

**Regional Integration?**  
**Trends and Patterns of Remittance flows within South East Asia**

**TA 6212-REG Southeast Asia Workers Remittance Study**

**Dr. Manuel Orozco with Rachel Fedewa**

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## **I. Introduction**

International migration is increasingly influencing the global economy. Remittances sent by migrant workers amount to some US\$200 billion going to countries and regions in Latin America, Asia, Africa or Europe.<sup>1</sup> The South East Asia region is an important example of the global trend. Historically, this region 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 proposed to examine remittance fund flow s 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 under study.

In order to understand these trends, we looked into a range of issues relevant to donors and development players. Those issues are:

- 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
- vi. Transnational landscape among remittance senders;

Among the findings in this study are that nearly two million largely women immigrants remit more than three billion dollars from Japan, Hong Kong, Singapore and Malaysia on averages ranging from US\$300 to US\$500. The 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. We also found that there is a significant level of contact between migrants and their family, remitting being one key form of contact.

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<sup>1</sup> We define remittances monetary funds sent by individuals working outside of their home countries to recipients in the country that they came from.

Regulatory issues pertaining to remittance transfers were found to vary from country to country from strict restrictions to more liberal approaches to money transfers. We also found that informality prevails in most countries, however most notably Malaysia seems to be the country where it was 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, in analyzing transaction costs overall we found that costs 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. We found that there is a statistical significant relationship between cost and sender country regulations, informality and volume.

The study also found that half of 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.

These findings call attention to a fluid process of relationships between migrants and their home country as well as to policy opportunities and challenges. Filipino migrants were found to be more engaged with their relatives than other groups by virtue of their frequency of sending and level of contact. The findings also suggest some policy issues worth highlighting or paying attention. To that effect the report offers practical recommendations for short term initiatives.

This report was based on surveys conducted in sending and receiving populations in Japan, Singapore, Hong Kong, Malaysia, Indonesia and Philippines totaling a sample of 2500 senders and recipients. In addition to the surveys, a team of eleven experts conducted field work and interviews to more than twenty policy makers, analysts, industry officials, and NGO personnel among others. We also created a pricing dataset for the for Japan, Singapore and Hong Kong that captured the transaction cost of the most active money transfer companies.

## II. Migration Trends in South East Asia

Southeast Asia is an emerging market in the global economy, reporting complex intra- regional dynamics among the countries. Demand for – and supply of – foreign labor took increased significance during the 1970s and subsequently increased into the late nineties 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 \$33 billion).

This section identifies the main trends of regional migration in South East Asia and offers a profile of the demographic and social characteristics of immigrants in Japan, Hong Kong, Singapore and Malaysia. 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: South East Asian Migration Corridor: Main Economic indicators**

Country	p/c GDP+ (current int'l.)	HDI *	p/c FDI+ (\$US)	Unemployment+ (% of total labor force)	% Population Below Poverty Line ^
Cambodia	2000.92	0.556	10.89	2%	35.9
Indonesia	3227.81	0.682	-15.69	6%	18.2
Malaysia	9130.40	0.790	12.06	4%	7.5
Philippines	4171.06	0.751	14.58	10%	34.0
Singapore	24006.40	0.884	339.26	3%	...
Thailand	7009.47	0.768	58.00	2%	9.8
Vietnam	2304.78	0.688	16.35	n/a	28.9

Source: \* Human Development Index 2001, United Nations Development Programme; + World Bank, World Development Indicators 2004 (figures from 2001); ^ Asian Development Bank, Key Indicators 2004

### *a. Migration trends in South East 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.”<sup>2</sup>

Among the significant trends in Asian labor migration is governmental 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.<sup>3</sup> Although one of the biggest reasons for governmental involvement is remittances, paradoxically official data is arguably a significant underestimate of the numbers.<sup>4</sup>

#### *Hong Kong (Special Administrative Region of the People's Republic of China)*

Foreigners in Hong Kong make up approximately 340,000 residents of this Island area of 6.8 million people. (Ninety-five percent of the population is ethnic Chinese.) A significant number of these foreigners are permanent residents of Hong Kong, 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 with about 142,000 Filipinos in Hong Kong. Indonesia follows with nearly 108,000 migrants. The third biggest source of foreigners is not an Asian country but the United States, although Thailand is the fourth biggest migrant-sending society with almost 30,000 immigrants. Immigrants are also in Hong Kong from a range of other countries, including other Southeast Asian countries like India, Nepal, and Japan.

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<sup>2</sup> Hugo, 59

<sup>3</sup> Hugo, 59-60

<sup>4</sup> Hugo, 57

Most Asian migrant workers in Hong Kong are what the Hong Kong government calls “Foreign Domestic Helpers” (FDH) and are often called “Foreign Domestic Workers” (FDW) by migrant groups. These migrants are overwhelmingly females from the Philippines and Indonesia; the two countries supply 96% of FDH. They usually come to Hong Kong legally on a two-year work FDH visa that is governed by strict regulations that are lack consistent enforcement. FDH comprise 88% of Hong Kong’s migrant worker population. In addition to the FDH, Hong Kong 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 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 FDH. FDH 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 five years, the number of FDH 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 Hong Kong legally.

The age, sex, and country profiles of FDH are largely consistent. These migrants are overwhelmingly female and 80% are aged between 21 and 40 years old. Filipinos and Indonesians account for 96% of the FDH population followed by Thailand’s 2.2% of the total. 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 two years. There are also a very small number of FDH from other countries.

Official figures on how long FDH stay in Hong Kong are not available. Other indications of length of stay are available, but limited in terms of accuracy. First, although FDH sign a standard two-year employment contract and two 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 two 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 less than one year, and 78% less than two years. The figures suggest a high turnover rate, with relatively few surviving beyond the first contract. This implication was complicated by the fact that the Indonesian migrant population was 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. These organizations provide assistance to individuals (e.g. overcharging by employment agency); lobby governments, organizations, and individuals for improved regulations or protections for migrants; and provide cultural, educational, and other activities. This range of goals is underscored by the diverse make-up 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 FDH. 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 immigrants NGOs.

Despite these limitations, FDH do have a number of organizing advantages upon which they could build. These include the large number of migrants in Hong Kong, the relatively homogeneous nature of the workforce, the Hong Kong economy's reliance on their cheap labor, and, from their home countries' perspectives, the importance to the Philippines 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, only having short-term contracts, not having many rights, and being subject to a vast pool of 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 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 but should occur for all Asian countries to, for example, prevent exploitation by employment agencies. Indeed, the Philippines government in 2001 successfully lobbied to allow the direct hiring of domestic helpers for Hong Kong, without needing the involvement of an agency, thereby avoiding agency fees, one of the greatest costs to FDH.

### *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.<sup>5</sup> Work permits are issued to all foreign workers to authorize their entry and

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<sup>5</sup> Malaysian policy does not provide for residential status for migrant workers.

employment. There are two types of work permits used to target skills levels. Unskilled and semi-skilled workers are classified as those earning below RM2, 000.00 (USD526)<sup>6</sup> 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 two years. Expatriates on short-term contracts (less than a year) are issued visit passes for professional employment.<sup>7</sup> 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 (USD79) to as much as RM1, 200 (USD315) per year for each worker<sup>8</sup>

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, that looks into the labor needs of the country. Second, different Immigration Departments in Malaysia have varying rather than uniform rules and procedure to follow. (*ILO Workshop, KL, 2005*). Third, there are differences in immigration law and policy 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 'ad-hoc' especially after the amnesty exercise that was held 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 ended that ended on 28 February 2005, there were still about 300 to 400 thousand undocumented workers.<sup>9</sup> 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.

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<sup>6</sup> Since 21 July 2005, Malaysia has adopted a managed float system for the Ringgit exchange rate.

<sup>7</sup> Kanapathy, V, *ISIS Malaysia*

<sup>8</sup> Immigration Department, Malaysia

<sup>9</sup> The Sun Newspaper of Thursday 5<sup>th</sup> May, 2005.

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 are 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. Another 6,000 maids come from the Philippines and the remainder from Cambodia and Sri Lanka. The Indonesian maids work 16-18 hours a day, seven days a week and earn less than USD5 per day. They are not protected by Malaysia's labor laws, as these exclude domestic workers.<sup>10</sup>

While immigration law and policy in West Malaysia is based on national law, immigration policies and procedures in East Malaysia (Sabah and Sarawak)<sup>11</sup> 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,<sup>12</sup> as well as nationals from other countries, most notably Pakistan, working there as migrant labor.

A summary of the Philippines' Embassies 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.<sup>13</sup>

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<sup>10</sup> This information about migrants working in domestic labor was reported in 'The Sun' newspaper on 19 May 2005, and in turn was based on a New York based Human Rights Watch Group.

<sup>11</sup> East Malaysia consists of the two states of Sabah and Sarawak across the South China Sea on the island of Borneo.

<sup>12</sup> Philippines Embassy in Malaysia

<sup>13</sup> Philippines Embassy of Malaysia

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

<b>Country</b>	<b>Sector</b>	<b>No.</b>	<b>%</b>
<b>Peninsular Malaysia</b>	Professionals (Engineers, Architects, Supervisors, IT 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
	<b>Sub-total</b>	<b>12,642</b>	<b>100</b>
<b>Sabah &amp; Sarawak</b>	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
	<b>Sub-total</b>	<b>200,000</b>	
	<b>Grand Total</b>	<b>212,624</b>	<b>100</b>

Source: Philippines Embassy of Malaysia

A market research company conducted a survey of migrants in the Peninsula. Most of these foreign workers are Indonesians. The majority of the population surveyed is within the age groups of 21 to 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 the Indonesians, survey researchers identified small numbers of Indians and Bangladeshi nationals. The numbers of respondents were, however, too small to be useful to this analysis.)

#### *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.<sup>14</sup>

Defining and counting migrants, and therefore, remittances, is complicated by a number of factors. Chief among these reasons is competing definitions. Based on the International Monetary Fund's (IMF) 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 one and three years. In contrast to the uneven male-female division among Filipino and Indonesian immigrants, sex distribution of Malaysia workers surveyed was well-balanced. The majority (71%) of respondents were between 21 and 30 years old. They often live in Japan for more than one year (39% have been living in Japan one to three years) and 90% answered that they have completed college degree, leading surveyors to think that the majority of those questioned might be students.

### *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 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.

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<sup>14</sup> There are about 2 million officially registered foreign workers in Japan. Annual net increase of migrants in Japan in 2003 was over 100,000 thousand people.

The 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 SGD2,500, 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: Malaysia, India, Bangladesh, Thailand, Myanmar, Philippine, Sri Lanka, Pakistan, Hong Kong, Macau, South Korea, Taiwan, and the People’s Republic of China.<sup>15</sup>

The Employment Pass is issued to foreigners with acceptable degrees, professional qualifications, or specialist skills and whose monthly salary is above SGD2,500, 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 recently, in July 2004, with the objective to increase flexibility to meet industries’ needs for middle level skilled foreign workers with post-secondary qualifications and above. The minimum monthly basic salary must be SGD1,800. 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.

The MOM utilizes 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 China. The largest employment sectors are for domestic help, construction, and manufacturing. Foreign workers in the construction and marine sectors are male

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<sup>15</sup> Singapore classifies these countries under the following categories: Traditional Source (Malaysia), Non-traditional Source (India, Bangladesh, Thailand, Myanmar, Philippine, Sri Lanka, and Pakistan), North Asia Source (Hong Kong, Macau, South Korea, Taiwan), and People’s Republic of China (PRC).



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 Chinese and Thais on two week to one-month tourist visas. The 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.

Foreign domestic helpers (FDH) 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 are all female, recruited into Singapore by employment agencies, and generally work on standard two-year contracts.

There is a clear dichotomy in treatment between Filipino and Indonesian FDH. Filipino FDH are paid about 30% more than Indonesian FDH and usually gets one or two days of rest a week, which Indonesians typically do not receive. Placement fees for Indonesian FDH are higher, averaging over SGD2,000 or eight months salary, compared to Filipino FDH, which average SGD1,800 or 5 months salary.

This disparity with respect to Indonesian and Filipino FDH 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 FDH tend to have better educations but also have well-established network and support systems to get better labor terms and conditions. Indonesian FDH 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 FDH. 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 eight 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.<sup>16</sup> The requirement is also having ripple effects such as increasing agency fees to employers and a SGD50 increase in monthly salary to SGD280 in order to entice eligible Indonesian

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<sup>16</sup> New Paper 8 Feb 2005

maids who would otherwise go to Hong Kong, Taiwan, Korea or elsewhere where salaries are higher. In contrast, the new requirements are benefiting Filipino maids. Some employment agencies are reporting a three-fold increase in Filipino maid placements.

The Indonesian government has attempted a number of 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<sup>17</sup>. Indonesia also has 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 the professional sectors.

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<sup>17</sup> The Electric New Paper, 18, 19 and 20 September 2003

**Table 2.3: Immigrant labor population in selected host countries**

Host Home	Japan	Hong Kong, China	Singapore	Malaysia
Philippines	185,200	141,720	90,000	250,000
Indonesia	22,800	107,960	60,000	1,000,000
Malaysia	9,000	> 1,000	165,000	--
P+I+M	217,000	249,680	315,000	1,250,000

Source: official statistics from host country governments.

*Women as migrants: A Cross Border Reality*

Historically, labor migration has been dominated by men all over the world, including in South East Asia. One of the ways contemporary migration in this region, and beyond it, 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 sex.

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 national numbers, women are likely to be paid less, controlled more, and earn less than their male counterparts. Experience in other countries suggest 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 undocumented status and having to pay the agency back, and have little understanding about any recourses 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 can't be easily be 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 intra-regional migration flows in the Southeast Asian countries under analysis. 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.

*Gender & Professions*

Intra-regional 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 and Singapore are women (see Table 2.4). Foreign domestic helper (FDH) jobs are almost exclusively occupied by women. FDHs represent 90% of all Asian migrant workers in Hong Kong, 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, and 90% of the FDH population in Singapore.

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 percent (27% and 43% respectively) of all foreign work permit holders.

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

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

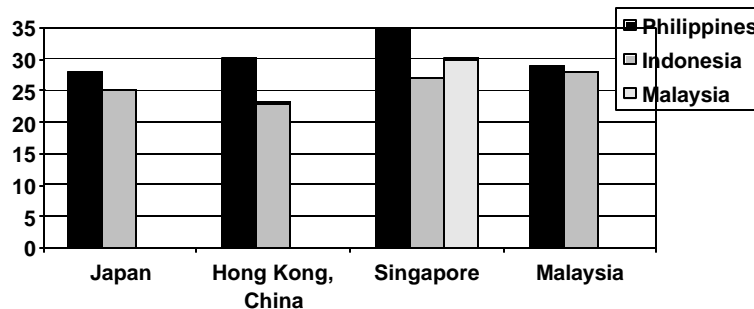
Source: survey of immigrant sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

Like Hong Kong and Singapore, nearly all the 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.

#### *Age & Education*

Migrants in the Southeast Asia region are young, with the majority of respondents ranging in age from 25 to 30 years. All migrants surveyed in this study were 20 years of age or older. Indonesian migrants to Japan, Hong Kong, Singapore and Malaysia 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, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

While the migrant population is young, they also appear to be relatively well educated. Among all the migrants surveyed in Japan, Hong Kong, Singapore and Malaysia, 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 and Malaysia (55% and 48% respectively) completed high school.

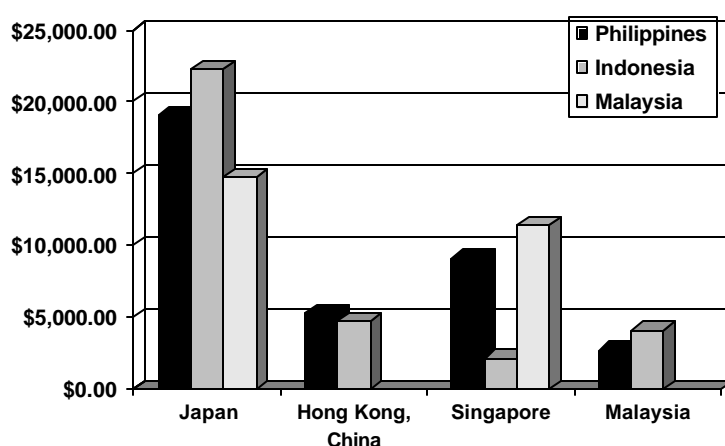
Filipinos are among the most highly educated. In all four migrant receiving / remittance sending countries, no less than 99% of Filipinos surveyed completed high-school. Forty three percent of Filipinos in Japan, 74% of Filipinos in Hong Kong, 65% in Singapore and 71% of Filipinos in Malaysia have completed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

### *Income*

While it can be said that intra-regional migrants share similarities in terms of 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 (see Figure 2.2).

Income differences between Filipinos, Indonesians and Malaysians working in Singapore are particularly striking compared to 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 Indonesians and Filipinos (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.

**Figure 2.2: Average Annual Income of Migrants (US\$)**

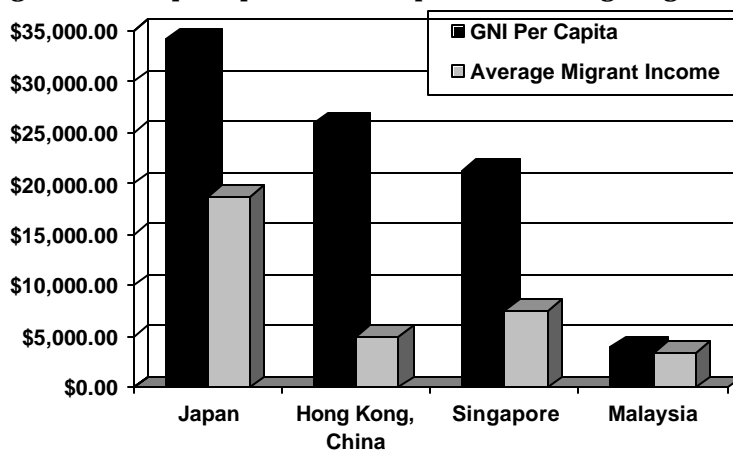


Source: survey of immigrant sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

Of the four migrant receiving / remittance sending countries profiled, foreign workers in Japan earn the most, with \$18,688.75 annually on average, followed by foreign workers in Singapore who earn slightly over a third this amount, with \$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 \$2118 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.<sup>18</sup> Migrant workers in Hong Kong average \$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 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 who average earnings of just 19% of the country's GNI per capita.

**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 sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

<sup>18</sup> This figure might be high, considering Indonesian survey respondents included business men, educators and permanent residents in Tokyo.

### *Duration in destination country*

In some cases, the longer a migrant resides 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 a variety of factors, including assimilation, migration laws favorable to family reunification, etc. In the case of Southeast Asia intra-regional 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 Japan and Hong Kong tend to stay approximately five to six years in the destination country, on average 1 to 2 years longer than their Indonesian counterparts. In contrast to survey respondents in Japan and Hong Kong, 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**

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

Source: survey of immigrant sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

### *c. Immigrant family characteristics*

Surveys conducted among remittance beneficiaries in the Philippines, Indonesia and Malaysia correspond to demographic information obtained from migrants surveyed in Japan, Hong Kong, Singapore and Malaysia. 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.

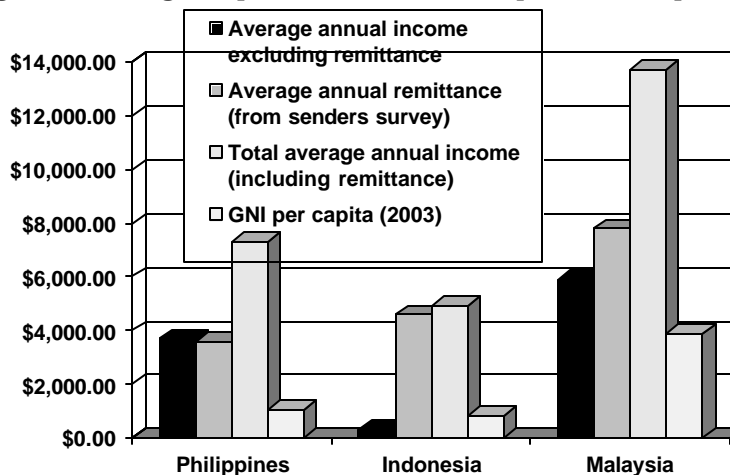


### *Household size and income*

There are no significant differences in the household sizes of migrant sending families in the Philippines, Indonesia or Malaysia. 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 income with average remittance income, average income including remittance income, 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 \$306 compared with a GNI per capita of \$810).

**Figure 2.4: Average recipient income (2005) compared to GNI per capita (2003)**



Source: GNI Per Capita, World Bank Development Indicators 2003; Average Migrant Income estimates based on survey of remittance recipient, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

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

### *Type of Beneficiaries*

Most migrants in the country's profiled report sending 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.**

	Japan	Hong Kong, China	Singapore	Malaysia
Philippines	53% parent	49% parent	58% parent	50% parent
Indonesia	61% parent	50% parent	66% parent	81% spouse
Malaysia	87% parent	--	74% parent	--

Source: survey of immigrant sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

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.

#### *Gender and age*

On average, considering all the countries under analysis and based on surveys, nearly three-quarters of all remittance recipients in the Philippines and Malaysia are women, while more than half (60%) of all 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 (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 Malaysia.

### III. Patterns among senders & recipients and estimating flows

After profiling some of the general demographic characteristics of migrants in the host countries, this section intends to look more specifically at the remittance sending behaviors of these groups. Different sending behaviors (both in terms of 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, the United Nations, 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* (BMP5) and the accompanying *Balance of Payments Textbook* and *Balance of Payments Compilation Guide*.<sup>19</sup> 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 BMP5 "*workers' remittances* covers 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

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<sup>19</sup> Jens Reinke and Neil Patterson, IMF, "Remittances in the Balance of Payments Framework," International Technical Meeting on Measuring Remittances, World Bank, Washington D.C., January 24-25, 2005.

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 BMP5 definition of *workers' remittances* distinguishes – and hinges on a distinction – between differences in migrant labor and residency status. In fact, the 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, *compensation of employees*, along with *workers' remittances*, are the two main BMP5 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 BMP5 does not define workers or migrants<sup>20</sup>, although the rule of thumb has been that any individual who has resided in the country for one year is classified as a resident. However, even when applying such a rule, it is increasingly difficult to distinguish between residents and non-residents 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 BPM5 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

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<sup>20</sup> "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).

*migrants' transfers* do not fall into this interpretation. In fact, the UN Advisory Experts Group in National Accounts (AEG)<sup>21</sup>, 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 undertaken by an international working group formed at the behest of the G-7 Finance Ministers during the June 2004 Sea Island Summit, and being 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, OECD, 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, consensus has been reached 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<sup>22</sup>) 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 UN Statistics Division (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 BPM5 and makes recommendations to the IMF Committee on Balance of Payments Statistics. During the third AEG meeting, Mode 4 advanced the following items:

- a) eliminate the concept of “migrant” from the Balance of Payment and Systems of National Account (SNA)<sup>23</sup> frameworks and instead use exclusively the concept of resident;

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<sup>21</sup> The AEG comprises 20 country experts in national accounts from all regions of the world.

<sup>22</sup> 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).

<sup>23</sup> 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.

- b) replace the BPM5 component “workers’ remittances” with the component “personal transfers” to bring the BOP transaction in line with the 1993 SNA item “household transfers”; and
- c) 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. The relevance of these recommendations lies in the recognition that it is important to use broader definitions of remittances than the 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 balance of payments 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 non-resident households, and “net” compensation of employees from persons working abroad for short periods of time (less than one year).<sup>24</sup> Migrants’ transfers would not be included.<sup>25</sup>

#### *b. Characteristics of remittance senders*

##### *Amount & 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 is \$300 on average and \$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 (see Table 3.1).

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

**Table 3.1: Average amount sent each remittance**

	Japan	Hong Kong, China	Singapore	Malaysia
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<sup>24</sup> 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.

<sup>25</sup> IMF. *Remittances: Progress on Methodology and Compilation Guidance*, Eighteenth Meeting of the IMF Committee on Balance of Payments Statistics Washington DC, 2005.

	Average	Lowest 40%	Average	Lowest 40%	Average	Lowest 40%	Average	Lowest 40%
Philippines	\$567	\$374	\$268	\$192	\$294	\$181	\$132	\$70
Indonesia	\$830	\$467	\$332	\$176	\$284	\$181	\$151	\$70
Malaysia	\$961	\$280	--	--	\$385	\$241	--	--

Source: survey of immigrant sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

Indonesians working in Japan, Hong Kong and Singapore tend to remit more than Filipinos, but the reverse is true for those working in Malaysia. However, the Indonesian's 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.**

	Japan	Hong Kong, China	Singapore	Malaysia
Philippines	11	15	14	10
Indonesia	5	11	3	6
Malaysia	4	--	6	--

Source: survey of immigrant sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

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

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

### *Expenditures*

When asked how the remittance is spent by the recipient (generally the parents, as demonstrated above), Filipino migrants in all the countries profiled most frequently mentioned food, education and clothing as the top three expenditures and in that order. Filipinos migrants in Japan, Hong Kong 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 Singapore and Malaysia 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, meanwhile, most frequently mentioned savings, followed by education and business investments rounding out the top three expenditures. Higher variability in the case of Indonesians 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, their remittance is more spread out among expenses incurred by the recipient.

**Table 3.3: Top three expenditures according to senders**

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

Source: survey of immigrant sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

#### *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 all Filipinos (ranging from 55% in Japan to 92% in Hong Kong) 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.

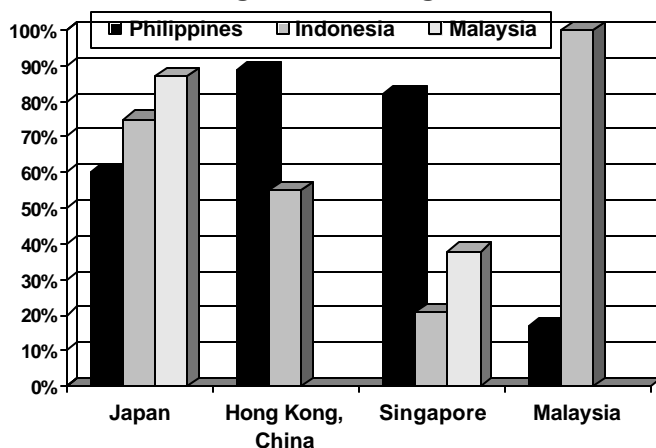
While just 8% of Indonesians working in Malaysia contact their family members at least once a week, 92% have traveled back to Indonesia at least once either this year or last year. Likewise, nearly all Malaysians (97%) working in neighbor country Singapore have returned home at least once during



the same timeframe, compared with just 42% of Indonesians working there. Filipinos working in Malaysia are the least likely among their counterparts in Japan, Hong Kong and Singapore to travel home, with just 30% making the trip at least once this year or last.

Of those who travel home, more than three quarters of Indonesians on average take at least \$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 \$3000 home when traveling back to their country of origin, it is migrants overall working in Singapore who least frequently take at least \$3000 home with them (see Figure 3.1).

**5 Figure 3.1: Percent of migrants who brought \$3000 or less on their last visit home**



Source: survey of immigrant sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

### *c. Characteristics of receiving households*

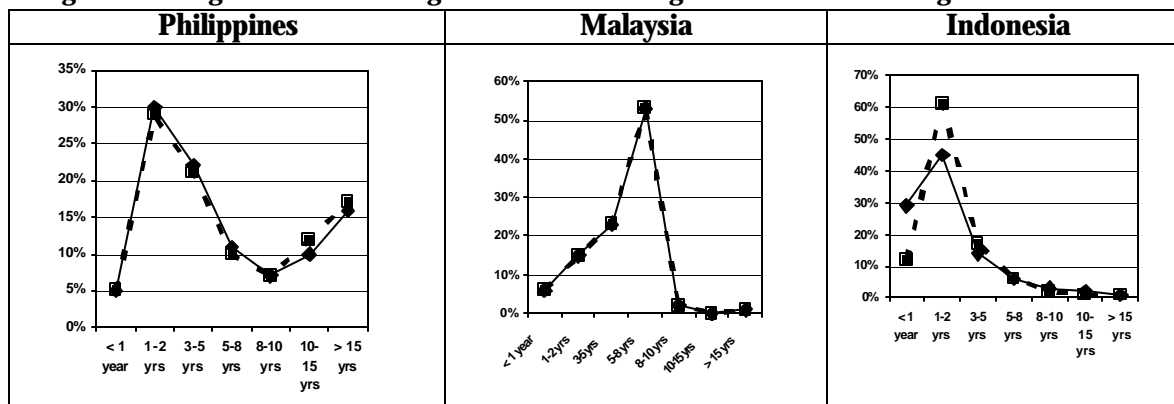
Like the preceding section, the following takes the description of migrant sending households one step further by looking closely at their remittance receiving experiences, remittance spending behavior and how this potentially relates to the type and level of contact they have with their family member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

#### *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. In other words, 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 (see Figure 3.2).

**Figure 3.2: Length of time receiving remittances and length of time relative living abroad**



Source: survey of remittance recipient, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

### Expenditures

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

Remittance recipients in the Philippines, Indonesia and Malaysia 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 (see Table 3.4).

**Table 3.4 Remittance expenditures according to recipients.**

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

Source: survey of remittance recipient, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

There was more variation among respondents when asked whether or not funds are used to make loan payments. Just four percent 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

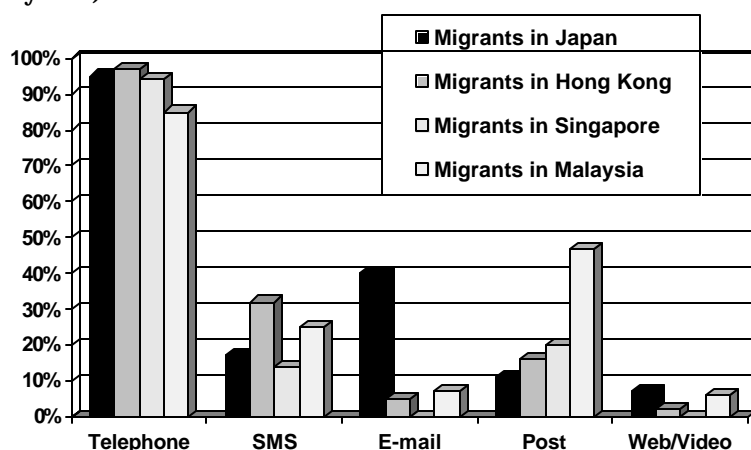
that agency repayment fee obligations among Indonesian workers have on their remittance transactions.

#### *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 are more likely to use SMS (text messaging) as a second choice (see Figure 3.3).

**Figure 3.3: How migrants contact their family members (average between Filipinos, Indonesians and Malaysians)**

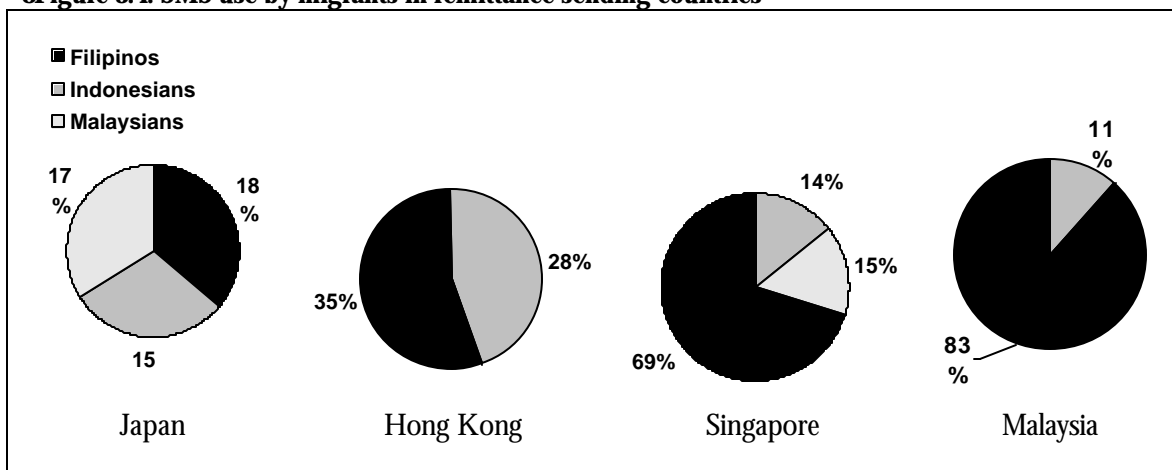


Source: survey of migrant sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

Unlike Japan and Hong Kong, not all migrants in Singapore and Malaysia 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.

The following figure 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, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

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

Immigrants in home country who

- Have a bank account,
- Have a Mortgage,
- Have a small family or commercial business,
- Have a loan to maintain personal business
- Have a student loan
- Have a pension plan
- Lends money for family investments
- Stays in regular contact with families
- Leaves with the family half the cash it brought in the last visit
- Support or contribute to hometown associations or clubs that help your 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. The table below 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 (%)**

	Japan	Hong Kong	Singapore	Malaysia
Indonesia	14	28	3	42
Malaysia	9		7	
Philippines	22	37	20	38

Source: survey of migrant sender, TA 6212-REG 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 a difficult task. 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 balance of payments 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 is 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 we try to estimate the volume of remittances by using survey data for sending countries and weighted it to the immigrant population sending and the frequency of sending. The surveys conducted in South East 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

$$REMITTANCES_{ij} = ? \{ [(Sent_{ij} \times Freq_{ij}) \times Dist_{ij}] \times Migr_{ij} \}$$

REMITTANCES<sub>ij</sub> = Total remittances from host country i to home country j

Sent<sub>ij</sub> = Average amount sent

Freq<sub>ij</sub> = Frequency of sending

Dist<sub>ij</sub> = Percent distribution of that group

Migr<sub>ij</sub> = Migrant sending population

For ease of reading, the tables below only display 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 over reporting (refer to the appendix for an illustration of the calculation of the weighted average. However, because the surveys use official figures about migrants, these estimates need to be considered as a baseline because they do not take into account the undocumented population (no matter how small or large it can be) working in those countries. Thus, an unweighted average is also estimated.

$$REMITTANCES_{ij} = TIMESSEND_{ij} * SENDAVG_{ij} * MIGR_{ij}$$

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  
 $SEND_{AVG_{ij}}$  = Average amount sent from host country i to home country j  
 $MIGR_{ij}$  = Migrant population in host country i from home country j.

#### *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 one billion dollars 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
<b>Total</b>	<b>671</b>	<b>9</b>	<b>217,000</b>	<b>195,300</b>	<b>151,900</b>

Source: survey of migrant sender, TA 6212-REG

**Table 3.7: Estimated volume of remittances from Japan**

Country of origin	90% Est. volume	70% Est. volume	Weighted averages
Indonesia	\$ 86,126,080	\$ 66,986,951	\$ 79,441,570.09
Malaysia	\$ 28,420,294	\$ 22,104,673	\$ 15,087,395.47
Philippines	\$ 1,014,012,040	\$ 788,676,031	\$ 927,495,542.59
<b>Total</b>	<b>\$ 1,128,558,413.52</b>	<b>\$ 877,767,654.96</b>	<b>\$ 1,022,024,508.16</b>

Source: survey of migrant sender, TA 6212-REG

#### *Remitting from Hong Kong*

A common feature among Filipino and Indonesian immigrants in Hong Kong is that their frequency of remitting is quite similar. 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. 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 than in Japan, Singapore or Malaysia.

**Table 3.8: Income, remittances and ratio of remittances to income**

Sending Country	What is your country of origin?	Annual Personal Income (US\$)	How much money do you send per year? (US\$)	RATIO
Japan	Indonesia	22232	3850	0.4
	Malaysia	14738	1945	0.1
	Philippines	19097	6064	0.4
Hong Kong	Indonesia	4700	3246	0.8
	Philippines	5200	4086	0.8
Singapore	Indonesia	2072	782	0.4
	Malaysia	11413	1930	0.2
	Philippines	9094	3786	0.8
Malaysia	Indonesia	4076	874	0.2
	Philippines	2654	1354	0.5
Total	Indonesia	6804	2241	0.5
	Malaysia	11907	1931	0.2
	Philippines	10776	4639	0.7
	Total	9186	3248	0.5

Source: survey of migrant sender, TA 6212-REG

Given these average values we estimate that the amount sent annually from Hong Kong to Philippines and Indonesia is at least half a billion to eight hundred million dollars. The tables below show the estimates in remittances.

**Table 3.9: Average amount sent, frequency of sending and migrant population in Hong Kong**

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
<b>Total</b>	<b>299</b>	<b>13</b>	<b>250,000</b>	<b>225,000</b>	<b>175,000</b>

Source: survey of migrant sender, TA 6212-REG

**Table 3.10: Estimated volume of remittances from Hong Kong**

Country of origin	90% Est. volume	70% Est. volume	Weighted averages
Indonesia	\$459,474,417	\$ 357,368,991	\$227,250,901.72
Philippines	\$376,651,521	\$ 292,951,183	\$298,124,465.17
<b>Total</b>	<b>\$836,125,937.44</b>	<b>\$ 650,320,173.56</b>	<b>\$525,375,366.88</b>

Source: survey of migrant sender, TA 6212-REG

### *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 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
<b>Total</b>	<b>323</b>	<b>7</b>	<b>315,000</b>	<b>283,500</b>	<b>220,500</b>

Source: survey of migrant sender, TA 6212-REG

**Table 3.12: Estimated volume of remittances from Singapore**

Country of origin	90% Est. volume	70% Est. volume	Weighted averages
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
<b>Total</b>	<b>\$ 691,602,171.12</b>	<b>\$ 537,912,799.76</b>	<b>\$ 506,625,270.11</b>

Source: survey of migrant sender, TA 6212-REG

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 no negligible and does have a very real and positive impact on the Malaysian economy.<sup>26</sup>

### *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. Therefore it is difficult to estimate the volumes. We used 400,000 as a figure of

<sup>26</sup> Country study report on Singapore.



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.

**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
<b>Total</b>	<b>147</b>	<b>7</b>	<b>1,400,000</b>	<b>1,260,000</b>	<b>980,000</b>

Source: survey of migrant sender, TA 6212-REG

**Table 3.14: Estimated volume of remittances from Malaysia**

Country of origin	90% Est. volume	70% Est. volume	Weighted averages
Indonesia	\$326,842,105	\$ 254,210,526	1,000,000,000
Philippines	\$ 1,219,040,248	\$ 948,142,415	2,000,000
<b>Total</b>	<b>\$ 1,545,882,352.94</b>	<b>\$1,202,352,941.18</b>	<b>\$ 1,002,000,000.00</b>

Source: survey of migrant sender, TA 6212-REG

### *Regional flows*

Comparing the volumes from the various countries the range varies from three to four billion dollars, Philippines receiving about 50% of that volume. It is important to note that in all cases migrant sending groups are consistent of the frequency of sending. This is particularly telling in the case of Filipinos who consistently said they sent between eleven and thirteen times a year. Moreover it is worth noting that except from the case of Hong Kong, immigrants sent about half of 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	174000	156600	121800
Philippines	372	13	1,383,000	1,244,700	968,100
<b>Total</b>	<b>384</b>	<b>9</b>	<b>2,182,000</b>	<b>1,963,800</b>	<b>1,527,400</b>

Source: survey of migrant sender, TA 6212-REG

**Table 3.16: Regional flows to three selected remittance recipient countries in SE Asia**

Country of origin	90% Est. volume	70% Est. volume	Weighted averages
Indonesia	\$915,318,692.57	\$ 711,914,538.66	\$ 1,377,508,971.81
Malaysia	\$345,349,680.68	\$ 268,605,307.20	\$330,796,056.89
Philippines	\$ 2,941,500,501.78	\$2,287,833,723.60	\$ 1,347,720,116.45

Total	\$ 4,202,168,875.02	\$3,268,353,569.46	\$ 3,056,025,145.15
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Source: survey of migrant sender, TA 6212-REG

#### **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 under analysis, 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 and Singapore. In most cases, the presence of 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 non-banking 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 under analysis.

##### *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 under analysis is the use of money transfers for illicit activities. This section summarizes findings from interviews conducted at remittance regulatory bodies in Hong Kong, Japan, Singapore, Indonesia, Malaysia and the Philippines. 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.

#### *Regulatory bodies*

Not all countries in South East Asia have uniform regulations or institutional bodies that oversee money transfers. In Malaysia, Hong Kong, Indonesia, and Singapore the central banks (or monetary authority as in Singapore) have jurisdiction over the banking sector, and, where allowed to operate, any companies, outfits, and agents 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<sup>27</sup>. In the case of Malaysia, the Finance Minister is also the country's Prime Minister. When it comes to MTOs in Hong Kong, the police assumes registration responsibility.

In the Philippines, the Charter of the Central Bank (Bangko Sentral ng Pilipinas BSP) provides some independence in terms of reporting lines to the Minister of Finance; however, under the New Bank Act, the Finance Minister sits as one of the members of the Monetary Board (the BSP's policy making body). This change indicates the government's desire to have close coordination between the two governmental bodies. Chaired by the BSP Governor, the other five members of the Board come from the private sector.<sup>28</sup> Qualified persons and non-bank institutions desiring to act as foreign exchange dealers, moneychangers 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 be registered with it.<sup>29</sup>

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

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<sup>27</sup> The MAS is also the sole regulator of finance companies, insurance companies, securities firms, and moneychangers.

<sup>28</sup> Interview with former Philippine Minister of Finance Anita Amatong, May 1, 2005

<sup>29</sup> ADB, PHI: 4185, Technical Assistance Final Report "Enhancing the Efficiency of Overseas Workers' Remittances", July 2004, p. 27

Prime Minister's Office. The FSA assumed from the Ministry of Finance the functions of inspecting, supervising, and surveying securities transactions by the private sector and financial institutions. In July 2000, the name of the FSA was changed to the Financial Services Agency under the Financial Reconstruction Commission (FRC), and the department assumed from the MOF the additional task of planning Japan's financial system. In July 2001, the FRC was abolished and the 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.<sup>30</sup>

Japan's MOF retains power over 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 the FSA of the Deposit Insurance Corporation.<sup>31</sup> 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.<sup>32</sup>

#### *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 Japan, Malaysia and Indonesia, only banks are allowed to do wire transfers, whereas in the Philippines, Hong Kong 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.

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 into 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 Money Gram (MG), seeking to establish a presence in Indonesia or Malaysia, must partner with

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<sup>30</sup> Refer to Japan FSA homepage [www.fsa.go.jp](http://www.fsa.go.jp)

<sup>31</sup> Refer to Japan MOF homepage [www.mof.go.jp](http://www.mof.go.jp).

<sup>32</sup> Refer to BOJ homepage [www.boj.or.jp](http://www.boj.or.jp)

licensed banks. In Malaysia, the 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 at present limited to domestic banks.

Hong Kong, Singapore, and the Philippines do not restrict remittance business permits to banking institutions. Hong Kong 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 SGD 1,000 (USD 611) per year.<sup>33</sup> 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.

#### *Capital Requirements*

As an insurance precaution, governments require banking and non-banking financial institutions to back their operations with minimum capital thresholds, which often may be significantly high. This procedure may preclude small businesses from entering in 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 to this is that these banking institutions are expected to be financially strong. Local banks, however, are required Japanese Yen (JPY) 2.0 billion (USD 19,020,447),<sup>34</sup> an amount that is still much lower than those imposed by other sending countries.

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<sup>33</sup> Interview with Mr. Alex Milan, General Manager, Philippine National Bank, Singapore Branch. PNB Singapore opened its first LPB on April 24, 2005

<sup>34</sup> JPY 105.15 = USD 1.00 (value as of closing price, April 28, 2005)

In Malaysia RM2 billion is required for domestic banking groups, which comprises commercial bank, merchant bank and finance companies, and RM300 million for locally incorporated foreign banks.<sup>35</sup> Indonesia's capital required for banks seeking to open business is Rupiah (IDR) of 3.00 trillion (USD 333.33 million).<sup>36</sup> Additionally, Indonesia requires banks to maintain a capital adequacy ratio of at least eight percent (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 IDR 1.00 billion, to IDR 2.00 billion (USD 104,515 – 209,030), depending on which area they hope to set up Sharia Branch offices.<sup>37</sup>

Singapore expects the head offices of foreign banks to be in good financial standing in order to set up business, requiring them to have capital of not less than Singapore Dollar (SGD) 200 million (USD 122.25 million), while their foreign branches are required to have a minimum of SGD 10 million (USD 6.11 million).<sup>38</sup> In addition, yearly licensing fees are paid varying from SGD 75,000 – 125,000 (USD 45,844 – 76,406), depending on license type. Worth noting is the ease with which non-banks like Money Transfer Outfits (MTOs) can set up business in the city state. No capital is required of MTOs, and only an SGD 100,000 (USD 61,125) security deposit, which must be furnished to the Monetary Authority of Singapore (MAS) for each branch of the remittance company, is required.

Hong Kong requires Hong Kong (HK) 300 million (USD 38.48 million) for banks to set up business. For restricted licensed banks, HK 100 million (USD 12.83 million) is required, and for deposit-taking companies HK\$25 million (USD 3.21 million).<sup>39</sup> There is no capital requirement for remittance agents (RAs). The minimum capital requirement for banks in the Philippines depends on the type of banking license the institution seeks to operate.<sup>40</sup> Universal banks are required Philippine Peso (PHP) 4.95 million (USD 91.4 million); commercial banks PHP 2.4 million (USD 44.3 million); thrift banks with head offices in Metropolitan Manila PHP 325 million (USD 6 million), and head offices outside Metropolitan Manila PHP 52 million (USD 960,206); and rural banks varying capital depending on the location of the office. Remittance companies and other

<sup>35</sup> Comments by officials at the Bank Negara Malaysia. It is important to qualify that this requirement applies to open banking operations, not remittance operations.

<sup>36</sup> Indonesian Rupiah IDR 9,568 = USD 1.00 (value as of closing price, April 28, 2005).

<sup>37</sup> Article 56, Bank of Indonesia Regulation Number 2/27/2000 Concerning Commercial Banks.

<sup>38</sup> SGD 1.6360 = USD 1.00 (value as of closing price, April 28, 2005).

<sup>39</sup> HK\$7.7948 = USD 1.00 (value as of closing price, April 28, 2005).

<sup>40</sup> [http://www.bsp.gov.ph/regulations/guidelines/guidelines\\_b.htm](http://www.bsp.gov.ph/regulations/guidelines/guidelines_b.htm)

entities are required a minimum capital depending on the type of business entity (sole proprietorship, partnership or corporation).<sup>41</sup>

#### *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 of the countries in the study, in addition to government issued identification documents, an unexpired passport for non-nationals 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 a national identity card. For those remitting, additional documents include work permits, or national identity card in Singapore, a permanent resident card (KITAS) in Indonesia; a valid worker's permit or a letter from the employer in Malaysia; an alien registration card for non-nationals in Japan; and the Hong Kong Identity Card in Hong Kong. In the Philippines, ID documentation varies from institution to institution with the Alien Certificate of Registration and the passport as minimum requirements.

#### *Regulations on pricing and other transaction costs*

In all of the countries under study, 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.<sup>42</sup>

**Table 4.1: Examples of the documentary stamp levied in the Philippines by the Philippine National Bank.**

Non-PNB Peso Account:	PHP 0.30 documentary stamp tax for every PHP 200.00 + PHP 100.00 + charges of the other bank.
Non-PNB USD Account:	¼ of 1% of proceeds or minimum of PHP100.00 for first USD100T, additional 1/8 of 1% on next USD400T, additional 1/16 of 1% on excess

<sup>41</sup> 16/ PHP 54.155 = USD 1.00 (value as of closing price, April 28, 2005).

<sup>42</sup> Interview with Ms. Vivien Calamlam, First Vice President, International Transactions Processing Group, Philippine National Bank Head Office, Philippines.



	over USD500T, + PHP 100.00.
Advice and Pay:	PHP 0.30 documentary stamp tax for every PHP 200.00 + PHP 100.00.
Door-to-Door Delivery:	PHP 0.30 documentary stamp tax for every PHP 200.000 + PHP 40.00 delivery cost.

### *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 KYC policies that each and every remitter should be identified and each transaction individually processed, does not allow bulk remittances. Hong Kong has no restrictions on bulk remittances, and 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 the 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 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.<sup>43</sup>

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.<sup>44</sup> Individual Nepalese remitters credit the bank remittance catching account of IME Impex maintained in a Malaysian bank,

<sup>43</sup> Interview with Mr. Articer Quebal, founding member, Association of Bank Remittance Officers, Inc., and full time consultant and Executive Head, Remittance Marketing, Asia United Bank, Philippines.

<sup>44</sup> Comments by officials at Bank Negara Malaysia

bring proof of the credit to IME Impex, and fill out the necessary details on the sender and the recipient. IME 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,<sup>45</sup> 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 the use of 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 “non-operative” 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 non-operative account, pre-registered 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.<sup>46</sup>

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 “non-operative” account potentially suspected of being a money laundering outlet), even though individual “Know Your Customer” (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 “non-operative accounts” in Nepal.

#### *Remitting Country – Receiving Country Relations*

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<sup>45</sup> Statistics on the Foreigners Registered in Japan, Japan Immigration Association, Heisei 15 (Year 2003).

<sup>46</sup> As described by Bigyan Pradhan, President and CEO 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.

All of the countries 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 August 30, 2004, and October 28, 2004,<sup>47</sup> respectively.

*International regulatory standards: Anti-Money Laundering and Know Your Customer "KYC" Policy*

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

A similar standard is found on KYC. The adoption of the standard principle of "Know Your Customer" 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.<sup>48</sup> All the countries in the study 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 AML 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

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<sup>47</sup> 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>

<sup>48</sup> BNM/GP9 Guidelines on Money Laundering and "Know Your Customer Policy", Bank Negara Malaysia.

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 six years. Banks are required under the Anti-Money Laundering Act 2001 to report any suspicious transactions, irrespective of the amount.<sup>49</sup> Special forms are required to be filled out for MYR 50,000 (US\$ 13,158) and higher, and Hong Kong strictly checks remittances of HK 20,000 (USD 2,566) and higher.

Regarding remittance receiving countries, Indonesia does not require strict ID checking except for amounts exceeding IDR 100 million (USD 10,452). Monitoring of incoming remittances of more than PHP 500,000 (USD 9,233) is required in the Philippines. Malaysia, also a receiving country in this study, does not set a minimum level. Japan strictly monitors incoming and outgoing remittances of JPY 2.0 million (USD 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 on the law on KYC, to apply these rules to transfers of more than JPY 2.0 million (US\$ 19,020) by customers. Amounts over JPY 30.0 million (USD 285,307) are reported to the 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 IDR 500 million (USD 52,258) are reported to the Center for Reporting and Analysis of Financial Institutions (PPATK). Hong Kong requires no minimum amount for reporting purposes. In the Philippines, covered transaction amounts exceeding PHP 500,000 (USD 9,233)<sup>50</sup> are reported to the Anti-Money Laundering Council, and in Malaysia the amount is MYR 50,000 (USD 13,157) and higher.

All of the countries in this study are required to file reports of suspicious transactions, regardless of the amount believed to be suspect.

#### *Enforcement I: Conditions*

The surveyed countries have different concerns. Hong Kong 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.

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<sup>49</sup> Comments provided by officials from Bank Negara Malaysia.

<sup>50</sup> Interview with the Compliance Office, Philippine National Bank Head Office, Philippines.

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, Japan, Malaysia, Singapore, and Indonesia, the police are primarily responsible for being on the lookout for unlicensed channels. In the Philippines, BSP is the main enforcement body of money transfer outfits, and the Anti-Money Laundering Council (AMLC) is responsible for investigation, examination and auditing. Prevailing enforcement issues remain, however, regarding non-registrants.

Also in Hong Kong are subject to HKMA's supervision to ensure compliance. 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 police. For RAs and 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 the MAS may also revoke licenses and impose suspension of 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. The Philippine BSP ensures compliance and may impose varying degrees of sanctions to offending institutions. Malaysia enforces a variety of laws such as 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.

## Enforcement II: Case examples

**Citibank**, N.A, Japan Branch This branch office has a suspension date for September 30<sup>th</sup>, 2005. Problems discovered in connection with compliance and governance systems of the Branch were cause of the suspension. In particular, a number of acts against the 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 was suspended from operating since December 24<sup>th</sup>, 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 relates to transactions with existing corporate customers). The suspension order may be reviewed after Dec. 26, 2005, when it is possible for the suspended business to be resumed based on progress made by the Japan Branch Office.

### *Information and Data Gathering by Regulators*

Balance of payment statistics in Japan are the primary formal source of data on workers' remittances. Data is mainly gathered from bank settlements on the behalf of the banks and their customers. Hong Kong 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 transactions, are required per BSP Circular No. 471. In Malaysia, the report on cross-border settlements by the banks are submitted online on a daily basis through the 'International Transaction Information System' (ITIS). The non-bank reporting entities are submitting their monthly reports via 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*

*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 the Southeast Asia region, 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 a puzzling issue. 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 (Japan, Hong Kong, Singapore and Malaysia) 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. The use of unlicensed businesses is not absent; however, it seems to occur among certain immigrant groups over others. Filipinos in Japan predominantly use formal networks for money transfers (see Table 4.2 below), 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, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.



The 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 (see Table below).

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 4.3: Indonesians in Japan use of friends to remit money and fee**

	How did you choose this method? (Low) Fee			Total
		No	Yes	
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, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

**Table 4.4. Relationship between choices of using friends to remit to Indonesia from Japan**

	Score	Sig.
Length of time sending	1.207	.272
Age	.302	.582
<b>Gender</b>	<b>5.249</b>	<b>.022</b>
Education	.063	.802
Income	.389	.533
Time sending money	.006	.940
Traveling back home	.273	.601
<b>Fee of transaction</b>	<b>9.540</b>	<b>.002</b>
Recommendation of business	.260	.610
Reputation of business	2.334	.127
Speed of sending	2.646	.104
<b>Exchange rate</b>	<b>3.757</b>	<b>.053</b>
Convenience	.001	.971
Customer support	.234	.628
Other reasons	1.782	.182
	21.819	.113

(Logistic regression). Source: survey of migrant senders in Japan, TA 6212-REG Southeast Asia Workers Remittance Study, ADB. . Logistic regression. Dependent dummy variable is use of informal methods regressed against demographic variables and reasons for choice of sending method.

Are these trends suggestive of the other countries under study? Data from Hong Kong and Singapore does not show that immigrants rely on informal networks. The table below demonstrates the choice of sending method to these countries. As the results suggest, most transfers taking place from Hong Kong and Singapore occur through formal transfer mechanisms.

**Table 4.5: Sending methods from Hong Kong**

	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, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

**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

Source: Survey of South East Asian immigrants in Singapore, April 2005.

Our analysis of 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'.<sup>51</sup>

In Malaysia the survey showed that Indonesians and Filipinos use both informal transfers as much as licensed methods to remit back home. The study of the Malaysian marketplace found the existence of formally established businesses offering money transfers without money transfer licenses. This is particularly evident among freight or cargo companies, which although offering a similar fee to that offered by licensed remitters, and are still a primary choice for customers.<sup>52</sup>

**Table 4.7: Sending methods from Malaysia**

Malaysia	Indonesia	Philippines
MTO	NA	NA
Bank	38	45
Post office	25	9
Friend	1	2

<sup>51</sup> Field country report on Singapore.

<sup>52</sup> Field country report on Malaysia.

Other	36	45
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Source: survey of migrant senders in Malaysia, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

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, or gender play a role in explaining the use of informal networks.

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

	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
<i>Recommendation</i>	<i>-1.139</i>	<i>.010</i>	<i>.320</i>
Reputation	.299	.504	1.348
Speed	.564	.147	1.758
<i>Foreign exchange</i>	<i>-1.977</i>	<i>.000</i>	<i>.138</i>
Easy access	-.151	.684	.859
Other	.113	.788	1.120
Constant	4.113	.014	61.117

Source: survey of migrant senders in Malaysia, TA 6212-REG Southeast Asia Workers Remittance Study, ADB. Logistic regression. Dependent dummy variable is use for informal methods regressed against demographic and reasons of choice of method.

When comparing these trends to 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: Method of receiving money among Filipinos**

	Indonesia	Philippines
Bank	64%	70%
MTO	NA	30%
Other	NA	NA

Source: survey of remittance recipients in Philippines, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

An important finding of this report is that 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: Who decides which money transfer agency to use when transferring money?**

	Indonesia	Philippines
Relative abroad	47%	50%
Yourself	31%	50%
Others	17%	

Source: survey of immigrant sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

**Table 4.11: Preference of informal method among recipients**

	Indonesia	Philippines
Informal	26%	38%

Source: survey of immigrant sender, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

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.

#### *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 non-banking 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 South East Asia.

#### *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 Money Gram. Thus, these MTOs only operate 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 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.<sup>53</sup>

Another player in remittances from Japan to the countries studied is the post office. They facilitate transfers of money from post office to post office rather than door to door. It is however unknown the extent of their market share in the business. 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<sup>54</sup> who issues a reloadable pre-paid remittance card. Travelex sells the card at a fixed amount of money that travelers wish to send and the money is generally withdrawn through 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: Example of Institutions offering remittance transfer services**

<b>Philippines</b>	<b>Indonesia</b>	<b>Malaysia</b>
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

Source: TA 6212-REG Southeast Asia Workers Remittance Study, ADB. 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.

Analysis of interviews with various companies suggested that competition overall varies significantly with companies processing from 1,000 transactions a month to 40,000. In the case of Philippines, where we estimate annual flows range to 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

<sup>53</sup> It is necessary, though, to send a copy of original evidences or any other relevant certification in accordance with the requirement of the bank to identify you. These advantages do not include the advantages of financial intermediation to the remittance sender.

<sup>54</sup> The headquarters of Travelex are in the United Kingdom.

MoneyGram although very active are not the major players, but important competitors in this market.

### *Singapore*

The remittance transfer industry in Singapore is different from Japan's. Here, 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% to 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 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. 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**

<b>Type</b>	<b>No. of Locations</b>
Domestic Banks (POSB)	2
Foreign Banks*	15
Remittance Companies	197
<b>Total</b>	<b>214</b>

\* For NTS countries, Malaysia, Indonesia and PRC Source TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

With a presence of 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 known the major competitor it still has an important position among the top companies. Western Union 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 has 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.

#### *Singapore corridors*

Remittances to the Philippines are predominantly handled by some 20 remittance companies and 2 banks located in Lucky Plaza. The Philippine National Bank (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 thirty MTOs serve Indonesia, and BNI estimates it handles 20 to 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 relative ignorance of 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.

### *Hong Kong*

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. The table below shows some of those interviewed as key players:

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

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

Source: TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

### *Hong Kong corridors*



The two main corridors analyzed for the Hong Kong market were Philippines and Indonesia, countries from which there is a large labor migration to Hong Kong. In the case of 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 at least 200,000 monthly transactions to the Philippines.

**Table 4.15: Banks (or subsidiaries) in Hong Kong 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 the last five to ten 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, handling the remittance business in order to better cope with banking regulations. Competition among these institutions is reflected in their pricing: most of the banks offer similar FX rates and fees to customers.

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

International Money Transfer Companies, 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: 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 four days for the transfer to be effective.

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.

#### *Malaysia*

In Malaysia, although there are some non-bank entities that are allowed to operate remittance services, banks are the majority of the 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 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 with details regarding the transaction. IME then transfers the money in to an IME remittance recipient account in Nepal. The transaction cost is RM15.00 for a maximum allowed 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 of these companies operate in the Kota Raya Shopping Complex in Malaysia.

#### *c. Transaction cost*

Pricing and costs are factors 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 copy 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, Japan, Hong Kong, Singapore and Malaysia. The transaction cost under analysis 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.

#### *Sending money from Japan*

The cost of sending money to Japan depends on the corridor where the money is being sent. However, overall minimum fees range in the 2,000 JPY and can go as high as 25,000JPY (when the transaction uses SWIFT). Western Union appears as an expensive provider. Generally the transaction cost in Japan includes a 5% lifting fee plus 2000 JPY 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 under study is 7.8%. The table below shows the transaction cost to send different amounts.

**Table 416: Remittance transfer costs in Japan to Philippines, Indonesia and Malaysia.**

Country sent	Amount Sent (US\$)	Fee		Total charge*	
		Amount	(%)	Amount	(%)
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
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

Source: survey of remittance transfer agencies, TA 6212-REG Southeast Asia Workers Remittance Study, ADB. \* 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 between 1 and 2% of the amount sent.

As the table above shows sending to the Philippines is less costly than to Indonesia or Malaysia. The volume of the transfers may be an explanation for such discrepancy. The total cost including the commission may add to 2% more. Unfortunately data was unreliable to measure exchange rate markups.

#### *Sending money from Hong Kong*

Sending remittances from Hong Kong is among the least expensive corridors. Looking at 26 companies operating in World Wide House, Central, Hong Kong, sending to the Philippines costs of 1.3% in a foreign exchange rate commission as a percentage of the average sent (HK\$2000) and an average of HK\$25.5 fee to send HK\$1,000 or more, that means between 1.3% and 2.7%. This means that for an average amount sent of HK\$2000 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 to the Philippines.**

	<b>7 April 2005 (Thursday)</b>	<b>11 April 2005 (Monday)</b>	<b>20 April 2005 (Wednesday)</b>
Mark-up - 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, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

**Table 4.18: Transfer costs to remit from Hong Kong to the Philippines.**

	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 55	40	30	35

Source: survey of remittance transfer agencies, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

Similarly to 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 fee on average is HK\$25 or 1.75%. As the table below shows, fees are generally higher in Sunday, which is also the most popular day for remittances by Indonesians, as it is their normal day off. However, FX rates are more competitive on Sundays.

<sup>55</sup> Higher fees (up to HK\$70) may be charged for the most remote barangays.

**Table 4.19: Commission on foreign exchange and fees to remit from Hong Kong to Indonesia.**

	<b>10 May 2005 (Tuesday)</b>	<b>15 May 2005 (Sunday)</b>
Mark-up - 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, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

**Table 4.20: Transfer costs to remit from Hong Kong to Indonesia.**

	<b>Highest (HK\$)</b>	<b>Lowest (HK\$)</b>	<b>Median (HK\$)</b>
Sunday rate - '1 hour' <sup>56</sup>	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

Source: survey of remittance transfer agencies, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

Putting the FX spread and the fees together, the average cost of remitting funds to Indonesia 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 R6,000 (HK\$5) to R30,000 (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. It is not clear, however, the rationale of such arguments, and the recipient is often not explain the reasons.

#### *Sending money from Singapore*

Remittance transfers from Singapore operate in a competitive environment due to the presence of multiple providers and players. Such environment translates in pricing, too. Looking at a sample of ten to twenty three companies, the transaction cost to an immigrant ranges from four and half percent to two percent depending on the receiving country. See Table below.

**Table 4.21: Remittance Price Comparison**

	<b>Philippines</b>	<b>Indonesia</b>	<b>Malaysia</b>
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<sup>56</sup> 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 between 2 and 5 days, depending on the bank.

Remittance Amount	Service Fee	FX Markup	Total Cost	Service Fee	FX Markup	Total Cost	Service Fee	FX Markup	Total Cost
SS\$500	1.06%	2.50%	<b>3.56%</b>	2.59%	2.04%	<b>4.63%</b>	2.16%	1.39%	<b>3.55%</b>
SS\$1,000	0.53%	2.50%	<b>3.03%</b>	1.30%	2.04%	<b>3.33%</b>	1.08%	1.39%	<b>2.47%</b>
SS\$2,000	0.27%	2.50%	<b>2.77%</b>	0.65%	2.04%	<b>2.68%</b>	0.54%	1.39%	<b>1.93%</b>
Number of companies sampled	13			23			10		

Source: survey of remittance transfer agencies, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

Malaysia offers the lowest overall cost, averaging 2.47% for a SGD1,000 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 as they are usually under SGD500.

#### *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 Vietnam. 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. The table below offers Western Union fees to send remittances to selected countries in South East 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**

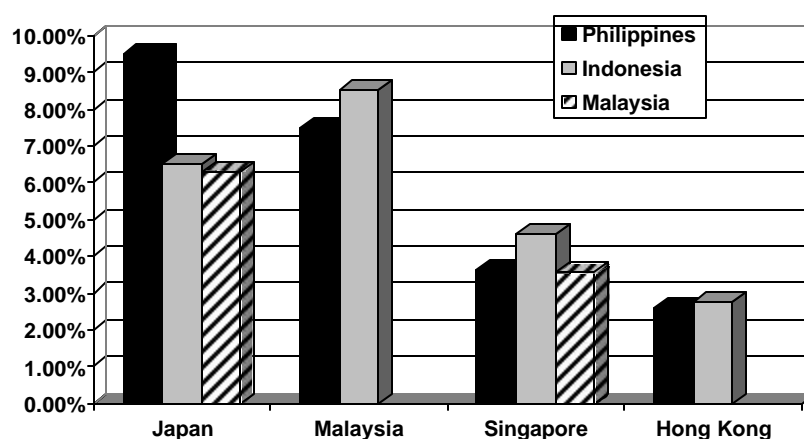
Amount Sending (RM)		Destinations (RM)				Duration
From	To	Indonesia and Philippines	Bangladesh, India, Nepal and Pakistan	Vietnam	Others	
0.00	1,900.00	20.00	30.00	42.00	54.00	1 day
1,900.01	3,800.00	30.00	40.00	42.00	54.00	1 day

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, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

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

**Figure 4.2: Transaction cost to send average amount to selected Southeast Asian countries.**



Source: TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

What factors may 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, compliance to regulations or negotiated commissions. Exogenous factors may relate to the conditions of the transfer infrastructure in the sending and/or receiving side, the effect informality on competition (higher informal practices reduce expected volumes among formal businesses and increase costs), regulatory frameworks that restrict the number and or kind of players, or the volume remitted into a given corridor.

Using available data the report tested whether exogenous factors influence remittance transfer costs. Three variables are used to analyze such factors were extent of regulatory controls in the upstream and downstream corridor, extent of informality in the respective corridors, and volume sent. Thus, the equation,

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

**Table 4.23: Exogenous Factors on Transaction Cost in South East 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: TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

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 remitted 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, does seldom stay into 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 to 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 the processing of remittance transfers but not to the transformation of senders and recipients into financial asset builders. Transforming individuals from cash based to asset based agents has benefits for the individual, family, the intermediaries and the country as saving and investment ratios rise. In this section we provide a preliminary look into the experience of the six countries under study with regards to remittances and financial intermediation.

### *a. Migrants access to financial intermediation*

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

Although there is a perception that migrant workers spent less than one year working abroad, the majority spend an average of five years, with Indonesians in Singapore spending the least, three years. Moreover, immigrants send almost half of 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
Japan	Indonesia	5
	Malaysia	4
	Philippines	6
Hong Kong	Indonesia	5
	Philippines	8
Singapore	Indonesia	3
	Malaysia	5
	Philippines	6

Source: survey of remittance recipient, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

In addition, despite that a significant percent of immigrants have 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**

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

Source: survey of remittance recipient, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

**Table 5.3: Sending remittances through banks and owning a bank account**

Sending Country	Migrant's country	(%) 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	Philippines	52	66
Malaysia	Indonesia	37	46
Singapore	Philippines	36	47
Hong Kong	Indonesia	34	51
Singapore	Indonesia	29	34
Malaysia	Philippines	29	50
Japan	Indonesia	25	91

Source: survey of remittance recipient, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

In fact having a bank account is not enough condition for the use or access financial services. Very small percentages of immigrants have financial obligations in the places they are hosts. 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**

Japan	Business Loan	Education loan	House payment	Other debts
Indonesia	3	7	7	7
Malaysia		4	4	9
Philippines	4	6	15	10

Singapore	Business Loan	Education loan	House payment	Other debts
Malaysia		1	2	
Philippines	4	10	11	9

Malaysia	Business Loan	Education loan	House payment	Other debts
Indonesia	2	1	1	1
Philippines	4	8	13	33

Source: survey of remittance recipient, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

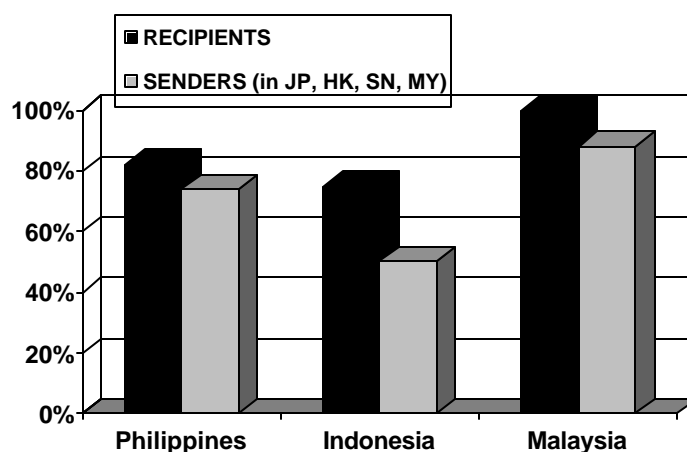
A remittance sender is generally a low income individual with significant obligations in two places. Ensuring greater opportunities is a relevant policy goal on development. Some immigrants may have a demand for mortgage loans, while others may need medical and life insurance services. Moreover, offering 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 back to their countries after some period of time away from home, their families will improve their condition in the short and long term if provided with greater financial opportunities. Evidence from other countries and experiences suggest that financial intermediation among remittance recipient households have 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, Philippines and Malaysia shows that nearly all remittance recipients in the Philippines, Indonesia and Malaysia have savings accounts. Likewise, a slightly lower but still significant percentage of Filipinos, Indonesians and Malaysians working in Japan, Hong Kong, Singapore and Malaysia have savings accounts in their country of origin (See Figure ).

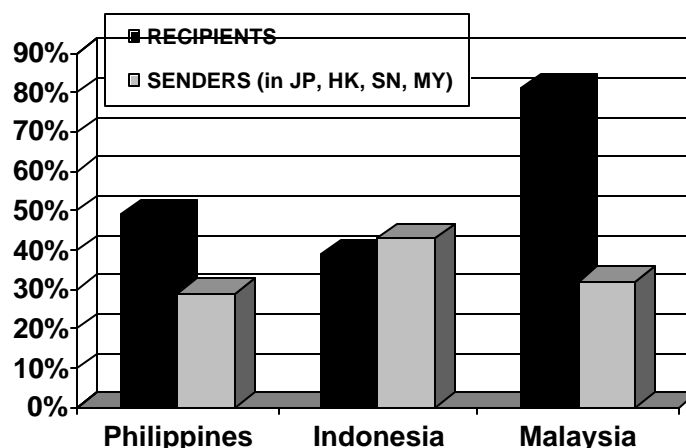
**10Figure 5.1: Percentage of remittance recipients and senders who have a bank account in the country of origin**



Source: survey of migrant sender and remittance recipient, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

When asked how remittances are used or spent, between 30 and 50 percent of all respondents (except in the case of Malaysian recipients) reported that 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.

**11Figure 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 sender and remittance recipient, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

Moreover, when remittance recipients were asked about their main financial activities, a large majority of Filipinos and Malaysians, and almost a quarter of Indonesians, listed having a saving account at a local bank. Table 5.5 below 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 recipient, TA 6212-REG Southeast Asia Workers Remittance Study, ADB.

Just as more Malaysians and Filipinos 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 Malaysian 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 might indicate a lower level of financial intermediation among Indonesian remittance recipients when compared with Filipino and Malaysian recipients, it bears noting that 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 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*), urban commercial banks, government agencies and other service providers through a nationwide network of Business, Service and Information (BSI) 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. RuralNet offers customized technical packages, including connections made through GPRS, the internet, leased line or VPN. Furthermore, RuralNet can utilize 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 4000 pesos (or less than US\$75) if the bank already has a computer, and 5000 pesos (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.

The effect of RuralNet’s effort will be that of increasing 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 non-financial 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, 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 four years, and who have consistently sent money home throughout that time. Migrant workers in the Southeast Asia region remit, on average, between US\$100 and 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 the finding that all regulators request specific information about senders and recipients, in order 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. The analysis suggests that transaction costs may be a variable, and that 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 percent 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 form 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, we provide here a number of 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 in order to have a better picture of the remittance transfer universe. In some countries, limited data is collected on the aggregate

because, for example, banks lack the appropriate methodologies or rely solely on formal flows. As a minimum basis, 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 South East Asian data might be useful. The 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 the 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 each country 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 JPY 2 million, but most migrants remit amounts below JPY 2 million. Similarly, not all banks consistently comply with the Bank of Japan'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. This data might 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 (USD 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 of 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 of significant importance 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 also exists 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 not absent in Southeast Asia. It is worth noting, however, that informality is more pronounced in countries not studied here, such as Vietnam. However, the presence of informality in the countries analyzed in this study seems to be mostly associated with transaction costs. Transaction costs 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 non-banking financial institutions as agents of banking financial institutions but permitting transfers at a lower threshold amount (say JPY 100,000 at a time or JPY 200,000 per month).

Technology is also an important factor in reducing informality. Transfer options that are attractive to remitters include automated transfer machines 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. In fact, 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 Philippines, a potential disincentive to using formal channels could be the government's 'documentary stamp tax.' 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.

We recommend two specific strategies 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. This study found that 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 might enhance 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 JICA in counterpart countries. And in the case of Hong Kong, 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 assist in the enforcement of 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 shed light on the fact 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 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 through the provision of 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 to 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 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 and much less on the relationship between remittances and development (see Annex II of literature review). We therefore recommend the formation of a regional taskforce to discuss such a development agenda on remittances.

This taskforce 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. Discussing

#### *f. Migration issues and remittance related policy*

As this study has illustrated, some migration related policies have been shown to potentially impact the flow of remittances. Many Indonesians and Filipinos 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 a 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 to Filipino domestic helpers and the lack of a mandatory rest day. The 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 obstacles 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 or 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 know how to contact support organizations in case the need arises. This can be implemented by the governments through a requirement of the employment agencies directly, to provide the information and education. 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, 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. In order for these policies to have the desired effect, the host country government must take a leading 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 and amongst each other 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 disruption of 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 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 of the 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 TA 6212-REG 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, namely: 1) remittance senders, 2) remittance recipients, 3) money transfer organization, and 4) 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 February 15<sup>th</sup> and concluded in July 1<sup>st</sup>. During that period interviews, surveys, dataset development, and secondary literature was consulted to prepare the first report which was elaborated during mid July and a final draft presented at the end of August 2005. The surveys were administered during the period of March 1<sup>st</sup> to May 1<sup>st</sup>. Data processing and analysis followed during May and 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 involved Central Bank officials, public officials working in the management of overseas workers, company managers, commercial bank officials and immigrant group advocates.

Number of individuals interviewed

Hong Kong	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 United States, United Kingdom, Germany, Latin America and the Caribbean and West Africa.

Because of funding constraints the budget allowed to conduct an approximate number of 500 surveys per country. 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. It is important to stress however that although the results are statistical significant, its 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 this caution.

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, and Singapore. The data collection offered better choices for statistical analysis and its data could be better validated. With regards to recipients of remittances, Indonesia's survey was also used for statistical analysis.

#### Sample size of remittance senders

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

#### Sample size of remittance recipients

	Indonesia		Malaysia		Philippines
	#	%	#	%	
Japan	17	3			
Hong Kong	43	8			
South Korea	15	3			
Taiwan	26	5			
Singapore	63	11	100		
Malaysia	378	69			
Brunei	8	1			
Total	550	100	100		

#### *Hong Kong survey methodology*

Market surveys were carried out among Filipino and Indonesian migrant workers. The survey administration was conducted on a typical procedure, through a 'supported self-completion' basis. Questionnaire 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 gift was given to respondents.

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

#### *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 where the survey was administered included Tokyo and Nagoya where the majority of these migrants reside. Churches, language schools, remitting places like the Philippine National Bank and other places of concentration were chosen to conduct survey for the Philippines, Indonesian and partly for Malaysian. Moreover, restaurants customers and Sari Sari stores, including in the suburban area of Tokyo, were also included for the Philippines and Indonesians.

Prior to the surveys, focus groups were held in order to validate the questionnaires and garner general information about migrants and remittances. This exercise showed that the survey data of Malaysian shows 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.

#### *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 shortcoming in conducting this survey was a difficulty, caused by time constraints and budgets, 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.

#### *Singapore survey methodology*

A total of 429 surveys were completed for Malaysian, Indonesian, and Filipino workers. All surveys were conducted on a face-to-face basis including prescreening. The Filipino worker survey was conducted largely at the Philippine National Bank 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 due to 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 six months compared to 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 three weeks from mid-March to mid-April 2005.

#### *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 Southeast Asia’s 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 are 550 households.

A purposive sampling technique was used because there is only a number of major provinces, counties, and cities identified as the source of migrant workers. The top 5 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 (LPEM-FEUI) collaborating with local surveyors.

#### *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 stop-over 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 March 15 – April 30. 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 South East Asia.

#### *c. Remittance transfer cost dataset*

The collection of data for this report consisted of collecting pricing information from banks and money transfer companies involved in the transfer of money abroad. This information regarding money transfers involved direct contacts with over 100 money transfer companies operating in Hong Kong, Japan, Malaysia and Singapore. The main kinds of information collected to build the pricing dataset included the following: 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 consisted in applying survey data results to migrant senders and average sent. We calculated the mid-point of the range sent as resulting from the survey individual responses about the average they sent. The mid point was multiplied by the frequency percent distribution reported by migrants and then multiplied by the migrant sender population.



Thus, the weighted average is

$$REMITTANCES_{ij} = \{ [(Sent_{ij} \times Freq_{ij}) \times Dist_{ij}] \times Migr_{ij} \}$$

REMITTANCES<sub>ij</sub> = Total remittances from host country i to home country j

Sent<sub>ij</sub> = Average amount sent

Freq<sub>ij</sub> = Frequency of sending

Dist<sub>ij</sub> = Percent distribution of that group

Migr<sub>ij</sub> = 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 send. The resulting percent number 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:  $\{[(280 \times 4) \times 15\%] \times 18009\}$ . The number of Indonesians sending remittances from Japan is 18009.

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	<b>15</b>	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
	64	14	20	2	100

Weighted Average Remittance Sent

Mid-point Range sent	Frequency of sending				SUM (Average frequency: 9.5)
	4	7	11	16	
<b>280</b>	<b>\$3,088,954.37</b>	\$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
1869	\$20,593,029.14	\$11,088,554.15	\$8,712,435.40	\$-	\$40,394,018.69
				<b>SUM TOTAL</b>	<b>\$79,441,570.09</b>

Migrant population: 23,000; Adult sending population: **18009** (90% adult migrants, 90% send money)