer agents or door-to-door delivery agencies; and other means such as hawala-type channels or via postal mail. Alternatively, overseas Filipinos can bring the cash themselves upon their return or visit to the Philippines. Finally, remittances can also take the form of goods brought home or sent through door-to-door agencies and ethnic stores.

Data from the Survey of Overseas Filipinos conducted by the National Statistics Office (NSO) show that since 1995, on average about 71 percent of workers' remittances are sent home as cash, 21 percent are personally brought home as cash while about 8 percent are sent in kind (Table 2). Of the proportion sent as cash, on average almost 70 percent passes through the banks while the rest are remitted through alternative channels such as through friends and couriers (Table 3). It may be noted that the share of cash remittances coursed through the banks has been increasing from about 65 percent in 1995 to 76 percent in 2002.

Table 2
NSO Survey of Overseas Filipinos
OFW remittance, by mode of remittance ^{viii}
 percent share

Year	Cash Sent						Cash Brought Home	In Kind
	Total	Bank	Agency/ Local	Friends	Door-to-door	Others		
1995	71.7	46.2	3.0	2.4	17.9	2.2	15.7	12.6
1996	73.2	49.6	5.0	2.7	15.2	0.7	15.9	10.9
1997	69.4	45.4	3.4	1.4	18.5	0.8	21.4	9.2
1998	75.2	49.8	2.6	1.1	21.3	0.4	18.3	6.5
1999	72.3	51.2	1.8	1.5	17.2	0.6	20.8	6.9
2000	67.5	48.9	1.4	0.6	16.3	0.3	25.0	7.5
2001	69.6	49.7	2.9	0.8	15.8	0.3	23.6	6.8
2002	68.5	52.0	2.5	0.6	13.2	0.1	25.1	6.4
Average	70.9	49.1	2.8	1.4	16.9	0.7	20.7	8.4

Source: National Statistics Office

Table 3
NSO Survey of Overseas Filipinos
OFW Cash Sent, by mode of remittance ^{ix}
 percent share

Year	Cash Sent					
	Total	Banks	Agency/ Local	Friends	Door-to -door	Others
1995	100	64.5	4.1	3.3	24.9	3.1
1996	100	67.8	6.8	3.7	20.8	1.0
1997	100	65.4	4.8	2.0	26.6	1.1
1998	100	66.3	3.4	1.5	28.3	0.5
1999	100	70.8	2.5	2.0	23.9	0.8
2000	100	72.5	2.1	0.8	24.1	0.4
2001	100	71.5	4.2	1.2	22.7	0.5
2002	100	75.9	3.7	0.9	19.3	0.1
Average	100	69.3	4.0	1.9	23.8	0.9

Estimates of actual remittances

With only a portion of remittances going through banks and thus being captured in BSP statistics, how much then is the actual volume of remittances being sent by overseas Filipinos?

The results of the NSO survey imply that the official statistics on OFW remittances may be understated. For example, in 2002, about 76 percent of the remittances passed through the banking system with about 24 percent not being reflected in official OFW remittance statistics. This roughly implies that actual remittances could be around US\$9.5 billion in 2002 and about US\$10 billion in 2003.

Mellyn (2003) estimates the total volume of remittances at about US\$14 billion to US\$21 billion a year. This is based on the assumption of a US\$2000 to US\$3000 annual average remittance and a population of about 7.5 million overseas resident Filipinos. The average annual remittance used is based on data from the National Money Transfer Association in the US. This estimate implies that actual remittances are about twice or even almost thrice the BSP official figures.^x

Benefits of using formal remittance channels

The large volume of remittances that can potentially be coursed through the banking system presents a challenge to the banking sector and to authorities to attract a larger share of these funds to flow via formal channels. As suggested by the statistics, the remittances market is already a huge market and formal financial institutions can increase their market share as services are improved and transaction costs are reduced. For remitters, the use of formal financial institutions provides accessible, timely and safer mechanism for remittance

transactions and can help promote better saving habits of OFWs. In some cases, formal institutions offer lower service fees and better foreign exchange rates. For authorities, better monitoring mechanisms and understanding of these flows will serve as a basis for policymaking decisions. Moreover, it has been noted in a study on Mexican experience that remittances held as deposits in the banking system has a multiplier effect of between 2 and 3 times.^{xi} With banks capturing remittances as deposits, these funds can be channeled to investments including small and micro businesses. Moreover, recipient families will have access to a wider menu of financial services. Thus, encouraging the shift to and the maintenance of remittances within formal channels may have significant developmental advantages, even if the total volume of remittances remained the same.

REGULATORY ENVIRONMENT

The BSP sets the rules that govern the establishment by domestic banks of offices abroad. The rules cover not only branches but also agencies, representative offices, remittance centers, remittance desk offices and other offices established abroad which are integral in the operations of the parent domestic bank.^{xii}

The standard prequalification requirements for branches and offices abroad pertains to among others, capitalization, loan limits to related interests, reserves, adequacy of accounting systems and internal control systems and a ceiling on nonperforming loans.^{xiii}

The BSP requires the approval of host country for every branch, agency or subsidiary to be established by a local bank abroad. It may be noted that most of the remittance centers operating abroad which are subsidiaries or affiliates of domestic banks are incorporated under the laws of the host country. In addition, some local banks have established tie-up arrangements with overseas banks for their remittance operations. In practice, the host regulators share with the BSP their reports on the examination of branches and subsidiaries abroad.

The BSP also requires the remittance subsidiaries of banks to engage only in the remittance business and not in any of the business of a bank as contemplated within the context of the Philippine banking system. These subsidiaries are also prohibited to engage in stock trading activity or any activity without BSP approval.

For the other remittance service providers, the BSP has no supervision authority over money exchange dealers, hawaldars, money transfer agencies, courier agencies and door-to-door remittance companies. The transactions of these institutions are regulated and monitored by the BSP only to the extent that these alternative remittance channels use the banking system for their transactions, for example, as their paying agent. However, there are no BSP regulations that are specific to these alternative remittance channels.

With the passage of the Anti-Money Laundering Act in September 2001, the legal and regulatory framework governing financial institutions has been further strengthened. Institutions covered by the law include not only banks but also money changers, remittance and transfer companies and other entities administering or likewise dealing in currency. Under the law, these covered institutions are required to establish customer identification; keep records of transactions for 5 years from date of transaction; and report to the Anti-Money Laundering Council covered transactions.

The BSP is currently formulating regulations on the registration of remittance agents (RAs) and money changers/foreign exchange dealers. The regulations on these institutions will enhance the monitoring of their activities and further expand the reach of anti-money laundering requirements in the Philippines. The proposed regulations on remittance agents will cover any person or entity that offers to remit, transfer or transmit money on behalf of any person to another person and may include money or cash couriers, money transmission agents and remittance companies. The RAs will be required to register with the BSP in order to engage in remittance business and will be subject to provisions of the New Central Bank Act and the AMLA of 2001.^{xiv}

**ISSUES IN PROMOTING THE USE OF FORMAL REMITTANCE CHANNELS:
AN INITIAL LISTING**

The continued use of informal remittance system by OFWs may be indicative of the absence or lack of access to financial institutions that can efficiently provide such services.^{xv} The relative inefficiencies may include delays in the clearing of checks and exchange rate losses which have tended to discourage remittances. In other cases, the financial institutions are present but access by foreign workers or immigrants may be inhibited by documentary requirements or language barriers. This section identifies a few of the issues that relate to the use of formal remittance channels.

1. Constraints in overseas market access

During consultations with the Association of Bank Remittance Officers, Inc. (ABROI) it has been raised that Philippine banks face some regulatory constraints in setting up remittance centers or full-fledged bank branches in overseas markets. The restrictive regulatory policies limit the market access of Philippine banks. To service the needs of OFWs, Philippine banks with active remittance programs for OFWs have forged tie-up arrangements with foreign correspondent banks, local money exchanges, and other remittance-taking agencies. While these arrangements serve the purpose of providing services for sending funds, Philippines banks argued that the arrangements have resulted in higher transfer costs. Philippine banks have limited ability to lower end-to-end costs since their front-end tie-ups set their own prices for remitters.

The ABROI expects that increasing the presence of Philippine banks in the overseas markets will contribute in the greater flow of remittance through formal channels. This issue of market access may serve as a talking point in future

bilateral talks between the Philippines and other countries, including Middle East countries.

2. Competition from alternative remittance channels

Remittance business of non-banks and informal channels like the express padala services remains brisk because of their accessibility, simple processes and customer awareness.

The non-bank courier companies are not regulated which is a major competitive advantage in terms of cost. The companies provide no know your customer function. Proper reporting requirements (FATF standards) if implemented would eliminate some of their competitive advantage in cost if not in reach.

New technology-based products have also emerged in recent years. These new products provide competition to traditional remittance services of banks as the improvement in technology results in reduced costs relatively and faster services compared to conventional methods. Examples of these new technology products include electronic-cards, Short Messaging Services (SMS)-driven services and internet-based remittance services.^{xvi} However, some of the technology or telecommunication firms continue to maintain some form of partnership with banks in delivering the new remittance products.

3. Lack of access to banking institutions

Access to banking services by Filipinos in host countries is a major constraint on the volume of remittances flowing via formal channels. The opening of bank accounts (which is tantamount to a bank transaction) by OFW remittances is being discouraged by strict regulations in some host countries. Moreover, the identification and other documentary requirements in line with anti-money laundering and counter-terrorism efforts in host countries have discouraged or made difficult the opening of bank accounts. The opening of bank account could facilitate the shift of remittances from informal delivery channels to banking institutions. The ABROI is requesting the BSP to explore the possibility of convincing monetary authorities in host countries to allow OFWs to open accounts with Philippine banks with application forms filed in the remittance center abroad.

To help simplify the documentary requirements for account opening for OFWs and their beneficiaries, the ABROI has proposed the issuance of identification cards patterned after the Mexican “Matricula Consular”. The Matricula Consular is an identification card issued by Mexican consulates to Mexican citizens living abroad. This card can be obtained upon submission of a Mexican birth certificate, plus an official identification document and any document that provide proof of address abroad (e.g. billing statement with address). The Matricula Consular does not provide any legal status to the cardholder other than Mexican citizenship. It cannot be used for travel, employment or driving in the US or in Mexico. The Matricula only declares that a

Mexican consulate has verified the individual's identity and their home address abroad. The Mexican experience showed that the growing acceptance of the Matricula Consular has reduced the barriers to banking for remittance senders. The acceptance of Matricula Consular for opening bank accounts in the US has allowed Mexican remitters greater access to the US banking system.

There are also suggestions to simplify the documentary requirements/process in the opening of accounts for OFWS and their beneficiaries here in the Philippines. At present, standard documents required by local universal/commercial banks in account opening of OFWs include three valid identification cards, passport photographs, referral letter from POEA/OWWA, and Dole certification that the OFW has completed its Pre-Departure Orientation Seminar (PDOS).^{xvii}

4. Payments system issues

The Philippine Clearing House Corporation (PCHC) facilitates interbank check clearings, and has developed a low cost electronic giro or ACH mechanism that can pass peso or dollar interbank payments for a tariff of ₱2.50. However, banks do not in practice use this for low value payments, like OFW remittances between banks. Instead, the current practice is usually to charge P150 for interbank transfers. Another payments issue is the limited inter-operability in the three bank-owned automated teller machines (ATM) networks. Moreover, several rural banks and thrift banks which cannot afford PCHC membership and other grass roots financial institutions are not fully integrated into the formal payment system.

INITIATIVES TO PROMOTE THE USE OF FORMAL REMITTANCE CHANNELS

For banks to compete with informal conduits Tũaño-Amador (2004) noted the need for improvements in the financial architecture. Specifically, areas where some upgrading may be necessary include client awareness of the available services, competition to make services more accessible and affordable and the network of financial intermediaries to cover a greater number of localities. Both the various government agencies and private sector players in the remittance market are aware of these concerns and are undertaking initiatives to address them.

Initiatives of formal financial institutions

For formal financial institutions efforts are focused, in part, in improving their services and reducing transaction costs.

Banking institutions have come up with products that cater specifically to OFWs to encourage the use of the banking system in their remittance transactions. Banks provide traditional remittance services, such as account transfers, and deposit and investment products. At the same time, banks now offer other products and services to attract more overseas Filipinos to use banks for their remittance transactions. These products include door to door cash

delivery and the acceptance of payments/contributions for agencies like SSS and Philhealth and even payment of tuition to schools. Some banks are also offering OFWs deposit accounts with lower required initial deposit and maintaining balance. Moreover, some of the banks provide extra products/services for OFWs who course their remittances through the banks such as free insurance coverage and overseas phone calls.

Banks are also in active discussion with Philippine authorities to identify measures that can potentially address issues on market access by Philippine banks and access to financial services by overseas Filipinos. Proposals of ABROI to facilitate the flow of remittances through formal channels include:

1. Open remittance windows for Philippine banks in the Middle East,
2. Allow OFWs to open an account through remittance centers abroad,
3. Simplify documentary requirements
4. Issue identification cards patterned after the Mexican "Matricula Consular"

Recent government initiatives

For the Philippine authorities the challenge is to provide the appropriate regulatory environment to allow a greater role of formal financial institutions in the remittance sector and facilitate the establishment of a transparent and efficient remittance system.

Bilateral agreements. During the visit of President Gloria Macapagal-Arroyo in the US last May 2003, the Philippines and the US signed a Memorandum of Intent on improving the flows of OFW remittances. The MOI identified specific initiatives which will be pursued by the Philippines with the assistance of the US Government. Specifically:

1. The US Federal Reserve will link the Philippines to a direct system of automated payments and clearing house to facilitate electronic transfers;
2. The US FDIC will help in launching a consumer outreach/financial literacy program for Filipino and Filipino-American communities, bankers and other remittance service providers. This initiative is aimed at improving the awareness of stakeholders on the different aspects of remittances.
3. The US Government will help credit unions and cooperatives in the Philippines to interconnect with the international remittance network system of the World Council of Credit Unions (WOCCU).
4. The US Government will help establish a system that will tap the US and Philippine postal system in providing low-cost front-end remittance channels in cooperation with the Rural Bankers Association of the Philippines.

The government is asking for a reduction in banking fees and charges for OFWs and to allow the OFWs to make transactions even without a US Social Security number. This is similar to Mexican arrangement where Mexicans remitting via US banks are not required to present a social security number but instead may present a community tax certificate. The government is planning to

forge more bilateral agreements with other countries where there is a sizable number of OFWs.

ADB Technical Assistance. The ADB is providing the Philippine government technical assistance (TA) in undertaking a study on OFW remittances, with the BSP acting as the executing agency. The TA will review the flow of remittances from overseas Filipinos and identify constraints in the policy, regulatory and institutional framework that impact these flows. At the same time, the TA will develop proposals to address the identified problems and constraints with the goal of:

1. Increasing remittance volume;
2. Facilitating the shift from formal to informal remittance channels; and
3. Encourage the use of remittance proceeds for sustainable poverty reduction.

The TA study has three major components. The first component involves an assessment of migrant remittance behavior. The second component will examine the regulatory environment in which the various remittance players operate in both the remitting and receiving sides. This will involve a review of laws and regulation with the view of increased flows through formal channels and encouraging competition among remittance players which may result in cost reduction. Other aspects of this component include the listing and evaluation of remittance products, services, technologies, emerging best practices, as well as the scanning of possible bilateral or international cooperation arrangements. The third component will identify the means through which remittances could be channeled to more productive use. The TA started in November 2003 and is expected to be finished by May 2004.

Government programs for overseas Filipino workers. The Philippine government undertakes several programs devoted to overseas Filipino workers which are being administered by different government agencies. Some of these program are aimed at encouraging the saving and investment of part of the earnings of OFWs. Indirectly, through the participation to these programs, the OFWs are encouraged to use of formal channels in their remittance transactions. The Pag-IBIG Overseas Program (POP) is a voluntary savings program which aims to provide Filipino overseas contract workers the opportunity to save for their future and avail of a housing loan.

The OFW Electron Card is an identification card issued by the Department of Labor and Employment (DOLE) through its attached agencies, the Overseas Workers Welfare Administration (OWWA) and the Philippines Overseas Employment Administration (POEA). The card is a multi-function card containing information about the OFW which he will need in dealing with government and private institutions, locally and abroad.^{xviii} OWWA has identified the following benefits that can be derived from the availment of the Electron card:

1. Serves as proof that cardholder is a legitimate OFW and an OWWA member;
2. Provides a permanent ID card number that will link OFW's information necessary in dealing with various government and private agencies;

3. Facilitates availment of OWWA benefits and services; and
4. Can be used as a remittance card and ATM or debit card at the option of the OFW.

For 2003, the OWWA has processed a total of 639,084 contracts (as of October) and at the same time has issued a total of 517,109 OFW Electron cards.

Singapore initiative. The Monetary Authority of Singapore has announced that it will allow banks, subject to certain restrictions, to open new branches specifically to provide money-changing services. This measure will provide more foreign workers with more remittance options and convenience.

APEC Alternative Remittance Systems (ARS) initiative. The APEC Alternative Remittance Systems (ARS) initiative and related global efforts to promote financial integration can have a positive impact in promoting remittances as a development tool in Asia.

This initiative examines the economic and institutional factors influencing the use of alternative remittance systems. In connection with this initiative, the World Bank drafted a report that creates a framework for estimating the magnitude of remittance flows, discusses incentives for using informal systems, and examines the role of the private financial institutions in the provision of remittance services. The report put forward a set of recommendations on how formal financing systems can be strengthened to provide more attractive and accessible remittance services.

CONCLUDING REMARKS

The remittance industry continues to grow and has become more competitive as new innovations in the products and services emerge and as new players participate. While banks have become more interested in this business, a significant portion of remittances of OFWs and immigrants continue to flow through informal channels. The OFWs and immigrants turn to them because of their innovative and speedy service and because they usually cover areas where there are no formal banking facilities. In some cases, access of OFWs to formal channels is hampered by documentary requirements or regulatory restrictions on the activities of Philippine banks abroad. To attract remittances into formal banking system these concerns are being addressed by both the government authorities and private sector participants.

For the banking institutions, there may be a need to expand further their branching network in order to effectively link overseas workers with the recipient families. There is also a need for continuous innovation to ensure that products/services provided and the fees/charges remain competitive.

On the part of the government, the regulators should seek an appropriate balance between improving the regulation and monitoring of remittance product/service providers and in encouraging the reduction of remittance costs.

At the regional or international level, there may be avenues for cooperation between national authorities and multilateral organizations. The experience of the Mexico-US provides useful lessons for the other countries. In this light, the provisions of Philippine-US agreement on improving remittances flows should be pursued. At the same time, bilateral agreements may be forged with other major OFW host countries.

Underlying both the initiatives at the local and international levels is the need to have a better understanding of the formal and informal channels of remittances. The ADB study on the Philippine experience is an important step in exploring in detail the OFW remittance market in the US and Singapore. However, there is ample room for further research to fill in the gaps in our understanding of the behavior of players in the official and unofficial remittance network. The ADB may be expanded to cover more host countries as well as other players in the market for remittance to the Philippines.

Further areas of research may also examine possible policy actions geared toward to influencing and optimizing the use of remittances in the home economies for investments. This would entail a better appreciation of the expenditure and savings behavior of remittance recipient households.^{xix} At present, there are various initiatives of the PAG-IBIG and POEA which provide opportunities for investments by the OFWs. It may be useful to assess the performance of these initiatives and identify possible ways of improving these programs. From a macroeconomic perspective, it may also be interesting to explore the macroeconomic determinants of remittance flows and their impact on the consumption, investments and other macroeconomic factors. These studies could provide insights which can be used as inputs in formulating policies on remittances.

ENDNOTES

ⁱ See for example the discussions and agreements during the UN International Conference on Financing Development in March 2002 at Monterrey; the WB Migrant Workers Remittances Conference in October 2003 and the 10th APEC Finance Ministers' Meeting in September 2003 at Phuket.

ⁱⁱ Ratha (2003).

ⁱⁱⁱ See for example Kapur (2003)

^{iv} Section 8 of the Standard Terms and Conditions Governing the Employment of Filipino Seafarers On-board Ocean-going Vessels issued by the POEA, provides that:

- a. The seafarer is required to make an allotment which shall be payable once a month to his designated allottee in the Philippines through the authorized Philippine bank. The master/employer/agency shall provide the seafarer with facilities to do so at no expense to the seafarer. The allotment shall be at least 80 percent of the seafarer's monthly basic salary including back wages, if any;

-
- b. The master/employer/agency may also provide facilities for the seafarer to remit any amount earned in excess of his allotment to his designated allottee in the Philippines through any authorized Philippine bank without any charge to him; and
- c. The allotments shall be paid to the designated allottee in Philippine currency at the rate of exchange indicated in the credit advice of the local authorized Philippine bank.

^v Of the 15,269,655 number of families included in the 2000 survey, some 1,106,505 families derive their main source of income from cash receipts, gifts and other forms of assistance from abroad.

^{vi} See for example the press release of the National Statistics Office on the 2003 National Income Accounts dated 29 January 2004 at www.nscb.gov.ph/sna/2003/4qtr-2003/20034qpr.asp : “The growth in PCE can be attributed to the substantial spending on food, miscellaneous and transportation and communication services resulting from improved consumer confidence and increased remittances of OFWs coupled with continued stability of prices in 2003.”

^{vii} See for example World Bank (2003) and FATF (2003).

^{viii} Agency refers to the recruitment agency which processed the recruitment papers of OFWs; Local Office refers to the local office of the international shipping company, usually utilized by seamen in sending their remittances to their families; Others refers to remittances through means other than the specified means, such as thru mail or postal money order

^{ix} Agency refers to the recruitment agency which processed the recruitment papers of OFWs; Local Office refers to the local office of the international shipping company, usually utilized by seamen in sending their remittances to their families; Others refers to remittances through means other than the specified means, such as thru mail or postal money order

^x Puri and Ritzema (1999) reported two early studies that estimated unrecorded remittances. Tan and Canlas (1989) estimated unrecorded remittances to the Philippines to be 60 and 55 percent of total remittances. Similar results were given in Albuero and Abella (1992) which estimated that the official data captures only 50 percent of the total.

^{xi} See Ratha (2003)

^{xii} See Section X154 of the Manual of Regulations for Banks (MORB)

^{xiii} See Appendix 5 of MORB for details. The net worth to risk assets ratio is now governed by Circular Nos. 280 and 360 which provide the guidelines on the adoption of risk-based capital adequacy framework.

^{xiv} Inspection/examination of AMLC; reportorial requirements on covered and suspicious transactions, applicable sanctions for non-compliance with AMLA, required seminars/trainings.

^{xv} See Ratha for example (2003) and Puri and Ritzema (1999).

^{xvi} See for example, SMART Padala and the following websites: YESPinoy and www.mysusyento.com.

^{xvii} Based on telephone interviews with remittance divisions of local commercial banks such as Equitable-PCIB, PNB and Metrobank.

^{xviii} The The security features of the card include:

1. Photo card;
2. Digital signature on card face with matching signature at the back;
3. Tamper proof signature panel; and
4. Magnetic stripe with security code.

^{xix} Abella (1992) noted that several studies for the Philippines show that “migrant” families exhibit a higher propensity to save than non-migrants. Puri and Ritzema (1999) suggests that a major reason for this trend is that Asian workers are predominantly “target savers who go abroad on limited period contracts”. As such, it is possible that migrant families consider remittances as transitory income and tend to save as much as possible.

REFERENCES

- APEC Finance Ministerial Meeting Joint Ministerial Statement, 4-5 September 2003.
- Asian Development Bank (2004): Report of the technical assistance for enhancing the efficiency of workers' remittances, July.
- FATF (2003): Combating the abuse of alternative remittance systems: international best practices, Adopted at the FATF Plenary, 20 June. http://www.fatf-gafi.org/pdf/SR6-BPP_en.pdf
- Kapur, D., (2003): Remittances: the New Development Mantra Paper prepared for the G-24 Technical Group Meeting, Geneva, Switzerland, September.
- Mellyn, Kevin (2003): Worker remittances as a development tool opportunity for the Philippines, Asian Development Bank. 13 June.
- Puri and Ritzema (1999): Migrant worker remittances, micro-finance and the informal economy: prospects and issues, Working Paper No. 21, International Labor Organization, Social Financial Unit, Geneva.
- Quebal, Articer O. (2003): Letter addressed to BSP Managing Director Diwa C. Guinigundo in behalf of the Association of Bank Remittance Officers, Inc., 12 December.
- Ratha (2003): Workers' remittances: an important and stable source of external development finance, in Global Development Finance 2003 (Chapter 7), World Bank, Washington, D.C.
- Tuaño-Amador (2004): Migrant remittances: macroeconomic implications and policy prescriptions, forthcoming in Bangko Sentral Review, July.
- World Bank (2003): Informal funds transfer systems in the APEC region: initial findings and a framework for further analysis, Final report prepared for the meeting of the APEC Finance Ministers and Deputies, 1-5 September.