PHILIPPINES COUNTRY REPORT

ROBYN EVERSOLE

1.0 INTRODUCTION AND BACKGROUND

1.1 Background and methodology

The research has been structured as a comparative study of the six countries, with each study undertaken in close collaboration with locally based partner agencies. In the Philippines, the researchers worked closely with the national Microfinance Council of the Philippines (MCPI) and major microfinance institution TSPI (Tulay sa Pag-unlad Inc.) Development Corporation. As industry partners, both MCPI and TSPI provided input to survey and fieldwork design, invaluable local knowledge and contacts, and vital administrative and logistical support.

The Philippines Country Study is based upon fieldwork undertaken in September–October 2006 on the island of Luzon, provinces of Batangas, Pangasinan and Quezon, and in metro Manila, in collaboration with the Microfinance Council of the Philippines and the TSPI Development Corporation. Fieldwork included a survey of remittance-receiving households in the three provinces, in-depth interviews, and focus groups (September 2006), as well as consultation with various Philippine MFIs. The present report also draws upon published studies and datasets from the Philippines Overseas Employment Agency (POEA), the Asian Development Bank (ADB), and elsewhere, including a report on the policy and regulatory framework for remittances from project partner the Foundation for Development Cooperation (FDC).

Data from case study MFIs were obtained from interviews and relevant publications. Data from remittance-receiving households included a survey of 153 remittance-receiving households in three provinces, comprising a relatively equal split of microfinance clients and non-microfinance clients. Data were also gathered from twenty in-depth interviews from among the survey respondents in the three provinces, and focus groups (total of eight, two in each province) exploring the demand for and provision of remittance-linked financial services.

The selected provinces were recommended by partner agencies; they were areas with a concentration of microfinance clients which would be easily accessible (on the main island of Luzon); as well as areas that could give access to a cross-section of rural as well as urban respondents, and represent some variety of local conditions.

Pangasinan, a coastal province with an economy based on agriculture, fishing and light industries, was the wealthiest province in the study; it has an average annual family income Php 115,952, and 25.8% of families were living in poverty as of 2003 (NSCB 2007a). Pangasinan had 37,147 OFW in 2006 (31,439 land-based and 5,708 sea-based) (POEA 2006:37).

Batangas province is a centre of agricultural production and Batangas City is a major port with a range of industries; this province has a lower average family income: Php 92,322, but a similar proportion of families living in poverty (24.5%) (NSCB 2007a). Batangas had 38,161 OFW in 2006 (29,170 land-based and 8,991 sea-based) (POEA 2006: 38).

Lucena City is the capital of **Quezon** province and the only city of that province. This was the poorest province surveyed, with average annual family income of Php 79,706 and a poverty incidence of nearly a third of families (32.8%) (NSCB 2007a). Quezon province had a much smaller number of OFW than the other two provinces in 2006: 12,635 (9,779 land based and 2,856 sea-based) (POEA 2006:38).

1.2 Structure of this report

Section 2 gives an overview of remittances in the Philippines, including macroeconomic remittance trends. It explores internal and overseas labour market characteristics and remittance corridors, and considers evidence from the fieldwork on the development impacts of remittances, with particular attention to household-level economic impacts.

The Report moves on in **Section 3** to discuss more specifically the institutional, policy and regulatory environments affecting remittances and the kinds of remittance-linked services available in the Philippines. This section includes a detailed description of regulations affecting remittance transfer and mobilisation.

Section 4 presents a profile of remittance-receiving households in the three regions studied, segmented according to whether or not they are MFI clients. The report explores their use of financial services, their demand for new or improved services, and the opportunities these present for MFIs in the regions studied.

Section 5 of this Report presents a summary of overall conclusions and specific policy and practice recommendations for MFIs, the Philippine government, and other organisations interested in increasing the positive development impacts of remittances in the Philippines.

The References are listed in **Appendix 1**, while **Appendix 2** presents three MFI case studies: a case study of industry partner TSPI Development Corporation and two other members of the Microfinance Council of the Philippines. Each case study profiles the outreach and impacts of the MFIs, as well as special characteristics and design features of their services, and their activity and potential in the particular area of remittance-linked microfinance services.

2.0 REMITTANCES IN THE PHILIPPINES

2.1 Volume and origins of remittances

Remittances from citizens overseas are a significant feature of the Philippine economy; they account for about 10% of the nation's GDP (UNESCAP 2007) and are growing rapidly – about 19% between 2005 and 2006 (POEA 2006). Growth in remittances is supporting firm economic growth for the Philippines (UNESCAP 2007) while also raising concerns about the long-term implications of being a major exporter of labour.

An overview of remittance figures since 1985 indicates the scale of growth in remittance income to the Philippines: remittances to the Philippines (measured as those moving through formal channels) are over 18 times higher than twenty years ago. While some of this growth may be attributed to improved remittance capture by the formal financial system, the rate of growth is nonetheless impressive:

1986	1990	1996	2000	2006
US$680 million	US$1.18 billion	US$4.3 billion	US$6.05 billion	US$12.8 billion

Source: POEA 2001, POEA 2006.

Remittances arrive to the Philippines from all over the world. The top ten sources of remittances in 2006, according to the Philippine Overseas Employment Administration (POEA) were: 1) The United States, 2) Saudi Arabia, 3) Canada, 4) Italy, 5) United Kingdom, 6) Japan, 7) United Arab Emirates, 8) Hong Kong 9) Singapore and 10) Taiwan (POEA 2006:22). All were represented among the households that participated in the survey of remittance-receiving households in September 2006 in Batangas, Pangasinan and Quezon Provinces. Among those respondents, the largest group of households (24) received remittances from Saudi Arabia, closely followed by the United States (23 households). Canada is an interesting market for overseas workers, with overall remittances from Canada to the Philippines increasing four-fold between 2005 and 2006 (POEA 2006:22).

Two major microfinance providers in the Philippines each indicated that over a quarter of their clients (28% and 26%) receive remittances from relatives overseas, with more than half of these receiving funds on a monthly basis.

2.2 Labour markets and remittance corridors

The Philippines is one of the world's main labour-sending countries. About 8 million Philippine nationals live abroad (UNESCAP 2007), both as temporary and permanent migrants. The number of Philippine nationals traveling abroad to work is also growing over time. Over a million Overseas Filipino Workers (OFWs) were deployed in 2006 – about three-quarters land-based, and one quarter sea-based (POEA 2006:3).[1] Burgess

[1] The ADB (2004:3-4) suggests a three-category grouping of migrants: in addition to formally documented OFW traveling abroad for contract work, there are also 'irregular' or undocumented

and Haksar (2005), in a recent IMF working paper, state that over the past 20 years, increases in the volume of departing Overseas Filipino Workers (OFWs) has broadly matched the increase in the domestic labor force.

Both men and women migrate overseas to work, and work is undertaken is a wide range of fields, both skilled and unskilled. It can be estimated that about 60% of OFWs from the Philippines are women (POEA 2006:20; IOM 2003:35); ADB (2004) puts the figure at 65%. Overall, 197 countries were hosting OFW (Overseas Filipino Workers) in 2006 (POEA 2006:3). The top destinations were Saudi Arabia, the United Arab Emirates, Hong Kong, Kuwait, Qatar, Taiwan, Singapore, Italy, the United Kingdom, and Korea (POEA 2006:9).[2]

It is notable that while this list of top destinations largely parallels the top ten sources of remittances, there are some differences. The United States is missing from the list of top ten OFW destinations, and Qatar, Kuwait, and Korea have appeared. This suggests a much higher levels of remittances relative to migration volume for the United States (which is likely a reflection of the popularity of the US among long term/ permanent residents, who would not be reflected in the new OFW numbers). Similarly, lower levels of remittances relative to the higher migration volume for Qatar, Kuwait, and Korea may reflect that these are popular short-term destinations, without a body of long-term migrants to bulk up remittance figures.

The opportunities in overseas labour markets – whether elsewhere in Asia, the Pacific, Europe, or the Americas – are clearly superior to the opportunities at home. According to UNESCAP, unemployment and underemployment are important issues in the Philippines, with underemployment increasing from 17.6% in 2005 to 22.7% in 2006 (UNESCAP 2007), and unemployment at 7.3% as of October 2006 (NSCB 2007a). Over a third of the population (36.7% as of October 2006) is employed in agriculture, fishing, and forestry, and about half (48.6% as of October 2006) in services (NSCB 2007a). Semyonov and Gorodzeisky (2005:62) found that almost three-quarters of the women in their Philippine study were unemployed prior to migrating to work overseas, while Asis (2005) found that lack of regular employment and low wages in the Philippines were key factors prompting migrants to work abroad. The current study reinforces these findings; both higher incomes and work availability were motivating factors for both men and women to work abroad.

---

migrants, as well as migrants who hold permanent residency or citizenship in a country overseas. Members of all three groups may work abroad, and remittances may originate from any of these.

[2] ADB (2004:11) notes that Saudi Arabia, Hong Kong, and the UAE, as well as Japan and Taipei, were the most popular destinations for contract workers, while Australia, Canada, Germany, Japan the United Kingdom and the US are the most popular for permanent residents.

The labour markets which these overseas migrants enter are usually accessed through friend or family networks and/or through employment agencies. Asis (2005) notes that personal networks (particularly relatives, both abroad and in the Philippines) and migrant recruitment agencies are the key information sources for people planning to work abroad. Migrants enter overseas labour markets frequently to take up low-skilled jobs; even when people hold higher qualifications in the Philippines, they often migrate to work in low-skilled jobs because these are the ones open to them (IOM 2003:25). Thus, nearly half (49%) of new female OFW deployments in 2006 were in household/ domestic work (POEA 2006:20) – traveling primarily to Hong Kong, Saudi Arabia, the UAE, as well as a range of other destinations (POEA 2006:47). Meanwhile, 7% of women and 25% of men deployed from the Philippines were going abroad to do factory work. Overall, service workers and production workers are by far the largest skills categories for OFWs, with 80% of new hires (male and female) from the Philippines taking these kinds of roles. Seafaring is also a significant employer, primarily (though not exclusively) of men.

While low-skilled jobs still predominate, significant numbers of men and women from the Philippines also work abroad in professional fields and skilled trades. Thirteen percent of new OFW traveling abroad in 2006, men and women, were taking up professional and technical roles (POEA 2006:50), and the figure was 35% in 2002 (Mellyn 2003:6). Since the mid 1990s, it is possible to see a significant growth overall in the number of Filipinos and Filipinas traveling abroad in skilled professional and technical roles (Burgess and Haksar 2005:4). Major skilled employment categories include medical-related workers, engineers, dressmakers, and entertainers (POEA 2006:20), as well as a small number of teachers (POEA 2006:43) and IT-related workers (POEA 2006:46).

Among female migrants already abroad, it has been estimated that a large percentage (about 42%, as of 2002) work in professional and technical roles, including, notably, the health professions (IOM 2003:25). These figures would include Filipinas who live abroad long-term. Nurses newly going abroad in 2006 were primarily travelling to Saudi Arabia, as well as to a broad range of other country destinations (POEA 2006:52). Entertainers frequently go to Japan, as well as smaller numbers to other destinations. Major employment areas for male migrants are seafaring and construction work; with a range of skill levels represented (POEA 2006:18-20).

Survey respondents from Batangas, Pangasinan and Quezon in September 2006 reflected this wide range of migration experiences: men and women traveling to a broad range of countries to undertake many different activities. Both men and women traveled to Saudi Arabia (though more males than females); working primarily in skilled trades, construction, and domestic help. Migrants to the USA were male and female (more women than men), and worked in a range of areas including clerical work, bank work, caregiving, and professional medical work. Domestic helpers traveled primarily to Italy, but also to Singapore, Hong Kong, England, and elsewhere. Skilled tradespeople traveled predominantly to Saudi Arabia, but also to the UAE and elsewhere. Caregivers and patient attendants traveled to a wide range of countries, including the USA and Israel; national-level figures indicate that Taiwan is the largest current destination for caregivers from the Philippines (POEA 2006:440). Two surveyed households indicated they had a family member in Australia: one a skilled tradesperson (welder), and one a caregiver.

2.3 Destinations of remittances and methods of remittance transfer

While not all OFW remit money back to the Philippines, a great many do, and as has been seen, these remittances from OFWs and other Filipinos abroad are very significant at the macroeconomic level. It is important to note that remittances at the macroeconomic level include not only the remittances that migrants transfer to family members in the Philippines, but also migrants' transfer of personal income and assets back to the Philippines, as well as philanthropic donations (see ADB 2004:3-4).

Recent research by Goce-Dakila and Dakila (2006) suggests that the main beneficiaries of remittance increases nationwide are middle-income households, followed by low-income households for all regions except the National Capital Region. At the household level remittances are significant and are put to a range of uses, including consumption, investment and savings. A 2005 study of remittance-receiving households conducted for TSPI Development Corporation found that about a quarter of remittances overall were spent on household expenses, including house maintenance, utilities and the purchase of appliances; nearly a quarter (23%) was spent on education costs, and over a fifth (21%) on food (PBSP 2005:5). Thus most remittances enter into basic household expenditure, including investment in human capital; a result that was confirmed in the present study.

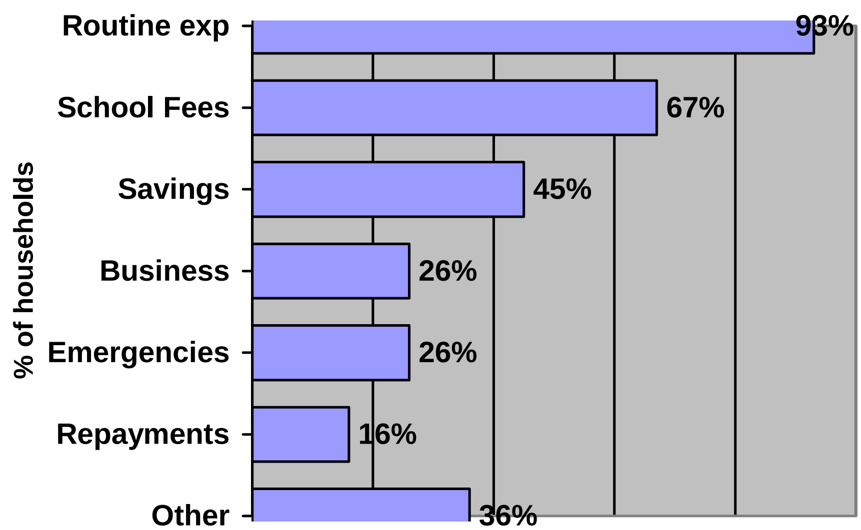
In the present study's survey of remittance-receiving households, the average size of the last remittance was 19,500 pesos (about $521 Australian dollars[3]), with quite a bit of variation; most remittances had been between 5000 pesos ($133) and 25,000 pesos ($668). Of the last remittance received, on average, 8145 pesos (about AUD $217) had been spent on routine daily expenses and utilities; and nearly all households (93%) had spent at least some of their last remittance on routine expenses. In addition, over two-thirds of the households (67%) had spent some proportion of their last remittance on school fees, averaging 4992 pesos (about AUD $133).

Savings and business investment were smaller but still significant uses of remittances among the households surveyed. Forty-five percent of households reported that they had saved some portion of their last remittance, averaging 4896 pesos (about AUD $131) for those who did so, and a quarter (26%) had used some proportion of their remittance

[3] Calculated using the interbank rate as of 1 October 2006, 1 peso = .0267 Australia dollars.

for business-related expenditure (average 6333 pesos, or AUD $169, for those who did so). Emergency expenses were also a common use of remittance funds, with 26% of households using some portion of remittances to cover these. Repayment of loans was a significant expenditure for a small number of remittance-receiving households (16%) and averaged over 11,000 pesos (about AUD $294). Emergency expenditure, housing improvements, and payments to other family members were the other major uses of remittances for the surveyed households (see Figure 2.3.1).

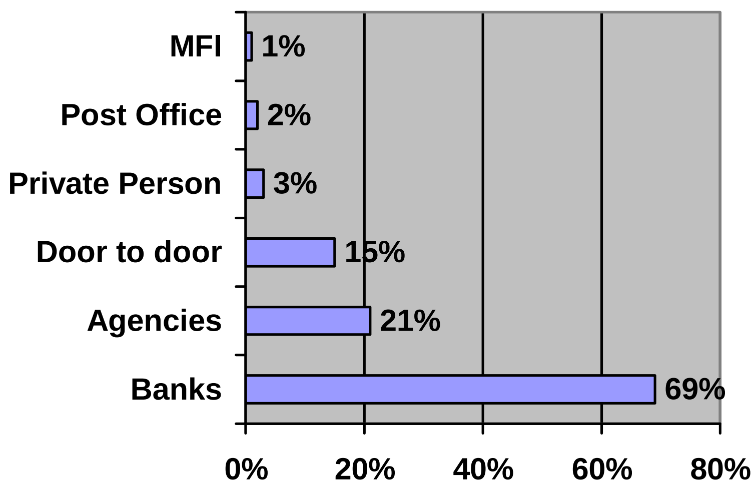
Figure 2.3.1: Use of last remittance, September 2006



The methods used for remittance transfer are of key importance for this study. In a market study conducted for TSPI Development Corporation in 2005, 52% of microfinance clients surveyed received their remittances through bank transfer, and 5% through Western Union, with a 43% receiving money through other means – door-to-door services, 'institutional arrangement of companies', or via acquaintances ('*kakilala*'). According to a nationwide survey of remitters conducted by the ADB over Christmas holidays 2003, 80% of remitters stated that they were using formal banking channels to remit money: 65% via a bank-to-bank service, and 15% via a bank-based door-to-door service (ADB 2004:18). Thirteen percent of remitters in that study used money-transfer agencies – either via their offices or a door-to-door service. Only about 6% stated that they used informal channels: notably *padala* (sent through friends) or other methods (e.g. money inserted in letters). (ADB 2004:18)

Industry estimates from different countries would suggest that overall, informal remittances to the Philippines may be in the range of 1.5 billion/ year (ADB 2004: 24-25), and estimates of cash carried home by returning migrants are also sizeable (ADB 2004:25), however it is noted that there has been a general shift in the Philippines from the use of informal to more formal money transfer systems, due to improved cost, speed and service, the growing financial literacy of remitters, and the closure of many unregulated services (ADB 2004:24).

Figure 2.3.2: Methods of remittance transfer from overseas



Bank-based services and formal door-to-door services, whether through agencies or banks, also played the most important role in regular remittance fund transfer for the survey respondents in the present study. (See Figure 2.3.2.) The majority (69%) of surveyed households in September 2006 received remittances via commercial banks. Twenty-one percent received their remittances via money transfer agencies such as Western Union, and 15% via a door-to-door cash services, with a few receiving remittances through the post office, private individuals or, in one case, a microfinance institution. A few households received remittances via more than one method.

In general, respondents seemed well connected to formal money transfer services; however, it is likely that migrants returning home also carry home significant 'informal' remittances in cash and in kind, as has been noted in other studies (Puri and Ritzema 1999:8; ADB 2004:25). In the present study, slightly over a third (39%) of respondent households had received 'in kind' remittances, most commonly clothing, food, and appliances, most valued between 20,000 and 30,000 pesos (roughly $500–$800).

2.4 Development impacts of remittances at household level

Analysis of the development impact of remittances needs to take into account the broader costs and benefits of the migration experience for the individuals, families and communities concerned. Various studies have looked at issues such as the impact of migration from the Philippines on children and family well being, as well as the uses of remittances and their impacts on the household economy, and the larger equity impacts of remittances across households (see e.g. Battistella and Conaco 1998, Bryant 2005, Huang *et al* 2003, Rodriguez 1998, Salazar Parreñas 2002, and others). The present study has been limited to the collection of data specifically on economic impacts of remittances at household level, with particular attention to:

1) Impacts on perceived household economic status,
2) Impacts on household asset accumulation and savings,
3) Impacts on microenterprise development, and
4) Level of remittance dependence.

At the same time, themes related to other development impacts of remittances also emerged in the interviews and are discussed in more detail below.

The impact data collected was at household, not individual, level. Sub-household impacts were gauged in part through asking questions related to the control of the remittance moneys. In 78% of cases, a female member of the household is mainly responsible for decisions about how remittances are saved or spent, while in about 8% of cases, it is a male household member. Only in about 7% of cases did respondents indicate that the migrant controls decision making about remittances, although in 5% of cases the migrant and household member make the decisions jointly.

Perceived household economic status. Data from the household survey of remittance-receiving households indicated that overall, the overseas migration experience was having a positive impact on how household members perceived their household's economic status. Overall, household members were more likely to view themselves as better off relative to other households in their area after migration than before: 29% of respondents stated that before migration their household was poorer than most households in their area, while only 10% thought they were better off than others. After migration, however, only about 1% of respondents thought that their household was poorer than others, while 71% stated that they were now better off than others in their area. Sixty-nine percent of households overall indicated that their perceived a positive shift in their relative household economic status vis-à-vis their neighbors as a result of migration, and the remainder indicated that their relative economic status had remained the same (usually, about the same or better off than others).

Comments made in the interviews reinforced that migration was seen as a strategy that permitted household members to reach their economic goals. This included the ability to fund education, buy land, build or improve housing, cover general household expenses, purchase appliances and make business investments. In some cases, there was a perception that 'families who have an OFW are considered much wealthier than other community members'; in other cases, significant concentrations of migration from a single area 'has raised the standards of living generally' for entire neighbourhoods, including the level of prosperity demonstrated in businesses and public spaces. Nevertheless, there were also some instances cited where migration experiences did not necessarily equate to an improved economic status for sending households, and could even lead to monetary loss.

Household asset accumulation and savings. Nearly half (47%) of households surveyed stated that they were saving more as a result of receiving remittances. Households were saving for a range of purposes, but the most popular destinations for savings were education (36% of all households), and to a lesser extent emergencies (13%), housing improvements (10%) and business investment (5%). On average, non-microfinance clients were saving more than microfinance clients; savings of the former averaged around 3000 pesos per month, and the latter, around 2000 pesos per month, though with quite a lot of variation. Most households were clearly accumulating assets as a result of migration, with households on average indicating a shift from five to nine major assets as a result of migration. New assets most commonly acquired after migration include phones, motorcycles, televisions, house lots, and gas stoves, although a wide range of assets were included.

Impacts on microenterprise development. About a fifth (22%) of remittance-receiving households stated that they had started a new business since they started receiving remittances. Similarly, about a fifth of households indicated that they were now spending more on their businesses as a result of receiving remittances. A quarter of all households had used some portion of their last remittance payment for business expenses or investment. The overwhelming majority (91%) of those households that had started a new business are microfinance clients.

Level of remittance dependence. The survey results indicated that remittances were being used primarily for basic household spending: particularly food and utilities. Many households were also investing in education, housing, or microenterprise, and/or had increased their levels of savings. Most households had at least one other source of income besides their overseas remittances and some had several; however 14% of households indicated no other income sources besides remittances. On average, overseas remittances comprised about 64% of household income for the households surveyed. For 70% of households they provided on average half or more of total cash income. These data suggest a relatively high level of remittance dependence among households surveyed.

Other aspects of the development impact of remittances highlighted in the in-depth interviews included the emotional stress of migration (significant for both migrants and home households), as well as physical stress related to migrant working conditions abroad. While migrants' and home households' experiences were not uniformly stressful, emotional and physical stress were common themes. These experiences were, however, often downplayed in the interviews in favour of emphasising the economic benefits of migration. A related theme in many of the interviews was a tension between the economic attraction of traveling to work abroad versus the social and emotional attraction of being at home in the Philippines. These tensions are addressed in a range of ways: frequent visits, use of ICT to communicate, plans to return to the Philippines in the long-term or enable other family members to migrate overseas, and reference to the strong need for the remittances that makes family separation necessary.

Other themes that emerged in the interviews included the nature and limitations of support systems for migrants abroad – in many cases, both economic and social/cultural supports are notably limited – as well as a predictably wide variation in the nature and 'success' of migrants' experiences. There were also occasional references to non-economic motivators for traveling abroad (e.g. relationship breakdown), suggesting that for some, migration may provide an escape route from unfavourable home conditions (see, for instance, DeBruyn and Kuddus 2005 on Bangladesh, Gamburd 2000 on Sri Lanka).

Overall, data on the uses of remittances by surveyed households and in-depth discussions with interviewees, draw attention to the importance of remittances to surveyed households, the costs and contexts through which they are acquired, and the significance of consumption and education expenditure as being among the main uses of remittances. While some analyses of the development impact of remittances see consumption as disconnected from development impacts (see e.g. Carling 2004:2), others argue that consumption expenditures can be linked to development impacts in a range of ways. These may include human development impacts, human capital investment (particularly given the high levels of expenditure on education), and, possibly, local expenditure multipliers, depending on the extent to which remittance recipients purchase goods and services locally. In addition, data from surveys and interviews suggest that a proportion of remittances is also channeled to savings and business development, with potential benefits in terms of both household economic stability and risk spreading, and local economic development.

3.0 INSTITUTIONAL, POLICY AND REGULATORY ENVIRONMENT FOR REMITTANCES

Government policy in the Philippines, while carefully regulating foreign currency transactions, is in general supportive of OFWs, notably through tax exemptions and through the work of specific public agencies. The Migrant Workers and Overseas Filipinos Act of 1995 characterises Overseas Filipino Workers (OFWs) as the country's "modern-day heroes", and notes that their remittances "constitute a critical flow of foreign currency into the Philippine economy" (MWOFA 1995). Philippine government policy has long expressed a concern with leveraging economic development benefits from overseas migrations, while the Philippine banking sector has developed a strong and active involvement in the lucrative remittance transfer market.

Section 3 explores the institutional, policy and regulatory environment for remittance transfer and the mobilization of remittance deposits, focusing first on the role of key banking institutions, then other key remittance transfer players, as well as the role of microfinance Institutions (MFIs); then moving on to explore government regulations and policy incentives affecting remittances and remittance transfer. Some of the information presented in this section is drawn from the Foundation for Development Cooperation's (FDC) 2007 Report, "Policy and Regulatory Framework for Remittance – Philippines.

3.1 Key banking institutions for remittance transfer and mobilisation

The PNB (Philippine National Bank) is the most significant bank player in the international remittance transfer market. According to research by Mellyn (2003:9), the PNB controls nearly a third (30%) of all bank remittance transfers into the Philippines. PNB started their remittance service in the early 1970s and was joined in the 1980s by others: Philippine Commercial and Industrial Bank, Metropolitan Bank and Trust Company (Metrobank), and Allied Banking Corporation (ADB 2004:21). As of 2004, the Philippines had 44 commercial banks, 16 of which were involved with remittances (ADB 2004:22).

The major remittance players among banks in the Philippines are PNB, Bank of the Philippine Islands (BPI), Equitable PCIBank, Metrobank, Rizal Commercial Banking Corporation (RCBC), and Land Bank of the Philippines (LBP), which together service 80–90% of the market, each handling at least $700 million annually (ADB 2004:22). In 2006, the remitted portion of OFWs' income channeled through banks amounted to US$12.8 billion, with a year-on-year growth rate of 19.4 percent.[4] This growth has been largely due to the improved capture of remittance flows through the formal banking system. By 2006, it is estimated that only ten percent of total remittances, from a high of about 25 percent in 2001, were channeled outside the banking system.[4] OFWs' increasing access to formal channels for remitting funds to Philippine beneficiaries was due mainly to financial institutions' technological innovations and wider network abroad.

The highly competitive remittance transfer market is expanding as an important source of fee revenue for the commercial banking sector in the Philippines (Mellyn 2003:8-9), and most of the banks have segregated the remittance business from their banking operations, and have set up separate operating facilities and corporate entities in the Philippines and overseas (ADB 2004:22). Philippine banks, affiliates or agencies, and remittance partnerships are known to have been established in about 30 countries (ADB 2004:23). Host country banks have had limited involvement in the Philippines remittance market as they tend to be higher-cost, however, some partnerships have been established (e.g. between the Bank of Singapore- PSOB and BPI) to provide enhanced services to Filipino remitters and recipients (ADB 2004:24).

[4] Estimates used in Philippine balance of payments (BOP) compilation, partially based on results of the annual Survey of Overseas Filipinos conducted by the National Statistics Office.

As an initiative to support OFWs, the Philippines Central Bank (BSP) has created an interactive portal to link users to information on the different banks and non-bank remittance companies in the Philippines, including locations of their branches abroad, remittance centers, foreign bank/correspondents, products and services, and charges/fees for remittance services to any part of the Philippines (BSP 2005a).

Beyond remittance transfer, the traditional financial products of commercial banks for OFWs and their beneficiaries include: savings and time deposit accounts with minimal initial deposit and no maintaining balance required; cash cards for convenient access of OFW remittances by beneficiaries in Philippine automated teller machines (ATMs); housing, education, car and all-purpose loans secured by a hold-out on existing deposit accounts.

On the investment side, commercial banks have also offered OFWs specialised investment products with direct payment schemes. Investment schemes link up with trust and investment companies to package structured fixed income, unit investment trust fund (UITF), dollar liquidity fund, trust placements and other similar products for OFWs and beneficiaries. Rural banks and cooperative banks with lower capital base offer microfinance loans or tie up with non-governmental organisations (NGOs) in promoting agricultural and livelihood ventures.

3.2 Other key players in remittance transfer markets

Non-Bank Financial Institutions (NBFIs) are a diverse group of financial entities composed of private remittance companies, money transfer operators or remittance agents; non-banks with quasi-banking functions (NBQBs), non-stock savings and loan associations (NSSLAs), pawnshops, and other NBFIs such as investment houses and trust entities. NBFIs are categorised as formal channels because funds transferred through them utilise the banking system through deposit accounts maintained by the entities in correspondent banks.

Key NBFI players in the remittance transfer market in the Philippines are licensed non-bank money transfer agencies (both Philippines-based and international), courier and cargo companies, and ethnic stores that act as agents for banks (ADB 2004:21, 23-24). iRemit and LBC Express Inc. are among the significant Philippine players in the remittance transfer industry, while international money transfer agencies Western Union (the largest international player), Money Gram, Vigo and Uniteller also operate in the Philippines (ADB 2004:23-24). The various money transfer agencies often have strong relationships with banks; for instance, commercial banks may act as sub-agents for international agencies like Western Union, and Philippine agencies may enter into formal partnerships with banks to provide banking services to remitters (ADB 2004:23-24).

Mobile telephone operators are a new and interesting player in the remittance-transfer market, with Philippine companies Smart Communications, Inc. and Global Telecom, Inc. offering SMS-based money transfer services. These services rely on a network of partners abroad (to which the remitter physically brings the cash) and partners/ agencies within the Philippines, including those permitting direct purchases using transferred value (ADB 2004:111-112). Anecdotally, takeup of these services are low to date due to perceived risk. However, within the Philippines, this technology has been adopted by the Microenterprise Access to Banking Services (MABS) project and rural banks to facilitate electronic sales and savings deposits (Owens 2006). Another important emerging player is Internet-based money transfer services.

Overall, the most notable characteristic of both bank and non-bank institutions in the remittance transfer market is their ability to develop networks and partnerships in order to extend innovative services both around the globe, and into isolated rural areas of the Philippines. It is also notable that banks are involved in some capacity in many of these partnerships, and that these also embrace a range of private businesses, including local retailers.

3.3 The role of MFIs

A broad range of Microfinance Institutions (MFIs) operates in the Philippines, yet despite their considerable outreach, they have to date had very little involvement in the remittance transfer market, or the broader area of remittance-linked financial services. Philippine MFIs are primarily NGOs or cooperatives, with a number of rural banks also offering some level of microfinance services; four rural banks and four thrift banks are specialised in microfinance, with a large number of rural banks having some level of microfinance services (MCPI 2006:2-3,8). According to recent estimates, only about one-third of the total poor households in the Philippines receive microfinance services, leaving a potential untapped market of 2.9 million families (MCPI 2006:2).

The Philippines is one of a few countries with a well-defined policy and regulatory architecture for microfinance (MCPI 2006:5). In 2000, the BSP (Central Bank of the Philippines) was mandated by the General Banking Law to recognise microfinance as a legitimate banking activity and to set rules and regulations for its practice within the banking sector; that same year the BSP declared microfinance its flagship program for poverty alleviation; it has since focused on capacity building, advocacy, and creating an enabling policy and regulatory environment for microfinance (BSP 2005b). The Central Bank's work primarily relates to organisations within the formal banking sector – that is, rural banks, thrift banks, and cooperative banks. In 2005, two large microfinance NGOs transformed into microfinance oriented thrift banks, as part of the ongoing commercialisation of microfinance being promoted by the Central Bank (BSP 2005b).

Outside the formal banking sector, cooperatives and NGOs are not directly regulated by the Central Bank. About 500 NGOs in the Philippines are involved in microfinance, and over 4,500 savings and credit cooperatives (MCPI 2006:2). The cooperatives are regulated by the Cooperative Development Authority (CDA), while the NGOs are not formally regulated. Like all NGOs in the Philippines, microfinance NGOs are required to register with the Securities and Exchange Commission (SEC) as non-stock, non-profit organizations, and to file audited financial statements with the SEC, but they are not subject to prudential regulations (MCPI 2006:3-4). Nearly all NGOs capture compulsory savings from member-borrowers, but not from the general public; in order to not be subject to banking regulations, the amount of the savings that NGOs collect must not exceed their total loan portfolios (BSP 2005b, MCPI 2006).

The Microfinance Council of the Philippines is a network of forty institutions, predominantly MFIs, working toward the rapid development of the microfinance industry in the Philippines. Members are predominantly MFIs of significant size and outreach (having at least 1,000 active clients and a loan portfolio of at least Php 3 million), but rural and thrift banks are included among its membership (MCPI 2004).

While many MFIs count remittance recipients among their clients, attempts to develop targeted products for OFW and remittance recipients are still in early days. Opportunity International has done some significant work in this area, having conducted a money transfer market survey in the Philippines (Pratt 2003) and then a pilot remittances project in collaboration with Philippine MFIs TSPI (Tulay Sa Pag-Unlad Development Corporation) and TSKI (Taytay sa Kauswagan, Inc.), in collaboration with the HSBC Bank.

The 2003 market survey concluded that nearly a third (32%) of the broad range of microfinance clients surveyed from various institutions were remittance recipients, that a significant number (54%) had friends who received remittances from overseas, and that a large number of clients (41%) had relatives living overseas who did not send remittances (Pratt 2003). TSPI, in collaboration with the Philippine Business For Social Process, conducted another extensive Market Study for Remittance Services in 2005, which collected data from respondents at 12 TSPI branches. This survey found that 26% of TSPI clients receive remittances from relatives overseas, with 59% of clients having other relatives or friends who receive remittances; the study also identified security and fast transfer as key preferences for clients receiving remittances, with 81% stating they would use an ATM card to withdraw remittances if TSPI provided one (PBSP 2005:6,8, 11).

Overall, the findings of these studies success that microfinance institutions are already connected in to many remittance-receiving households and communities, creating a potential market opportunity. The pilot project in 2005 trailed an Opportunity Card through which existing or new clients of the partner microfinance institutions could draw out remittance funds sent from USA-based OFWs through any of the 6000

Automatic Teller Machines in the Philippines (Stenner 2005, PBSP 2005b). Nevertheless, the cost of ATM usage fees proved high enough to make the product uncompetitive.

3.4 Banking regulations affecting remittance transfer and mobilization

The Bangko Sentral ng Pilipinas (BSP) is the central monetary authority of the Philippines. The BSP Charter (1993) gives the BSP supervisory authority over banks and non-bank financial institutions in the Philippines, including monitoring and regulating remittance transfer through all formal channels: including banks, private remittance companies and other remittance agents. Unlike banks, NBFIs are not governed by a common legislation granting them specific authorities to engage in financial services. As of January 2005, however, all foreign exchange dealers, money changers and remittance agents must register with the BSP before they can operate (Circular No.471, 24 January 2005).

Among the BSP's regulatory powers under the amended General Banking Law are the power to prescribe ratios, ceilings, limitations, or other regulations on the different types of accounts, including those of OFWs, and on the practices of banks and quasi-banks; and to regulate the use of electronic devices and processes for recording, storing and transmitting information in connection with the operations of a bank, quasi-bank or trust entity. These regulatory powers allow the BSP to formulate policies that oversee the types of platforms used for remittances (e.g., phone or internet banking) and foreign currency deposit (FCD) accounts maintained by OFWs. To achieve more efficiency in the remittance flow process, the BSP granted FCDU license to rural and cooperative banks and facilitated full interconnection of major automated teller machine networks on 20 June 2006.[5]

The Philippines enjoys a liberalised **foreign exchange regime**. BSP Circular No. 1389 dated 13 April 1993 provides that foreign exchange (FX) receipts, acquisitions or earnings of residents from non-trade sources can be sold for pesos to authorised agents outside the banking system. Further, FX can also be retained, or deposited in foreign currency accounts, whether in the Philippines or abroad. Thus, beneficiaries of remittances may opt to maintain their remittance in Foreign Currency Deposit (FCD) accounts.

Certain units or departments within the BSP closely monitor the operations of financial institutions involved in remittances. For instance, banks and NBFIs intending to provide electronic banking platforms, including remittance services to OFWs and their beneficiaries, must first seek BSP approval. These institutions are required to comply with specific prequalification standards before the Monetary Board grants licensing approval. Thereafter, the BSP ensures that the approved systems of financial institutions adhere to risk management and other prudential standards that will help achieve

[5] Circular No. 522 dated 23 March 2006

stability in the financial system. In addition, to address the increasing use of internet banking for sending money to beneficiaries, the BSP has issued minimum prescribed guidelines on correspondent banking and electronic fund transfers.[6]

The BSP also requires banks to transmit several financial reports through an electronic-based reporting system. The regulatory sector compiles reports to monitor deficiencies in reserve requirements and foreign currency deposit unit (FCDU), among others. Another sector focuses on compiling foreign exchange transactions of banks, including remittance data, for consolidation in the balance of payments (BOP) accounts. The dual reporting requirement allows the BSP to validate the accuracy of amounts of foreign exchange transactions reported by banks.

The Anti-Money Laundering Act (AMLA) of 2001 created the Anti-Money Laundering Council to investigate hidden and suspicious transactions and money laundering activities.[7] Institutions effected by the AMLA includes banks, non-banks, quasi-banks, trust entities, insurance companies, securities dealers, foreign exchange corporations, money changers, money payment/remittance/transfer companies, and other entities dealing in currency, commodities or financial derivatives, cash substitutes and other monetary instruments or property.

The threshold for transaction in cash or other equivalent monetary instruments under the AMLA amount to PhP500,000.00 for one banking day. While the PhP500,000.00 threshold is considered high for individual remittances, AMLA regulations remain relevant for bulk remittances by banks and other financial institutions. In certain cases, OFWs under the same foreign employer may opt to batch their remittances to be sent to the Philippines through a remittance center, tie-up or foreign branch of a Philippine bank. This would result in a sizable amount of remittances that could exceed the threshold prescribed by the AMLA. Once the batched remittances exceeds this threshold, the domestic bank or non-bank financial institution (NBFI) through which the remittances have been sent is required to submit to BSP a report of transactions, particularly if there is suspect money laundering or illegal activities (Circular No. 253 dated 31 July 2000).

A total of 27 BSP issuances aimed at strengthening anti-money laundering regulations emphasise the **"know-your-customer" (KYC) policy**, legally defined as customer-identification requirements to properly: identify the payee of cashier's or manager's checks payable to cash or bearer; maintain parallel customer-identification records for numbered foreign currency deposit accounts; implement a suspicious transaction reporting system.

[6] Circular No. 436 dated 18 June 2004

[7] R.A. 9160, as amended by R.A. 9194 dated 7 March 2003; the Anti-Money Laundering Council is comprised of the BSP, Insurance Commission and the Securities and Exchange Commission.

The KYC policy being implemented by Philippine banks and quasi-banks poses a bigger problem for the OFWs' beneficiaries in the last mile of the remittance flow process rather than to the OFW remitters in the first mile. To claim the remittances sent by OFWs, beneficiaries or family members are required by financial institutions to present valid photo-bearing identification documents issued by an official authority. However, most individuals residing in the remote areas or provinces do not have immediate access to government institutions issuing such IDs. The BSP is thus finalising a Circular that will address this last mile barrier. The Circular is intended to promote access to services offered by formal financial institutions, particularly those residing in the remote areas, as well as to encourage and facilitate remittances of OFWs through the banking system.

Finally, the monetary and fiscal authorities in the Philippines aim to improve the overall environment for OFWs through sound regulatory actions that promote the efficient use of remittances. These include requirements for financial institutions to post remittance charges, cost classification and other information for the benefit of remitters and beneficiaries[8], as well as current BSP initiatives to simplify of procedures for remittance recipients under the know-your-customer system).

3.5 Tax incentives affecting remittances

Tax exemption is one of the rewards provided by the government to OFWs to recognise their valuable contribution to the national economy. The Tax Reform Act of 1997 or R.A. 8424 provides wide-ranging tax breaks to overseas Filipinos including OFWs. Section 23 of the law states that a non-resident citizen will be taxed only on income derived from sources within the Philippines. Filipinos overseas are thus exempted from paying taxes on their earnings from foreign sources.

Revenue Regulation 10-98 exempts non-residents and OFWs from payment of taxes on income derived from foreign currency deposits (FCD).[9] Interest income actually or constructively received by a resident citizen of the Philippines on interest income from FCD shall be subject to a final withholding tax of 7.5%. However, non-resident citizens who have FCD accounts in the Philippines are exempt from payment of taxes on interest income derived from said deposits.

For bank accounts that are jointly in the name of a non-resident citizen or OFW and a spouse or dependent who resides in the Philippines, 50 percent of the interest income from the bank deposit is treated as exempt while the other 50 percent is subject to final withholding tax. To be entitled to this exemption, the non-resident individual or OFW should open the FCD account in his/her name.[10] The non-resident citizen or OFW should also execute a written consent for the depository bank to inform the Commissioner of Internal Revenue that he/she as a non-resident is exempt from the tax

[8] BSP Circular No. 534 dated 26 June 2006

[9] Bureau of Internal Revenue (BIR) RR 10-98 dated 25 August 1998

[10] With any valid document on immigration, residency or employment presented to the bank

on income from FCD. A depositor who fails to comply with this requirement shall not be entitled to the said privilege.[11] Given the tax exemption on FCD, the OFWs may thus choose the currency and instrument with which to keep their remittances, whether in FX or pesos, and regular bank account or FCD. Other factors, e.g., bank's proximity and security, may also be considered by the OFWs as some workers also keep a part of their income in bank accounts abroad.

3.6 Other relevant government institutions

A number of other government institutions specifically dealing with OFWs and their remittances are relevant to an understanding of the Philippines context for international remittances:

Executive Order 446, the Migrant Workers and Overseas Filipinos Act of 1995 charges the **Department of Labor and Employment (DOLE)** as the lead agency in the implementation of various initiatives for Overseas Filipino Workers (OFWs), and established a Technical Working Group of banking, labour and other key players to generate related recommendations and actions. The Philippine Overseas Workers Administration (POEA) and the Overseas Workers Welfare Administration (OWWA) are two key agencies attached to DOLE and particularly concerned with OFWs. They aim to promote continued deployment, training and wellbeing of OFWs in host economies.

The Philippine Overseas Workers Administration (POEA) (www.poea.gov.ph) was created in 1982 through Executive Order 797 to promote and to monitor the overseas employment of Filipino workers; its mandate was later expanded to include a range of roles including provision of overseas labour market information, selective deployment, repatriation/ reintegration, and protection of OFW's rights. POEA clients include overseas job applicants, newly hired workers, relatives of migrant workers, victims of illegal recruiters, foreign employers and representatives of private recruitment agencies, among others.

The Overseas Workers Welfare Administration (OWWA)
(http://www.owwa.gov.ph/) is the lead government agency tasked to protect and promote the welfare and well-being of Overseas Filipino Workers (OFWs) and their dependents. It is structured as a single trust fund pooled from the US$25.00 membership contributions of foreign employers, land-based and sea-based workers, investment and interest income, and income from other sources., and its two-fold mandate is to deliver welfare services and benefits, while ensuring capital build-up and fund viability. It provides loans, insurance, scholarships, training, and advocacy among its services.

[11] Under the Bank Secrecy Law (R.A. No. 1405) observing confidentiality of customer information

The **Bangko Sentral ng Pilipinas (BSP)** or Central Bank, in addition to its regulatory role, records national remittance flows, and is involved in other initiatives. One of these is the regional financial literacy campaigns for OFWs and their beneficiaries, an initiative of the BSP, OWWA and other agencies. The goal of these campaigns has been to emphasise the importance of savings and to inform the participants of alternative opportunities for their remittances, such as placements in financial instruments and investments in business ventures. Overall these campaigns focus on encouraging OFWs to "gradually shift the direction of earnings from consumption expenditure into savings and productive investments, and thereby help them achieve financial freedom and contribute to the Philippine economy." (BSP 2006).

Despite the range of government organisations and initiatives available, an Asian Development Bank report notes that there are still concerns with the overall effectiveness of existing government supports and programs provided to migrants; concerns echoes by NGOs working in this area.:

"The concerns affecting migrant workers on departure, overseas, and post arrival are perceived to have a direct impact, or pose actual or potential deterrents, on increased remittance flows…. Job applicants complained of excessive recruitment fees and expenses. Many incur debt, often at high interest, to pay for these expenses…. Pre-departure orientation of migrant workers was perceived to be inadequate, and would be better if started in the migrant's community…. Sea-based workers often complained about the lack of a centralized authority for processing documents, although this is being addressed slowly with the establishment of a one-stop processing centre for seafarers…. Overseas, other problems were noted… Employers often deviated from agreed wage and employment terms…. Workers, particularly those in vulnerable positions such as women and domestic workers, are subject to abuse and exploitation…. The few labour and welfare officers overseas could not adequately service the needs of the thousands of migrant workers. This shortage undermines the Government's ability to deliver much-needed services." (ADB 2004: 54-56)

There are also more generalised concerns about the effectiveness of the institutional infrastructure of the Philippine government. Regional business surveys have placed the Philippines as the most corrupt nation in its region, despite official efforts to curb illegal activity and promote transparency (UNESCAP 2007). In addition, basic issues such as national infrastructure support (e.g. infrastructure inadequacy, leading to ATM machines being frequently offline) signal further concerns on the governance front.

4.0 PROFILE OF REMITTANCE-RECEIVING HOUSEHOLDS AND THEIR DEMAND FOR FINANCIAL SERVICES

This section presents a profile of the remittance-receiving households surveyed in September 2006 and explores their use of and demand for remittance-linked financial services. Both MFI client households and non-client households were surveyed, with comparisons drawn between the two groups. Overall slightly over half (54%) of survey respondents were MFI clients, 46% were not.[12] Respondents were reasonably evenly split between rural and urban households (43% were rural households, the balance urban). The proportion was similar for MFI and non-MFI clients; 42% of MFI clients surveyed were rural, and the balance urban.

The findings of the household profile emphasise the great diversity among the households surveyed: their composition, their socio-economic status, the size of the remittances they receive, and their links to the formal banking sector: with about a third being unbanked, and nearly half with commercial bank accounts. At the same time, there is relatively little variation between the overall profile of MFI client and non-client groups. There are also some clear patterns: most households receive their remittances monthly, and most (but not all) households save – though the amounts vary considerably. These household characteristics have implications for the kinds of services which could be offered to them.

The findings on household demand for remittance-linked financial services are divided into four kinds of remittance-linked services: money transfer services, remittance-linked savings and investment, and remittance-linked lending. A final section briefly reviews some indicated needs for non-financial services. It is argued that the largest opportunities for MFIs lie in the latter three areas of remittance-linked services: savings and investment, lending, and non-financial services.

4.1 Profile of remittance-receiving households

Household Composition and Overall Income

MFI clients overall had a mean household size of 5 people, with an average of two people employed, three income sources, and a mean household income of around Php 33,000 (AUD $881) per month for TSPI clients (less for other MFI clients). However, there was a wide variation in the number of household members and income levels; household income for microfinance clients ranged between Php 9,800 (AUD $262) and Php 87,000 (AUD $2323) per month, and households ranged between two and eleven members.

For Non-MFI households, the average household size was also 5 people, but with only two income sources on average, and an average monthly income of only about Php 25,000 (AUD $668). Again, however, there was a very wide range among households, making it difficult to make confident comparisons between the MFI and non-MFI group. In general, it could be assumed that MFI programs' emphasis on microenterprise

[12] Most MFI clients surveyed (89%) were clients of partner organisation TSPI, however 11% were clients of other MFIs, including cooperatives and rural banks.

development has led to a greater number of income sources, and thus to somewhat higher incomes on average. Yet the specific situations of individual households varied considerably.

Microenterprise

Nearly 90% of MFI client households surveyed in September 2006 had a microenterprise – the great bulk of these being 'self-employing' microenterprises (those that do not employ labour). Given MFIs' focus on microenterprise credit, the large number of microenterprise owners among client households was not surprising. Meanwhile, a much smaller but still significant percentage (24%) of households that were not MFI clients also had a microenterprise. These were also mainly self-employing microenterprises rather than employers of labour.

Remittances

Households on average tended to receive on average about Php 17,000 (AUD $454) per month in 2006 from remittances, with most remittances (87%) being monthly, and a smaller percentage (9%) quarterly. Households also reported the amount of their most recent remittance, which averaged about Php 19,000 (AUD $507). However, these averages disguise the very wide range of amounts reported – from a recent remittance as low as Php 1000 (AUD $27) to as high as Php 100,000 (AUD $2670). While about half of respondents (46%) receive between ten and twenty thousand pesos at a time in remittances, 24% receive smaller amounts, and 18% receive more than Php 25,000 pesos at a time.

There is no obvious distinction between MFI clients and non-clients in terms of the volumes and frequencies of their remittances. Remittance-receiving TSPI clients on average receive about Php 17,000/ month from remittances; other MFI clients, similar or less; and non-MFI clients, Php 19,000 on average. For their most recent remittance, TSPI clients received, again, Php 17,000 on average, and non-MFI clients, 21,000; again, with a large amount of variation among households.

Eighty-eight percent of remittance-receiving TSPI clients surveyed receive their remittances monthly, 8% quarterly, and 3% weekly. Seventy-eight percent of other MFI clients (only nine in total) receive their remittances monthly, the remainder quarterly or rarely. Eighty-seven percent of non-clients receive their remittances monthly, the rest quarterly or rarely. Thus, regardless of whether or not the household is a MFI client, the overall pattern is for monthly receipt of remittances.

Bank Accounts and Savings Behaviour

Commercial bank accounts were fairly common among both MFI clients and non-clients. Of microfinance client households, over half – 51% – also had an account with a commercial bank. These included Metrobank, PNB, BPI, PCI Equitable or other commercial banks. Of non-clients of MFIs, a similar proportion (46%) had an account with a commercial bank, again representing a similar range of banking institutions. These figures suggest that remittance-receiving households in these areas are reasonably well banked in the commercial sector, regardless of whether or not they are MFI clients.

However, at the same time, there are a significant number of households that do not have an account at all, either in commercial or cooperative banks or MFIs. About a third (36%) of non-MFI households stated that they did not have any sort of bank account; and the true number is probably higher, as a few households did not indicate whether or not they held an account. On average, households that indicated they did not have any bank or microfinance account reported a lower average monthly income (Php 21,000) than those who indicated that they did (Php 32,000).

Savings appear to be slightly greater among non-clients of MFIs, despite MFI programs' focus on savings and the slightly lower average incomes of non-MFI clients. On average, TSPI clients report an average household monthly savings of around Php 2000–3000,[13] ranging from no monthly savings to Php 25,000 per month. Other MFI clients saved between 0 to Php 5000 per month. Non-MFI clients on the other hand, reported an average savings of Php 3100–3900* though with a large range of variation – from no savings to about Php 50,000 per month in one case. Overall the main planned destinations for savings were[14]: education (60%), household goods (36%), business investment (33%), emergencies (29%), or housing/ property improvements or purchase (22%).

Meanwhile, savings behaviour (as distinct from amounts saved) was reasonably constant between MFI clients and non-clients, with savings behaviour being slightly higher among MFI clients – particularly TSPI clients. About three-quarters of TSPI clients (76%) and about 73% of MFI clients overall indicated that they saved money regularly; while about 70% of non-clients indicated that they save regularly. Meanwhile, about a quarter of all remittance-receiving households (26%) indicated that they do not save regularly.

4.2 Demand for remittance-linked financial services

Money Transfer Services

Formal bank charges for remittances received by a Philippine bank vary according to bank and the level of service offered. Money transfer agencies offering door-to-door services tend to change somewhat more on average than banks, but these changes tend to be on the sender's end. Most surveyed households indicated that they were not changed to receive remittance transfers, or in some cases, that they did not know

---

[13] The question was asked twice in slightly different ways; both mean scores (rounded) are given here.

[14] Based on 109 households who indicated that they saved regularly, and what they were saving for.

whether they were changed or not. Most households were also unaware of how much the sender was changed to send the remittance.

This suggests that there is not much price sensitivity in the recipient market. Indeed, the 2004 ADB study noted that beneficiary households considered speed in receiving remittances, trustworthiness, and good service the most important criteria (ADB 2004:19). Nevertheless, focus group participants did note that price was sometimes a consideration; for instance that Western Union was fast and easy, but too expensive. Focus group participants also noted that the choice of remittance transfer providers was mostly made by the sender.

The market implications are that lower-cost money transfer services would need to be marketed in the first instance to senders rather than recipients. Yet even here, according to the ADB study, speed, trustworthiness, reliability, and efficient service (rather than price) were cited as the most important criteria for OFWs when choosing how to send their remittances (ADB 2004:19).

The current use of money transfer services among surveyed households was heavily in favour of commercial banks; 68% of surveyed households used commercial banks. 21% used a money transfer agency such as Western Union, and 15% used door-to-door cash services, which may be bank or agency based. Interestingly, 10% of households indicated that their migrant used more than one method to transfer remittances, suggesting that there is a certain amount of flexibility in the choices made by this market. Overall, the preferences of survey respondents were about evenly split between receiving remittances in cash (52%) and remittances paid via direct deposit (57%) – about 9% of respondents indicated they liked both methods.

In general, respondents were well connected to formal money transfer services. Focus group discussions confirmed that in general, commercial banking services were the preference for remittance transfer, although other money transfer organisations offered speed and access on weekends and holidays. Safety/ security, speed/ access to funds, and convenience were highlighted were the key aspects of remittance transfer services, with cost a lesser priority.

Current satisfaction with services was reasonably high, with most respondents being either satisfied or neutral toward the cost, convenience, speed, and security of the services they currently used. A small percentage of respondents indicated that they were dissatisfied with the speed (5%) convenience (3%) or security (2%) of their current service, with several respondents commenting that their remittances were sometimes delayed, and that promptness was valued.

In the focus groups, it was noted that some of the banks take 2-3 days to clear funds, though others (RCBC, Asian Bank) provide immediate release of funds. Access to remittance funds in emergencies was one issue raised in the focus groups; it was noted that Western Union is often used for emergencies, but it is both costly and requires two forms of identification to receive funds. Focus group participants also identified ATMs as a significant problem area: while they are widely available, they are also often offline. Meanwhile, waiting lines for over-the-counter withdrawals are long.

In the 2004 ADB study, beneficiary households in the Philippines identified some key areas for remittance transfer channels to improve: (i) establish low or no maintaining account balance, (ii) speed up receiving remittances, and (iii) offer better exchange rates (ADB 2004:19). In the 2006 focus groups, the maintaining account balance did not appear to be an issue, with banks having developed accounts tailored to the needs of remittance recipients.[15] Meanwhile, the speed of remittances was still an issue in some cases, though delays were not generally long (2-3 days). The exchange rate was not a major area of concern, but given the tendency of some households to wait for favourable exchange rates, this does present some opportunities in the area of foreign currency accounts (see below).

Remittance-linked Saving and Investment Services

Remittance-linked financial services are not limited to money transfer. Indeed, in the Philippines case, the highly competitive money transfer market is already quite well developed and appears to be offering an acceptable level of service. However, Goce-Dakila and Dakila (2006:2) note that in the Philippines, the link between remittances and investment through the banking sector is one area where there is room for development. Having a commercial bank accounts was fairly common among households surveyed – 48% of survey respondents had at least one commercial bank account, microfinance clients and non-clients alike – and information from the focus groups suggests that many commercial bank account holders also have ATM cards. Remittances paid directly into bank accounts were already common. About half of surveyed households were regularly receiving their remittance directly into a bank or MFI account via direct deposit – with most of these households always receiving their remittances in this way, and some combining direct deposit with cash. The great majority of these direct-deposit accounts were at-call counts (96%) rather than investment accounts.

Meanwhile, a similar proportion of remittance-receiving households (52%) were regularly receiving their remittance in cash. Nearly half (46%) of these cash-receiving households indicated that they did not have an account with a bank or microfinance agency, suggesting an untapped market. At the same time, it is important to note that a significant number of households had deposit accounts and yet still received their remittances in cash – at least part of the time. In some cases this income was received in cash and then manually deposited into an at-call account; while in a number of cases,

---

[15] For instance, at Metro Bank, if a travel visa is presented, a client can open an account with only 50 pesos; at PNB, there is a lower service change on remittance accounts.

the income remained in cash and was not deposited. These figures indicate that receiving remittances in cash is often a preference – but that there is also a certain proportion of the market that does not have other alternatives.

Investment accounts were not very popular; ten households overall indicated that they regularly deposited their remittance income into an investment account. This was nearly always held in the name of the recipient. Six of these households received their remittance in cash before depositing it, while four households received their remittance via direct deposit. It may be expected that many migrants would deposit their investment savings separate from the remittances they send to their home households, given that, of remitters surveyed in a 2004 ADB study, 70% maintained their own bank accounts in the Philippines (ADB 2004).

Focus group participants were also asked about their level of interest in specialised savings and banking services such as targeted accounts for housing, education, and business, mobile banking, and foreign currency accounts. Housing, education, and business-specific accounts each interested some of the participants, depending on their demographic characteristics. There was particular interest in short term, affordable housing loans, for instance for house repairs. Banking using mobile phones attracted much less interest because of security issues.

Foreign currency accounts were of interest to a number of the focus group participants; it was noted that some people hold foreign currency in their home while waiting for an improved exchange rate. Others participants said that they receive their remittances in pesos to avoid the necessity of undertaking a separate foreign exchange transaction, with separate documentation required. For those choosing to hold foreign currencies, US dollars and Euros were both mentioned as good currencies to hold value. With the expanded ability of cooperative and rural banks to obtain foreign currency deposit licenses from the Central Bank, these institutions are well placed to offer secure foreign currency deposit services with options to automatically convert funds on withdrawal or when exchange rates reach a specified level.

There was also some interest from focus group in life insurance or even medical insurance, but this interest was very contingent on the cost and coverage of the products offered.

Remittance-linked Lending

While about half of surveyed households had commercial bank accounts, there was very little use of commercial banks' loan products. Focus group discussions confirmed that microfinance organisations, not banks, were the main source of formal loans for this population. This suggests potential market openings for MFIs in the area of remittance-linked lending.

Pre-departure loans were one area with potential for MFIs. About 40% of survey respondents indicated that, were pre-departure loans for migrants available, they would be interested in accessing this service. Similarly, a large number of focus group participant expressed interest in pre-departure loans, particularly if interest rates were minimal. While not everyone borrows to travel abroad, a significant proportion of the market does so: about 37% of surveyed households indicated that they had taken out a loan to finance the migrant's travel overseas.

The bulk of these loans were from relatives – thus, obtained through informal channels. Six households indicated they had taken a loan from a moneylender, and four from a recruitment agency. Interest rates from moneylenders tended to be quite high (e.g. 10% per month). In three cases, a pre-departure loan had been accessed from either a microfinance organisation or a community cooperative. No one indicated that they had used a formal bank for this purpose. These figures indicate that MFIs do not have a large presence in the pre-departure loan market, but that there is potential to offer a loan product here.

Another form of potential remittance-linked lending is business loans that use remittance savings as collateral. As we have seen, some households do use a proportion of remittance income directly for business investment. Could such investments be leveraged through small loans? Surveyed households were asked to indicate if they were interested in such a loan product; 29% of respondents indicated they would like to use such a product if it were available, indicating a modest interest in this product. One issue here would be to distinguish such a product from the business loans already on offer from MFIs.

The idea of offering credit cards was also explored in the focus groups. Some TSPI clients in all three provinces liked the idea, particularly for their businesses, but others feared the high charges, perceived lack of security, and the risk of losing control of expenses and spending 'beyond your means'. None of the non-TSPI clients were interested in credit card services. However, cash advances on remittance accounts were an area of interest. One focus group noted that these cash advances are currently offered by door-to-door money transfer services, at a rate of 10 pesos for every 200 pesos advanced.

4.3 Demand for non-financial remittance-linked services

While the survey was geared to the demand for financial services, in the focus groups, the issue of non-financial services emerged as well, highlighting further needs and opportunities. The key areas were: access to legal advice for OFW and business counseling. Family welfare and well-being issues were also raised in one focus group. This group described a current Catholic Church initiative to assist local families with members overseas to identify and address issues related to family and children's well being when key family members are abroad.

While access to legal and travel advice is provided by the government agencies mentioned in Section 3, only in one focus group did participants indicate that they had accessed this assistance, through POEA (Philippine Overseas Employment Administration). In other focus groups, participants indicated that they were in need of advice and assistance; particularly good legal advice on traveling overseas and support on such issues as workers rights and entitlements, taxes, charges, contracts, and the legality of employment agency practices. One focus group participant felt he had been changed an excessive amount by an employment agency for required medical tests. Another recounted a difficult and expensive experience with an immigration consultant. These experiences correlate with some of the findings of Asis (2005) on the pre-departure experiences of Filipino migrants. These issues suggest that important local institutions such as MFIs could provide a conduit between established migrant-support organisations such as POEA, and local populations who may not be aware of, or able to access, this advice and assistance.

At the same time, a number of focus group participants, both TSPI clients and non-clients, indicated a general interest in business training, while recognising that TSPI already provides some business skills training. There was a sense in the Lucena focus groups in particular that there was a need for more tailored business 'counseling' the address specific businesses' needs, such as 'knowing what to do when there are bad times'. While focus group participants were not specifically asked about financial management skills, this is another area where local MFIs may be able to assist.

5.0 CONCLUSION AND RECOMMENDATIONS

The goal of this country study has been to seek out ways to 'leverage' the development impact of remittances in the Philippines, with particular reference to the role of microfinance institutions. We have seen that the issue of leveraging the development impact of remittances is particularly urgent in the case of the Philippines, where labour export has become a widespread, intentional strategy both for individual households and for the national economy as a whole.

While access to international labour markets offers many opportunities for individuals and their home households and valuable foreign exchange for the national economy, the economic risks and social issues arising from a strong dependence on international labour migration are complex. In the Philippines, however, the presence of strong institutions with an awareness of international migration and its issues provides an important opportunity.

The Philippines has a good research base on international migration; a series of state organisations, NGOs, and specific programs dedicated to migrant well-being; well developed commercial and cooperative banking sectors; sophisticated money-transfer services; and a strong presence of microfinance organisations. There is also evidence of a number of innovative partnerships being formed, particularly around money transfer services.

- At the same time, there are still needs and opportunities, as identified throughout this report. Many of these offer opportunities for MFIs, as well as broader opportunities to leverage the development impact of remittances. They include:
- Financing needs, such as pre-departure credit
- Facilitation needs, to improve migrants' and their households' access to existing support services
- Need for small business advice
- Infrastructure needs, for instance for ATM machines to be reliably online
- Opportunities to develop responsive financial products, such as foreign currency accounts with ease of exchange when rates are favourable
- Savings opportunities, through targeted savings accounts with incentives
- Other 'leveraging' opportunities, for instance:
    - Macro and micro strategies in the Philippines to create better domestic employment opportunities – in order to reduce the high levels of remittance dependence and increase options for workers.
    - Macro and micro strategies in the Philippines to encourage investment of remittances for broader community benefit.
    - Attention to migrant communities overseas and how they might work together to: 1) reduce transaction costs of money transfer and new hires, 2) provide increased mutual support, and 3) provide targeted support to home communities and businesses.

APPENDIX 1: REFERENCES

ADB (Asian Development Bank) (2004): *Enhancing the Efficiency of Overseas Workers' Remittances*. Final report. Manila: ADB. http://adbweb/documents/TARs/PHI/tar-phi-4185.asp

ASHI (Ahon sa Hirap, Inc.) (2004): *"Ahon sa Hirap, Inc. (ASHI)"* Information Pamphlet. Quezon City: ASHI

Asis, MMB (2005): *Preparing to Work Abroad: Filipino Migrants' Experiences Prior to Deployment.* Report. Quezon City: Scalabrini Migration Centre

Battistella, G and MC Conaco (1998): *The impact of labour migration on the children left behind: a study of elementary school children in the Philippines*, *Sojourn* 13(2): 220–241

Bryant, J (2005): *"Children of international migrants in Indonesia, Thailand, and the Philippines: a re BSP 2005 a 2005 Year End Report on BSP Microfinance Initiatives* http://www.bsp.gov.ph/about/advocacies_micro.asp

BSP (Bangko Sentral ng Pilipinas) (2005a): "Overseas Filipino Workers" Web article, http://www.bsp.gov.ph/about/advocacies_ofw.asp

BSP (Bangko Sentral ng Pilipinas) (2005b): *2005 Year End Report on BSP Microfinance Initiatives.* Manila: BSP

BSP (Bangko Sentral ng Pilipinas) (2006): *"BSP Launches Sixth Financial Literacy Campaign for OFWs and Beneficiaries"*. Media Release, 10.04.2006

Burgess, R. and V Haksar (2005): "*Migration and Foreign Remittances in the Philippines."* IMF Working Paper WP/05/111, Washington, DC: International Monetary Fund

Carling, J (2004): *"Policy options for increasing the benefits of remittances",* Paper presented at Workshop B9: Remittances and Development: beyond increasing incomes at the Ninth International Metropolis Conference, Geneva, 27/09—01/10

De Bruyn, T and U Kuddus (2005): *"Dynamics of remittance utilization in Bangladesh"* IOM Migration Research Series, Geneva: International Organization for Migration

FDC (Foundation for Development Cooperation) (2007): *"Policy and Regulatory Framework for Remittance – Philippines",* Brisbane: The Foundation for Development Cooperation

Gamburd, MR (2000): *Transnationalism and Sri Lanka's migrant housemaids: the kitchen spoon's handle.* Ithaca and London: Cornell University Press

Goce-Dakila, C and FG Dakila, Jr (2006): *"Modelling the Impact of Remittance.",* BSP Working Paper Series, Manila: Bangko Sentral ng Pilipinas

Grameen Foundation "Ahon sa Hirap, Inc. (ASHI)" Where We Work: Online Document.
http://www.grameenfoundation.org/where_we_work/east_asia/the_philippines/ashi

Huang S, BSA Yeoh, and MMB Asis (2003): "*Filipino Domestic Workers in Singapore: Impacts on Family Well Being and Gender Relations"* Ad Hoc Expert Group Meeting on Migration and Development, Economic and Social Commission for Asia and the Pacific, August, Bangkok

IOM (International Organization for Migration) (2003): *Labour migration in Asia: trends, challenges and policy responses in countries of origin*. Geneva: IOM.
http://www.iom.int/jahia/Jahia/cache/offonce/pid/1674?entryId=9598

MCPI (Microfinance Council of the Philippines) (2004): *"About the Council"*.
http://www.microfinancecouncil.org/aboutus.htmhttp://www.microfinancecouncil.org/aboutus.htm

MCPI (Microfinance Council of the Philippines) (2006): *Philippines Country Profile on Microfinance*. Manila: MCPI. http://www.microfinancecouncil.org/resources.htm

Mellyn, Kevin (2003): *Workers Remittances as a Development Tool: Opportunity for the Philippines*. Manila: ADB

MWOFA (1995): *Migrant Workers and Overseas Filipinos Act.* Executive Order 446, Manila: The President of the Philippines

NSCB (Philippine National Statistical Coordination Board) (2007a): *"Provincial Stat Watch: Regional Division 1, Region 1, Ilocos*" http://www.nscb.gov.ph/ru1/provwatch.htm

NSCB (Philippine National Statistical Coordination Board) (2007b): *"A View of the Philippines"*, online publication. http://www.nscb.gov.ph/view/

Owens, JV (2006): *"Text-A-Deposit: Expanding Mobile-Phone Banking to include Savings Services".* Microenterprise Access to Banking Services (MABS). Online article: The Microfinance Gateway, Practitioners' Corner
http://www.microfinancegateway.org/resource_centers/savings/practitioners/_text_a_deposit

PBSP (Philippine Business for Social Progress (2005): *"Market Study for the Remittance Service of TSPI Development Corporation"*, Makati City: TSPI

POEA (Philippine Overseas Employment Administration) (2006*): "OFW Global Presence, A compendium of overseas employment statistics 2006"*, http://www.poea.gov.ph/

POEA (Philippine Overseas Employment Administration) (2001) "Overseas Filipino Worker Foreign Exchange Remittances 1984-2000". Overseas Employment Statistics. Information Centre, http://www.poea.gov.ph/Stats/st_remit84-2000.html

Pratt, R (2003): "*Money Transfer Market Survey – Philippines*". Report. Opportunity International Technical Services Division. Oak Brook, Illinois: Opportunity International

Puri, S and T Ritzema (1999): *"Migrant Worker Remittances, Micro-finance and the Informal Economy: Prospects and Issues"* ILO Working Paper Number 21. Geneva: International Labour Organisation

Rodriguez, ER (1998): *"International Migration and Income Distribution in the Philippines"*, Economic Development and Cultural Change 46(2):329-350

Salazar Parreñas, R (2002): "The care crisis in the Philippines: children and transnational families in the new global economy", in B Ehrenreich & A Russell Hochschild (eds), *Global women: nannies, maids and sex workers in the new economy*. London: Granta Books

Semyonov, M and A Gorodzeisky (2005): *"Labor Migration, Remittances and Household Income: A comparison between Filipino and Filipina Overseas Workers"*, The International Migration Review 39(1):45-68

Stenner, S (2005): *"Project Definition Report".* Remittances Project, Opportunity International/TSPI/TSKI. Oak Brook, Illinois: Opportunity International

TSPI ("Tulay sa Pag-unlad Inc.") Development Corporation (2006): *"Organisational Profile",* Makati City: TSPI

UNESCAP (United Nations Economic and Social Commission for Asia and the pacific) (2007): *"Philippines Briefing Note",* For the Launch of the Economic and Social Survey of Asia and the Pacific 2007. http://www.unescap.org/survey2007/notes/philippines.asp

APPENDIX 2: MFI CASE STUDIES

This appendix presents case studies of three Philippine MFIs, all members of the Microfinance Council of the Philippines, and interviewed during fieldwork in September/ October 2006.

The MFI case studies below highlight the limited involvement of Philippine MFIs in the remittance market, at the same time as their awareness of issues and their interest in exploring the possibilities. In two cases, TSPI and CARD, some preliminary work has been done to tap into the remittance market.

Each of the following case studies is organised into five parts:

1. Services offered by the MFI
2. Outreach
3. Indicators and Impacts
4. Remittance Links, and
5. Opportunities in the Remittance Market

Case Study 1
TSPI Development Corporation

TSPI ("Tulay sa Pag-unlad Inc.") Development Corporation is an NGO established in 1981 with headquarters based in Makati City and a network of 67 branches in Luzon. The organisation's name means Bridge to Progress, which signifies the developmental vision of the organization to provide the poor with opportunities to lead self-sufficient, dignified and responsible lives. TSPI promotes the development of micro and small entrepreneurs through a broad range of financial and complementary services harnessing potential for income generation and capacity building. (TSPI 2006).

Services

TSPI offers clients both financial and complementary services through the following programs:

TSPI Kabuhayan Program (TKP) – The TKP is TSPI's flagship program in helping poor women entrepreneurs work their way out of poverty. The program provides women with a micro-credit facility that is secured through group guarantee. TKP 1 loans range from Php 500-20,000, TKP2 loans from Php 20,000 – 50,000. There is a compulsory savings component for members, and the TKP Program also includes micro-insurance benefits.

ASA (Association for Social Advancement) Program – The ASA program targets both poor women and men micro-entrepreneurs, and also involves group membership, but with individual responsibility for loans. Loans are secured through guarantors and range from Php 1000 – 50,000. The ASA Program also includes micro-insurance benefits.

Small Enterprise Development Program (SEDP) - This program caters to the needs of tricycle drivers and operators and other small enterprises. The program provides credit for the purpose of tricycle purchase and for business expansion and job creation, and includes the Individual Loan Assistance Program (ILAP), with loans from Php 50,000 - 300,000. Loans are secured by collateral.

TSPI Palayan (Rice Farm) Program (TPP) – This program offers loans, technical assistance, and micro-insurance (including crop insurance) to male and female rice farmers, utilising a group guarantee for loans at Php 20,000 per hectare.

Training Programs – TSPI training programs for clients provide leadership training, voluntary values education (e.g. work ethics; family life enrichment) and business skills enhancement. TSPI also provides Microfinance Training for other institutions.

Outreach

As of January 2006, TSPI had an outreach to 152,964 clients, 99% of whom are poor women, in both rural and urban areas of Luzon (north, central and south). Average loan size of Php 7,810, and as of January 2006 the loan portfolio stood at Php 545,333,458.90 million.

Indicators and Impacts

TSPI enjoys a high repayment rate (about 99.1%) operational self sufficiency of 123.4%, and financial self sufficiency of 113.9%. The organisation aims to generate positive impacts for clients (especially, increased income to increase household standard of living). It also generates impacts for the Philippine microfinance industry as a whole through its training and advocacy work. TSPI was instrumental in the development of the Philippine Coalition for Microfinance Standards and is one of the lead conveners of the Microfinance Council of the Philippines.

Remittance Links

TSPI has no remittance-linked products, but it has conducted significant market research into the characteristics and service needs of remittance-receiving households among its clients. TSPI was also a participant in the pilot 'Opportunity Card' program in 2005. A significant proportion of current TSPI clients – over a quarter in the 2005 market study – receive remittances from overseas.

Opportunities in the remittance market

- TSPI has been proactive in exploring opportunities in the remittance transfer market.
- Funds transfer is a competitive market but there may be opportunities here if faster/ more convenient services can be developed, particularly for rural clients. The large number of TSPI clients with friends and/or relatives who are remittance recipients suggests that a good product would have a broad market. There is also potential to link remittance disbursements with other services. This is discussed further below in the context of the fieldwork findings.
- Regulatory limitations on savings capture and development of investment product by NGOs mean that there is not currently scope for development in this area unless the organisation elects to become a bank; however, there are concerns with losing the organisation's mission and vision if this path is

taken. Thus, a proposal to pursue becoming a bank was not approved by the Board.

- TSPI is in a good position to offer business training and enterprise loans of various sizes for either remittance recipients or returnees. TSPI also holds a license to operate its own insurance company, which may be a further source of opportunities.

Case Study 2
ASHI (Ahon sa Hirap, Inc.)

Ahon sa Hirap, Inc. works to help its clients – women from depressed and marginal areas (both rural and urban) – 'rise above poverty', using the Grameen Bank Approach. ASHI was established as an action research project in 1989 and was registered as an NGO two years later. (ASHI 2004)

Services

Loans via a group methodology to fund livelihood activities for women. Loan sizes vary from an initial amount of Php 5000 to as high as Php 50,000 depending on length of time in the program (ASHI 2004). As part of their Grameen-based approach, ASHI also conduct social development and leadership development activities, as well as micro-enterprise training. In addition ASHI also provides special loans (for education, house repair and market day loans).

Savings – group savings funds which can be accessed by members for emergencies, voluntary personal savings, and voluntary children's savings.

Micro-insurance – Kabalikat Microinsurance Savings benefit.

Outreach

Outreach is both rural and urban, in three provinces, and in Metro Manila. This NGO targets very poor women, with 12,100 active clients as of December 2006, and a total loan portfolio of USD $1,838,486 (Grameen Foundation nd). ASHI has 11 branches and 428 centres located in Laguna, Rizal and Antique provinces, and also including two urban branches in the National Capital Region.

Indicators and Impacts

A 2000 impact evaluation found positive impacts for clients in terms of improved poverty status (e.g. movement from Very Poor to Moderately Poor), improved assets, housing, and income as well as improved confidence and skills among clients (ASHI 2004).

Remittance Links

ASHI provides no specific remittance-linked services. However, **former OFWs** are about 1% of ASHI's clients, and this experience has drawn their attention to particular issues that may face returnees. Transition back to the Philippines culture is sometimes a challenge. ASHI have had experience providing assistance to a group of women who previously worked in Japan as dancers and whose lifestyle and working experiences were very different to those they encounter now, leading to social isolation and economic difficulties.

Remittance recipients are among ASHI's clients, though this has not been quantified. Clients generally receive remittances through banks. ASHI representatives expressed concern about the social costs of migration and the potential impacts to a household if remittances stop, particularly when funds are not managed well ('big spending, living one day at a time').

The relationship between remittances and microfinance for ASHI clients *may* include:

- using remittances to pay off their microenterprise loans (about 60% of first stage loans are being paid off by means 'other' than from the business itself, this could include remittances)
- using remittances as start-up money for microenterprises
- using remittances as a reason not to continue with an existing business/ and to leave the microfinance organisation

<u>Opportunities in the remittance market</u>

- ASHI recognise that this is an area of interest for many MFIs.
- They have not become involved in remittance-linked services.
- Internet based interactive banking has been trailed elsewhere, but they see risk in taking this to the villages (where ASHI's clients are mostly located).
- Current/ potential areas of work are

1) support for transition and business startup for former OFWs
2) potentially, financial management assistance for remittance recipients

Case Study 3
Center for Agriculture and Rural Development, Inc. (CARD)

CARD was founded in 1986 as a social development organisation to assist landless rural women. The Landless People's Development Fund, based on an adaptation of the Grameen Bank model, was launched in 1990. In 1997, CARD applied for and received a license to operate as a rural bank, becoming the first microfinance NGO to transform into a formal financial intermediary. CARD is now structured as a group of Mutually Reinforcing Institutions (MRIs): the CARD NGO, the CARD Bank, the CARD Mutual Benefit Association (MBA), the CARD MRI Development Institute (CMDI), and CARD Business Development Services (BDS), as well as a housing program that is under development (see http://www.cardbankph.com/).

Services

CARD Bank is a microfinance-oriented rural bank offering credit and savings services in the provinces of Laguna, Quezon, Masbate, Mindoro and Marinduque. There are three loan products: the regular loan, the emergency loan, and the housing loan. Most loans are based on group guarantee, although individual loans are being pilot-tested. Members make compulsory contributions which can be invested in stock or kept as interest-bearing savings. CARD bank also accepts deposits from the general public.

CARD NGO is a microfinance NGO that offers training, credit programs, members' savings mobilisation and micro-insurance (the latter through CARD MBA). Training covers the areas of livelihood projects, business development, and credit association management. Credit products are microenterprise loans between Php 5000 and Php 150,000, and consumption loans between Php 2000 and Php 10,000.

CARD MBA offers micro-insurance services, primarily life insurance.

CARD MRI Development Institute offers a range of training services for staff, clients and others, including a Master's Degree in Microfinance Management

CARD BDS has been piloting a range of business development services to support enterprise growth.

Outreach

As of December 2006 CARD Bank had 52,747 active borrowers across 12 branches with a total portfolio of Php 340.3 million. CARD NGO had 178,384 active borrowers across 220 branches and a portfolio of Php 784.3 million.

Overall, CARD MRI served 300,487 clients in 2006 in 232 branches, with 247,782 active borrowers. CARD's target clients are landless poor women who meet poverty criteria in terms of income, housing and assets.

Impacts

CARD bank and CARD NGO have achieved both operational and financial self-sufficiency; CARD Bank has operational self sufficiency of 110.9%, financial self-sufficiency of 107.9%, with a repayment rate of 96.82% and portfolio yield of 47.91%. CARD NGO has operational self-sufficiency of 120%, financial self-sufficiency of 108%, a repayment rate of 99% and portfolio yield of 51%. CARD aims to positively impact the livelihoods of rural landless women.

Remittance Links

CARD has recently entered into an arrangement with the Philippine bank Banco De Oro to offer a money transfer services and accounts targeting remittance-receiving households. This is a new program, still very small at only about 20 accounts. However given that many of their clients have an OFW in the family and are located primarily in rural areas without banks, this service is seen as having good potential.

Opportunities in the remittance market

CARD is interested in expanding the awareness of their money transfer and account services for remittance-receiving households. They see that they can offer these services at low cost and that having access to this services avoids the need for rural clients to travel to banks.