ASIAN DEVELOPMENT BANK

PHI:4185

TECHNICAL ASSISTANCE

FINAL REPORT

ENHANCING THE EFFICIENCY OF OVERSEAS WORKERS REMITTANCES

July 2004

ABBREVIATIONS

ABROI	-	Association of Bank Remittance Officers, Incorporated
ADB	-	Asian Development Bank
AML	-	anti-money laundering
AMLA	-	Anti-Money Laundering Act
AMLC	-	Anti-Money Laundering Council
APPEND	-	Alliance of Philippine Partnerships for Enterprise Development
ATM	-	automated teller machine
BSP	-	Bangko Sentral ng Pilipinas
BPI	-	Bank of the Philippine Islands
CFO	-	Commission on Filipinos Overseas
DFA	-	Department of Foreign Affairs
DFID	-	Department for International Development (of the United Kingdom)
DOLE	-	Department of Labor and Employment
DST	-	documentary stamp tax
DTI	-	Department of Trade and Industry
EPCS	-	Electronic Peso Clearing and Settlement
FAO	-	Filipino associations overseas
FATF	-	Financial Action Task Force
FX	-	foreign exchange
FDI	-	foreign direct investment
GSIS	-	Government Service and Insurance System
IADB	-	Inter-American Development Bank
ILO	-	International Labour Organization
IMF	-	International Monetary Fund
LGU	-	local government unit
MFI	-	microfinance institution
MIF	-	Multilateral Investment Fund
MSB	-	money service business
MTO	-	money transfer office
NATCCO	-	National Confederation of Cooperatives
NCR	-	National Capital Region
NGO	-	non-government organization
NSO	-	National Statistics Office
OFW	-	overseas Filipino worker
OFW-IMC	-	Overseas Filipino Workers-International Management Corporation
OWWA	-	Overseas Workers Welfare Administration
PCHC	-	Philippine Clearing House Corporation
PDOS	-	Pre-departure Orientation Seminar
PNB	-	Philippine National Bank
POEA	-	Philippine Overseas Employment Administration
PRC	-	People's Republic of China
RA	-	Republic Act
RBAP	-	Rural Bankers Association of the Philippines
RCBC	-	Rizal Commercial Banking Corporation
SAR	-	suspicious activity report
SEC	-	Securities and Exchange Commission
SME	-	small and medium enterprise
SSS	-	Social Security System
TESDA	-	Technical Education and Skills Development Authority
UN	-	United Nations
UOB	-	United Overseas Bank
US	-	United States

NOTE

In this report, "$" refers to US dollars.

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EXECUTIVE SUMMARY

A. Introduction

1. Migrant remittances represent the most direct, immediate and far reaching benefit to migrants and their countries of origin. They are a more constant source of income to developing countries than official development assistance, foreign direct investment and other private flows. The emergence of remittances as a new strategy for poverty alleviation in developing countries has spurred multilateral institutions, international organizations, foundations, universities and national governments, including the Asian Development Bank (ADB), Inter-American Development Bank (IADB), International Monetary Fund (IMF), World Bank, IMF, and the United Nations (UN), among others, to seriously study, identify and implement measures on how these inflows could be maximized and then harnessed for the development of migrants' countries of origin.

2. The number of people living outside their countries of birth is now estimated at about 175 million and they contribute to the development not only of their countries of origin, but also to their host countries. They make meaningful contributions to the countries where they work by providing labor in areas of short supply or in certain types of work which locals would not occupy, and as consumers and taxpayers. They regularly send back part of their income for the basic needs of their families and contribute to urgently needed humanitarian causes and socio-economic projects in their communities of origin. In the meantime, the debate intensifies on both the positive and perceived negative effects of migration.

3. Without detaching itself from these migration issues, the study takes the perspective of remittances, as a clear source of capital and resources that have impacted, and will probably continue to impact in the coming years, on the development of millions of households in the Philippines, a major labor sending and remittance-receiving country. The data and insights that may be offered by the study, possibly the first in-depth report of its kind by any institution on Philippine remittances, should be useful for policy makers in government, the private sector and multilateral and international agencies, in improving not only the flows, but also harnessing these remittances for their strategic use in areas and sectors where they are urgently needed.

4. The main objectives of the study on enhancing the remittances of Overseas Filipino Workers (OFWs) are: a) to review the flows of remittances and b) identify constraints in the policy, regulatory and institutional framework that impact these flows. The study will then develop proposals to address the identified problems and constraints with the goal of:

(i) Possibly increasing remittance volumes;
(ii) Facilitating the shift from informal to formal channels; and
(iii) Where applicable, encourage the use of remittance proceeds for sustainable poverty reduction.

5. Market surveys and focused group discussions were conducted in the Philippines and two major remitting countries, Singapore and the United States (US), in order to obtain a profile of Filipino remitters and their beneficiaries, the factors that influence their remittance behavior and use of remittances, their savings and investment practices, and their receptiveness to contributing to the development of their communities of origin. Interviews were conducted with various stakeholders such as government agencies, banks, private remittance agencies, and regulatory agencies in the Philippines and overseas, community-based financial institutions, non-government organizations (NGOs) and Filipino associations overseas (FAO).

B. Highlights of the Market and Banking Study

1. Profiles and Remittance Behavior of Overseas Filipino Workers

6. Some 80% of respondents were regularly remitting through the banking channels. Like migrants of other countries, they rated speed, trustworthiness, reliability and efficient service as the most important factor in selecting remittance modes.

7. About 9 out of 10 say that they are able to save either in banks or through personal hoarding, with 70% maintaining bank accounts in the Philippines, and 52% with an automated teller machine (ATM) being used for their payments or remittance. In Singapore, where more than half of respondents were in domestic work which typically paid low wages, 80% stated they are able to save, and almost half indicated that they keep their savings in Singapore banks.

8. There is quite a large percentage of respondents, 41% in the nationwide Philippine survey, and 49% in Singapore, who had to borrow money to pay for recruitment expenses. A fairly large percentage of 19% said they borrow money even while working overseas. These debts which are normally incurred at heavy interest, affect remittable amounts.

9. The average amount of remittance sent is $340. Monthly remittances had a range of from $205 to $524.

10. Some 26% of respondents were aware of Filipino associations or NGOs to whom they contribute or donate. A high 61% indicated that they are interested in contributing to the development of their communities.

11. Beneficiary household decision makers allocated their remittance income to food, utilities and other expenses for household operations, personal care and effects, communications and transportation. In terms of value, however, monetary allocations were highest for food consumed at homes and education. It is noted however, that aside from household expenses, allocations for fiestas and expenses for special occasions were also observed.

2. Remittance Trends

12. There is vibrant competition in the remittance market between the Philippines and remitting countries. With the entry of more players including non-traditional ones such as credit unions and cooperatives and of new technology-based products, remittance costs which are already quite reasonable, could still be pushed down, and should also increase the share of the formal sector in the remittance flows.

13. There is a convergence of services offered by Philippine banking institutions, licensed non-bank money transfer agencies, courier companies and ethnic stores acting as agents for banks in an industry characterized by partnerships, alliances or tie-ups and revenue sharing among different players in the remittance market. Banks have adopted the marketing, and promotional features that have endeared Filipino remitters to informal remittance agencies, such as door-to-door or courier services. With the help of technology and marketing coupled with the reliable image of a banking institution, banks have managed to reduce costs to levels that may be considered competitive with informal transfer agencies.

14. The study indicated a high percentage (80%) of Filipino remitters channeling their remittances through the banking or regulated channels. Because of the greater availability of

products that are safe and reliable, sending through unregulated channels is observed by most industry players to have been reduced, possibly due to the greater availability of services and products that are considered reliable, safe and cheap. The exception is in those cases where there is an inadequate number of banks or remittance agencies accessible to migrant workers or recipient households or when workers personally bring cash home as their contract periods are short. Culture, convenience, and the need to maintain anonymity especially in the case of irregular workers, likewise influence remittance behavior.

C. Conclusions and Recommendations

1. High Licensing Costs/Restrictive Banking Laws

15. The Philippine government should take bilateral initiatives for the opening of remittance windows for Philippine banks or remittance entities in host countries with large numbers of Overseas Filipino remitters, such as in the US, Italy, Spain, Saudi Arabia and other Middle Eastern countries as this could enhance competition, drive costs further down and encourage more remittances through the formal sector.

2. Irregular Workers

16. A solution must be found to enable millions of OFWs (as well as those of other nationalities) with irregular status in major remitting countries, to have access to banking or other formal remittance facilities. Lack of banking access drive these workers to use unregulated remittance channels. Serious consideration could be given by US authorities to the proposal to accept identity cards issued by Philippine consular officials as acceptable identification for opening US bank accounts, similar to the Mexican matricula cards. Regulations in remitting countries could be liberalized in order to allow Filipino banks, through their overseas offices or through money transfer agencies, to facilitate the introduction of Philippine-based savings and investment products, or the opening of Philippine-based accounts for remittance beneficiaries.

3. Anti-Money Laundering /Financial Action Task Force Compliance

17. Compliance with Anti-Money Laundering (AML) requirements has added incremental costs to banks and remittance agents of banks in remitting countries. The inclusion of the Philippines in the list of non-cooperative countries by the Financial Action Task Force (FATF) may also have an adverse effect on Philippine banks and remitters in terms of more rigorous scrutiny on banking and remittance matters. More dialogues should be held between the Philippines and FATF officials to address gray areas in implementation and hasten the lifting of the Philippines from the non-cooperative countries list.

18. Participation in the Philippine AML Council could be expanded to include the private banking sector, informal remittance practitioners and even non-bank foreign exchange dealers. While the Bangko Sentral ng Pilipinas (BSP) is considering the various options and proposals for the registration and monitoring of non-bank money exchange and remittance agencies, it may be useful to include such agencies in dialogues and discussions at this early stage. Many in the banking industry have complained about an unfair competition situation in the remittance and foreign exchange market between banks and non-bank entities, in the application of Anti-Money Laundering Act and foreign exchange rules.

4. Remittance Cost Reduction

19. Door-to-door operations add an incremental cost of at least $2.00 to remittance price, aside from being unsafe. Given the archipelagic nature of the Philippines and the absence of development in many areas, the door-to-door system will continue to be used unless problems of interconnectivity are addressed which affords greater participation of community-based institutions such as rural banks, cooperatives and microfinance institutions, as well as postal offices, in the provision of remittance and other financial products and services to migrants' beneficiaries.

20. Establishment of online remittance systems and straight-through processing enhances remittance systems and results in significant cost reduction. Institutions that may wish to have the capability but are hampered by the huge investments required, might be encouraged to upgrade their systems by opening a window for financing alternatives, preferably in local currency, or providing other incentives such as a rating system for operational efficiency.

21. The initiative to extend the US Federal automated clearing house (ACH) for US payments to the Philippines might be actively considered given its potential to drive remittance costs down. However, the key issue to be resolved has to do with ensuring equitable opportunities for banks to participate in revenue earnings from foreign exchange transactions, their main source of revenues on remittance transactions, and of course, the technical and financial readiness of local banks. Interconnectivity issues from other remitting countries might also be included in future studies.

5. Increasing Remittance Volumes

22. The flow of remittances is influenced by the fluctuations in the demand for Filipino workers in overseas markets, competition from migrants from other countries, labor nationalization laws and economic recession in host countries, and job credential issues that downgrade migrant wages. The Philippine government could respond to these issues by upgrading the quality of preparatory education augmented by special skills training, identifying new labor markets (provided they do not endanger worker's welfare), and negotiation with host governments for the proper accreditation of workers' academic and work experience.

6. Enhancing Efficiency of Government Overseas Deployment System

23. Centralization through electronic means of the different databases among agencies involved in the overseas deployment system could improve not only the exchange of vital information on migrant stocks and flows, improve communications between home agencies and overseas offices but also the authentication of various documents needed to process applications, and other services that enhance not only the deployment process but also save both government and migrants money and man-hours. It could also serve as a central portal for information by migrants on available programs and services existing not only with government but also with private agencies on livelihood, skills training, counseling, credit access, and other valuable resources for the reintegration of returned migrants. Funding agencies and multilaterals may seriously consider studying and supporting such projects.

24. The Pre-departure Orientation Seminar (PDOS) that is being conducted under the auspices of the Philippines' Overseas Workers Welfare Administration (OWWA) offers opportunities for offering financial literacy and the culture of savings among OFWs, despite its

limitations, with financial, banking and livelihood specialists being given a more prominent role in handling financial literacy subjects.

25. The difficulty in obtaining reliable information from government agencies due to imprecise information in application forms should be addressed through systematic and purposeful recording of information from the public which transacts business with these agencies, such as the Securities and Exchange Commission (SEC), the Department of Trade and Industry (DTI), the Philippine Overseas Employment Administration (POEA), and the various local government units which grant business permits and the improvement of interconnectivity and management information systems among these agencies. Better recording and disaggregation of data are key to enhancing information systems which could also improve the recording of remittance flows.

7. Leveraging Remittances for Development

26. The fact that two-thirds of OFWs originate from the provinces or the countryside strongly suggests that the role of community-based financial or economic institutions such as rural banks, thrift banks, cooperatives and microfinance institutions in linking remittances to development be enhanced to allow them greater participation in the delivery of remittance and entry-level financial products and services to beneficiary families.

27. Windows for funding or institutional support could be opened to encourage initiatives by NGOs or microfinance institutions to give OFWs or their family members access to programs on savings mobilization, investments, credit access, or enterprise development in migrants' communities of origin, or in the areas of new products development and capability building of microfinance institutions, among others. Lessons could be learned from the IADB's Multilateral Investment Fund (MIF) programs, particularly on leveraging remittances through enterprise development and capability building for NGOs engaged in service delivery to migrant families.

28. Benevolent and economic activities by FAOs is an area that should be given serious attention by the Philippine government given the actual and potential huge inflows from this sector going to development projects in the Philippines. A study could be separately made to determine whether their contributions in money or commodities could be enhanced through meaningful incentives, the facilitation of bona fide donations in order to attain better economies of scale through a more organized pooling of resources. The Government through an existing structure - the Commission on Filipinos Overseas, as well as Filipino NGOs and foundations, have ongoing programs that could be enhanced through technical assistance. Multilateral agencies might also consider study and support for matching funds with amounts donated by these overseas associations for greater capital buildup.

29. More effective reintegration programs that will assist returning overseas workers in their return to the Philippine work force, must be provided by OWWA which administers the OFW welfare fund. On the other hand, programs on savings mobilization and enterprise development initiated by NGOs could be assisted by multilaterals through technical assistance to fund a focused study on reintegration and support initiatives of networks of reintegration groups or others that render vital psycho-social services to migrant workers.

30. The Philippine system of incentives in the form of tax exemptions and property privileges to expatriate capital must be evaluated with the view to reviewing not only their impact on local economic development, but also their ability to attract serious and long term productive

investments from overseas Filipinos such as in small and medium enterprises, or the transfer of acquired skills and technologies.

31. The effects and implications of the Dual Nationality Act on former Filipinos should be fully discussed between policymakers and overseas Filipino communities and may go hand in hand with programs supporting the initiatives of local governments on generating domestic and foreign investments in their respective communities. If properly designed and implemented, bonds issued by local governments and guaranteed by their internal revenue allotments, may be a potential vehicle to fund important public infrastructure such as farm-to-market roads, post harvest and refrigeration facilities, among others, that impact favorably on countryside development.

32. With predictable flows of more than $7 billion per annum from Filipino workers remittances, there exist opportunities to securitize these flows for developmental initiatives. Several foreign banks based in the Philippines have been offering securitization transactions to local banks, multilateral institutions and the government using dollar flows from overseas workers remittance flows as the subject of securitization. Credit enhancements could be provided by multilateral institutions to achieve desired investment grade ratings. Microfinance institutions or local development projects could be the targeted areas of investments.

8. Regional Cooperation

33. Both migrant origin countries and host countries are key stakeholders in labor migration. Countries of origin find more labor markets for its migrant workers to increase potential remittances, while host countries need migrant labor to fill labor shortages and enable its local work force to shift to other productive occupations. Hence it is in the interest of both host and origin countries to address issues and concerns on remittances, irregular workers, illicit trafficking of migrants, downgrading of terms of employment and academic credentials of migrant workers, and other core migration issues and concerns, through bilateral initiatives within the ambit of regional economic groupings such the Association of South East Asian Nations (ASEAN) or Asia Pacific Economic Cooperation (APEC), whose membership includes both host and origin countries. As a major development agency in the Asian region, the ADB could lend its technical assistance in supporting studies as well as sponsoring conferences and dialogues on remittance and migration issues, even in the identification of potential best practices within the region.

D. Structure of the Report

34. Chapter I immediately points to the importance and stable quality of remittance flows as a basis for serious consideration as a development tool. Migrant literature is examined to show the current focus of activities by international and multilateral organizations in enhancing remittance flow and linking them to development. Chapter II contains a general and disaggregated definition of remittances, the universe of remitters and a clarification on the meanings of formal, informal and unregulated channels as used in the study. Chapter III simply states the objectives of the study, the assumptions made that formal remittance flows afford greater opportunities for leveraging remittances than informal or unregulated flows, and explains the reasons for selecting Singapore and the US as the countries of study. Chapter IV briefly examines some of the major issues regarding migration, all of which impact on the flow of remittances and their use by migrants and their families. Chapter V contains statistics on migrant flows, stocks, important characteristics of Philippine migration, as well as flows of remittances and the major sources of remittances.

35. Chapter VI discusses the socio-demographic profiles of remitters, remittance and savings behavior as well as spending habits, and their attitudes towards community development, a more detailed presentation being in Volume II of the report. Chapter VII discusses the various players in the Philippine remittance market, the factors that affect remittance choices, based on survey results and extensive interviews of major industry players among banks and non bank transfer agencies. This chapter also contains interesting estimates on the volumes of informal remittances, and comprehensive pricing structures of various remittance products. It discusses the trends and characteristics of the current Philippine remittance industry, which features partnerships, alliances and revenue sharing among banks, money transfer agencies and agents. It also clarifies the term ”padala” which is more of a practice than a system, and the context in which it is used as a remittance mode.

36. Chapters VIII and IX contain the detailed studies on the legal, banking and regulatory environments in the Philippines, Singapore and the US, formal and informal transfer agencies and how they affect banking and non banking remittance services, Philippine payments systems, a discussion on the issues such as AML, costs, taxation and other concerns and how all these affect bank and non-bank remittance procedures and remittance costs. The US portion describes the current legal environment on banking and remittances, state regulation of money service businesses, and anti-money laundering issues. The portion on Singapore briefly describes the Singapore remittance environment and its efforts in liberalizing its financial system and money transfer agencies. Chapter X is a section devoted solely to a discussion on the recording system of remittances by the BSP, the Philippine central banking authority.

37. Chapter XI introduces the reader to developments in the remittance industry. It contains a listing of new players, new technology based products and the companies behind them, and projections on future drivers of remittance mechanisms. Chapter XII is about the all-important and challenging issue of leveraging flows for development. It focuses on key areas - enhancing government systems, community based financial institutions such as cooperatives, microfinance institutions and rural banks, Filipino hometown associations and NGOs where remittance leveraging initiatives could be based. It also briefly describes mandatory remittance schemes - when it works, as in the case of Korea, and when it doesn’t, as in the case of the Philippines. It lists various Philippine laws and policies designed to attract overseas Filipinos to save, spend and invest their earnings in the Philippines, including an explanation on the rationale of the Dual Nationality Law, which addressed a legal technicality that may have prevented overseas Filipinos from helping their country in the past. It mentions emerging good practices on leveraging remittances not only on the part of two Filipino NGOs, but also government initiated programs on housing and social security for migrant workers which are also in effect, savings schemes. The chapter contains some new trends relating to the entry of new players to the remittance market such as cooperatives and credit unions, the E-card, an all purpose workers and remittance card issued by the Philippine government in partnership with a Filipino bank, and plans of the Philippine Postal Bank to engage in money transfers using postal offices. Chapter XIII is a section devoted to the discussion of the legal, regulatory and practical barriers that serve to hinder remittance flows to the formal sector.

38. The last Chapter XIV contains the conclusions and recommendations.

I. INTRODUCTION

1. Migrant remittances represent the most direct, immediate and far-reaching benefit to migrants and their countries of origin. Despite the social and other costs, a great number of families of migrant workers, particularly those in the low-income sectors, rely on remittances as the major, if not the main or primary source of funds to answer for their basic or daily needs, enabling them as well to acquire a house, fund the education of children, pay for medical or health needs, and to put away a part for savings or investments in some small enterprise—some or all of which may not have been possible if there was no migration. Apart from the reduction of unemployment, foreign exchange earnings earned and sent by its overseas workers is clearly the principal rationale for sending countries in formulating foreign employment policy.[1]

2. Annual remittances to developing countries have more than doubled between 1988 and 1999, with officially reported remittances being approximately 20% higher than official development assistance (see Table 1). Remittances are a more constant source of income to developing countries than other private flows and foreign direct investment (FDI). Official flows to developing countries have reached an estimated $88 billion in 2002, while flows through informal channels may be more than double this figure. Remittances are now second only to FDI as a capital flow into developing countries, and substantially exceed development aid.[2]

Table 1: Largest developing country receivers of remittances, 1995 to 1999 (Gammeltoft, 2002)

	Total Remittances ($)		Remittances per $ aid ($)		Remittances/GDP (%)		Remittances per Capita ($)	
1.	India	45.9	Turkey	39.3	Lesotho	37%	Antigua & Barbuda	3,997
2.	Philippines	29.1	Mexico	33.9	Jordan	21%	Jordan	1,714
3.	Mexico	28.0	Costa Rica	23.9	Samoa	21%	Jamaica	1,393
4.	Turkey	21.0	Jamaica	15.4	Yemen	18%	Samoa	1,305
5.	Egypt	16.6	Barbados	14.7	Cape Verde	18%	Barbados	1,212
6.	Morocco	10.0	Dominican Republic	9.8	Albania	16%	Cape Verde	1,105
7.	Brazil	9.3	Croatia	9.3	Jamaica	13%	Grenada	1,071
8.	Thailand	8.0	Philippines	7.8	El Salvador	11%	El Salvador	1,027
9.	Pakistan	7.8	Antigua & Barbuda	6.9	Georgia	10%	Lesotho	863
10.	Jordan	7.7	Nigeria	6.8	Antigua & Barbuda	9%	Dominica	771
11.	Bangladesh	7.5	Brazil	6.5	Nicaragua	8%	Dominican Republic	738
12.	People's Republic of China	7.5	India	5.5	Dominican Republic	8%	St. Lucia	708
13.	Nigeria	6.5	El Salvador	4.9	Philippines	8%	St. Vincent & the Grenadines	689
14.	El Salvador	6.1	Tunisia	4.6	Grenada	7%	Albania	662
15.	Dominican Republic	6.0	Lesotho	4.3	Sri Lanka	6%	Croatia	640

Source: Remittances: IMF BOP Statistics Yearbook; other flows: World Bank "World Development Indicators".
Note: If remittance, GDP or population data is missing for any of the involved year, it is estimated by the average of the years for which data is available.

[1] Abella, M., Sending Workers Abroad, ILO, 1997.

[2] Wimaladharma, Pearce and Stanton, *Remittances: The New Development Finance, Small Enterprise Development Journal*, Vol. 15, No. 1, March 2004, citing Ratha, Dilip, 2003; see also Gammeltoft, Peter, *Remittances and Other Financial Flows to Developing Countries*, CDR Working Paper, 2002.

3. The sheer volume, stable growth over time and anti-cyclical nature of remittances indicate that they hold tremendous potential as a source of external development finance. It also reflects the reality that developing countries need foreign exchange to bolster hard currency reserves, finance imports and enhance the abilities of banks to finance loans, among others.[3] With the dwindling resources for development assistance, migrant's remittances are emerging as a new tool and strategy for the uplifting of economic conditions in developing countries.

4. This has spurred multilateral institutions, international organizations, foundations, universities and even national governments to commission research work to study the size and flows of remittances, and identify measures on how these inflows could be harnessed for the development of migrants' countries of origin. The desire to tap huge remittance markets has also generated vibrant competition among banks, money transfer agencies and other traditional remittance players. It has also drawn new actors such as microfinance institutions (MFI), credit unions, cooperatives and other similar grassroots economic organizations to serve not only as remittance conduits, but also as entry points for the introduction of financial products and services to unserved sectors.

5. Aside from increasing the volume of remittances, the net effects of these developments have been a significant reduction of remittance costs to the migrant remitter as a result of the competition, the increased access to the banking system of previously "unbanked" migrant workers, and the emergence of new technology-based bank remittance products that afforded money transfer services which were reliable and competitively priced. According to some estimates, the average costs of remittances, fees plus foreign exchange spreads, of sending $200 to Latin America fell to $20 in 2002, about half of what it was in 1999.[4] Remittance costs often exceed 20% and reducing them by even 5 percentage points could generate annual savings of $3.5 billion for workers sending money home.[5]

6. While the migration and development nexus has, for some time, been the subject of studies by scholars, researchers and institutions,[6] initiatives that have led to concrete multilateral support in recent years were those commissioned by the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB). These initiatives later provided the basis for the funding and support by the MIF of programs that are now ongoing for remittance cost reduction and the introduction of innovative, reliable and accessible remittance products between the United States (US) and Mexico, and other Latin American countries.

7. These MIF programs are also supplemented by support for financial literacy programs, linking remittances to small and medium enterprise (SME) development and microfinance and increasing accessibility to banking services of previously underserved migrant communities. The acceptance by major US banks of consular identification cards issued by Mexican consulates to its citizens, as valid identification for opening of bank accounts, has enabled some one million Mexican undocumented workers to open bank accounts and use these as remittance mechanisms.

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[3] Addy, Wijkstrom, Thouez, IMP Working Paper Prepared for the World Bank-DFID Conference on Remittances and Development, October 2003.

[4] Mellyn, K., *Workers Remittances as a Development Tool, Opportunities for the Philippines*, ADB. 2003.

[5] Ratha, Dilip, Workers' Remittances: An Important and Stable Source of External Development Finance, *Global Development Finance*, 2003.

[6] Tamas, Kristof, *Mapping Study on International Migration for the Institute of Futures Studies*, Stockholm, December 2003.

8. In October 2003, the World Bank, together with the United Kingdom Department for International Development (DFID) and the International Migration Policy Programme, gathered over 100 participants from 42 countries for a conference on migration, remittances and development. Participants represented central and private banks, governments, policymakers, multilateral and bilateral donors, international agencies, experts, academicians, nongovernment organization (NGOs), cooperatives and microfinance networks, researchers, and other migration and remittance practitioners and stakeholders who discussed the various aspects of migration, remittances and development.

9. The growing concern on global migration issues has also led United Nations (UN) to support the formation of a Global Commission on International Migration, an autonomous and independent initiative led by the governments of Sweden and Switzerland, and joined in by 11 other countries, including migrant-sending countries like Mexico and the Philippines. This body has started to conduct a worldwide scoping study on migration and development through research and consultations or hearings in different regions, that will culminate in a set of findings, recommendations and an action framework to be completed sometime in 2005. The first such consultation or hearing with various stakeholders in the Asia and Pacific region, was held in Manila from 17 to 18 May 2004. The consultation covered a wide agenda on cross cutting issues related to migration and remittances, some of which touch on the themes of this study.

II. CONTEXT AND DEFINITIONS

A. Definition of Remittances

10. The term "remittances" has generally come to refer to the transfers, in cash or in kind, from a migrant to household residents in the country of origin. The International Monetary Fund (IMF) has a broader definition and include three categories, namely: (i) workers remittances or transfers in cash or in kind from migrants to resident households in the country of origin; (ii) compensation to employees or the wages, salaries and other remuneration, in cash or in kind, paid to individuals who work in a country other than where they legally reside; and (iii) migrant transfers which refer to capital transfers of financial assets made by migrants as they move from one country to another and stay for more than one year.[7] The Bangko Sentral ng Pilipinas (BSP), the country's central banking authority, follows the IMF manual in recording remittances or migrant transfers in its balance of payments computation.

B. Definition of Filipino Migrant Population

11. The Filipino Migrant Population or the universe of Filipino remitters, is divided into three main types:

(i) Permanent: Filipino immigrants who hold permanent residence or landed immigrant status in a foreign country, and whose stay does not depend on work contracts. They include even those who have already acquired foreign citizenship;

(ii) Temporary: Filipinos whose stay overseas is based or determined by a formal or informal contract of employment. These overseas contract workers who may be

[7] Source: www.migrationinformation.org

either land-based or sea-based, are now collectively referred to as Overseas Filipino Workers (OFWs);

(iii) Irregular: Filipinos residents or workers overseas who do not possess valid passports or documents, or even if properly documented, are without valid residency or work permits, or who have overstayed.

C. Categorization of Formal, Informal and Unregulated Fund Transfers

12. There is a need for caution in the categorization of formal, informal and unregulated fund transfers. Formal channels usually refer to banks or non-bank money transfer agencies which are registered or regulated by authorities to engage in money transfers. Unregulated channels are those that exist outside the regulatory environment. Such transfers are usually made through unlicensed money transfer agencies, or occur when money or goods are sent through friends or brought home personally by the migrant. However, the term "informal money transfer channels" could be mistaken for channels that are not regulated. As mentioned, there are informal or non-bank money channels that are regulated or have licenses to operate a money transfer business. In the US, for instance, non-bank money transfer agencies are regulated both by the federal government and in many cases by state governments. The top ten US states with large populations of Filipinos, with the exception of Hawaii and Washington, require proof of tangible net-worth, pledged assets in the form of cash bonds, time deposits or government securities before license is issued (Appendix 1). It is of course true that banks are subject to more rigorous requirements, regulation and monitoring than non-banks. However, licensed non-bank money transfer agencies do have stringent licensing and know-your-customer requirements, and more transparent money/audit trails that are often difficult to detect or are absent from unregulated money transfer systems. When the study therefore lists as one of the objectives, the shift of remittances from informal to formal channels, it refers to facilitating the shift from unregulated to regulated or formal channels.

D. Remittances as Perspective of Study

13. The study has taken the perspective of remittances as a starting point for identifying measures to maximize its development impact to a migrant-sending country like the Philippines. It examined not only the remittance behavior and personal profiles of the migrant but also the legal and regulatory environment of the Philippines, Singapore, and the US, which could affect banking practices and costs - all of which ultimately influence a sender to choose between a formal or regulated or an informal or unregulated channel.

14. It also takes into account the value of largely unrecognized and untapped resources such as philanthropic donations and fund mobilizations by thousands of Filipino Overseas Associations that are sent to various humanitarian, community infrastructure and other projects that impact on development in needy areas. Including such resources in the migration and development equation and identifying the barriers that discourage their entry as well as policies or incentives which will enhance these types of inflows, will contribute to additional capital and resource buildup for developing local economies. The study itself, as well as existing data from government, private agencies, and interviews conducted with a number of these associations, reflect the desire of a large percentage of the Philippine *diaspora* to contribute to their communities aside from sustaining their families' needs.

15. As of 2000, 46.9% of the Philippine population was still considered poor. This translates to 5.1 million poor families or 30.8 million poor people. Poverty in the Philippines remains a rural phenomenon. About 78.8% of food-poor families reside in the rural areas, with the

Autonomous Region in Muslim Mindanao, Bicol, and Central Mindanao regions having the highest incidence. Relative to the total number of poor families, rural families account for 70.9%.[8] Since poverty reduction is the underlying objective of the study and the fact that a large number of OFWs and their families originate from the countryside, the role in leveraging remittances by community-based financial or economic institutions such as cooperatives, rural banks and microfinance NGOs is also examined. By virtue of their mandates and geographic location, these institutions are in a strategic position to offer simple financial products and services to financially unserved remittance receiving households in the rural areas.

16. The banking or the formal and regulated sector performs a major role in enhancing remittance flows and maintaining integrity in the financial system. It must be recognized however, that informal systems, though presenting risks and dangers to public security, has given remittance options to a large number of migrants who are financially disenfranchised or do not have normal access to formal channels. Data gathered during the study not only provides useful primary data to analyze the reasons for the choice of one channel over another but also gives banks and other formal institutions insights in the introduction of new remittance products and services that address remittance behavior, specific cultural practices or inadequacies of the formal system.

17. It is difficult to view remittances independently of the whole phenomenon of migration and the motivations of people in migrating and working overseas, as these are key to understanding remittance behavior and their potential to be used as a development tool. The motivations are largely economic, as remittances, especially for large numbers of contract-based workers, are sent to feed, clothe, shelter and educate millions of families in the Philippines. There are also other issues such as the globalization of labor supply, migrants rights, social costs, brain drain, increased flows of irregular workers, among others, that may impede not only the flows of remittances, but also their flows through formal channels. It is hoped that this study would present itself as an opportunity to explore and implement future programs that will enable policy makers in the Philippines, host countries and international organizations to not only maximize and properly harness migrants' resources for productive use, but also address these equally important issues on migration.

III. OBJECTIVES AND SCOPE

A. Objectives

18. The main objectives of the study are to: (i) review the flows of remittances; and (ii) identify constraints in the policy, regulatory and institutional framework that impact these flows. The study will then develop proposals to address the identified problems and constraints with the goal of:

(i) Possibly increasing remittance volumes;
(ii) Facilitating the shift from informal to formal channels; and
(iii) Where applicable, encouraging the use of remittance proceeds for sustainable poverty reduction.

[8] Philippine Progress Report on the Millennium Development Goals, National Economic Development Authority (NEDA), United Nation Development Program (UNDP) January 2003.

B. Assumptions

19. The main assumptions are that if coursed through formal channels, this would: (i) reduce the cost of servicing these flows while increasing net formal sector remittance flows; (ii) strengthen the integrity of the financial system by ensuring compliance with anti-money laundering and anti-terrorist financing standards; (iii) encourage the use of banking facilities to enfranchise OFWs and their families, and (iv) mobilize savings for productive investments. The experience of Mexico and other Latin American countries where remittance costs were drastically reduced due to increased competition, the introduction of remittance products by formal financial institutions and increased access to formal channels by previously unserved remitters, could be explored for application to the Philippines.

C. Stakeholders Interviewed

20. Considerable in-depth information, data and insights have been amassed and developed by the study through the review of related literature, market research, focused group discussions, and meetings with various stakeholders, government, Philippine and foreign regulatory agencies, international agencies and financial institutions, researchers, bank and non-bank financial institutions, including the so-called "grassroots financial organizations, consisting of government and private development banks, rural and thrift banks, MFIs, cooperatives, NGOs, overseas Filipino organizations, and the OFWs - remitters and remittance recipients who are the most immediate beneficiaries of an enhanced remittance system (Appendix 2).

D. Countries Studied

21. The study was conducted not only in the Philippines, but also in two foreign jurisdictions Singapore and two US cities—San Francisco and Washington, DC. The choice of venue for the two foreign missions was prompted by the following reasons:

(i) The two countries have different segments of overseas Filipino remitters, namely the contract-based temporary workers and the permanent settlers or immigrants. From looking at these types of remitters, these are expected to yield marked differences in remittance behavior. Singapore on the one hand, consisted of a representative mix of contract-based workers, i.e., domestic workers as well as professionals, numbering around 128,000. The US, meanwhile, is home to more than two million Filipinos, many of whom are immigrants, high-income professionals and ethnic Filipinos who have acquired US citizenship (including a large number of irregular workers);

(ii) The study might be considered as an activity related to the Memorandum of Intent (MOI) signed in May 2003 between the US and the Philippine government. Under the MOI, both governments will pursue the following goals: a) reduce remittance fees through greater competition and increased efficiency; b) enhance access to remittance services in the regulated financial system; c) improve the resiliency of the critical financial infrastructure that supports remittances; and d) ensure compliance with international anti-money laundering laws such as Republic Act No. 9160.

22. There are other countries not included in the study with large numbers of OFW remitters who appear to encounter regulatory and other practical issues which may hinder or fail to

enhance remittance flows. This strongly suggests that remittance situations in countries, such as Middle East countries, especially Saudi Arabia, Japan, the People's Republic of China (PRC) and European countries might be suitable subjects for future studies.

IV. MIGRATION ISSUES

A. Effects of Remittances

23. There is a divergence of views on the effects that remittances, or in a broader context, migration, may have on the economy as a whole and on future migration.[9] Some studies have strongly suggested that remittances create lasting negative effects on the origin country (e.g. the Philippines). Remittances have been used mostly for excessive consumption, than to increase the productive capacity of the sending country.[10] Migration is also said to have perpetuated a culture of dependence on remittances not only on the part of beneficiary families[11] but also the sending country which may conveniently postpone needed structural reforms to put the macroeconomic house in order.[12] The compensatory nature of remittances presents a moral hazard or dependency syndrome that will likely impede economic growth as recipients would tend to reduce their participation in productive endeavors.[13] For those reasons, Chami, et al, believe that unless governments are able to come up with policies that will induce migrants to invest productively, it is unlikely that remittances could be transformed as a significant source of capital for development.

24. However, other researchers point out that consumptive behavior does have its multiplier effects in terms of increasing the demand for goods and services and indirect investment,[14] and especially when used for health, education and shelter, which impact on human development.[15] If and when remittances are invested or consumed, they contribute to output growth and generate positive multiplier effects, for as long as there are sound economic policies in place and foreign exchange controls are relaxed. They also compensate for the losses that the sending country may incur from brain drain or the skimming of its highly skilled workers.[16]

B. Irregular Workers

25. The International Center for Migration Policy Development has estimated that up to 650,000 unauthorized migrants entered the European Union countries in 2001.[17] Receiving countries in South and East Asia are host to millions of irregular workers (see Table 2). Forces from both supply and demand side may cause the influx of unauthorized foreign workers. While some studies have suggested that irregular migration is often driven more by the demand for cheap labor in developed countries than by push factors in developing countries, it is also true

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[9] Stalker, P., Global Nations: The Impact of Globalization on International Migration, ILO, 1997.
[10] Lamberte, M., OFW Investments in Rural Banks. A paper delivered at the International Conference on Identifying Economic Linkages between Overseas Filipinos and Rural Communities in the Philippines, Davao City, April 2002.
[11] Panganiban, A., Overseas Filipino Investments for the Development of Local Economies. A paper delivered at the International Conference on Identifying Economic Linkages between Overseas Filipinos and Rural Communities in the Philippines, Davao City, April 2002.
[12] Abella, M., Speech delivered at the Bagong Bayani Awards Ceremonies, Manila, November, 2002.
[13] Chami, R., Fullenkamp, C. Jahjah, S., Are Immigrant Remittance Flows a Source of Capital for Development, IMF Working Paper/03/189, IMF, September 2003.
[14] Orozco, M., Presentation at the Roundtable: Remittances as a Developmental Tool in the Carribean, 17 September 2002, Kingston, Jamaica.
[15] Stalker, P., Proceedings on the NOVIB Experts Meeting on Migration, Globalization and Development, March 2003, The Netherlands.
[16] Ratha, D., ibid.
[17] Philippine Department of Foreign Affairs (DFA) Briefing Paper on Global Migration.

that globalized economies are to some extent dependent on low cost migrant labor. However, migrant contributions to the development of the host country, as suppliers of labor, as consumers and even as taxpayers, are unrecognized. Likewise, access to socio-economic and financial services, particularly to irregular workers, is largely curtailed.

Table 2: Estimates of Irregular Migrants in Selected Asian Countries

Source Countries	Destination Countries				
	Japan[1]	Korea[2]	Taiwan[3]	Malaysia[4]	Thailand[6]
Bangladesh	5,864	6,939		246,400	
Cambodia					81,000
PRC	38,957	53,429			
Indonesia		1,013	2,700	475,200	
Korea	52,854				
Malaysia	10,926		400		
Myanmar	5,957			25,600	810,000
Pakistan	4,766	3,350		12,000	
Philippines	42,627	6,302	5,150	9,600[5]	
Taiwan	9,403				
Thailand	38,191	2,528	6,000	8,000	
Vietnam		3,181			
Others	72,242	18,285	5,750	23,200	109,000
Total	281,157	95,627	20,000	800,000	1,000,000

Sources: Asia and Battistella, 1999. [1] Overstayers, end of 1997 (Watanabe, 1998); [2] Overstayers, June 1998 (Park, 1998); [3] Estimate based on overstayers and apprehensions (Lee, 1998); [4] Estimate based on 1996 regularization (Kassim, 1998); [5] Add approximately 150,000 Filipinos still irregular in Sabah; [6] Estimate based on 1996 regularization.
Note: The estimates for Korea, Malaysia and Thailand may have grown smaller by the end of 1998. ILO (1998b) estimates that the size of the migrant workers population has declined by 117,000 in Korea, 400,000 in Malaysia and 460,000 in Thailand (by mid-1998).

C. Human Rights

26. Human rights violations against both legal and irregular workers continue to be reported by studies and overwhelming anecdotal evidence. The well-being of migrants working under severe employment conditions is prejudiced and ultimately affects their capacity to maximize the amounts that they are able to send to family members. The very nature of irregularity breeds abuse and exploitation. Many of these workers especially women and others in vulnerable occupations such as domestic work and entertainment, often receive low wages, and are subjected to, or are open to physical abuse.[18] Irregular workers are most likely to send small amounts, and select unregulated channels to send home money because they fear exposing their status or are disqualified from opening bank accounts.

D. Brain Drain

27. The question also remains on whether the benefits of migration compensate for the costs to the sending country, such as brain drain and the social disruption of families. The drain of often the best and the brightest from a sending country reduces the country's capacity for

[18] Proceedings of the Regional Summit on Foreign Migrant Domestic Workers. Sri Lanka, August, 2002.

long-term economic growth and human development. For the Organization for Economic Co-operation and Development countries as a whole, there are around 3 million migrants with a tertiary education. It has been suggested that if it costs say $20,000 to educate someone to this level, then the total wealth transferred from poor countries to rich is roughly now around $60 billion.[19]

28. The study of unregulated and informal money transfer channels or as other studies refer to as alternative remittance systems are important to governments and policy makers, in view of three main concerns: (i) ensuring the integrity of financial or remittance channels to make them less vulnerable to illegitimate uses such as money laundering, terrorist financing or capital flight, as well as on indirect effects on exchange rates and monetary policy; (ii) the loss of potential income by government and the private sector, and the development value of the remittance when transferred through unregulated channels; and (iii) the difficulty if not impossibility of obtaining reliable estimates of the volumes of unregulated remittance transfers present distortions to more precise recording in a sending country's balance of payments figures and preclude the formulation of sound monetary policies.

29. Informal unregulated money transfer systems have been around for the past several centuries, and could date back to the Tang Dynasty (618 to 907 B.C.). Regardless of the different terminologies in different regions or countries, their existence is reflective of the need to provide monetary facilitation of trade between distant regions. The key features, which attract many remitters, including migrants, to choose informal remittance channels, are speed, low cost, cultural convenience, versatility, and anonymity.[20]

30. While in the past governments paid little attention to these transfers because they were regarded as small, events of 11 September 2001 on the actual or potential use of such transfers by terrorist organizations, have rekindled closer scrutiny of informal transfer systems on the part of regulatory agencies particularly in the US, and international financial groupings, mainly the Financial Action Task Force (FATF).

31. The study and monitoring of unregulated money transfer systems by the authorities have been challenging at the very least, due to the lack of transparency or audit trails, the difficulty of interpreting informal remittance records, and a characteristic practice of mixing legitimate businesses with remittance or value transfers, which by reason of the informality of transactions, could effectively conceal illegitimate transactions. This is not to say that all unregulated transfer systems are engaged in illegal activity, but that the potential for its use to evade financial regulations or finance terrorism activities may be quite real.

32. Despite this difficulty, analysts point out that "ill-thought licensing and reporting measures" could deprive low-income immigrant providers of channels they have relied upon for many years, as excessive fees and lack of access to formal institutions have effectively blocked other alternatives. Despite some claims made in the press about the methods used by the 11 September hijackers to transfer their funds, all available evidence point to their use of banks, wire services, credit card accounts and other regulated remitters. So, while the funding of terrorism may well occur through informal and/or unregulated fund transfer systems, there is

[19] Stalker. 2003.
[20] El Qoorchi, Maimbo and Wilson: Informal Funds Transfer Systems, An Analysis of the Informal Hawala System, Occasional Paper 222, IMF, 2003.

little reason to believe either that militants prefer to use this method or that informal systems are more vulnerable than the regulated sector.[21]

33. A recent UN report has described informal money transfer systems as "the poor man's private banking vehicle, and a market response by economic agents who are constrained by the level of financial development and government policies".[22]

34. Thus it has been recommended that consensus building consultations should precede the design, development and implementation of regulatory standards, monitoring and enforcement measures, and that particular attention be paid to wider public and other policy implications of external interventions, emphasizing that informal remittances serve millions of legitimate and mostly poor recipients in developing countries, as well as constitute an important source of finance and foreign exchange that improve real incomes and build human and social capital.

35. Governments, particularly those of migrant sending countries have underscored the need to improve their capability as well as resources, to systematically address the lack of data on remittance flows and their impact on development, which could form the basis for policy action, the need for more special attention to studies and inclusion of "brain drain" in the remittance debate, as well as the need for greater respect for basic human rights and internationally recognized labor standards on the part of host countries.[23]

V. PHILIPPINE MIGRATION AND REMITTANCES

A. Migration Flows

36. As in the case of other migrant-sending countries, many Filipinos continue to take migration as an option due to the lack of sufficient opportunities for economic upliftment or professional advancement. As economic growth of the Philippines continues to be hampered by adverse political and socioeconomic conditions, an average of about 2,700 Filipinos leave daily (or more almost a million annually) for foreign countries as immigrants, temporary contract-based workers or simply as tourists, hoping to find work in developed countries (Table 3 shows the major destination countries).

B. Stocks

37. The Philippines has become the second largest migrant-sending country in the world next to Mexico, with 7,582,502 Filipinos residing and/or working overseas. Of this figure, roughly 2,912,709 are overseas Filipino contract-based workers, 2,807,356 are permanent residents or immigrants, and 1,607,170 are classified as irregular (see Figure 1 and Table 4). These are figures compiled by the Commission on Overseas Filipinos (CFO) from its own data on immigrants, the Philippine Overseas Employment Administration (POEA) on temporary workers documented through this agency, statistics from receiving countries, and reports from the various Philippine diplomatic missions in at least 197 economies worldwide. Although the

[21] Maimbo and Passas, The Regulation and Supervision of Informal remittance systems, Paper Delivered at the WB-DFID Conference , London, International Conference on Migrant Remittances: Development Impact and Future Prospects, October 2003.

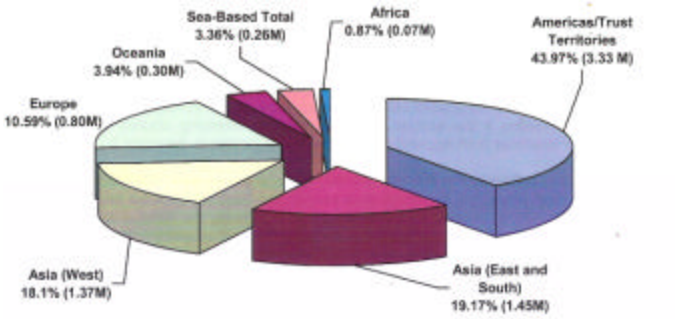
[22] Buencamino and Gorbunov, Informal Money Transfer Systems-Opportunities and Challenges for Development Finance, UN DESA Discussion Paper No. 26, November 2002.

[23] 17. IMP Working Paper, *ibid.*

recording and monitoring of stocks of overseas Filipinos, particularly the irregular workers, has been sketchy due to the complexity of migration flows, and system imperfections in both the Philippines and host country, it is at least the most reliable that could be accomplished given present resources and limitations.

38. The top five economies of destination for contract-based workers are Hong Kong, China; Japan; Kingdom of Saudi Arabia; Taiwan; and the United Arab Emirates. For permanent residents, it is Australia, Canada, Germany, Japan, United Kingdom, and the US. Irregular workers are also almost everywhere, with Italy, Japan, Malaysia, and US as registering high percentages.

Figure 1: Stock Estimates of Overseas Filipinos (Commission on Filipinos Overseas, 2003)



Source: Commission on Filipinos Overseas, "Stock Estimate of Overseas Filipinos," Released in first quarter, 2003. Asia (West) includes Saudi Arabia and Middle East countries.

Table 3: Migration Outflows – Philippines (Commission on Filipinos Overseas, 2002)

Migration Outflows	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999
1. All Overseas Filipino Workers	379,823	1,580,306	2,129,925	3,163,803	3,730,503
A. Land-Based/[a]	211,878	1,299,086	1,766,703	2,489,892	2,811,175
AFRICA	3,769	9,050	9,379	11,427	20,100
AMERICAS	13,829	18,020	31,257	60,080	47,102
US	9,348	11,736	21,141	30,188	19,621
Canada	150	1,850	6,618	13,940	9,070
Others	4,351	4,434	3,498	15,952	18,411
ASIA	37,504	148,672	394,652	720,461	1,182,993
Brunei	444	11,483	23,817	44,501	53,294
Hong Kong, China	8,484	46,751	150,829	262,069	411,191
Indonesia	2,950	3,387	2,791	3,465	8,930
Japan	22,996	62,085	148,368	249,272	164,222
Korea	43	78	367	6,299	17,649
Malaysia	1,629	3,628	9,484	41,316	50,653
Singapore	657	19,778	55,868	43,943	86,865
Taiwan	77	442	152	58,692	360,296
Others	224	1,040	2,976	10,904	29,893
EUROPE	10,485	9,996	28,847	59,535	91,443
England	5,317	478	956	1,068	3,060
Germany	615	582	513	798	777
Italy	1,589	3,430	13,323	37,307	63,430
Spain	1,144	810	2,993	2,972	6,694
Others	1,820	4,737	11,594	17,390	17,482
MIDDLE EAST	142,737	1,100,253	1,270,455	1,450,901	1,243,424

Table 3: Migration Outflows – Philippines (cont'd.)

Migration Outflows	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999
Bahrain	2,880	21,300	33,571	36,972	22,773
Iraq	3,576	69,109	15,023	513	38
Kuwait	6,585	40,840	90,947	58,440	65,859
Libya	932	32,715	29,005	29,943	34,386
Saudi Arabia	113,473	864,869	925,639	1,104,494	877,008
UAE	5,051	42,672	99,138	130,387	153,001
Others	10,240	28,748	77,132	90,152	90,359
OCEANIA	1,215	4,056	5,948	10,881	10,556
Australia	144	73	315	738	652
Papua New Guinea	809	3,353	4,780	9,497	9,253
Others	262	630	853	654	651
TRUST TERRITORIES	2,339	9,039	26,165	31,869	31,271
Commonwealth of Northern Marianas Island	1,635	7,198	23,269	23,293	22,759
Others	776	1,847	2,896	8,576	8,512
NOT REPORTED				139,917	144,526
B. Sea-based Workers	167,945	281,220	363,222	952,251	958,015
2. Emigrants/[b]	170,428	232,991	264,722	320,688	250,730
US/[c]	133,015	190,676	201,018	219,714	161,937
Canada	25,232	21,246	25,702	48,994	41,916
Australia	9,225	12,838	32,077	21,973	11,878
Japan		1,480	1,518	20,315	21,593
United Kingdom		1,480	1,874	1,115	913
Germany		936	577	3,013	2,879
Others/[d]	2,956	4,335	1,956	5,564	9,614

Source of raw data: Philippine Overseas Employment Administration, Commission on Filipinos Overseas.
Notes:
/a Data from 1990-1997 refer to deployed overseas Filipino workers based on statistics on departing workers from the Labor Assistance Center (LAC) of POEA on actual departures of OFWs at the international airports
/b Refers to permanent migrants
/c1981-1991:includes Trust Territories of American Samoa, Guam, Marianas Islands, Saipan & US Virgin Island
1992-1994: includes Trust Territories of American Samoa, Guam, Marianas Islands, Saipan, US Virgin Island
/d The "Others" category for 1975-1979 includes Japan, United Kingdom and Germany.

Table 4: Stock Estimates of Overseas Filipinos

	Permanent	Temporary	Irregular	Total
World / Total	**2,807,356**	**2,912,709**	**1,607,170**	**7,582,502**
Africa	**317**	**49,027**	**16,899**	**66,243**
Egypt	54	2,337	110	2,501
Equatorial Guinea	-	1,193	150	1,343
Libya	75	4,350	485	4,910
Nigeria	18	10,500	1,700	12,218
Others / Unspec ified	170	30,647	14,454	45,271
Asia East and South	**76,445**	**818,146**	**558,705**	**1,453,296**
Brunei	26	18,200	1,500	19,726
Hong Kong, China	404	171,485	2,000	173,889
Japan	71,381	138,522	76,573	286,476
South Korea	1,565	13,781	15,235	30,581
Macau	56	16,000	1,000	17,056
Malaysia	311	58,233	363,000	421,544

Table 4: Stock Estimates of Overseas Filipinos (cont'd.)

	Permanent	Temporary	Irregular	Total
Papua New Guinea	64	3,661	7,339	11,064
Singapore	152	56,377	71,917	128,446
Taiwan	1,953	116,480	4,300	122,733
Others / Unspecified	533	225,407	15,841	241,781
West Asia	**2,271**	**1,257,700**	**111,650**	**1,371,621**
Bahrain	61	26,356	5,000	31,417
Israel	100	7,400	22,500	30,000
Jordan	108	5,000	7,000	12,108
Kuwait	92	53,067	10,000	63,159
Lebanon	19	19,825	5,500	25,344
Oman	18	18,551	1,500	20,069
Qatar	13	37,626	1,000	38,639
Saudi Arabia	242	897,000	18,000	915,242
UAE	379	155,000	20,000	175,379
Others / Unspecified	1,239	37,875	21,150	60,264
Europe	**162,227**	**455,112**	**185,830**	**803,169**
Austria	21,760	1,191	2,000	24,951
Belgium	3,348	2,500	4,933	10,781
France	1,013	4,804	26,121	31,938
Germany	42,044	7,005	4,392	53,441
Greece	86	15,514	17,500	33,100
Italy	3,413	69,998	78,000	151,411
Netherlands	10,041	2,351	700	13,092
Spain	15,167	5,687	4,000	24,854
Switzerland	791	5,953	9,300	16,044
United Kingdom	46,234	35,767	8,344	90,345
Others / Unspecified	18,330	304,342	30,540	353,212
America / Trust Territories	**2,342,597**	**281,276**	**710,424**	**3,334,297**
Canada	349,597	28,130	4,200	381,927
United States	1,946,448	98,572	510,000	2,555,020
CNMI	1,284	14,854	224	16,362
Guam	43,968	1,450	1,000	46,418
Others / Unspecified	1,300	138,270	195,000	334,570
Oceania	**223,499**	**51,448**	**23,662**	**298,609**
Australia	206,794	687	2,923	210,404
New Zealand	16,669	236	120	17,025
Palau	5	3,100	400	3,505
Others / Unspecified	31	47,425	20,219	67,675
Sea-based				**255,267**

Source: Commission of Filipinos Overseas, 2002.

C. Remittance Flows

39. The Philippines, according to the World Bank publication *Global Development Finance 2003,* is the third largest remittance receiving country next to Mexico and India. In 2003, the BSP recorded an amount of $7.6 billion in remittances as having flowed through formal channels, an amount that is believed as only half or even more than what is actually sent or received, due to money transfers made through unregulated channels (see Table 5). The largest sources of overseas Filipino remittances are from Hong Kong, China, PRC, Japan, Saudi Arabia, Singapore, and the US. While almost 50% of remittances are recorded to have come from the US, it must be considered that some of these amounts may have emanated from other countries, given the practice by receiving banks of attributing remittances to the most immediate source, which are US correspondent banks.

D. Sea-based Workers

40. The Philippines is the country of origin of a substantial number of sea-based workers. The 255,267 Filipino seafarers account for 28.5% of the world's supply of seafarers – the largest in the world. Of the $47 billion that overseas Filipino remitted through formal channels from 1990-2001, 14% were sourced from Filipino seafarers.[24]

E. Feminization of Migration

41. Over 65% of OFWs are women. Aside from traditional Middle East destinations, the newly industrializing economies in South and Southeast Asia have generated a demand for female workers for domestic work. In Japan, Filipino women are recruited as performing artists or entertainers.[25]

Table 5: OFW Remittances
By country and by type of worker
(for the periods indicated in thousand $)

Country/Worker	1996	1997	1998	1999	2000	2001	2002	2003
T O T A L *	***4,306,491***	***5,741,835***	***7,367,989***	***6,794,550***	***6,050,450***	***6,031,271***	***7,189,243***	***7,639,955***
Sea-based	251,244	257,612	274,549	846,209	926,677	1,093,349	1,226,182	1,294,140
Land-based	4,055,247	5,484,223	7,093,440	5,948,341	5,123,773	4,937,922	5,963,061	6,345,815
ASIA	**535,959**	**454,791**	**401,419**	**645,566**	**831,779**	**1,049,551**	**1,092,381**	**927,000**
Sea-based	21,290	20,537	17,426	86,233	81,418	54,036	56,106	44,227
Land-based	514,669	434,254	383,993	559,333	750,361	995,515	1,036,275	882,773
of which:								
Japan	114,609	131,375	107,807	273,831	370,097	391,871	469,080	413,055
Sea-based	10,941	8,873	7,333	43,820	46,739	18,248	26,087	23,230
Land-based	103,668	122,502	100,474	230,011	323,358	373,623	442,993	389,825
Hong Kong, China	221,009	189,230	171,353	176,738	146,831	248,337	278,949	216,025
Sea-based	9,766	9,076	7,955	27,286	20,334	12,739	14,817	11,981
Land-based	211,243	180,154	163,398	149,452	126,497	235,598	264,132	204,044
Singapore	129,654	93,329	69,288	80,180	105,351	194,702	166,929	140,444
Sea-based	477	2,259	1,540	10,364	11,987	13,838	10,672	5,878
Land-based	129,177	91,070	67,748	69,816	93,364	180,864	156,257	134,566
AMERICAS	**2,579,792**	**4,127,656**	**6,443,587**	**4,929,671**	**4,000,022**	**3,300,327**	**3,866,270**	**4,292,449**
Sea-based	167,070	183,678	202,335	611,564	734,460	949,341	1,053,189	1,144,505

[24] DFA Briefing Paper on Global Migration.
[25] DFA/ILO Paper on Empowering Filipino Migrant Workers, 2002.

Table 5: OFW Remittances (cont'd.)

Country/Worker	1996	1997	1998	1999	2000	2001	2002	2003
Land-based	2,412,722	3,943,978	6,241,252	4,318,107	3,265,562	2,350,986	2,813,081	3,147,944
of which:								
USA	2,564,467	4,109,430	6,403,215	4,868,879	3,944,639	3,201,698	3,681,652	4,094,821
Sea-based	166,949	183,509	202,260	609,910	733,199	944,871	1,051,596	1,143,298
Land-based	2,397,518	3,925,921	6,200,955	4,258,969	3,211,440	2,256,827	2,630,056	2,951,523
Canada	15,325	18,226	25,010	51,053	47,410	62,386	56,259	27,966
Sea-based	121	169	75	997	306	547	318	156
Land-based	15,204	18,057	24,935	50,056	47,104	61,839	55,941	27,810
OCEANIA	**67,873**	**19,396**	**17,060**	**87,336**	**21,360**	**21,188**	**33,276**	**42,338**
Sea-based	210	192	86	42,530	644	691	593	218
Land-based	67,663	19,204	16,974	44,806	20,716	20,497	32,683	42,120
Australia	65,920	17,934	13,924	22,276	16,255	10,023	30,848	39,831
Sea-based	210	192	74	1,059	626	680	552	199
Land-based	65,710	17,742	13,850	21,217	15,629	9,343	30,296	39,632
EUROPE	**574,062**	**436,050**	**329,317**	**457,671**	**534,675**	**406,194**	**659,616**	**743,763**
Sea-based	52,587	48,555	50,505	98,330	105,009	73,975	97,555	93,629
Land-based	521,475	387,495	278,812	359,341	429,666	332,219	562,061	650,134
Germany	130,892	121,258	78,486	93,588	64,320	37,475	89,793	91,445
Sea-based	32,002	29,119	28,978	40,069	27,246	11,954	18,507	21,674
Land-based	98,890	92,139	49,508	53,519	37,074	25,521	71,286	69,771
United Kingdom	278,142	205,940	130,961	83,079	91,087	134,168	260,743	260,799
Sea-based	4,154	8,209	9,300	13,370	15,588	11,380	13,788	10,529
Land-based	273,988	197,731	121,661	69,709	75,499	122,788	246,955	250,270
MIDDLE EAST	**39,188**	**25,375**	**60,682**	**263,004**	**594,198**	**711,918**	**725,238**	**978,514**
Sea-based	33	357	15	3,214	2,933	2,944	3,126	4,487
Land-based	39,155	25,018	60,667	259,790	591,265	708,974	722,112	974,027
of which:								
Kuwait	21,469	16,998	13,550	21,264	36,107	19,147	27,690	78,188
Sea-based	0	25	0	2	330	0	0	21
Land-based	21,469	16,973	13,550	21,262	35,777	19,147	27,690	78,167
Saudi Arabia	14,515	5,723	33,433	183,304	494,032	609,600	590,836	691,309
Sea-based	0	328	1	2,294	1,042	1,643	1,611	1,817
Land-based	14,515	5,395	33,432	181,010	492,990	607,957	589,225	689,492
AFRICA	**0**	**0**	**598**	**1,898**	**4,450**	**3,600**	**3,972**	**10,558**
Sea-based	0	0	80	483	196	383	88	86
Land-based	0	0	518	1,415	4,254	3,217	3,884	10,472
OTHERS	**509,617**	**678,567**	**115,326**	**409,404**	**63,966**	**538,493**	**808,490**	**645,333**
Sea-based	10,054	4,293	4,102	3,855	2,017	11,979	15,525	6,988
Land-based	499,563	674,274	111,224	405,549	61,949	526,514	792,965	638,345

Source: Department of Economic Research, Bangko Sentral ng Pilipinas, 2004.
*Total may not add due to rounding.
** Data are based on bank reports submitted to BSP as contained in FED Form I prior to April 1999 and FX Form 1 from May 1999 onwards. Beginning 2001, transactions reported by thrift banks, offshore banking units (OBUs) and FOREX Corps. are likew ise included. Data are not truly reflective of the actual country of deployment of OFWs due to the common practice of remittance centers in various cities abroad to course remittances through correspondent banks mostly located in the US. Since banks attribute the origin of funds to the most immediate source, the US, therefore appears to be the main source of OFW remittances.
Note: 2002 data was revised as of 15 May 2003 to include reclassification from current transfers.

42. The Philippines has an organized overseas deployment system, through which the government monitors as well as seeks to protect the welfare of its overseas workers. It will be to the greater interest of the Philippines to balance its successes in opening overseas markets for

its labor force, by devoting attention to the institution of policies, programs and incentives that will encourage its expatriate nationals to save, invest or transfer acquired skills into productive use at home, which after all, should be a major strategic reason for managed migration.

VI. PROFILES OF THE OVERSEAS FILIPINO WORKER

43. A market survey was conducted to learn about the remittance behavior of OFWs, their awareness of the various remittance channels and products, the reasons for selecting one remittance channel over another, the frequency and size of remittances, savings and investment, and their receptiveness to contribute to development projects in the Philippines. The market survey also attempted to learn the percentages of workers who incurred indebtedness prior to departure and while working overseas, given that these affect the remittances they may send. All these data could provide insights not only for banks and money transfer agencies to introduce products that could address the factors which drive remitters to unreliable transfer methods, as well as for policymakers to identify measures to eliminate unnecessary barriers or introduce improvements to the formal system (The complete market survey report may be found in Volume II of this study).

44. The surveys, as well as focus group discussions (FGDs), were conducted from December 2003 to April 2004 in the Philippines, Singapore, and San Francisco in the United States. The respondents for the Philippine survey consisted of 1,150 OFWs who were in the Philippines for the Christmas holidays in 2003, and 300 beneficiary households. The Philippine nationwide survey covered all regions and has a margin of error of plus or minus 3%. The Singapore survey had 200 respondents including 37 who were interviewed while they were in the Philippines. The total number of respondents for the US was 434. These surveys have an estimated margin of error of plus or minus 5%.

A. Socio-demographic Profiles

45. It has been observed that remittance behavior is dependent on the occupation of the OFW sender and the visa or citizenship status. To understand the variations in remittance behavior, it is useful to consider the demographic profiles of the survey respondents.

46. In the countries surveyed, majority (76%) of Singapore respondents were domestic helpers. In the US, relatively large groups were observed for service and sales workers, clerks (46%) and professionals (25%). There is also a relatively substantial retirees and housewives group at 17% in the US (see Table 6).

Table 6: Occupation of Respondents
(%)

Occupation	Philippines	Singapore	US
Domestic helpers	25	76	2
Seafarers	20	3	2
Laborers, unskilled workers, farmers, etc.	22	3	7
Service workers, sales, clerks, technicians, etc.	13	4	46
Entertainers, performers	10	1	1
Professionals and associate professionals	10	13	25
Others, retired, housewives, etc.	0	0	17
Total	**100**	**100**	**100**

Source: Asian Development Bank Consultants.

47. A large percentage of the nationwide OFW survey respondents (89%) and Singapore survey respondents (84%) were contract based. In the US, about 3 out of 10 are immigrants or citizens (see Table 7). In the nationwide OFW remitters survey, majority of survey respondents are married, are Catholics and have households with five to six members.

Table 7: Visa / Citizenship Status of Respondents (%)

Visa / Citizenship Status	Philippines	Singapore	US
Contractual OFW	89	84	69
Immigrant	5	11	27
Other Country Citizen	3	4	4
Others	4	0	1
Total	**101**	**99**	**101**

Source: Asian Development Bank Consultants.
Note: Totals may not equal 100% due to rounding off

B. Remittance Behavior

48. The terms "bank-to-bank" and "door-to-door" are commonly used by the remitters. "Bank-to-bank" may mean an account-to-account mode or any transaction involving the bank. In the same manner, the term "door-to-door" was used by some remitters to refer to banking transactions where their remittances were delivered to the beneficiary's "doorstep". This insight was revealed when FGD participants and survey respondents were questioned on details of their "door-to-door" transactions.

49. In summary, 80% of the respondents in the nationwide remitters survey regularly remit through banking channels. 80% of the survey respondents also said that they remitted monthly. While only 65% said they were remitting "bank-to-bank", upon further probing, an additional 15% used the bank's "door-to-door" service (see Table 8).

Table 8: Remittance Channels Commonly Used by Respondents (%)

Channel	Philippines	Singapore	US
Bank-to-bank	65	75	42
Door-to-door (bank)	15	8	5
Door-to-door (agency)	7	8	31
Money Transfer Agency	6	9	17
"Padala" (sent through friends)	2	0	4
Others (inserted in mailed letters on cargo boxes)	4	1	2
Total	**99**	**101**	**101**

Source: Asian Development Bank Consultants.
Note: Totals may not equal 100% due to rounding off.

50. Like migrants of other countries, OFWs rated speed, trustworthiness, reliability and efficient service as the most important criteria in their selection of remittance modes (see Table 9). For beneficiary households, speed in receiving remittance, trustworthiness and good service were considered as the most important criteria.

Table 9: Top 3 Important Attributes Selection of Remittance Modes

Ranking according to importance	Philippines	Singapore	US
1	Speed in remitting and trustworthiness	Trustworthiness	Speed in remitting
2	Reliability	Good service	Reliability
3	Good service	Reliability	Trustworthiness

Source: Asian Development Bank Consultants.

51. Gaps between expectations (rated on importance) and experience with the channels they used (rated on satisfaction) were most pronounced for areas of exchange rates (Philippines), maintaining bank deposit accounts (Singapore) and trustworthiness factor (US). Accessibility to the beneficiaries was also a noticeable gap. These are possible areas of improvement for remittance modes (see Table 10). For the beneficiary households, identified areas for improvement include the need for low or no maintaining balance, speed in receiving remittance and offers of best exchange rates.

Table 10: Top 3 Gaps Between Importance and Satisfaction Ratings

Ranking According to Gaps or Areas Needing Most Improvement	Philippines	Singapore	US
1	Best exchange rate	Has low or no maintaining balance	Trustworthiness
2	Near the beneficiary, accessibility from workplace, speed in remitting, reasonable charges	Speed in remitting and trustworthy	Reliability
3	Accessibility to beneficiary	Good service	Accessibility to beneficiary and speed in remitting

Source: Asian Development Bank Consultants.

52. Average monthly remittance did not vary greatly across the countries surveyed. The US survey respondents, however, remitted less frequently as the survey respondents had a relatively high group of retirees and housewives and immigrants and citizens (see Table 11). Seafarers remitted the highest amount at about $524 monthly, while OFW respondents from Kuwait reported the lowest at $205 monthly.

Table 11: Remittance Behavior of Respondents

	Philippines	Singapore	US
Average monthly amount	$340	$248	$342
Monthly to more than once a month	82%	83%	53%
Range of monthly remittance amount	$5 to $2,090	$27 to $1,933	$4 to $1,500

Source: Asian Development Bank Consultants.

C. Savings and Spending Behavior

53. In the nationwide OFW market study, about 90% say they are able to save. In Singapore, where more than half of respondents were in low-paying jobs as domestic workers, 80% say they are able to save. There appears to be a relatively high incidence of keeping savings in their country of work.

54. Survey respondents in the US indicate a higher percentage of owning a savings account and an ATM card in their country of work than those surveyed in Singapore and the Philippines. It is also noticeable that the US respondents, possibly due to higher income levels, report a higher ownership of personal effects and banking accounts vis-à-vis respondents from other countries (see Table 12). However, percentages on mobile phone ownership were quite close among all survey respondents: US (63%), Philippines (65%), and Singapore (70%).

Table 12: Respondents' Ownership of Selected Items In Country of Work (%)

Item	Philippines	Singapore	US
Car or vehicle	8	3	63
Personal computer	8	18	56
Laptop / notebook	4	8	23
Mobile phone (card)	57	36	63*
Mobile phone (line)	8	34	63*
Savings account	45	48	77
Current account	14	14	68
ATM card	33	35	75
Credit card	4	15	64

Source: Asian Development Bank Consultants.
* In the US survey, mobile phone ownership was not differentiated from "card" or "line".

55. Ownership of savings accounts and ATM cards in the Philippines, on the other hand, was reported by fewer respondents from the US survey (see Table 13).

Table 13: Respondents' Ownership of Selected Items in the Philippines (%)

Item	Philippine Survey	Singapore	US
Car or vehicle	18	21	32
Personal computer	17	14	19
Laptop / notebook	4	1	4
Mobile phone (card)	64	30	36
Mobile phone (line)	13	9	12
Savings account	70	42	44
Current account	18	15	12
ATM card	52	24	27
Credit card	5	3	7

Source: Asian Development Bank Consultants.

VII. REMITTANCES AND OVERSEAS FILIPINO WORKER

A. Remittance Players

1. Philippine Banks

56. In the first few years from the start of organized overseas deployment, OFWs had difficulty getting access to remittance services of host country banks. Philippine banks, courier companies and informal money transfer providers filled the gap. The Philippine National Bank (PNB) started their remittance service in the early 1970's through their various foreign offices while several Philippine courier companies provided remittance services including door-to-door deliveries as an adjunct to their cargo business. Informal remittance systems appeared to be commonly used, and was sometimes the only available and convenient vehicle for workers in sending money to their families. In the early 1980's more bank players such as the Bank of the Philippine Islands (BPI), Philippine Commercial and Industrial Bank, Metropolitan Bank and Trust Company (Metrobank) and Allied Banking Corporation, established offices and remittance tie-ups overseas. Alongside Philippine banks, courier and cargo companies and informal transfer providers continued to prosper with their door-to-door service where cash was actually delivered to the beneficiaries' homes.

57. Today we see a convergence of services offered by Philippine banking institutions, licensed non-bank money transfer agencies, courier/cargo companies, and ethnic stores acting as agents for the banks. Different types of alliances have been formed and partnerships among the various stakeholders have become very common. Exclusivity is no longer a common practice as revenues and profits are shared among the players in the alliance. All the major Philippine banks in the remittance business are doing door-to-door services while most non-bank agents are promoting bank "credit to account" transfers. Indeed, with industry estimates on remittance revenues from $250 million to $500 million, there is ample room for everyone to share in profits, not to mention revenues from the use of other financial products and services, such as increased usage of bank accounts, credit or insurance. (See Box 1)

Box 1: Revenue/Estimates

The remittance industry's revenue from Philippine workers and migrant flows is estimated at between $250 million to $500 million per year. The industry as defined here includes not only the banks and money transfer agents but also the courier companies and foreign exchange houses. The estimates are arrived at by the following assumptions:

BSP remittance figures for 2004	$7.6 billion
Average transaction size	$350
Transaction volume	21.7 million
Average price	$8.00
Average foreign exchange (FX) spread	1%
Transaction revenue (21.7million x $8.00)	$174 million
FX revenue ($7.6 billion x 1%)	$76 million
Total Revenue	$250 million

Revenues may amount to as high as $500 million for the following reasons:

1. Major remittance industry players estimate total remittance flows to be as high as $14 billion.
2. Most money transfer agencies charge much higher than the $8.00 per transfer used.
3. Fees for other transfer methods such as door to door or pick up are much higher.
4. FX spread may range from 0.7% to 2.7%.

Source: Asian Development Bank Consultants.

58. There are currently 17 Philippine financial institutions directly involved in servicing remittances of overseas Filipinos through their branches, affiliates or agents in 30 countries. Sixteen out of 44 commercial banks are involved in remittances. Of the 92 thrift banks, only four are engaged in remittances. Sixteen of these banks are members of the Association of Bank Remittance Officers Incorporated (ABROI). The association assists in bringing the concerns of the remittance industry to regulators and other stakeholders in the industry. ABROI members include two specialized government banks, the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines, as well as two branches of foreign banks, Singapore-based United Overseas Bank and Taiwan, PRC-based Chinatrust Commercial Bank Corporation. The six major remittance players currently are the PNB, BPI, Equitable PCI Bank, MetroBank, Rizal Commercial and Banking Corporation (RCBC), and the Land Bank of the Philippines (LBP), who among themselves service 80% to 90% of the market. PNB holds the largest share of the market while each of the other banks handle volumes of at least $700 million. Most of the banks have segregated the remittance business from their banking operations and have set up separate operating facilities and corporate entities both in the Philippines and overseas (see Table 14).

Table 14: Top Bank Players in Remitter Countries

Banks*	Number of Countries with Overseas Presence	Branches/ Subsidiaries /Affiliates	Tie-ups/ Agents	Total
Bank of the Philippine Islands	14	14 (US - 6)	42 (US - 14)	56 (US - 20)
Equitable PCIBank	26	22 (US - 3)	230 (US -150)	252 (US - 153)
Landbank	20	6 (US - 1)	42 (US - 7)	48 (US - 8)
Metrobank	18	28 (US - 11)	22	50 (US - 11)
Philippine National Bank	16	92 (US - 42)	20 (US - 15)	112 (US - 57)
RCBC	22	13 (US - 8)	184 (US - 74)	197 (US - 82)
Total		**175 (US - 71)**	**540 (US - 260)**	**715 (US - 331)**

Source: Asian Development Bank Consultants.
* Other banks in the remittance business are Allied Banking Corporation, Asia United Bank, Asiatrust Development Bank, Philippine Savings Bank, Union Bank of the Philippines, Planters Development Bank, Security Bank, Banco de Oro and LBC Bank.

59. Philippine banks, affiliates or agents and tie-ups are already in 30 countries including US and Canada in North America, 10 countries in Asia and the Pacific, and nine countries each in the Middle East and Europe.

2. Philippine Money Transfer Agencies

60. It is difficult to obtain a reliable listing of entities engaged in the money transfer business due to the involvement of at least five different government agencies in the registration process and the lack of inter-connectivity among them. Furthermore, registration forms in some of the key agencies do not require applicants to specify that they are in the money transfer business.

61. Most of the Filipino companies now engaged in money transfers started as cargo companies and quite a few still handle both cargo and remittance transactions for Filipinos overseas. In the succeeding years, Filipino companies were established to concentrate purely in remittance services. Several companies including iRemit Inc. and LBC Express Inc. are now considered significant players in the industry and are believed to be handling remittance volumes ranging from about $25 million to $500 million each per annum according to estimates of industry players. They have longer business hours than formal institutions, are nearer and more accessible to remitters and are also able to introduce banking services to remitters due to their partnerships with banks.

3. International Money Transfer Agencies

62. There are also large international money transfer agencies in the Philippines. The biggest, Western Union, has a distribution system that includes five major agencies and a 6,000 strong sub–agent network including top Philippine commercial banks such as the BPI and several hundred rural banks and even pawnshops. MoneyGram, through its Philippine representative PeraGram, has a network of 2,000 agents including three commercial banks – RCBC, Equitable PCI Bank and Bank of Commerce, in addition to some 200 postal offices. Vigo, the third largest money transfer company in the world has been in the Philippines for several years and is working through New York Bay. Uniteller on the other hand has a tie-up with a thrift bank based in Metro Manila.

63. The main strength of international money agencies is their ability to deliver remittances faster than other transfer agencies, a large distribution network both in the US and Philippines, and competitive prices on low volume remittances.

4. Host Country Banks

64. There is limited participation in the Philippine remittance market by host country banks. Generally, costs are higher than those of Philippine banks and money transfer offices, unless programs are created specifically for migrant communities. Recently, the Development Bank of Singapore-PSOB (DBS-PSOB) opened its remittance service for Filipino remitters through a tie-up with the BPI. United Financial Japan (UFJ) accepts deposits from Filipino remitters in Japan through the use of ATMs for credit to MetroBank Japan's remittance account. Citibank through its Hong Kong, China branch, has made their technology and systems available to create the unique remittance product offered by Philippine National Bank and the 7-11 chain of convenience stores. Wells Fargo in the US launched in June 2004 a product specifically designed for the Filipino community.

B. Informal Remittance System and the *Padala* Practice

1. Definition of *Padala*

65. *Padala*, which in Pilipino literally means "send", has been an accepted practice in the Philippines in sending money or goods through relatives and friends returning home. It is generally reliable, fees are normally not charged by the carrier, and is done to return a favor or as a gesture of hospitality. In that sense, the concept of *padala* is different from a remittance transacted with a money transfer agency or a cargo company operating a remittance operation who may or may not be licensed and where fees are charged. Nonetheless, whether it is one or the other, unregulated remittance systems and the practice of *padala* will in all likelihood continue, for as long as formal institutions in remitter countries are not accessible, when there are undocumented migrants who are usually disallowed access to formal channels, when there is a deficiency in the distribution system in the location of the beneficiary or when cultural mindsets are unchanged.

2. Shift to Formal or Regulated Systems

66. The market study and interviews conducted with both Philippine and foreign banks and transfer agencies have indicated that many remitters have shifted from informal or unregulated channels to banks and licensed transfer agencies such as Western Union or MoneyGram. The

improvements on cost, speed and service by banks and money transfer companies, the growing financial literacy of remitters and the closure of unregulated money transfer businesses in the wake of the September 11 terrorist attacks, primarily contributed to this shift. Philippine based banks' handling of last mile distribution has also reduced operational costs of their US based money transfer agents.

3. Estimates of Number of Remitters Using Informal Remittance System

67. Estimates of remitters using informal system per country, by industry players are found in Table 15.

Table 15: Industry Estimates of Number of Informal Remittance Users in Selected Economies

Economy	% of Remitters Using Informal System	Stock Estimates of Filipinos as of December[a] 2001	Estimates Number of Remitters Using Informal System[b]
	A	B	C
United Kingdom	Less than 5%	90,345	4,517
Spain	30%	24,854	7, 500
Italy	30%	151,411	45,423
Singapore	Less than 5%	128,446	6,422
Hong Kong, China	Less than 5%	173,889	8,700
Taiwan	30%	122,733	36,800
Saudi Arabia	30%	915,242	274,571
Japan	10% (about 40% is cash brought home)	286,476	28,647
South Korea	40%	30,581	12,232
Total			424,812
United States	Less than 5%	2,555,020	

Source: Major Philippine Remittance Players.
[a] CFO stock estimates, December 2001.
[b] C = A x B.

68. If the estimates are accurate, the amount coursed through informal systems and *padala* practices could amount to $1.5 billion per year (424,812 remitters x $300 average monthly x 12) for these countries excluding the US. The US was excluded since the remittance behavior of a mostly migrant population differs greatly from those of the contract- based workers/professionals living in other countries who frequently send remittances. If we include other countries not on the list, higher estimates may be arrived at.

C. Cash Brought Home

69. Most Filipinos personally carry cash after completing their work assignments or when making temporary visits to the Philippines. A Philippine National Statistics Office (NSO) survey[26] indicates that 24% of money flowing to the Philippines represents cash brought home by returning workers. Entertainment workers from Japan on three to six month assignments bring home large amounts of cash. Filipino workers in Taiwan who have accumulated funds out of a percentage of their wages that is deposited by their employers as a form of forced savings, personally bring these amounts home as well. 80% of the wages of sea-based workers are retained by shipping agencies and remitted to their allotees in the Philippines. The remaining 20% and overtime pay received on board, is usually brought home.

[26] Survey on Overseas Filipino Workers, National Statistics office (NSO), 2001.

D. Remittance and Pricing Structures

1. Types of Transfer Mechanisms

70. Table 16 is a comparison of different types of transfer mechanisms offered by bank and non-bank institutions in the US indicating the price, speed of delivery, and whether the product requires a deposit account for the remitter and the beneficiary. The comparison suggests that "credit to account" offered by Philippine banks is the most competitive in terms of cost and speed. This comparison excludes foreign exchange spreads which range from 1% to 1.25% except for some international money transfer companies whose spreads range from 2% to 2.7%.

Table 16: Comparison of Different Types of Transfer Mechanisms

Type of transfer	Cost to Remit $	Delivery Period	Account Required Remitter/Beneficiary
Philippine Banks			
Credit to Account – same bank $ to Peso	6-8	minutes to 48 hours	No/Yes
Credit to account – different banks $ to Peso	6-15	2-3 days	No/Yes
Credit to account – same bank $ to $ (up to US$500)	15-20	minutes to 48 hours	No/Yes
Credit to account – different banks $ to $ (up to US$500)	22-30	2 to 3 days	No/Yes
Door to Door Cash $ to Peso	10-12 12-14 for provincial	24 hours to 3 days 3 to 5 days for provincial	No/No
Pick up at bank counters $ to Peso	6-12	24 hours to 3 days	No/No
Pick up at bank counters $ to $ (up to $500)	15-20	24 hours to five days	No/No
Prepaid, reloadable Credit/debit cards	8	24 hours	No/No
Internet – credit card to bank account ($ to Peso only)	8 (Limit of $300)	minutes	No/Yes
Philippine MTOs			
Credit to Account – same bank $ to Peso	7-12	Minutes to 24 hours	No/Yes
Credit to account – different banks $ to Peso	10-15	12 hours to 3 days	No/Yes
Credit to account – same bank $ to $(up to $500)	15 (Only one MTO)	24 hours	No/Yes
Door to Door Cash $ to Peso	11-12 11-16 for provincial	2 - 3 days 3-5 for provincial	No/No
Prepaid, reloadable Credit/debit cards	8	minutes	No/No
Internet – credit card account to bank account $ to Peso only	8 300 limit	minutes	No/Yes

Table 16: Comparison of Different Types of Transfer Mechanisms (cont'd.)

Type of transfer	Cost to Remit $	Delivery Period	Account Required Remitter/Beneficiary
Internet account to credit card $ to Pesos	Tiered 11-16 200-400	minutes	No/No
International MTOs			
Pick up at MTO agents $ to Peso	Tiered 14/up to 400	minutes	No/No
Pick up at MTO agents $ to $	Tiered 14/up to 400	minutes	No/No
Prepaid, reloadable Credit/debit cards $ to Peso	Tiered 8-16 200-400	10 minutes	No/No
Internet – bank account to bank account $ to Peso only	10	minutes	Yes/Yes
Internet account , credit card to bank account or cash pick-up $ to Pesos	Tiered 17-29 200-400	24 hours	No/No
Host Country Banks			
Credit to Account – same bank $ to Peso	35-45	3- 5 days	Yes/Yes
Credit to account – different bank $ to Peso	35-45	3 -5 days	Yes/Yes
Credit to account – same bank $ to $	35-45	3 -5 days	Yes/Yes
Pick up at bank counters $ to Peso	35-45	3 -5 days	Yes/No

MTO = money transfer offices
Source: Asian Development Bank Consultants.
Note: Cost to Remit – data as of March and April 2004.

71. Certain characteristics of these transfer mechanisms bear emphasis. First, most of the products do not require bank accounts for the beneficiary. As such, the product performs simply as a remittance mechanism but does not introduce remitters and their families to banking, savings, investment or other financial products and services. Secondly, the somewhat low percentage of use of door-to-door services, may be attributed to the greater use of ATM and other low cost banking products heavily marketed by banks. Nonetheless, door-to-door services will continue to be availed of for as long as there are remote areas that are underserved by banks. Third, transfer fees from the US to the Philippines involving the payment of proceeds in US dollars are higher than when proceeds are paid in pesos, due to the absence of a foreign exchange spread on the dollar-to-dollar transaction. However, these costs are still lower than what remitters have to pay US banks which is from $35 to $45, compared to from $6 to $15 if done through Philippine banks.

2. Pricing in Country of Remitter

72. The current cost for a credit-to-account, dollar to peso transfer by Philippine banks/remittance agencies for remittances with proceeds credited to beneficiary's account in the same bank in the Philippines differs from country to country, depending on the regulatory and competitive environment. In Japan for instance, there are only three Philippine banks (two

operating as branches and another as a representative office) and it appears that only banks and post offices are allowed to engage in remittance transactions. In contrast, the presence of numerous banks and money transfer agents in Hong Kong, China has enabled costs to be the lowest among those surveyed. Assuming a 1% foreign exchange spread,[27] cost as a percentage of remittance amounts is shown in Table 17. Appendix 3 shows a full comparison of the various options for US and Singapore originated remittances including fees charged by money transfer companies and host country banks.

Table 17: Credit-to-Account $ to Philippine Peso from Selected Economies

	Cost to Remit ($)	Cost as a Percentage of Remittance $200 (%)	Cost As A Percentage of Remittance $400 (%)
United States	7.00	4.5	2.7
Singapore	3.90	2.9	1.9
Hong Kong, China	2.60	2.3	1.7
Saudi Arabia	7.00	4.5	2.7
Japan	18.00	10.0	5.5
United Kingdom	13.00	7.5	4.3
Italy	9.50	5.75	3.4
Korea	9.00	5.5	3.3

Source: Asian Development Bank Consultants.

3. Cost Components

73. The sustainability of players in the money transfer business are affected by variable costs and overhead expenses which in turn affect remittance charges. Other than these, remittance players are concerned with the uncertainty of profit returns and constantly evaluate revenue and expense dynamics to stay competitive. Long established banks in the remittance business are concerned with money transfer agents who dictate on terms of engagement, or with new players who operate with little overhead.

VIII. PHILIPPINE BANKING AND REMITTANCE FRAMEWORK

A. Regulatory Framework

1. Regulatory Agencies

74. Banks, remittance companies, and foreign exchange corporations must be registered with the Securities and Exchange Commission (SEC), the government agency responsible for the registration, licensing, regulation and supervision of all corporations and partnerships organized in the Philippines. Banks and foreign exchange corporations which are affiliates or subsidiaries of banks also require a license from the BSP which supervises the operations of said banks and corporations. Remittance companies and foreign exchange corporations not affiliated with a bank are not required to have a license from the BSP. Single proprietorships engaged in remittance and foreign exchange operations simply register their businesses with the Bureau of Domestic Trade, an arm of the Department of Trade and Industry (DTI), in addition to obtaining a Mayor's Permit from the local government, as well as registration of books of accounts with the Bureau of Internal Revenue. To complete government requirements,

[27] The 1% foreign exchange spread is the normal spread applied by commercial banks located in Manila for retail transactions. This is also based on inquiries conducted among banks which yielded a range from 0.70 to 1.5%.

hired staff of all such establishments must be registered with the Department of Labor and Employment (DOLE) and the Social Security System (SSS).

2. Basic Laws and Regulations on Banking and Foreign Exchange

75. The General Banking Law of 2000 (Republic Act [RA] 8791) provides for the regulation, organization, and operations of banks, including thrift banks, rural and cooperative banks, and quasi-banks. Various categories of banks may have limited authority. Under the Central Bank Act (RA 7653), the BSP's responsibilities and primary objectives are to provide policy directions in the areas of money, banking and credit and to supervise the operations of banks and quasi-banks including their subsidiaries and affiliates engaged in allied activities.

76. Central Bank Circular No. 1389 dated April 1993, contains the consolidated rules and regulations covering foreign exchange transactions. While the circular provided for a liberalized regulatory environment and allowed foreign exchange to be freely sold and purchased outside the banking system, there are also limitations, particularly on foreign exchange sourced from government loan proceeds. For instance, under the Philippine Constitution, all public and private sector publicly guaranteed obligations to foreign creditors, including offshore banking units and foreign currency deposit units, shall be referred to the BSP for prior approval and subsequent registration. Private sector bond/note issues offshore require prior approval and/or registration by the BSP if they are covered by any guarantee from local banks or are intended to be serviced using foreign exchange sourced from the domestic banking system. Foreign exchange sourced from the domestic banking system, however, is subject to certain limitations.

77. Foreign exchange receipts, acquisitions or earnings may be sold for pesos to authorized agent banks or outside the banking system or deposited in foreign currency deposit accounts in the Philippines or abroad and may be used for any legal purpose by individuals or corporations. There are no mandatory foreign exchange surrender requirements imposed on export earners. The exchange rate is not fixed and varies daily in relation to market forces.

78. BSP Circular No. 388 dated May 26, 2003 consolidates and clarifies existing regulations on the sale of foreign exchange for non-trade transactions and the authority to sell foreign exchange by authorized agent banks, BSP-supervised non-bank entities, their subsidiaries/affiliate foreign exchange corporations. Under said circular, authorized agent banks may sell foreign exchange to residents for any non-trade purpose without prior BSP approval except for amounts in excess of $5,000 and in the sale of foreign exchange for payment of non-trade obligations that are foreign currency loan or foreign investment-related, in which case the purchaser must present to the bank a notarized written application and supporting documents. For amounts less than $5,000 other than foreign currency loan or foreign investment-related, only a written application is required disclosing the purpose of the purchase. Departing non-residents may reconvert at ports of exit unspent pesos up to a maximum $200.00 without need of proof of previous sale of foreign exchange to banks. Philippine notes, coins and checks and electronic transfer of funds, money orders and other bills of exchange in excess of ₱10,000 that are drawn in pesos against local banks operating in the Philippines cannot be brought out without prior BSP approval. There are no limitations on bringing foreign currency notes in and out of the country. However, amounts of over $10,000.00 must be declared in writing to the Bureau of Customs with a disclosure of information on source and purpose of such transport.

79. Republic Act 1405 or the Bank Secrecy Act prohibits parties and individuals from providing information to third parties on deposit accounts. This has been amended by the Anti-Money laundering Law which will be discussed in the next section.

B. Anti-Money Laundering Laws

80. RA 9160 was signed into law on 29 September 2001. It defined money laundering as a crime when proceeds from illegal activities are made to appear to have originated from legitimate sources. It created the Anti-Money Laundering Council (AMLC) which is vested with powers to require the reporting of all suspicious transactions irrespective of amounts involved. The RA defined covered transactions which could be a single, series, combination or pattern of transactions in excess of ₱4 million, that are subject to mandatory reporting. It also defined 14 unlawful activities and provided penalties for money laundering. The amendments to RA 9160 were signed into law (RA 9194) on 7 March 2003. The amendments defined the coverage of the law (banks, quasi-banks, trust entities, non-stock savings and loan associations, pawnshops, foreign exchange corporations, money changers, money payment, remittance and transfer companies, among others); lowered the threshold for covered transactions from ₱4million to ₱500,000; authorized the BSP to inquire or examine any deposit or investment with any banking institution without court order in the course of a periodic or special examination; and removed the provision prohibiting the retroactivity of the law.

81. The AMLC is composed of the Governor of the BSP as Chairman, the Commissioner of the Insurance Commission and the Chairman of the SEC. The AMLC's functions include the receipt and analysis of reports, institution of civil forfeiture proceedings, filing of complaints with the Department of Justice (DOJ), the initiation of investigations of covered transactions, money laundering activities and other violations, issuance of freeze orders on monetary instruments or property alleged to be proceeds of any unlawful activity. As of December 2003, the AMLC received 375,101 covered transaction reports/suspicious transaction reports and letters-advice. A total of 448 bank accounts involving a total of ₱1.1 billion have been frozen through the initiation of the AMLC.

82. The law created a financial intelligence unit and modified the Bank Secrecy Act in respect of lifting the privacy of banking records when they are subject of an investigation for suspected money laundering activities. Covered institutions are required to keep a record of the true identity of customers based on official documents (original identification documents issued by an official authority and bearing a photograph of the customer), establish appropriate systems and methods based on internationally compliant standards and adequate internal controls for verifying and recording the true and full identity of customers. The following minimum information must be obtained from individual customers: name, present address, permanent address, date and place of birth, nationality, nature of work and name of employer, or nature of self-employment/business, contact numbers, tax identification numbers, SSS or Government Service and Insurance System number, specimen signature, source of funds, and names of beneficiaries.

83. A subcommittee on Anti-Money Laundering and Combating the Financing of Terrorism, composed of 19 Philippine government agencies was formed since 15 August 2003 to ensure coordination in the investigation and prosecution of cases. Two special teams of prosecutors from the DOJ specialize in the prosecution and investigation of money laundering cases. The AMLC has nominated some Regional Trial Court (RTC) judges to specialize in the handling of such cases. Appendix 4 summarizes other accomplishments made by the AMLC.

84. Although the Philippines remains in the list of non-cooperative countries, efforts have been exerted by the Philippine government for the delisting, starting with the passage of the amendatory RA 9194, which effectively spared the country from FATF sanctions. In October 2003, the amendments were evaluated by the FATF and found to be at par with international standards, earning likewise a commendation for addressing the weaknesses identified in the original AML law. From 10 to 14 November 2003, the Asia-Pacific Group on Money Laundering (APG) conducted an on-site visit and evaluation of the implementation of the anti-money laundering laws in the AMLC and other relevant government agencies such as the DOJ, Insurance Commission, and the Criminal Investigation and Detection Group(CIDG). The final report of the APG's mutual evaluation will be released and discussed on the APG Annual Meeting in South Korea in June 2004. The Philippines has also submitted an Implementation Plan (IP) for the AMLA, the FATF Regional Group on 19 January 2004. The submission of the IP is the second of three stages in the FATF's delisting procedure. The third and final stage is the FATF evaluation of the Philippines implementation of the AMLA and its amendments.

C. Tax on Banks and Non-bank Financial Intermediaries

85. Documentary stamp taxes (DST) of ₱0.30 for every ₱200.00 are imposed on all bonds, loan agreements, bills of exchange, drafts, instruments and securities, deposit substitute instruments, certificates of deposits drawing interest, orders for the payment of any sum of money except for loan agreements which do not exceed ₱250,000. Acceptance or payment of any bill of exchange or order for the payment of money purporting to be drawn in foreign country but payable in the Philippines are also subject to the DST of ₱0.30 for every ₱200.00.[28]

86. There are also taxes imposed on interest income and RA 8424 provides for a final witholding tax rate of 20% on amount of interest from any currency bank deposit, yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements for tenors less than three years. The tax rate is subsequently reduced for longer term deposits: 12% for three years to less than four years, and 5% for four years to less than five years. Terms of five years and more are exempt from taxes. Tax rate on interest income from foreign currency deposits is 7.5%.

D. Clearing Systems

87. The Philippine Clearing House Corporation (PCHC), a privately owned entity formed by member banks of the Bankers Association of the Philippines (BAP) together with BSP, handles local, regional and provincial check clearing for peso transactions. The banking industry uses three electronic clearing systems: (i) Philippine Domestic Dollar Transfer Systems (PDDTS); (ii) Philippine payment system (PHILPASS) which provide for real time gross settlement for high value inter-bank treasury and large corporate transfers; and (iii) Electronic Peso Clearing and Settlement (EPCS), which is an inter-bank account-to-account system that operates as a

[28] On 17 February 2004, R.A. 9243, entitled "An act rationalizing the provisions of the documentary stamp tax of the National Internal Revenue Code of 1997, as amended," was signed into law. Among the measures approved under the statute include the following: (1) waiver of the DST on secondary trading of debt and equity issues for a 5-year period; (2) increase of DST on primary government or private debt issuances to ₱1 for every ₱100 worth of security from 30 centavos under the present system; (3) reduction of DST on equity issues to ₱1 from the current ₱2; (4) a shift in the basis for computing taxes from the amount of the policy to premium payments in the case of pre-need and insurance products. The law eliminated DST on secondary trading of financial instruments, lowering transactions cost, and consequently is expected to increase the volume of financial transactions in the secondary market.

domestic giro facility. The EPCS fully electronic system is a secure, efficient and cost effective way of handling payments and collections between commercial banks.

E. International Connectivity

88. Most local banks use the transfer systems of their major US correspondent banks and/ or the SWIFT[29] inter-bank systems for their remittance transactions. Several banks have also established systems that facilitate on-line remittance transactions. Remitters would normally go to the bank's agents or remittance centers and pay for the remittance by check or cash. Some remitters may have accounts with Philippine bank branches. The various agents of banks all over the US would remit to the Philippine Bank's US depository bank through Automated Clearing House (ACH), after which payments are consolidated by the local bank's remittance centers which then remit funds (usually one batch a day payment) using SWIFT and/or a US depository bank's system and credit the Philippine Head Office account with the correspondent bank (The other types of flows are described in Appendix 5).

89. With the current systems of remitting money from overseas, local banks and money transfer agents are able to provide remittance service in minutes or on the average within 12 to 24 hours, even if some institutions advance the funds to beneficiary if credits from various agencies have not yet been verified.

90. International interconnectivity might be enhanced with the plans of the US Federal Reserve Bank to introduce ACH to the Philippine payment system as it will enable banks in the US to remit funds without requiring a correspondent bank in the Philippines.[30] As a transfer, clearing and settlement system in one, costs are expected to be lower. Nevertheless, a thorough study should be made on cost and benefits before its final implementation. As it is understood under ACH, foreign exchange is normally executed by a single entity or gateway bank. However, this could cut the major source of revenue for the local banking system and discourage a major link that will ensure that remitter and beneficiaries receive the benefits of banking services for remittance and savings. Lessons could be learned from the ACH in Mexico which was implemented early this year. A review of prices for domestic ACH transactions in the US revealed that US remitting banks continue to price at the range of $25 to $30 with receiving banks normally charging an additional $10. ACH implementation should be supported if the Filipino remitters and their beneficiaries will directly benefit from the system's features and costs. Appendix 6 gives a fuller discussion of the US ACH system and its implications on the Philippine system.

91. International connectivity with other regions and countries especially Asia Pacific countries should be closely monitored and pursued. In 1993, the US National Automated Clearing House Association (NACHA) created the Global Payments Forum with the membership open to financial institutions, national trade associations, ACH associations, ACH operators, central banks, vendors, service and communication providers and other industry stakeholders. The forum's mission is to establish the framework for the efficient exchange of cross border, batch-oriented, and electronic corporate and consumer payment transactions. The

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[29] SWIFT (Society for Worldwide Interbank Financial Telecommunications) is the industry owned cooperative supplying secure, standardized messaging services and interface software to 7,600 financial institutions in 200 countries. The SWIFT community includes banks, brokers/dealers and investment managers, as well as their market infrastructure in payments, securities, treasury and trade (http:///www.swift.com).

[30] Support for the international ACH interconnectivity is given high priority within the BSP with responsibilities for implementation given to the Managing Directors of Information Systems Technology and Controllership Departments.

forum is currently reviewing the environment to see what projects are being developed on a global basis that might enable a "global" ACH to be established by linking existing or developing infrastructure rather than creating a new system. The project is at its early stages and is currently identifying projects in various regions that it can work with like the Pan European Payments Council.[31]

F. Payment Methods

92. While the use of cash is still prevalent, the last 10 years has seen the dramatic growth in the use of ATM cards and credit cards, with the trend towards more use of technology. Filipinos have responded positively to the very aggressive marketing of credit card companies as shown in the increased gross billings. However, the volume of electronic payments has not increased significantly despite the introduction of the EPCS system in 2002. Charges of from ₱90 to ₱150 are reported to be levied on EPCS payments between banks, and the system remains underutilized despite the low price of ₱10 per transaction charged by the PCHC.

93. Several commercial banks have established their own electronic online systems between their branches in the Philippines and overseas and prefer to encourage their customers— payers and payees to establish accounts with their own banks to facilitate payments between parties and avoid revenue leakages. Three automated teller machine (ATM) networks—Bancnet, Megalink and Expressnet — have also established their own e-payment systems to facilitate electronic payments. Appendix 7 shows transaction volumes and costs of various payment methods.

3. Remittance Distribution in the Philippines

G. Domestic Distribution

94. The formal banking system includes commercial banks, thrift banks, and rural and cooperative banks.

Table 18: The Philippine Banking System

	Head Offices	Branches	ATMs		Total
			Onsite	Offsite	
Commercial Banks	42	4,254	3,131	1,210	8,637
Thrift Banks	92	1,185	195	37	1,509
Rural and Cooperative Banks	765	1,156	0	0	1,921
Total	899	6,595	3,326	1,247	12,067

Source: Bangko Sentral ng Pilipinas, 31 December 2003.

95. An attempt was made to determine the extent of banking outreach to obtain estimates of unbanked population in the Philippines. Although direct data on unbanked populations are not available or difficult to obtain, certain judgments might be made on the basis of the geographical location of banks and rough calculations on the number of people served by bank ATMs, post offices and cooperatives.

[31] Source: NACHA, International and Corporate Payments.

96. The location of head offices and branches are concentrated in the National Capital Region (NCR). According to the BSP, a banking office serves an average of 10,892 persons (as of end December 2003) with a geographical disparity that is quite pronounced. Banks in the NCR service about 4,209 persons, while several regions have banks servicing more than 20,000 persons. The increase of ATM use has improved banking access. With respect to overseas Filipinos, taking into account the total population of 7,583,000 from the figures of the Commission on Filipinos Overseas (CFO), the ratio of overseas Filipinos to banks, ATMs and post offices combined is 572.5 on the average, with further improvements if cooperatives are included (see Table 19).

Table 19: Saturation Rate of Possible Remittance Retail Outlets

	No. of OFWs Dec 2002 ('000)	Bank Offices in the Phils. Jun 2003	ATMs in the Phils. Dec 2003	Total Banks & ATMs	OFWs/ Banks & ATMs	Post Offices Mar 2004	Banks, ATMs & Post Offices	OFWs Banks, ATMs & Post Offices	No. of Coops	Total Outlets	OFWs/ All Outlets
Total Phils.	7,583	7,398	4,341	11,739	646	1,505	13,244	573	31,163	44,407	171
National Capital Region	1,488	2,569	2,354	4,923	294	19	4,942	293	1,828	6,770	214
Cordillera Administration	152	106	58	164	2,090	82	246	618	804	1,050	145
Region 1	955	368	89	457	1,648	99	556	1,718	1,439	1,995	479
Region 2	379	201	29	230	853	81	311	1,219	2,065	2,376	160
Region 3	910	791	276	1,067	777	145	1,212	751	2,231	3,443	264
Region 4	1,433	1,267	578	1,845	737	211	2,056	697	3,238	5,294	271
Region 5	205	214	64	278	1,240	88	366	560	1,163	1,529	134
Region 6	713	385	190	575	407	136	711	1,003	2,268	2,979	239
Region 7	318	485	297	782	829	123	905	351	1,730	2,635	121
Region 8	136	124	40	164	1,410	124	288	472	2,279	2,567	53
Region 9	227	108	53	161	291	110	271	838	1,277	1,548	147
Region 10	99	243	97	340	550	102	442	224	1,474	1,916	52
Region 11	197	236	122	358	858	101	459	429	3,874	4,333	45
Region 12	182	148	64	212	1,152	84	296	615	1,163	1,459	125
Region 13	152	104	28	132	2,717	not available	132	1,152	969	1,101	138
Muslim Mindanao	144	49	4	53		not available	53	2,717	3,361	3,414	42

Source: Asian Development Bank Consultants.

97. BSP figures for full year 2003 provide an overview of the participation of the formal banking system on remittance flows. Commercial banks have by far the largest share of the remittance market with volume of $7.15 billion (93.6%), bank foreign exchange affiliates at $444 million (5.8%), thrift banks with $43.6 million (0.6%) and Offshore Banking Units (OBU) with $1.0 million. Rural banks are simply conduits for remittances mainly by Western Union and do not register any figures. Commercial bank figures include transactions of money transfer companies coursed through the banking system.

98. Despite their capacity for outreach in remote areas, courier companies may sometimes be unable to service certain areas, particularly when terrain is rough or if security is an issue. In these cases, the beneficiary has to travel to the town proper to use an ATM or pick up remittance proceeds from banks, money transfer offices or their agents.

H. Inter-Commercial Bank Connectivity

99. According to BSP, seven of thirty-seven banks with electronic banking services offer electronic interbank fund transfer across other banks in the Bancnet ATM consortium via the internet. The areas that need attention are the lack of physical presence of banks or other

reliable remittance conduits in the remote areas, and the underutilized status of the EPCS system.

I. Interconnectivity Between Members of the Banking System

100. Utilization of the various clearing systems is limited to the member-banks of the PCHC consisting of 42 commercial banks which are stockholders and direct participants and 39 thrift banks which are non-stockholders and associate members. Most of the thrift banks and all rural/cooperative banks have not joined due to the high cost of membership of ₱8 million. The system could also be subjected to settlement and operational risks with the inclusion of small rural banks which are not automated and undercapitalized. The Rural Bankers Association of the Philippines (RBAP) believes that rural banks should first interconnect among themselves before attempting to join the PCHC.

IX. REMITTANCE ENVIRONMENT IN COUNTRIES OF STUDY

A. Singapore

1. Regulatory Environment

101. A license from the Monetary Authority of Singapore (MAS) is required to operate a money exchange business and a remittance business under Singapore's Money-Changing and Remittance Business Act. Violators are subject to steep fines and imprisonment. Aside from the required security deposit of S$100,000, remittance licensees must also keep complete records of all business transactions and retain the same for at least six years. A current or deposit account must also be opened in the name of the licensee at a bank with the words "customers' account" added to the title of the account.

102. The Singaporean Government has adopted a policy of liberalizing the financial sector and plans to provide licenses to new foreign-bank players. To encourage banks to service the needs of foreign workers/residents, a notification dated 27 June 2003 allowed full banking license banks, wholesale banking license banks and licensed offshore banks to operate a limited purpose banking branch for money changing and remittance business for an annual fee of S$1,000. Reforms in the money transfer business, coupled with greater coordination by agencies in investigative and legal procedures backing up its firm resolve to punish violators, seem to have enhanced competition whilst ensuring the integrity of the financial system. The effects are already being reflected in the reasonable costs for remitting money. Furthermore, money remittance centers servicing OFWs are all located in one building allowing easier monitoring by the MAS or in appropriate cases, by the Suspicious Transactions Reporting Office (STRO), Singapore's Financial Intelligence Unit or other units of the police department.

2. Filipino Remittances in Singapore

103. Most of the estimated 128,476 Filipino service workers and professionals use the remittance services of 21 money transfer agencies and banks including PNB, all located at Lucky Plaza along Orchard Road, a virtual one stop shop on remittances where remitters are able to compare prices before making a remittance. The survey of workers and professionals in Singapore indicated a majority directing their remittances to accounts in Philippine banks. All of the remittance agencies in Lucky Plaza offer bank credit-to-account service and most have tie-ups with Philippine banks.

104. Remittance agencies are required to deposit funds under "customers' account" with banks in Singapore prior to remittance to Philippines. Proceeds are then remitted to the foreign currency account of the remittance agency with the Philippine bank tie-up. The foreign exchange is bidded out and is sold through the tie-up bank only if the foreign exchange rate offered is competitive. Non-banks may be used for the sale of foreign exchange.

105. The PNB, despite its premium pricing of S$8.00 for credit to account versus other service providers' price of S$4.00- S$6.00 appears to have a major share of the remittance business in Singapore, as may be indicated by the long lines of remitters at the PNB branch compared to other companies. DBS-PSOB in order to capture market share is offering remittances services priced to almost half of PNB's price following the market pricing of other smaller money transfer companies in Lucky Plaza.

106. Philippine branches of Singapore banks such as United Overseas Bank (UOB) are also involved in the remittance business through tie-ups with remittance agencies in Lucky Plaza. Singapore Postal Office also services remittances; however price and delivery period are not competitive with those of players in Lucky Plaza. Other than DBS-PSOB and UOB (through its remittance tie-up), other Singaporean and foreign banks continue to charge S$30-S$40 per remittance versus S$4.00 to S$8.00 for credit to account transfers done with PNB, DBS-POSB and other licensed remittance agencies in Lucky Plaza. MoneyGram and Western Union charges are higher than the transfer agencies in Lucky Plaza. (Appendix 3, Table A3.2)

B. The United States

1. Summary of Methods to Transfer Funds

107. There is a wide variety of financial mechanisms used in the US by immigrants to transmit funds back to their home country. These include the use of banks, savings associations and credit unions, which generally provide these services for customers who establish accounts at these institutions. There are also many national and regional money transmitting companies that provide domestic and international wire transfer services without the need for the sender or the receiver to establish an account. The US postal service has arrangements with several foreign postal organizations for the transfer of funds. In addition, there are numerous informal mechanisms for transferring funds, including hand delivery by the sender or by a relative, friend or other associate of the sender, courier services and fringe transfer services such as the *hawala* or *hundi* that do not rely on the traditional financial services sector to deliver funds.[32]

108. Some of these transfer methods are used in combination with others. For example, US bank to foreign bank transfers may also rely on the postal service, couriers or other methods to provide direct delivery of funds to customers located within a particular country. Western Union and MoneyGram, the two largest money-transmitting businesses in the US, often rely on banks in another country to act as their agents in making funds available to foreign recipients. Western Union has contractual arrangements with over 170,000 agents located in more than 190

[32] Orozco, Manuel, *Worker Remittances: An International Comparison*, Working paper commissioned by the Multilateral Investment Funds of the Inter-American Development Bank, February 2003.

countries worldwide.[33] MoneyGram accounts for millions of transactions each year through a network of more than 60,000 agents in 160 countries.[34]

109. In the US, money transfer companies usually rely on independent agents to either receive or disburse funds on behalf of their customers. These agents are generally retail businesses, such as grocery stores, check cashers, department stores, pharmacies, travel agencies, and convenience stores that are located throughout the country.[35] They perform this service on behalf of the money transfer company and usually receive a nominal fee for this service.

110. According to the most recent figures available, US money services businesses account for over $200 billion in transactions annually.[36] The US Treasury Department estimates that there are over 200,000 money services business (MSBs) in the US and they range in size from small businesses in one or two locations to large operations with numerous branches and large domestic and foreign agent networks.[37] Many businesses will provide more than one MSB service. For example, convenience stores, check cashers and discount stores often act as agents for a money order issuer as well as a money transmitter or will serve as an agent for two or more money transmitting companies.

111. As with other MSB services, the money transfer industry is growing within the US for a number of reasons. First, many lower-income US residents are not able to maintain sufficiently high deposits in banks to avoid high monthly service fees. Others find the charges for foreign transfers to be significantly higher than fees through the nonbank community. In many cases, non-bank transmitters are more conveniently located than banks or provide more flexible hours of operation, including weekends and evenings. In addition, for those who may have entered the country illegally (or have stayed beyond the terms of their visa, there is fear that their status will be identified when they present identification documents to open a bank account.[38] As is the case in many other countries,[39] some US residents face cultural or economic obstacles to their entry to the banking system.

2. General Legal Framework

112. In the US, banks, savings associations, credit unions and other depository institutions are subject to comprehensive federal regulatory requirements that are designed primarily to ensure the financial viability of the institution itself, to safeguard its customers' deposits and to protect the integrity of financial transactions conducted through the institution. There are five

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[33] *Frequently Asked Questions: Western Union Money Transfer* (from the Western Union web site), Money Transfer, General Information, Question No. 1 http://www.westernunion.com/info/faqMT.asp.

[34] Travelers Express/MoneyGram, MoneyGram International Money Transfer, Retail Business Partners, http://www.moneygram.com/servlet/DefaultApplyXSL?xslURL=/Display/temgweb.xsl&URL=/Document/p4__RetailBusiness.xml.

[35] *Id*. at 6.

[36] 64 FR 45438 at 45439 (August 20, 1999), *quoting from* Coopers and Lybrand, LLP. 1997. Non-Bank Financial Institutions: A Study of Five Sectors for the Financial Crimes Enforcement Network (Coopers & Lybrand LLP is now PriceWaterhouseCoopers, LLP).

[37] 67 FR 21114, 21116 (April 29, 2002).

[38] Suro, Roberto, *Billions in Motion: Latino Immigrants, Remittances and Banking,* Executive Summary, Report prepared by the Pew Hispanic Center and the Multilateral Investment Fund, 2003, at 3.

[39] See, *e.g., Indian Express*, "Chequemate: Justice Can Wait, Not Bank Accounts," (April 24, 2004) in which the Indian Government had attempted to compensate the survivors of a tragic stampede at a government event. The government had presented checks to each of the 22 families. However, the Government's actions were unsuccessful because none of the families maintained a bank account and were either unfamiliar with how to open an account or were unable to borrow funds to open an account.

separate federal banking agencies that supervise and examine each member institution's compliance with these requirements.[40] While depository institutions are primarily subject to federal supervision and regulation, they are also subject to oversight by each of the state governments in which they operate.

113. With the exception of the equities markets (*e.g.*, brokers or dealers in securities, investment companies and futures or commodities firms), non-bank financial institutions, which include money transmitters, currency exchangers, check cashers, and issuers and sellers of money orders and travelers checks, are largely regulated and supervised at the state, rather than federal, level. The one exception exists in the area of anti-money laundering requirements, in which the federal government has taken the lead in imposing a set of anti-money laundering requirements upon the entire non-bank industry. Regulation in this area will be discussed in more detail, below. In order to distinguish these financial businesses from other non-bank financial institutions such as insurance or equities firms or casinos, the US Treasury Department has defined the former firms as "money services businesses" or MSBs.[41]

114. The degree of state regulation and oversight of MSBs varies substantially. All but four states exercise this supervision through state licensing laws that are primarily aimed at safety and soundness issues to provide protection to the consumers of these financial services.[42] Many states also require the MSB business to register with the state, to have a minimum net worth and to obtain bonding sufficient to cover the funds at risk in the instruments or payment devices sold.[43] State regulators also impose specific record keeping and reporting requirements and many regularly examine MSB businesses (and, in some cases, their agents) to determine their compliance with these requirements.[44] Applicants for licenses may also have to provide photo identification, tax information, and, in some cases, fingerprints. Some states require detailed background investigations of the principal owners of MSBs, in order to determine if the owner or owners were involved in financial fraud or other criminal activity and may thus pose a risk to the business's customers. Many states also require each MSB business to provide a detailed list of their agents.[45]

115. Generally, states attempt to oversee MSBs through the examination process in which state government auditors conduct on-site visits with these firms, review their procedures and sample records of customer activity, and ultimately evaluate their compliance with state regulatory requirements (see Appendix 8). If violations are discovered, most states have the authority to require the MSB to take corrective steps or, in more serious cases, to assess civil money penalties against noncompliance institutions. Some states have the authority to refer an MSB to state criminal authorities for investigation and potential prosecution. As a practical

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[40] The Comptroller of the Currency (OCC), which charters and supervises approximately 2,200 national banks and 56 federal branches of foreign banks; the Board of Governors of the Federal Reserve System, which supervises bank holding companies, approximately 1,000 state banks as well as the US activities of foreign banks; the Federal Deposit and Insurance Corporation, which supervises the approximately 5,300 state chartered banks or savings associations that are not members of the Federal Reserve System; the Office of Thrift Supervision, which supervises approximately 928 federally chartered savings associations; and the National Credit Union Administration, which supervises more than 10,000 credit unions.

[41] 31 CFR 103.11(uu). This definition includes the business that provides the service, as well each agent or branch of the business.

[42] National Conference of Commissioners on Uniform State Law, Uniform Money-Services Business Act (final version), August 4, 2000.

[43] Many states also require each MSB business to have at least $50,000 in available funds for each MSB branch. *See, e.g.*, New York Banking Law 641.

[44] *Id.* at 5.

[45] *Id*., New York Banking Law 641 *et seq*.

matter, because state resources are often limited, criminal proceedings against MSBs are rare and are brought, if at all, when there is independent criminal activity that has been conducted or knowingly facilitated by the MSB.

3. Anti-Money Laundering Controls

116. Stated simply, money laundering is the act of disguising the source of money or funds derived from criminal activity. The money launderer's goal is to hide or obscure the illegal source of his funds so that the underlying criminal activity cannot be detected. Because nearly all crime is committed for profit, a money launderer generally must utilize one or more aspects of the financial services community to move his funds and to place them safely under his control. In some cases, a money launderer may start with legitimate funds that are ultimately to be used to facilitate criminal activity. This situation occurs frequently, for example, with terrorist financing, where legitimate funds may be raised to finance illegal terrorist operations. In either event, the launderer's goal is to distance the financial path from the underlying illegal operation.

117. Since the 1980's, money transmitters and other MSBs have been subject to a series of federal anti-money laundering controls under regulations issued pursuant to the Bank Secrecy Act.[46] Many of these controls are similar or identical to requirements to which banks are subject. For example, MSBs are required to file reports with Treasury on any currency transaction that exceeds $10,000.[47] MSB are also required to keep records of the cash purchase of money orders, traveler's checks, and other monetary instruments that exceed $3,000 in one day.[48] These reporting and record keeping requirements are designed to impose an audit trail of cash transactions and the relevant parties to those transactions and require the MSB to verify the identity of the person conducting the transaction as well as its beneficial owner. In addition, those MSBs engaged in money transfers are required to keep detailed records of the parties, their addresses and other identifying information, and the relevant details of any money transfer at or above $3,000.[49]

118. Since the terrorist attacks of 11 September 2001, US anti-money laundering efforts have increased substantially due in large part to the passage of the USA Patriot Act.[50] Many of these new controls were designed to require a broad range of financial institutions to affirmatively establish programs to detect and report suspicious money laundering and terrorist financing activity. Although MSBs were already under Bank Secrecy Act requirements, the new law has substantially enhanced existing controls and led to the promulgation of additional money laundering and counter terrorism financial controls.

119. For money transmitters and other MSBs, the Patriot Act (and regulations issued by the US Treasury since enactment of the Act) required three major changes: (i) the obligation of MSBs to establish anti-money laundering compliance programs; (ii) a new obligation for MSBs (with the exception of check cashers) to file suspicious activity reports (SARS); and (iii) a new national registration requirement for all firms that directly provide MSB services.

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[46] 31 USC 5311 *et seq*. The Bank Secrecy Act is administered by the US Department of the Treasury through the Financial Crimes Enforcement Network (FinCEN). The statute is not self-implementing and FInCEN (and its predecessors) have issued a series of regulations that have imposed anti-money laundering controls affecting a large universe of financial institutions including banks, savings associations, credit unions and other depository institutions, broker-dealers, casinos and card clubs, money services businesses and, more recently, mutual funds, operators of credit card systems, and the futures and commodities industries.

[47] 31 CFR 103.22.

[48] 31 CFR 103.29.

[49] 31 CFR 103.33. This rule also requires the MSB or other financial institution to include this information in the transmittal order and to send it to the next financial institution in the payment chain.

[50] Pub. L. 107-56 (October 26, 2001).

120. In April 2002, the US Treasury promulgated a rule that required each MSB to establish a compliance program that contained four key elements: (1) internal controls and procedures to assure compliance with Bank Secrecy Act rules; (2) the designation of a compliance officer with sufficient authority to effect day-to-day compliance with the program; (3) training of all appropriate personnel; and (iv) an independent review of the MSB's compliance with these requirements.[51]

121. Since 1 January 2002, MSBs have been required to implement programs to both detect and report SARs. For money transmitters, the threshold for reporting is suspicious activity that amounts to $2,000 or more. A report must be filed with the US Treasury when the MSB "knows, suspects or has reason to suspect" that funds are either derived from illegal activity, are designed to evade anti-money laundering record keeping or reporting requirements, have no known legitimate purpose or are designed to facilitate criminal activity, including terrorism.[52] These reports are placed in a computer database and are accessible by law enforcement and financial institution regulators.

122. On 31 December 2001, MSBs were also required to register with the US Treasury by filing a form that identifies the MSB services that are provided to the public, the name and address of the business and its principal owners, and the states in which it conducts business.[53] This form must be renewed every other year. The registration requirement was broadly defined to include any form of money transmitter, including informal money transfer systems or networks that do not transmit or clear transactions through the mainstream financial system, in an attempt to ensure that *hawala*, *hundi* or other fringe transmitters are equally covered by these regulatory requirements and are subject to oversight and enforcement. This becomes important because if a money transmitter or other MSB fails to register with the US Treasury, it is subject to substantial civil money penalties as well as criminal prosecution. Over the past year, several unregistered money transmitters, some of which have been associated with funding terrorist operations, have been prosecuted in the US for failing to register.[54]

123. Although not associated directly with requirements pertaining to MSBs, on 1 October 2003, the US Treasury and the federal banking agencies promulgated new customer identification requirements that will make it difficult for US residents who are not authorized to be in the US, to open accounts at these institutions.[55] The new rules require banks to obtain the name, address, and age and government identification number for all new customers before the institution can open an account. In addition, the institution must verify the customer's identity either before or shortly after an account is opened. If the institution is unable to do so, it must close the account.

124. For unauthorized residents, this clearly makes it difficult to utilize the banking system since the bank is required to both obtain official documentation for of the accountholder's identity (including nationality when relevant) and to confirm this information. One recent way in which to accomplish such documentation has been the issuance of government identification (or "matricula") cards, usually with photographs of the resident, that are issued in the US by the

[51] 31 CFR 103.125.
[52] 31 CFR 103.20(a)(2).
[53] 31 CFR 103.41.
[54] The criminal offense is defined at 18 USC 1960.
[55] See. e.g., 31 CFR 103.121, which imposes customer identification requirements upon banks and other depository institutions. Similar requirements apply to accounts at securities brokerage firms, mutual funds and futures and commodities firms.

embassy or consulate of a foreign, undocumented worker. Despite objection to this in some law enforcement circles, many banks that serve immigrant communities are using this form of identification as a basis for opening accounts in the US when an undocumented customer is not able to supply any official form of identification.[56] In many cases, these identification documents have the support of local law enforcement, which may not have any other method to identify immigrants who are not here legally.

125. The US Treasury has remained silent on the issue of whether or not these matricula cards are sufficient documentation for purposes of the new customer identification rules, thus permitting each institution to make its own decision. Perhaps because of this, there appears to be growing acceptance of these identification card by banks. Although there is no counterpart to the matricula card for Philippine migrants, the issuance of such a card is now being advocated by the Philippine government at the level of the State of California. [57] This effort is designed to encourage Philippine workers to use the banking system for their own financial purposes and to facilitate transfers to their home country.

4. Filipino Remittances from the United States

126. The market study in the US indicated that 42% of Filipinos use the banking system in remitting, which is lower compared to 75% in Singapore and 65% in the Philippine nationwide study. Regarding door-to-door services, which are offered by both Philippine banks and non-bank money transfer agencies, 31% of US respondents used the service by money transfer agencies than those offered by banks (see Table 8, page 17), despite a high percentage of ownership of savings accounts (77%) and current accounts (68%) as shown in Table 12 (page 19). Among international money transfer agencies, Western Union is the agency of choice.

127. The geographic reach of Philippine banks and their remittance agencies in the US is limited. This maybe due to the high cost of licensing fees and bonds required to open offices. Filipinos are found in 37 states[58], out of which, 23 states have Filipino populations exceeding 5,000. Philippine bank branches and affiliates are found only in 12 states. Philippine banks are represented through agents and tie-ups with local entities in the other states.

128. The differences in remittance behaviour among different nationalities of migrants depend not only on regulatory factors, but also on demographic and educational profiles. The contrast might be applied to the case of migrants from the Philippines and Latin American immigrants in the US. Latin American immigrants' infrequent use of banks are attributed to their limited ability to speak English, lower income, education levels, and large numbers with undocumented status. This might not be said about Filipino migrants as reflected in the surveys, where 77% have savings accounts in US banks, 68% with current accounts, 75% with ATMs, and 64% with credit cards. (Table 8, page 17 and Table 12, page 19) According to a Wells Fargo officer, Filipinos are one of the most highly acculturated and highly banked constituent group within

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[56] Suro, Roberto, *Id.* at 16.

[57] A movement has been initiated by Filipino groups in Los Angeles (LA) for the acceptance of an identity card to be issued by the Philippine Consulate General in LA to Filipinos as acceptable identification by the LA Police Department in the investigation of accidents, following a precedent made for the acceptance of Mexican consular identity cards to Mexicans in police investigations. This had also eventually led to the acceptance by many US banks of these identification cards or Matricula, issued by Mexican consular authorities in the US, to an estimated one million Mexicans in the US who reportedly have been able to open US bank accounts and used these accounts to remit to their home country. Citing the precedent, the Philippine Consulate General in LA had endorsed the Philippine request which could also benefit Filipino remitters who for lack of proper identification due to visa status, are not allowed to open accounts in US banks. No decision has so far been made by LA authorities.

[58] US Census 2000.

their bank. Nevertheless, a study on the unbanked Filipinos in the United States should be undertaken to determine with certainty their banking behavior and the reasons why some do not have bank accounts.

X. RECORDING OF REMITTANCES

129. Difficulties and frustrations have frequently, if not always been expressed in discourses on the recording of remittances. Indeed there is a lack of consistent or reliable data on overall remittance flows, owing to the ambiguities in its definitions, weak tracking or statistical systems in many countries, and of course unregulated transfers. Many countries, in their compilation of remittance data, use the IMF Balance of Payments 5th edition (1993) Manual (BPM). Workers' remittances are classified under the category of current transfers account, consisting of current transfers by a migrant employed in the host country and is considered a resident, that is, a person who stays or is expected to stay for more than one year. Migrants staying less than that period are considered non-residents whose remittances are reflected as part of the compensation for employees in the income account. Gifts and donations may also have been commingled with workers remittances.

130. Like most countries, the BSP follows the IMF's BPM. The main source of information are Philippine banks, which make a report on transfers made through its agents abroad. Under current laws being enforced, foreign exchange received through other means, such as unregistered money transfer agents, are unreported, in the same way that money or goods sent through friends or physically brought home by migrants do not appear in its radar. The BSP's ability to properly classify remittance data depends on the diligence of banks' staff in correctly tagging a remittance-whether it is a transfer by a resident, a non-resident, or a gift or donation

131. The value of measuring remittances should not be understated. As expressed earlier, precise recording lends to stability and integrity of the financial system by minimizing distortions which prevent the formulation of policies for a sound monetary system. Formal remittance flows offer opportunities for harnessing them for productive use, and possibly as sound bases for securitization in the future.

132. Formal remittances recorded by the BSP are based on figures stated in remittance reports by banks. The manner of recording is as follows:

Table 20: Tagging and Recording of Remittances

Remittances	Comments
a. Remittances that are coursed through the remittance centers abroad (RCA) of Philippine banks are all reported as OFW remittances under the Compensation Income account unless banks segregate remittances as gifts and donations.	OFW remittance reported figures might include migrants' gifts and donations due to constraints on the part of the bank to determine the length of stay of the OFW remitter. In the absence of any information to properly classify the OFW remittance as Compensation Income, some banks are doing the tagging system based on country of origin, i.e., US OFWs are sometimes classified under Current Transfers since they are unlikely to come back to the Philippines every year. Similarly, Middle East and Asian OFWs are reported as Compensation Income even if they stay over one year in foreign countries.

Table 20: Tagging and Recording of Remittances (cont'd.)

Remittances	Comments
b. Local banks are required to include remittances of Money Transfer Operators (MTOs) in their foreign exchange (FX) Form 1 report submitted to the BSP. Transactions of around 50 MTOs including Western Union are reported by the local banks under Compensation Income or OFW remittances.	OFW remittance amount may include migrants' gifts and donations because the MTOs receive bulk remittances, in which case, a separate classification as Compensation Income or Current Transfers is not possible.
c. Other individual remittances are coursed through correspondent banks abroad and not through the RCAs of Philippine banks. Beneficiary bank may be a branch of the foreign bank or a local bank with correspondent relationship with the foreign bank abroad.	Individual personal remittances below $1,000 are classified as OFW remittances (or Compensation Income). Banks are encouraged to follow the guidelines on the classification of FX flows under the Manual for FX1 Reports, including procedures in classifying OFW remittances, e.g., amounts less than US$1,000; recipient is an individual or an employment agency; and the frequency of remittance. Proper classification is dependent largely on the diligence of the banks' processing staff.
d. Cash brought home by workers are considered as money not coursed through the banking system.	This is not captured by the report as OFW remittances or gifts and donations even if foreign currency is sold to banks or foreign exchange corporations. These transactions are already considered by banks as over-the-counter.

Source: Bangko Sentral ng Pilipinas, Department of Economic Research and Asian Development Bank Consultants.

133. The foreign exchange proceeds of remittances may not necessarily flow into the banking system as individuals, money transfer companies and non-bank foreign exchange agencies are not obliged to sell the foreign exchange to the banks given the country's foreign exchange liberalization policies. Money laundering may occur in this aspect of the flow as foreign currency can be freely purchased from registered or unregistered foreign exchange companies and shipped out without violating the law though disclosure is required for amounts of $10,000 and above. Under current AML regulations, foreign exchange companies or individuals engaged in the foreign exchange business are covered institutions and must submit covered and suspicious transactions reports. Implementation of AML regulations could be difficult with the existence of more than 130 foreign exchange corporations registered with the SEC and several thousands of single proprietorships which may or may not be registered. Clearly, more resources must be fielded to monitor AMLA compliance after the BSP starts implementing the registration of non-bank money transfer and foreign exchange agencies within the year.

XI. DEVELOPMENTS IN THE REMITTANCE INDUSTRY

A. New Players

134. New participants have entered or are poised to enter the Philippine remittance market including Philippine and foreign-based banks, internet-based remittance service companies, a large international money transfer agency, telecommunications and mobile-phone based money transfer systems. The new players bring into the industry more alliances among card companies, banks, insurance, and telecommunication companies. Some go beyond simply offering remittance services for migrant workers by linking livelihood and franchising programs for beneficiary families, as in the case of a Philippine thrift bank, or a link to an investment and savings product for seafarers as offered by a large Philippine insurance company.

135. There are many local and international players which have entered the market or are in active pursuit of the business (Appendix 9). Banco de Oro, a Philippine bank, recently entered the market with the announcement of a tie-up with Chartered Forex, one of the largest Filipino remittance/cargo companies in the US.

136. Planters Development Bank, a thrift bank that has built its banking reputation around services to small and medium sized enterprises, has recently introduced remittance services that include a link to livelihood and franchising programs for the remitters' families.

137. Wells Fargo launched its Philippine ATM Remittance Account (PARA) in June 2004. Citibank Manila is exerting efforts to introduce "Citibank Access" program used by Mexican migrants to Filipino migrants in the US. New US based remittance services, such as IKOBO and Yahoo/HSBC are expected to attract the younger generation with internet based service. IKOBO reports they are experiencing the highest growth in Philippine remittances compared to other migrant populations in the US. Vigo on the other hand is restructuring their distribution network in the Philippines to improve their share of the market. Paypal is also looking at Asia for expansion of their business. Xoom, a California based company has recently appointed Equitable PCI Bank as their distribution arm for their internet based product.

138. Credit card companies such as Visa are likewise active in the market, pushing for alliances with various stakeholders including banks, insurance companies, and telecommunication companies. Visa tied up with RCBC last year on an internet based product, with Philamlife (a large insurance company affiliated with AIG), for an investment/savings product for seafarers, and with BPI, PNB and Equitable PCI Bank for various card products.

139. There are reports that the two largest Philippine telecommunication companies are exploring ways to participate even more actively in the remittance industry.

140. Two Filipino companies, Paysetter International and Global Mobile Enterprises (under brand name REMITXT) are expected to launch their mobile phone based remittance services this year in partnership with local banks.

B. Trends

141. Technology will be one of the main drivers of the remittance market in the future as competition escalates and remitters advocate for more convenience, speed, affordability and access. Financial institutions, with huge overhead costs, will have to carefully analyze the market trends and invest wisely on new technology. The importance of physical presence may

diminish over time as more and more remitters become comfortable with the use of internet and mobile phones. The early passage of the Electronic Commerce Act 2000 on July 26, 1999 providing for the recognition and use of electronic and commercial and non-commercial transactions and documents coupled with the BSP's organized way of handling applications for electronic banking products have supported technological innovations in the banking industry. BSP facilitates the approval of electronic and internet products as long as security and control measures are in place.

1. Mobile Phones

142. According to industry analysts, the Philippines has close to 22 million mobile phone subscribers as of December 2003 and 96% of these subscribers use prepaid cards. The country has been called the text capital of the world because of the Filipinos' penchant for text messaging, registering 153 million messages a day or an estimated seven messages per subscriber. Industry analysts project a 40% increase in subscriptions in 2004 or a penetration rate of 30%. By 2008, penetration rate is expected to reach 49% or 43.7 million subscribers. The competition among mobile phone industry players has made mobile phones and prepaid subscriptions more affordable. The survey results indicated that more than 60-70% of remitters and their beneficiaries are mobile phone users. It is expected that more and more companies and banks will offer remittance services using mobile phones to transmit loads or credits to beneficiaries.

2. Internet-Based Services

143. The internet penetration in the Philippines is at a low (3%) although about 230,000 of an estimated one million active internet users perform internet banking.[59] Studies have also shown that internet usage is determined by the type of profession or age of the individual. With the proliferation of internet kiosks and internet-based products, it is expected that remittance products on the internet will gain more following in the near future even among Filipinos overseas. Industry players, though, have varying opinions on the Internet's future as a medium for workers' remittance.

3. Card Products

144. ATM/debit card usage for remittances will continue to increase and it is expected that ATM cardholders will venture into using their cards for purposes other than withdrawing money from a bank ATM. Card-based products, especially store value and/or prepaid cards is expected to be popular with Filipino remitters and their beneficiaries, particularly those who do not have access to bank accounts. With the expected interconnectivity of the three ATM networks in the industry, users will experience more convenience in transacting through ATMs.

145. In the last five years, credit card companies have aggressively marketed credit cards to individuals with personal incomes as low as ₱15, 000 (equivalent to $270) per month. Though the industry is at a consolidation stage, credit card payments for remittance transactions will continue to grow as overseas workers and their beneficiaries are made part of the banks' target market for various loan and credit products.

[59] A.C. Nielsen News Archive, 5 December 2003.

4. Postal Office

146. The Philippine Postal Corporation (PPC) has embarked on a five year Modernization Program (2002-2006) that will involve introduction of information technology, computerization and mechanization of its business operations. Aside from its regular delivery post offices numbering 1,505, it has 1,080 additional offices consisting of 141 non-delivery post offices, 255 extension post offices, 187 barangay post offices, 61 postal stations, 368 private mailing centers, and 68 satellite post offices. With the appropriate funding, the PPC can contribute greatly in improving the last mile infrastructure to benefit remitter's beneficiaries. Their Electronic Postal Money Order (ePMO) project bears watching, although currently beset by funding problems.

C. Entry of Non Traditional Players

147. The World Council of Credit Unions (WOCCU), is entering the Philippine remittance market with a forthcoming remittance product called IrNet, which promises low remittance costs for transfers made from US credit unions to those in the Philippines.

148. Cooperatives will also soon be foraying into remittances. The National Confederation of Cooperatives (NATCCO), a large network of cooperatives in the Philippines, has forged a partnership with NTUC Income Insurance in Singapore, for the use of NTUC software in servicing remittance requirements of OFWs in Singapore. The system will feature cooperative-to-cooperative, multi-currency transfers at low cost, and is now being piloted in five Philippine cooperatives. Aside from its low cost, the system is also seen to contribute to the sustainability of cooperatives as a result of the fee sharing, and encourage more cooperatives to join the confederation, as well as migrant families to affiliate with cooperatives.

XII. LEVERAGING REMITTANCES FOR DEVELOPMENT

A. Policies and Initiatives to Increase Remittance Volume and Formal Remittances

1. Mandatory Remittance Schemes

149. Sending countries have employed varied strategies in order to increase remittance volumes or draw them to the formal sector, through mandatory retention schemes and incentives such as "repatriable" foreign currency accounts and foreign currency bonds. A successful example on mandatory remittance requirements was employed by Korea to attract remittances to the banking sector where as a condition for issuing exit permits to Korean construction workers bound for the Middle East during the oil boom, at least 80% of earnings had to be remitted through Korean banks. The success of the policy hinged on the government directly assisting Korean companies win lucrative construction contracts in the Middle East. In turn, the companies deposited workers' salaries in foreign currency accounts, which ensured a high remittance rate, and promoted savings. Excellent employment terms and high job morale due to short-term contracts worked as incentives for Korean workers to maximize remittances.

150. A mandatory remittance scheme was instituted by the Philippine government where migrant workers being redeployed had to show proof of remittances of percentages of their wages, depending on their occupation. Passports were given a limited validity of one year and could not be extended or issued unless proof of remittance was submitted. Employers,

recruitment agencies and banks were persuaded to cooperate in effecting remittances or even handling remittance operations themselves.[60]

151. Migrant workers found the scheme oppressive and many seemed to have been able to evade the law. The mandatory remittance was eventually abandoned due to difficulties in implementation, with the exception of sea-based workers whose contracts contain a provision where they authorize manning agencies to forward 80% of their wages directly to their designated allotees.

152. Programs of state and private banks from India, Morocco, Pakistan and Portugal reach out to their diaspora communities through the offer of incentives such as home financing, tax breaks, public housing preferences, assured educational quotas in universities, expedited passport renewals, preferred traveling accommodations and favorable exchange rates. Bangladesh reported a 22.43% increase in formal remittances in the 2002 to 2003 fiscal year after the Bangladesh Bank instituted fast delivery remittances by setting foreign exchange clearance houses overseas to facilitate operations, as well as implementing AML guidelines.[61]

B. Philippine Incentive-based Programs

1. Homecoming Programs

153. After the mandatory remittance scheme was abandoned, several laws were subsequently passed that institutionalized programs luring Filipino expatriates to visit, live, spend and invest their resources in the Philippines. The earliest initiative was the highly successful Balikbayan program which was started sometime in 1985. The Filipino literal translation of Balikbayan is return to country and the term has come to refer to Filipinos returning to their country. Supported by a massive promotional campaign overseas, it brought in and continues to bring in droves of overseas Filipinos who come as ordinary visitors, tourists, retirees or permanent settlers. The rediscovery of their roots by long absent Filipinos rekindled an interest in their homeland, generating revenue and local employment in the tourism, manufacturing, handicrafts, hotel and restaurant, retail and transportation industries. This long running program offers exemptions from duties and taxes for Balikbayans and returning workers in the purchase of items from Philippine duty free shops, in the importation of personal household items for those permanent resettling in the country, exemption from travel tax, and in the importation of capital equipment for use in enterprise. In 2003, figures of the airport duty free shop indicate that about 185,000 Filipino returnees purchased an estimated $36 million worth of goods, a low figure compared to previous years when at least 250,000 visitors made purchases annually from 1996 to 2000. Officials observe that most purchases were on liquor, cigarettes, chocolates, signature items, and other imported goods. While the government makes an effort to promote heavily discounted Philippine-made goods, the low volume of duty-free purchases may indicate that visitors are not yet ready to alter their preferences or that more innovative marketing strategies to promote local goods have to be formulated by the agencies involved. Efforts to link purchasers of agricultural and small industrial tools to OWWA programs on livelihood programs and credit access also point to the need for more marketing programs and strategies to improve this area of concern.

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[60] Tan, E., ibid.

[61] Informal Funds Transfers Systems in the APEC Region: Initial Findings and a Framework for Further Analysis, World Bank, 2004

2. The Dual Nationality Act

154. On 29 August 2003, Republic Act No. 9225, otherwise known as the Dual Nationality Act was enacted into law. Before this Act was passed, former Filipinos who lost their citizenship through various means were allowed to reacquire Philippine citizenship. The Dual Nationality Act now enables them to adopt Philippine citizenship without being considered to have abandoned their foreign citizenship. Philippine laws and the Philippine Constitution itself reserves the exploitation and use of its rich natural resources exclusively for Filipino citizens or to Philippine corporations. However, the development of natural resources such as in the mining, oil and other extractive areas and large manufacturing, agricultural, aquatic and industrial sectors could not be developed as these projects needed long term and huge outlays of funds and technology, which were largely unavailable locally.

155. While the Philippine diaspora, which is roughly 10% of the young, economically productive and highly educated portion of the Philippine population, could well be considered a resource that could enable the country to strengthen its internal economies, the inability to effectively transfer these earnings, resources and skills might also be attributed to the legal technicality that Filipinos who have lost their citizenship, could not legally own land or participate as equity-holders in a corporation or business venture. Although some were able to do so through nominee relationships, a greater number may have held back fearing an inability to enforce their rights of ownership. The Dual Nationality Act was passed precisely to address this technicality, with the objective of removing a major obstacle preventing more overseas Filipinos to participate in the development of their country through property ownership, investments, savings, and other productive undertakings which could generate livelihood and employment.

156. It must be said that even before the passage of the Dual Nationality Act, the Philippine Constitution allowed former Filipino citizens who have acquired the citizenship of another country to own private lands in the Philippines. Batas Pambansa (BP) No. 185 was passed in 1985 allowing former Filipinos to own a maximum of 1,000 square meters of residential land or one hectare of rural land. The Foreign Investments Act of 1991(Republic Act 7042) further increased the maximum to 5,000 square meters for residential land, and 3 hectares of rural land, provided it will be used in business, agricultural or industrial enterprises. The Dual Nationality Act, in effect, eliminates these limitations.

157. The Foreign Investments Act of 1991 also allowed former Filipinos to invest in rural banks, cooperatives, thrift and development banks, as well as financing companies, which formerly were reserved for Filipinos. Furthermore, they have been allowed to invest in activities in defense or law enforcement-related activities, or small and medium-sized domestic market enterprises with paid-in equity capital of less than $200,000, all of which are reserved exclusively for Philippine citizens.

158. Unfortunately, it is difficult to determine the number of expatriates who availed of these incentives. There is no disaggregation of data relating to availments made by former Filipinos in those agencies administering these incentives.

159. Theoretically, the Dual Nationality Act has restored to former Filipinos the enjoyment of all the privileges by virtue of their birthright. Although the implementing rules and regulations have been issued and are to be implemented by the Bureau of Immigration, the actual procedures as well as its implications on the exercise of certain rights or privileges, such as purchase of property or practice of a profession, residence and visa status, taxation, investments in sectors reserved exclusively for Filipinos, still need to be clarified. However,

ensuring the accomplishment of the desired positive effects of the law requires nothing short of a serious study of the various implications of the law on property rights, tax aspects of dual nationality, investments, documentation, coupled with a massive information campaign among overseas Filipino communities on this new privilege, with the participation of not only on the government, but also the private sector. Government agencies administering these incentives should also disaggregate such availments to allow easier retrieval of data.

3. Local Government Unit Initiatives

160. Local government units (LGUs), composed of provinces, cities, municipalities and barangays,[62] are run by their own local governments. Regional Development Councils in the 16 regions are also in place to coordinate the socio-economic development thrusts of the various political subdivisions within their region. Of the 1,610,726 overseas contract-based workers recorded by the POEA for the year 2002, about 1,035,970 or about two-thirds originate from the countryside (see Table 21).

Table 21: Deployment of OFWs by Region and Province

Region	Province	1998	1999	2000	2001	2002	Total
Total		**198,325**	**456,845**	**479,158**	**259,356**	**217,042**	**1,610,726**
Region 1 Ilocos Region		14,876	31,699	33,033	16,355	13,064	109,007
	Ilocos Norte	1,949	3,790	4,058	2,226	1,713	13,736
	Ilocos Sur	2,525	5,283	5,432	2,431	1,996	17,667
	La Union	2,177	5,233	5,627	2,764	2,176	17,977
	Pangasinan	8,225	17,393	17,916	8,914	7,179	59,627
Region 2 Cagayan Valley		**8,148**	**18,627**	**20,328**	**9,947**	**8,117**	**65,167**
	Batanes	5	12	10	7	6	40
	Cagayan	2,511	5,889	5,808	2,974	2,504	19,686
	Isabela	3,701	8,594	9,929	4,823	3,843	30,890
	Nueva Vizcaya	1,532	3,212	3,454	1,675	1,336	11,209
	Quirino	399	920	1,127	468	428	3,342
Region 3 Central Luzon		**31,498**	**70,070**	**70,877**	**38,629**	**32,647**	**243,748**
	Bataan	2,708	6,629	4,977	3,218	2,503	20,035
	Bulacan Province	8,640	20,478	21,336	11,728	10,194	72,376
	Nueva Ecija	5,345	12,281	13,288	7,435	6,598	44,947
	Pampanga	8,999	18,580	18,395	9,564	8,056	63,594
	Tarlac	3,714	7,798	8,483	4,218	3,373	27,586
	Zambales	2,092	4,304	4,398	2,466	1,950	15,210
Region 4 Southern Tagalog		**34,714**	**79,713**	**80,584**	**41,729**	**36,684**	**273,388**
	Aurora	151	456	450	235	181	1,473
	Batangas	7,950	17,991	16,479	7,249	6,929	56,598
	Cavite	8,117	18,660	18,885	10,246	9,299	65,207

[62] The barangay is the smallest political subdivision in the Philippines.

Table 21 : Deployment of OFWs (cont'd.)

Region	Province	1998	1999	2000	2001	2002	Total
	Laguna	7,025	16,033	17,268	9,221	7,904	57,451
	Marinduque	165	364	332	223	152	1,236
	Mindoro Accidental	204	423	398	244	198	1,467
	Mindoro Oriental	921	1,893	2,275	1,102	901	7,092
	Palawan	150	320	362	286	281	1,399
	Quezon	2,562	5,905	6,174	3,282	,908	20,831
	Rizal	7,393	17,502	17,745	9,527	7,836	60,003
Total	Romblon	76	166	180	114	95	631
Region 5	**Bicol Region**	**3,621**	**8,858**	**10,313**	**6,084**	**5,259**	**34,135**
	Albay	887	2,066	2,412	1,403	1,286	8,054
	Camarines Norte	492	1325	1549	887	740	4,993
	Camarines Sur	1,671	4,031	4,738	2,808	2,374	15,622
	Catanduanes	170	350	412	262	216	1,410
	Masbate	103	282	326	215	149	1,075
	Sorsogon	298	804	876	509	494	2,981
Region 6	**Western Visayas**	**6,702**	**16,387**	**18,657**	**10,411**	**8,432**	**60,589**
	Aklan	228	845	802	509	429	2,813
	Antique	336	696	914	504	411	2,861
	Capiz	641	1,593	1,830	1,116	877	6,057
	Gumaras	119	302	302	147	96	966
	Iloilo	3,032	6,888	7,043	3,811	3,307	24,081
	Negros Occidental	2,346	6,063	7,766	4,324	3,312	23,811
Region 7	**Central Visayas**	**5,411**	**13,232**	**12,490**	**7,364**	**7,455**	**45,952**
	Bohol	651	1,736	1,910	1,124	1,120	6,541
	Cebu	4,225	9,971	8,824	5,262	5,448	33,730
	Negros Oriental	498	1,441	1,656	898	792	5,285
	Siquijor	37	84	100	80	95	396
Region 8 -	**Eastern Visayas**	**1,154**	**2,764**	**3,330**	**2,018**	**1,888**	**11,154**
	Biliran Sub-Province	33	95	82	60	62	332
	Eastern Samar	128	254	272	155	161	970
	Leyte	662	1,517	1,922	1,196	1,093	6,390
	Northern samar	75	188	244	142	147	796
	Southern Leyte	154	410	474	276	323	1,537
	Westerm Samar	102	300	336	198	193	1,129
Region 9 -	**Western Mindanao**	**1,765**	**5,341**	**7,692**	**4,874**	**4,190**	**23,862**
	Basilan	217	912	1314	812	910	4,165
	Zamboanga del Norte	286	944	1109	758	689	3,786
	Zamboanga del Sur	1,262	3,485	5,269	3,304	2,591	15,911

Table 21 : Deployment of OFWs (cont'd.)

Region	Province	1998	1999	2000	2001	2002	Total
Region 10 Nothern Mindanao		**1,691**	**4,084**	**4,828**	**3,510**	**3,296**	**17,382**
	Bukidnon	340	610	931	664	551	3,096
	Camiguin	39	106	142	110	85	482
	Misamis Occidental	270	752	990	642	619	3,273
	Misamis Oriental	1,042	2,616	2,765	2,094	2,014	10,531
Region 11 Southern Mindanao		**5,555**	**16,565**	**21,631**	**14,163**	**11,550**	**69,464**
	Davo del Norte	970	2,795	3,848	2,664	2,303	12,580
	Davao del Sur	3,217	9,681	12,476	8,389	6,561	40,324
	Davao Oriental	263	678	959	757	545	3,020
	Sarangani	105	400	446	235	141	1,327
	South Cotabato	752	2,361	2,870	1,800	1,721	9,504
	Sultan Kudarat	248	650	1032	500	279	2,709
Region 12 Central Mindanao		**2,964**	**8,455**	**9,908**	**6,803**	**6,934**	**35,064**
	Lanao del Norte	657	2,029	1,686	1,183	1,145	6,700
	Lanao del Sur	372	826	796	619	487	3,100
	Maguindanao	1,404	3,980	5,567	3,777	4,313	19,041
	North Cotabato	531	1,620	1,859	1,224	989	6,223
Region 13 - Caraga		**1,074**	**2,862**	**3,047**	**2,245**	**2,127**	**11,355**
	Agusan del Norte	486	1,282	1,407	1,070	992	5,237
	Agusan del Sur	131	336	442	354	374	1,610
	Surigao del Norte	216	560	542	401	370	2,089
	Surigao del Sur	241	684	656	420	418	2,419
Cordillera Autonomous Region (ARMM)		**4,490**	**9,945**	**9,830**	**4,525**	**3,658**	**32,448**
	Abra	621	1,340	1,479	617	554	4,611
	Benguet	2,874	6,316	6,215	2,827	2,175	20,407
	Ifugao	349	776	678	338	250	2,391
	Kalinga-Apayao	362	924	940	498	470	3,194
	Mountain Province	284	589	518	245	209	1,845
Autonomous Region for Muslim Mindanao		**158**	**838**	**984**	**597**	**678**	**3,255**
	Sulu	136	782	908	533	617	2,976
	Tawi-Tawi	22	56	76	64	61	279
National Capital Region (NCR)		**74,504**	**167,405**	**171,662**	**90,122**	**71,063**	**574,756**
	Kaloocan City	6,870	15,578	15,824	8,807	7,561	54,640
	Las Pinas	2,962	6,570	7,151	3,881	3,145	23,709
	Makati	4,635	10,167	9,907	5,164	4,017	33,890
	Malabon	1,877	4,363	4,581	2,395	1,767	14,983
	Mandaluyong	2,240	4,856	4,884	,510	1,927	16,417
	Manila	16,689	37,339	37,593	19,911	15,383	126,915
	Marikina	2,661	5,766	5,946	3,054	2,519	19,946

Table 21 : Deployment of OFWs (cont'd.)

Region	Province	1998	1999	2000	2001	2002	Total
	Muntinlupa	1,913	4,156	4,038	2,015	1,728	13,850
	Navotas	1,092	2,377	2,552	1,391	1,065	8,477
	Paranaque	3,196	7,194	7,544	3,990	3,098	25,022
	Pasay City	3,767	8,017	7,976	4,101	3,087	26,948
	Pasig City	3,710	8,090	7,855	4,133	3,375	27,163
	Pateros	263	512	748	280	172	1,975
	Quezon City	15,751	35,248	37,072	18,881	14,390	121,342
	San Juan	598	1323	1399	539	165	4,024
	Taguig	3,624	10,026	10,697	5,898	5,096	35,341
	Valenzuela	2,656	5,823	5,895	3,172	2,568	20,114

Source: Philippine Overseas Employment Authority.

161. It is almost a certainty that the economies of all these political subdivisions have benefited from the remittances of overseas Filipinos who send remittances not only to their families, but also for various charitable, humanitarian and public purposes in their respective communities. The development effect of remittances on communities is however still not well-researched. However, there is extensive anecdotal evidence on the positive effects of remittances in certain municipalities, particularly in the areas of housing, public improvements, small enterprises, transportation, and consumption.

162. For instance, in the municipality of Pozzorubio in the northern province of Pangasinan, where an estimated 10% of its population is overseas, local government officials have attributed the very visible public infrastructure, increase in business enterprises, and private housing structures, to the remittances of its overseas workers and residents. Local executives have made trips to the US and other countries to make personal appeals to overseas Pozzorubio communities to help their town. Pozzorubio has also emerged as a major tax revenue earner for the province.

163. Abra is a largely agricultural province further north in the Cordillera region. It has a huge OFW population a large number of whom work in domestic households in South Asian countries whose remittances benefit their families whose main source of income come from agriculture. The mayor of Bangued, the capital of the province, allocated funds to set up an OFW center that gives assistance to its OFWs and their families, particularly those in distress situations, conducts pre-departure orientation seminars, and assists in the documentation of job applicants. The municipality of Mabini in Batangas or San Pablo City and Alaminos, both in Laguna province, all in the OFW-rich region of Southern Luzon, boast of numerous improvements especially in housing and small infrastructure, built by its overseas citizens.

164. Despite the tremendous potentials for harnessing donations from hometown associations, there does not seem to be a national effort to organize local governments to harness this potential, except for a few LGUs which have, on their own, institutionalized mechanisms and incentives to encourage its expatriate population to invest in enterprises, tourism, light industrial projects and other provincial projects. The most visible example is the province of Bohol in the Visayas, which has set up an investment center and enacted a local investments code to assist investors in identifying, organizing and matching their resources with

local partners, and in availing of incentives in the form of exemptions from income and property taxes. LGU officials travel overseas to make personal appeals to its extensive expatriate community and then provide assistance and guidance as the visitors tour the islands or meet with their potential business partners. The Island Garden City of Samal near Davao City, has also passed a similar local investments code geared for purposes of developing the city's tourism and aquaculture potentials.

165. While LGUs have been granted under the Local Government Code, the autonomy and authority to raise their own revenues, as well as their assured share of internal revenue allotments (IRA) from revenue generation, the ability of local governments to make use of this autonomy in revenue raising through loans, guarantees or other sources apart from taxation, has been relatively slow. Nonetheless, in the past few years, some LGUs, with the assistance of financial managers, have managed to float LGU bonds that are guaranteed by their IRAs, in order to build public infrastructure such as public markets, wharves, convention centers and other public improvements. All the projects are designed to generate revenues for the LGU and are usually purchased by commercial banks and sold on the secondary market.

166. These financial managers are also currently designing an LGU bond and a trust fund as a savings and investment vehicle to tap the resources of OFW communities belonging to their respective hometowns. The organizers of this initiative believe that OFWs would readily mobilize their resources if an appropriate savings and investment vehicle that is operated professionally and with transparency, is presented to them, which will redound to the direct benefit of their families and the communities in which they will eventually retire or reintegrate[63].

C. Enhancing the Efficiency of Government Agencies

1. Agencies Involved in Deployment

167. Maximizing the gains of overseas employment for migrants and the sending country depends to a great extent on the effectiveness of government agencies in managing an overseas deployment programs. This consists in finding new markets for its migrant labor, ensuring that their rights are protected not only during the recruitment or pre-departure process, but also in overseas workplaces. In addition, programs must also be set up to prepare for their reintegration to their countries of origin upon their return or expiration of their contracts.

168. In the Philippines, there are at least 10 agencies of government that are involved in the migration process, although the primary duties of managing overseas deployment, welfare protection and reintegration are with five main agencies. The Department of Labor and Employment (DOLE) implements the Migrant and Overseas Filipinos Act (RA 8042) which is the repository of policies, rights and obligations, sanctions and regulations, that govern overseas employment. There are two attached agencies under the DOLE, the Philippine Overseas Employment Administration (POEA) and the Overseas Workers Welfare Administration. (OWWA). The BSP records Remittance flows.

169. The POEA handles the documentation of both land-based and sea-based contract based workers recruited mostly by private recruitment fee-charging agents of foreign principals, and the licensing and regulation of recruitment agencies. It also collects and compiles data of

[63] Source: Preferred Ventures. Indeed, among the criticisms on the abandoned plan by the national government to sell small US dollar denominated bonds to OFWs, was that it was budgetary in nature, and that it had no direct relation to specific OFW concerns (DFA/ILO Paper, Empowering Overseas Filipino Workers, Manila, 2002).

migrant and remittance flows for use on policy formulation. The POEA also organizes Pre-departure Orientation Seminars (PDOS) for direct-hire workers, while the orientation of OFWs under accredited recruitment agencies are under the auspices of the OWWA.

170. On the other hand, the OWWA is tasked with the promotion of the welfare of overseas Filipino workers and dependents through the implementation of a welfare program for migrants and dependents, consisting of health or repatriation assistance, livelihood loans, skills training, scholarships, and reintegration initiatives for the benefit of returned workers. These programs are funded from the proceeds of a trust fund that is invested and administered by the OWWA as trustee, accumulated from the $25 contributed by OFWs prior to their departure for overseas. The fund was operationalized in 1982 and is now estimated to be from ₱7 to 8 billion.

171. Both POEA and OWWA have offices in the 16 different regions in the Philippines, which process applications for overseas work, or benefits under the welfare program. There are labor attaches in at least 34 diplomatic posts overseas as well as welfare officers in countries where there are large numbers of OFWs. Attaches and welfare officers work together with Foreign Service personnel in promoting the rights and welfare of all overseas Filipinos.

172. The Department of Foreign Affairs (DFA), while tasked primarily with the conduct of foreign relations with other countries, also has the duty to protect the interests and welfare of all Filipinos in general. While there is an overlap in the protection functions of DFA, the DOLE and the two attached agencies, all these agencies, including others such as commercial, agricultural and other attaches, operate under a "Country Team Approach" as provided by the Migrant Workers Act, in order to minimize overlapping. Another government agency, the CFO, a small agency attached to the DFA, documents and monitors Filipinos leaving the Philippines as immigrants or permanent residents, and at the same time linking overseas Filipino associations to humanitarian and infrastructure projects in the Philippines, particularly in the rural areas, in accordance with a remittance/needs profiling system it had devised.

173. Given the size of Philippine migration flows, the problem areas both relating to the effectiveness of government machinery and migrant workers' demand for services, are so complex and wide ranging, that it should probably merit a separate study. However, there are concerns affecting migrant workers which emerged as areas for improvement as they are perceived to have a direct relation or pose actual or potential deterrents to increased remittance flows, occurring during pre-departure, overseas and post arrival.[64]

2. Problem Areas in Deployment, Overseas, and Return

174. On Pre-departure

(i) Excessive Recruitment Fees and Expenses. A large number of job applicants incur debt to pay for these expenses often at high interest, and end up paying for these during the first 6 months or 1 year of employment. The market study revealed that 45% of respondents in the nationwide survey borrowed money to

[64] The study team interviewed the Secretary of the DOLE, the Administrator of the OWWA, the Undersecretary for Migrant Workers Affairs (UMWA), and the Director of the CFO, as well as other high-level officers of said agencies, to learn more and identify problems and issues of overseas deployment, migrant worker and other concerns in both the Philippines and host countries that serve as deterrents to the maximization of remittance flows or amounts that may be repatriated to their families. Aside from reviewing existing migrant literature, heads of NGOs that provide humanitarian assistance and various psychosocial and economic related services to both land and sea-based migrant workers were likewise interviewed to obtain a more balanced picture.

go abroad, while 19% borrow money while working abroad. While the law allows recruitment agencies to charge as recruitment fee, the equivalent of a month's salary, job applicants end up paying much more, especially those applying for high paying jobs in Hong Kong, China, Taiwan or Europe. A study by the NGO Atikha, which looked at the pre-departure expenses of aspiring domestic workers for Italy and Hong Kong, China indicated that total expenses range from about ₱40,305-₱76,550 for Hong Kong, China or ₱80,305-₱311,550 for Italy. Anecdotal evidence indicates that the overcharging occurs in placement fees and other hidden and unauthorized expenses such as those for escorting of undocumented workers through the airport. (see Table 20).

Table 22: Pre-departure Expenses of Migrant Women Bound for Hong Kong, China or Italy

Item Expense	Cost (In Philippine Peso)
Agency registration fee	100 – 500
Placement fee	30,000 – 65,000 (Hong Kong, China) 70,000 – 300,000 (Italy)
Passport	850
Video	750
Medical	1,100 – 1,800
NBI clearance (National Bureau of Investigation)	55 – 200
OWWA contribution (Overseas Workers Welfare Administration)	5,000 or $100
POEA administrative fee (Philippine Overseas Employment Administration)	1,250 or $ 25
PDOS fee (Pre-Departure Orientation Seminar)	200
Mandatory Medicare fee	900
POEA OEC (Overseas Employment Certificate)	100
Total Expenses	40,305 – 76,550 (Hong Kong, China) 80,305 – 311,550 (Italy)

Source: Añonuevo and Añonuevo [eds.]. Coming Home, Women, Migration and Reintegration. Manila: BaliKaBayani Foundation and Atikha Overseas Workers and Communities Initiative, Inc., 2002.

(ii) Pre-departure orientation of migrant workers is perceived to be inadequate, and should be done preferably earlier at the level of the migrant's community. Nevertheless, the Pre-Departure Orientation Seminar (PDOS) offers excellent opportunities for providing savings education information or services on opening of bank accounts and various financial or remittance products. There has been progress, as indicated by the survey, which showed that 22% of workers surveyed attributed to the PDOS their knowledge or use of bank accounts for remittance.

(iii) Sea-based workers often complain of the lack of a centralized authority for processing of documents although this is being slowly addressed with the establishment of a one stop processing center for seafarers. They also question the necessity of training programs which many, especially the experienced ones, perceive they do not need, resulting in wasteful expense, and forcing them as well to devote time that could have been spent with family while awaiting the next

contract. A Magna Carta for Seafarers had been discussed and drafted in a Seafarers' Summit in 2003 and awaits legislative process.

175. Overseas, the following problem areas were noted:

(i) There are many instances of employers deviating from agreed wage and employment terms. Conditions in the employment contract signed by the worker and the employer are changed upon arrival at the workplace, a practice known as "contract substitution". Workers either resign themselves to the lower wage or file cases against employers.

(ii) Workers, particularly those in vulnerable positions such as women and domestic work are subject to abuse and exploitation. These cases are frequently reported to the government or to NGOs, including the practice of withholding of passports or similar ways of limiting the mobility and freedom of the migrant worker.

(iii) The large number of migrant workers could not be adequately serviced by the few labor and welfare officers. The lack of welfare or labor officers overseas or diplomatic officers to attend to thousands of workers' needs ultimately affects the effectiveness of the government to deliver much needed services.

176. It is the perception of several NGOs engaged in advocacy for the reintegration of returning migrant workers to the Philippines that OWWA programs on the reentry of migrant workers are ineffective. Early in 2004, the OWWA started granting loans of ₱50,000 worth of grocery items for a start-up grocery for OFWs charging no interest and payable after 2 years with a grace period of two months. An earlier study by the International Labor Organization (ILO)[65] showed that repayment rates for a previous livelihood program were low as borrowers perceived the loans as a dole out. The new program support for OFWs going into the grocery business could likely suffer the same fate, as it is in fact subsidized credit, which has not been proven to work.

177. In 2003, a consortium of migrant NGOs forged with the OWWA an agreement to rationalize and coordinate a reintegration program for OFWs. The initiative known as Philcorps attempts to draw in the experiences of civil society organizations and OWWA facilities to maximize and unify resources for the effective reintegration of OFWs.

178. It might be wishful thinking to try to convert migrant workers into entrepreneurs overnight. According to the POEA, migrant returnees experience severe economic reintegration problems, unable to adjust to the great differentials in wages, in addition to difficulties in socially adjusting to their families because of the long separation. Any savings they may have brought home are easily exhausted especially if they are unable to find a source of livelihood, and most likely, will end up joining the recruitment lines. Ironically, starting an enterprise could be the only option open to returned migrant workers who have long been absent from the Philippines or are too old to rejoin the labor force. There is need for an effective mechanism that would be entrepreneurs could access not only for credit but also for entrepreneurship and skills training and business identification. It is also perceived that the time to prepare a migrant worker for life after migration is not after return, but even before he or she leaves and while still employed overseas. Although the web sites and brochures of the Department of Trade and Industry (DTI), the Technical Education and Skills Development Authority (TESDA) and the Technology and

[65] Bohning, W. R., From OFWs to micro-entrepreneurs, ILO-SEAPAT, Manila, 1999.

Livelihood Resource Center show the availability of such programs and services, there appears to be a lack of information whether OFWs could easily access the information or whether many have availed of the programs.

3. Shared Government Information System

179. The legally mandated Shared Government Information System among all the agencies involved in the deployment process is one area that offers excellent potentials for lending efficiency to the recruitment, deployment and information sharing with the public on various issues. This shared information system is one among the many services provided for under Republic Act 8042, otherwise known as the Migrant Workers and Overseas Filipinos Act which took effect on 7 June 1995, in order to improve monitoring and efficiency of government agencies in enforcing the provisions of the act. Under this program, agencies must each build a database on Filipino migrant workers with demographic information, inventory of pending cases of Filipinos overseas, master lists of departing and arriving Filipinos, statistical profiles of Filipino migrants, overseas Filipinos and tourists, foreign legal systems in foreign countries, list of labor and other human rights instruments, and then the linking of computer facilities to allow data exchanges among agencies.

180. One phase of the process involves the linking of the POEA, the DFA and the NSO, which when completed could automate passport processing, credentialing of land-based and sea-based workers, capture departure and arrival of OFWs - all of which reduce transaction time and costs for both agency and applicant. It has taken almost eight years since this system was mandated by the Migrant Workers Act to reach up to this point, and it is still uncertain whether the project could be implemented at the target date of March 2005, considering the lack of funds and possibility that it could be sidelined for other priorities. The electronic linking of the databases of the different agencies could stand to benefit a great number of migrant workers and the government, in terms of savings and man-hours, reduce interpersonal contact which could minimize corruption, improve the capability for measuring migrant flows and stocks, and possibly increase remittance flows through the formal sectors, as Philippine institutions gain credibility and public trust.

D. Government Practices on Leveraging Remittances

1. Savings Mobilization by Government Social Security and Housing Programs

181. OFWs who desire to enroll or continue their social security coverage even while abroad could do so and remit their payments through offices of the SSS overseas. For instance, SSS members are entitled to avail of housing and livelihood loans at low interest rates, or participate in a savings program called Flexifund which pays 8% annually for a monthly contribution of ₱1,800 aside from a pension and lump sum payment upon maturity. A simulation of projected yield indicates that members with ₱2,000 monthly contributions would receive about ₱349,000 after 10 years and ₱1 million in 20 years.

182. The Pag-Ibig Fund (or Home Development Mutual Fund) entitles regular members to avail of housing loans at low interest and long term maturity periods with a maximum of 25 years. Contributions pay yearly returns of 3% if the contributions are paid in US dollars, or 7.5% on peso payments. Both had been restructured to serve as savings mechanisms and respond to two of the main uses for migrant remittances - retirement/health and housing. Migrant workers could access this fund through 35 diplomatic stations in the Middle East, Asia, Europe

and North America. Remittance agencies have likewise been accredited as transferring agencies for payments to both Pag-ibig and SSS contributions.

183. The ePMO is a project developed two years ago by the Philippine Postal Bank, the Philippine Postal Corporation (PPC), and the Rural Bankers Association of the Philippines. The service will entail electronic transmittal of payment orders from postal organizations of about 38 countries affiliated with the IPU, and could also accept transfer instructions from foreign banks and overseas remittance partners. The system leverages on the distribution capabilities of the postal system of 2,000 post offices and postal stations on the barangay level and more than 700 rural banks. It uses state of the art internet and electronic card systems and network. A third party will provide the software and hardware provider while Postal Bank will act as settlement bank and foreign exchange bank to ensure that funds will enter the formal system. Both Postal Bank and the Philippine Post Office will conduct AMLA screening.

184. As envisioned, the ePMO project will be implemented in phases, beginning March 2004. The project will allow Postal identification cards, costing ₱150 to be used with a dual function – as remittance cards and as ATM cards using the Bancnet ATM platform system. The success of the project would depend on marketing as well as the acceptance by the OFWs and the general public of the postal system, which is perceived to be generally unreliable and unsafe. Adequate funds are also needed for the PPC's planned expansion of postal offices equipped with internet facilities and the proposed merger of Quick Cash (Smart card using mobile phones). Should these factors be immediately addressed, the ePMO, could drastically reduce local payment costs and interconnect several areas in the countryside that are underserved by the remittance agencies

185. Financial literacy programs, consumer awareness and savings mobilization programs not only for OFWs but to the general public, could go a long way in enabling the country in maximizing its resources and improving its savings rate. Agencies such as the OWWA, the DOLE, the POEA, the DFA, the BSP and the Philippine Deposit Insurance Corporation (PDIC), are in a position to administer financial literacy and savings programs. In that regard, the BSP approved in January 2004, the creation of the BSP Consumer Education Committee, which will administer a program that shall address the basic financial literacy needs of consumers of financial products and services, promote good banking practices and the protection of consumer rights. The BSP and the PDIC are encouraged to continue to widen the coverage of these programs, perhaps even collaborating with the Department of Education, Culture and Sports in introducing programs that promote the culture of savings among students.

E. Civil Society Practices on Leveraging of Remittances

1. Civil Society in General

186. The Philippines has a legal environment that is supportive of nonprofit organizations, a classification that includes NGOs or foundations engaged in charitable, educational, religious or other humanitarian objectives. There are an estimated 60,000 such organizations registered with the SEC, and thousands more unregistered but are operating for the same purposes. There are certain tax incentives for nonprofit organizations, such as exemption from income taxes and tax deductions claimed by donees for contributions made. The largest NGO network in the Philippines, the Caucus of Development NGOs (CODE-NGO), counts among its member's six national networks and five regional networks representing more than 2,500 NGOs and cooperatives nationwide. It is at the forefront of advocacies on important national issues that

affect socioeconomic development. In 2003, CODE-NGO was able to raise more than ₱1 billion from the issuance of bonds. The amount raised has been transferred to an endowment, the proceeds of which are used for grant making for smaller NGOs.

2. Migrant NGOs

187. While CODE-NGO is focused on advocacies on broad national development issues, there are NGOs, both Philippine and overseas-based, that are engaged in the advocacy of issues and concerns of Filipino migrant workers as well as the delivery of humanitarian, psychosocial and even economic services. While many of these NGOs started with a rights-based advocacy, there were some who have introduced migrant workers to activities promoting savings mobilization and investments in community enterprises in anticipation of their return, or directly linking them with service providers in the areas of business or legal counseling, skills training, microfinance and access to credit.

188. The Philippine nationwide market study of OFWs indicates that 70% of migrant workers have savings accounts, while 52% use ATM accounts. While ultimately the amount of savings will depend on how much the migrant is able to maximize earnings, the reduction of remittance costs could theoretically increase their disposable incomes. There is however extensive anecdotal evidence suggesting considerable spending for non-essentials and luxuries. Whether remittances pass through banking channels or not, they eventually end up with the families left behind, who often have much discretion on how these remitted amounts are spent. Relatives who neither have the proper business attitude or appreciation for the hard- earned income, are asked to manage small enterprises which eventually fail. Hence, leveraging of remittances could be done not only through the enhancement of formal flows, but also through financial literacy, savings mobilisation or business counselling, done at the point where spending decisions are made by the remitters overseas or by the beneficiary families in the Philippines.

189. In 1999, the ILO Southeast Asia and the Pacific Multidisciplinary Advisory Team (SEAPAT) organized a workshop on "Entrepreneurial Development for the Reintegration of Filipino Migrant Workers and their Families"[66] in the wake of the Asian financial crisis and the fears then of massive return migration by OFWs. The major findings, which are generally shared by migrant NGOs are:

(i) Migrant workers are not necessarily more entrepreneurial in nature compared with other people.

(ii) Spouses in the Philippines are the actual entrepreneurs who prepare for their spouses' return.

(iii) Decisions to pursue self-employment are usually made at an early stage; hence, options and opportunities are studied not upon return.

(iv) Business training should be conducted by trainors with practical business experience.

(v) Advisory services, especially when conducted one-on-one, are of great utility to migrant worker clients.

(vi) Access to financing is crucial, along with well-made loan application packages.

[66] Bohning, 1999. Some of these findings were also validated by a Department of Foreign Affairs paper entitled "Empowering Filipino Migrant Workers in 2001".

(vii) Support to entrepreneurship requires professional skills, experience, and contacts.

190. Migrant NGOs have for years advocated savings and investments in community-based enterprises among migrants, including the involvement of family members when accumulated savings are large enough to start community enterprises. Among the first to start a savings mobilization program for Hong Kong, China domestic workers was UnladKabayan Migrant Services Foundation, an NGO based in Quezon City, and with operations in Davao, Bohol, Cagayan, Iligan and Zamboanga. Savings groups were mobilized in Hong Kong, China with their partner, Asian Migrant Center, coupled with training of migrants on business skills and savings habits. As funds saved reached higher levels, migrants were asked to identify possible business prospects within their own communities with the participation of family members left behind.

191. A similar initiative in San Pablo City was started by sister - NGOs Atikha, Inc. and BaliKaBayani Foundation. The program adopts the concept of savings mobilization and enterprise development, but involves not only the family members left behind, but also the local government unit (LGU), church groups, and regional offices of national agencies such as DTI, TESDA, and OWWA, in the delivery of programs and services. The programs of these NGOs appear to have been made part of the city development plan, and along with it the allocation of funds for the program. The San Pablo city government has awarded them free use for 5 years of an abandoned city government hospital, which Atikha and BaliKaBayani will run as an OFW center, integrating all services relating to pre-departure, reintegration, and enterprise development. Linking activities between the extensive San Pablo City expatriate community on possible investment projects in their community are also being currently negotiated. An Atikha Young Savers Club, composed of children of migrants aims to develop financial literacy at an early age through participation in savings programs.

3. Filipino Associations Overseas (FAOs)

192. There are thousands of Filipino associations overseas (FAOs) which raise and send cash or goods to the Philippines for varied humanitarian causes and infrastructure. According to the Secretary of Labor and Employment, there are about 12,000 of such associations in their list, while the CFO has a record of about 4,000 FAOs. The CFO operates the Link to Philippine Development (LINKAPIL), which for 13 years has raised over ₱1.187 billion in FAO donations. (Appendix 10) This phenomenon is known as “diaspora philanthropy” in the grant-making community. Common manifestations of these include medical missions and book drives, shipment of medical equipment and medicines, public infrastructure such as water systems, schools, hospitals, parks, sports facilities, churches, waiting sheds, and public markets.

193. Feed the Hungry, Inc. (FTH), a charity group based in Virginia, US is the biggest donor to LINKAPIL, and has shipped over ₱38 million in cash and in-kind donations since 1992. Their donations go to feeding programs, scholarships, infrastructure, and some livelihood opportunities. FTH also partners with Filipino-American associations in the US.[67]

194. Another example is the Butuan City Charities Foundation of Southern California (BCCFSC), which partners with the community foundation Ivory Charities Foundation (ICF) in Butuan City, Agusan del Norte. Since the year 2000, BCCFSC and ICF have shipped over

[67] Feed the Hungry, 2004.

PhP46.5 million in donations to benefit Butuan City consisting of medical equipment, gifts, as well as funds for micro-lending.

195. In the Netherlands, the Stitching Kapatiran is providing development support to peoples' organizations in Mindanao. Raising funds to Filipino-Dutch foundations in Holland, Stitching Kapatiran has shipped over ₱2 million to provide scholarships to indigenous peoples, and livelihood funds for some 11 peoples' organizations in Mindanao. Its Philippine counterpart group Kapatiran Philippines, Inc. operates a small enterprise development program and engages in micro lending among women in Bansalan, Davao del Sur and neighboring municipalities.

196. Difficulties in mobilization, documentation, shipment and release from Philippine customs, have been cited by many FAOs and even the CFO itself, as among the factors that hinder more donations to the Philippines. The imposition of the value-added tax (VAT) on donated goods, which are ultimately shouldered by the donor also discourages such flows and the CFO had submitted to the Department of Finance draft legislation recommending the exemption from the VAT of legitimate donations from FAOs. The Philippine-based Ayala Foundation offers a solution by forming and registering a 501(c)3 non profit foundation in the United States. Ayala Foundation USA coordinates the documentation, shipment and release from Philippine customs authorities of the donated goods, thus sparing the donors from these tedious processes. Donors are able to claim the value of their donations as deductions from their US tax returns. By networking with Filipino associations in the US, and matching donations with identified beneficiaries in the Philippines, Ayala Foundation has raised over $700,000 from FAOs in the US for the years 2002-2003.[68]

197. Related to diaspora philanthropy is the "sister city program" between a city in the developed country and another in the developing world. This is a program started by former US President Eisenhower in 1956 to develop ways of promoting positive international relations and world peace, promoting friendship and understanding through people to people contacts. The Sister Cities International web site indicates that there at least 24 Philippine cities that have sister city relations with different US cities, while there are at least 25 Asian countries that have such relationships worldwide.[69] For instance, Daly City, California and Quezon City have such a partnership giving scholarships to needy students in Quezon City.[70] In the Netherlands, the nonprofit group Ver. Haarlmeermeer-Cebu is attempting to stimulate lasting cooperation between the peoples of Haarlmeermeer and Cebu City. The group is supporting projects in Cebu City schools, water, waste management, cultural activities, health, gender, and agriculture. Funds are generated either through fund raising activities or allocated through a city ordinance by the local government overseas.

198. Despite these strengths, FAOs need to be more organized and linked together. Like Mexican hometown associations, FAOs are widely disparate organizations and prone to internal politics, distrust and other organizational weaknesses. But unlike Mexican migrants who are mainly in one country — the United States, Filipinos are in at least 197 countries. The heads of some FAOs interviewed for this study observed that more funds could be raised and sent back if there were incentives offered. They also cited the need for an effective monitoring and feedback mechanism that will send accurate reports to donors. There also seems to be a lack of an assessment on the impact on the development of the communities where the aid had gone or other information that could help policymakers in leveraging these donations.

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[68] Source: Ayala Foundation.
[69] In www.sister-cities.org/scidirectory/Asia.
[70] Information from Medical Link Providers, Inc.

F. Role of Rural Banks, Cooperatives, Microfinance and Other Grassroots Institutions on Remittances

1. Rural Banks

199. The study included rural banks in this study in order to learn about the problems and barriers which could hinder this sector from taking an enhanced role not only in the remittance business but also in the leveraging of migrant resources for development. With more than two-thirds of remittance receiving families residing in the countryside, rural banks could well play a significant role in not only reducing remittance costs through more direct linkages, as well as giving beneficiary families more access to financial products and services that would normally be available only in urban areas.

200. Other than their being used as conduits by huge money transfer agencies such as Western Union, rural banks do not directly service remittance payments. Rural banks have to advance payments to remittance beneficiaries. The basic requirement of interconnectivity to the main banking clearing systems is unaffordable or uneconomical to rural banks (PCHC membership fee of ₱8 million), as would also the setting up and maintenance of ATMs which could be used as payments systems on international transfers.

201. In the meantime, the present leadership of the RBAP has designed and is advocating a software project or system that will service payments in the countryside. As a payments system, it targets an estimated 39.7 million Filipinos residing in rural communities, which include 11 million employed in agriculture, OFW family members who are dependent on remittances, SSS, GSIS and Philhealth members who are staying in the countryside. The system called "Countryside E-Market", because of its use of a secure electronic interface based payments and settlements system, is also said to be designed for other practical applications with far reaching implications, such as its use nationwide as a Commodity Price Board, an agricultural exchange on future harvests between farmers and large processors, and an ordering and payment center to service buying and selling processes between rural and urban areas.

202. Apart from what is generally available to the public, and servicing remittances as conduits for Western Union, rural banks, with a few possible exceptions, do not currently have financing products and services which address or target specific needs of OFWs or their families. There are possibly a few exceptions that have been brought to the attention of the team, such as the New Rural Bank of San Leonardo in Nueva Ecija, which has a program specifically designed for departing, returning or retiring OFWs, or OFW families who wish to engage in micro-enterprises, or the Marikina Valley Rural Bank, which together with a consortium of other rural banks, runs a program called "Philsoven", through which loan applications and other services could be filed by OFWs in its field offices in Rome and Hong Kong, China.

203. Milamdec Foundation in Cagayan de Oro City manages two rural banks in Bukidnon and Lanao del Norte provinces that are both engaged in microfinance operations. Its programs specifically target OFW communities in Europe to consider opening savings, time deposits or equity investments in any of the two banks. In April 2004, a group of Filipinos from Luxembourg and Netherlands made placements in the amount of ₱1,000,000 in the form of time deposits locked in for 5 years, earning annual interest of 8.5% per annum. It was also learned that a worldwide organization of OFWs called Overseas Filipino Workers-International Management Corporation (OFW-IMC) was in negotiation to purchase P200,000 worth of common stocks in the two banks.

204. All in all, the main barrier for rural banks in taking a more enhanced role in the total banking system, particularly on remittances and financial services for migrants and their families, is interconnectivity, which requires a costly investment in physical infrastructure and capability building for its member banks. It would be useful for rural banks to find ways of leveraging on remittances and introducing their products and services to migrant workers. As a start, the RBAP could simply conduct surveys among the clients of their member-banks to determine which households have relatives working overseas and their economic and other needs. Rural banks could also forge partnerships with NGOs in the Philippines and overseas.

2. Cooperatives

205. Since the Cooperatives Code was enacted in 1990, there were 57,500 cooperatives nationwide which registered with the Cooperative Development Authority (CDA). The Philippines has now more cooperatives than barangays, with about 4,000 cooperatives being registered each year. While this may be regarded as phenomenal, it is also well known that many of these cooperatives are dead or dying. The CDA itself classifies 35% of cooperatives as non operating. Of the total number of registered cooperatives, only less than one fifth or about 11,500 were capable of submitting required annual reports and audited financial statements. Nevertheless cooperatives play a vital role on poverty reduction as they enable citizens of little means to come together to put up economically viable businesses with a social purpose, serve to introduce them to enterprise and activities that address basic needs or enable them to access factors of production, especially those needed to sustain agricultural or small enterprise projects which they would not have been able to afford if acting individually.

206. The NATCCO network is a national apex cooperative confederation composed of 1,200 affiliate primary cooperatives engaged in savings and credit, retailing, agricultural production and marketing, housing and other services, with a membership of more than one million individuals, who are mostly farmers and fisherfolk, self employed, salaried workers, housekeepers, students and others. The second tier of membership is the secondary member, composed of six regional development centers located nationwide. Among its cooperative members are some of the most successful cooperatives in terms of assets and net surplus, with highly developed social services for members, such as health care plans, annual checkups and hospitalization benefits, old age pensions, disability and death benefits, and scholarships in technical and vocational courses. Eight of these successful cooperatives have a combined asset size of more than ₱1 billion, with many located in depressed provinces. The 31,000 active cooperatives located in all the 16 regions of the Philippines with remittance-receiving households could lead to identification of programs that enhance remittance distribution and the introduction of households to financial services and decrease numbers of financially unserved migrant families.

207. Cooperatives do not have a database of their members who receive or are dependent on remittances from overseas breadwinners, hence services that address concerns of OFWs have not entered their horizon until probably recently. A system called Global Cooperative Payment System is a joint partnership between the NTUC Income Insurance Cooperative, a large insurance cooperative in Singapore and NATCCO, one of the biggest cooperative federations in the Philippines, to service the remittance needs of the estimated 100,000 OFWs in Singapore.

208. The idea is to offer an easy access remittance system through cooperative offices and Fair Price stores in Singapore, retail stores similar to 7-11 convenience stores, with the use of a cooperative-to-cooperative money transfer software system using electronic banking facilities

that offers lower service fees, fast money transfer information including bank to bank and door-to-door services. NATTCO claims that the system will allow payments to be made in multi-currencies and foreign exchange at favorable inter-bank rate. It will also supposedly allow daily settlement of global transactions between cooperatives, although participating cooperatives will have to advance payments to beneficiaries similar to Western Union arrangements with its outlets.

209. NATCCO sees the partnership as an opportunity to earn income from foreign exchange services, increase memberships from OFW beneficiaries, as well as memberships from primary cooperatives who may wish to participate in the program, and enhance its role as a player in the financial sector due to foreign exchange capabilities. NATCCO is to serve as network agent in the Philippines with participating cooperatives as branch agents. Because the agents advance payments once the remittance deposits are known in the Philippines as monitored by NATCCO virtually in a matter of seconds, through the internet, receipt by beneficiaries is almost immediate as their accounts with the paying cooperatives are credited virtually instantly and could be claimed immediately. Currently the system is being piloted in five large cooperatives in the province of Lingayen, Pangasinan, Quezon City, Cebu City, Dumaguete City, and Cagayan de Oro City. According to NATCCO, NTUC Income will levy only the actual operating cost for the trial phase which is minimal. If the trial run is successful, remittance charges will be lower or at least competitive with rates offered by other money transfer agencies in Singapore.

3. Microfinance Institutions

210. For several years now, institutions engaged in microfinance lending have serviced capital requirements of thousands of poor families who have ventured into microenterprise as an escape from poverty or to improve their standard of living. These institutions include rural and thrift banks, cooperatives and microfinance NGOs. In the Philippines, there are three or four large networks of microfinance NGOs with a combined clientele of at least one to 1.5 million borrowers, excluding others in church based or other group initiatives. Microfinance-oriented banks are under the overall supervision and regular examination by the BSP Supervision and Examination Sector. However, microfinance networks or coalitions also actively review and evaluate the performance standards of their microfinance NGO members.

211. Financial sector reforms initiated by the government in the 1990s and some circulars issued in relation to the General Banking Law of 2000 set a much clearer policy framework for promoting microfinance, wherein the government sent positive signals of its intention to promote viable and self-sustaining microfinance institutions. With regards rural banks, the BSP partially lifted the moratorium on the licensing of new thrift and rural banks to allow the entry of microfinance-oriented banks. The BSP also reconfigured its rediscounting facility to provide liquidity assistance aimed at supporting microfinance programs. Government lending institutions such as the Development Bank of the Philippines (DBP), the Land Bank of the Philippines (LBP), and the People's Credit and Finance Corporation, with funding assistance from multilateral institutions, are instruments for providing financial services to microenterprises and poor households, using rural banks, cooperative banks, thrift banks as well as microfinance NGOs as conduits for microcredit. Legislation currently being considered, such as Senate Bill No. 442 which has, as one of its major provisions, the utilization of rural banks as remittance centers, could improve the delivery of OFW remittances to beneficiaries.

212. The question has been asked if there is a role for microfinance institutions (MFIs) in linking remittances to development. While caution should be exercised in having MFIs as remittance conduits, the study team believes that OFWs could look at MFIs as a possible area

for savings and investments, particularly in regulated MFIs such as rural and thrift banks.[71] Microfinance reaches out to more marginalized people and others in the informal sector whose only coping mechanism may be engaging in micro-enterprise. As a savings or investment option, a portion of remittances could be invested in microfinance banks or institution and still manage a rate of return that is comparable to what commercial banks might offer. A one-year investment of say ₱100,000 given the usual two microfinance cycles of 6 months each, could in one year support about 20 micro-entrepreneurs. As a strategy for asset buildup and financial literacy, linking migrants and their families to microfinance institutions provides remittance-receiving households with the business mentoring and access to capital, which may precisely be what an absentee migrant needs to make sure that the money he or she remits is used productively and not wasted.[72] While microfinance is important, microfinance practitioners must build on its strengths by not only improving its service delivery through capability building programs. They must also be open to innovations such as creating linkages between groups of suppliers and buyers, improving products and expanding new markets. The systemic application of microfinance generates economies of scale and more efficient ways of production.

G. Investment Channels

213. The market study revealed that 68% of beneficiaries are able to save, of which 87% keep their savings in a bank (paras. 111, 112 and Table 49, Volume II). This is an indication that Philippine banks are successful in introducing their various products to the beneficiaries and their families. By lowering their opening and maintaining balances for savings accounts, Philippine banks are in a strategic position to tap the savings potential of OFWs and their families. Savings accounts and other bank products such as insurance, housing loans, educational loans, micro-loans are introduced to the prospective remitters as early as the pre-departure orientation sessions. Banks also market stable securities such as government treasury bills, treasury bonds, foreign currency deposit accounts and other savings and investment instruments specifically designed for overseas workers. Other investment channels that include programs specifically designed to encourage remitters and their families to set up small businesses such as that of Planters Development Bank which introduce migrant workers to franchised businesses, could lessen the risks of failure and minimize the management burden for the remitter and their families.

214. The Philippine financial system is composed of different financial and economic organizations delivering products and services to varying socio-economic levels of the Philippine population. The key to improving service delivery and leveraging resources, including migrant remittances, is to institute policies that will enable the various levels of financial institutions to improve their capabilities rather than policies which tend to engender financial ascendancy or monopolies which lessen competition.

H. Leveraging on the Foreign Currency Flows

1. Securitization

215. With predictable flows of more than $7 billion per annum from Filipino workers remittances, there exist opportunities to utilize these flows for developmental initiatives. Banks in Turkey (Is Bank) and Latin American countries (Banco de Credito del Peru, *Banco Cuscatlan*

[71] See also section on rural banks.
[72] Bagasao, I., Migration and Development: The Philippine Experience, Small Enterprise Development, Vol. 15, No., 1 March 2004.

in El Salvador, Banco Nacional de Mexico) have successfully tapped the investment market for amounts ranging from $100 million and $300 million through securitization.

216. A normal securitization transaction entails the selection of a pool of assets or flows and the sale of these assets by the originator (local bank) to a special purpose vehicle (a remittance trust company) which in turn will sell these assets directly to the capital markets. Securitization drivers include funding benefits (cost effective funding, diversity of funding), capital and asset yield enhancements, and credit risk mitigation. Appendix 11 provides a general securitization structure[73] which includes an overview, a list of the parties to securitization, the summary of the structure, a description of the eligible customer remittances, transaction structure for the initial and ongoing flow of funds, and a detailed flow description.

217. In the Philippines, several banks such as Citibank, Credit Suisse First Boston, and Morgan Stanley have been offering securitization transactions to local banks and the government using dollar flows from overseas workers remittance flows as the subject of securitization. Several structures have been put on the table including those which will use system wide flows with the government as the borrower (undertakings by government). Local banks on the other hand are open to securitization transactions as long as the overall funding costs will enable them to reinvest the proceeds of the securitization with acceptable returns.

218. Securitization experts advised that in an ideal structure, the originator should be the local bank with the actual remittance flows as in the case of the Latin American transactions. An investment grade rating is however necessary to tap the capital markets at attractive rates. This creates an opportunity for multilateral institutions to provide credit enhancements to the transaction to achieve the desired investment grade rating. In return, the multilaterals can encourage the local financial institution industry to participate in development projects by requiring the local banks to reinvest proceeds in targeted developmental projects or in microfinance institutions. The microfinance institutions can also use its own receivables from micro-borrowers for the bank's risk mitigation.

XIII. BARRIERS TO INCREASING REMITTANCE FLOWS

A. Regulatory Barriers

219. The study surfaced a number of barriers that likely affect the inflow of more remittances to the recipient country, the shift from informal to formal channels, and an increase in remittance costs. These barriers are related to regulatory, cost, industry and financial infrastructure issues in remitting and recipient countries. Moves to revive the taxation of income of certain professionals may also pose threats to remittance flows.

1. Anti-Money Laundering Issues

220. A very large number of the major Philippine commercial banks mentioned that the implementation of Anti-money laundering (AML) laws in the Philippines and in remitter foreign countries has presented challenges for the banking sector as well as its customers. There are difficulties in producing identification especially in the remote provincial areas in the Philippines as the list of acceptable identification is quite limited. The perception from the banking industry is that informal money transfer agencies as well as money changers which are not supervised by the BSP, are enjoying an advantage that could be likened to unfair competition. Although this

[73] Securitization structure provided by Citibank N.A.

issue should be addressed when AML monitoring by the BSP is enforced sometime this year, it is however imperative that more resources are employed in order to ensure compliance with AML regulations. In this connection, the BSP is currently studying proposals to regulate money changers and remittance agents, including collaborating with local government units in the issuance and renewal of business permits.

221. Problems related to AML compliance were also noted in remitting countries. Banks noted that the opening of new NOSTRO accounts with various banks in the US and Europe has been difficult, with tedious requirements differing from country to country, or depository bank. Waiting periods, for instance in London could last up to one year as experienced by one bank. Difficulties had also been experienced in France. Remittance transactions are being refused by Filipino remittance banks/centers in the US when amounts exceed the threshold of $10,000. Amounts in excess of the usual pattern of remittance, invite close and often embarrassing scrutiny in the remitting country, driving remitters to use a non-bank to speed up the remittance process.

222. Implementation of AML regulations has naturally caused inconveniences that may have led many Filipino remitters to use non-bank money transfer agencies, which offer more geographical accessibility, less formal regulations and longer business hours. International money transfer agencies have also acquired a reputation for fast and efficient delivery and have more outlets in the Philippines.

2. Costs

223. The costs of licenses and bonds in remitting countries are likewise a heavy burden including incremental costs relating to AML compliance. Banks incur more costs than non-banks because they have to maintain high standards for their operating procedures, audit and risk assessment of parties. Typically these are variable costs, such as telecommunications and internet costs, correspondent charges for credit/debit to account, clearing costs (with PDDTS, PCHC, SWIFT), ATM network costs, transportation, depository bank charges for notes counting, share of money transfer agent in fees, marketing and advertising expenses, processing and courier costs as well as staff salaries, among others.

224. Bank charges for EPCS in the amount of from Php90 to Php150 are charged by the original receiving local bank when funds are transferred to another local bank where the beneficiary's account is maintained. The beneficiary normally absorbs these charges which are advised to the remitter at the outset. Banks feel that the charges are justified as operating costs are incurred by them while revenues (remittance fee and foreign exchange earnings) are retained by the MTOs who receive the funds and payment instructions abroad. As the Philippine Clearing House charges ₱10 for the credits, local banks should consider reducing these current charges. The local banks, on the other hand, use these charges to convince the remitters to ask their beneficiaries to open accounts with the original receiving local bank.

3. Regulatory Issues in Specific Remitting Countries

225. The Philippine government, possibly through the Board of Investments and the Department of Foreign Affairs, in coordination with the BAP or the Association of Bank Remittance Officers (ABROI), could undertake initiatives, bilaterally or through regional groupings, with host country governments, to identify measures that will address regulatory concerns. One of these could be allowing the opening of remittance windows or facilities by Philippine banks or remittance entities in host countries heavily populated by Overseas Filipino

remitters, such as in the US, Italy, Spain, Saudi Arabia and other Middle Eastern countries, a measure which will not only improve access by Filipino remitters to formal channels, but may also enhance competition which could drive costs further down.

4. Last Mile Issues

226. Approximately 30% of remittances are still sent through the door-to-door service whether through banks or non-bank money transfer channels. This usually happens when there are a limited number of banks or money transfer agencies near remitters' residences or when beneficiaries live in remote areas. This will continue to be a concern unless the banking or money distribution system in remote Philippine areas is improved.

227. The inability to upgrade technology and infrastructure or the improvement or the setting up of on-line systems which will enable banks to transmit and process payment orders electronically or by the use of internet is a major barrier preventing the formal banking and remittance sector to improve efficiency which could lead to the lowering of costs. Compared to most Philippine branches of major foreign banks, only one Philippine bank is reported to have completed system enhancements to enable straight through processing, which could lower transaction costs and allow same day, real time, on line credit, even if the source of funds is a foreign bank overseas. Ultimately, the problem to upgrading by a bank involves a heavy financial outlay in the region of at least $1 million. Projects that could potentially solve last mile problems through the use of postal offices and selected microfinance companies or cooperatives as remittance payment conduits, are also stymied by the same funding problems.

228. The Philippine government has granted tax breaks to its overseas workers. RA No. 8424 or the Tax Reform Act exempts OFWs from tax on income derived from abroad. Revenue Regulation No. 10-98 provides for exemption for non-residents and OFWs from payment of the 7.5% tax on interest income derived from foreign currency deposits. Overseas workers are also exempt from payment of travel taxes when they have stayed less than one year prior to their departure. However, the recent pronouncement by the Philippine Bureau of Internal Revenue to tax the income of highly paid Filipino professionals working abroad had been met with protests from those likely to be affected, and is a move that could pose a threat to increasing remittance flows.

B. Non-Bank Related Barriers

1. The Demand for Filipino Workers

229. The flow of remittances and including those transferred through formal channels, may be affected by the increase or decrease in the demand for Philippine workers. Labor nationalization laws in other countries, such as the Saudisation or Emiratization of labor in the Kingdom of Saudi Arabia and the United Arab Emirates, could in time reduce employment levels of Filipinos in these countries. Economic recession in host countries, such as those that happened during the Asian financial crisis in 1997, resulted in the deportation or downgrade in salaries of thousands of Filipino immigrant workers.[74] Competition from migrant workers of other countries who may offer similar skills at a lower cost, could also adversely affect demand unless training facilities of Filipino overseas workers are upgraded and new labor markets are developed. In certain cases, Filipino workers receive lesser pay than other nationalities performing the same work, on account of unrealistic or arbitrary evaluation of their academic credentials by host

[74] Bohning, W., ibid.

country authorities.[75] The Philippine government could push for a more appropriate evaluation of standards through negotiation or bilateral treaties.

2. Financial Burden on Departing OFW

230. The market survey indicates that a large percentage or 49% of job applicants incur debts in order to defray recruitment fees and expenses. Although there are legal limits to what recruitment agencies could charge as recruitment fees, fee charging by both illegal and legal recruitment agents is an area that has traditionally been difficult to manage. Anecdotal evidence also suggests that in some cases, although recruitment agencies already receive a fee or commission from overseas principals for every worker recruited, applicants are still charged. Although not directly related to remittance flow, this issue affects the actual number of Filipinos who could hardly afford high recruitment/deployment costs and consequently the number of potential remitters, and reduce amounts that are sent for their families due to the prioritization of debt payments.[76]

3. Inadequate Financial Orientation on Departing Workers

231. The Pre-departure Orientation Seminars need improvement in quality and content particularly on the orientation of workers on savings instruments and other financial products. Banks have observed that the rules and requirements, as well as on the extent of their participation and roles are not clearly explained. There are different banks (and money transfer companies) sponsoring each PDOS session, thus quality and uniformity in instruction is not strictly observed. Overseas workers might be obtaining too little information at a less than ideal period before they are about to leave. In the long term, financial literacy programs might best be administered even before the worker has considered overseas work as an option, preferably at the barangay or community level.

XIV. CONCLUSIONS AND RECOMMENDATIONS

A. Rationale of Policy Recommendations

232. The two main areas of this study included (i) a review of the flows of remittances by Overseas Filipino Workers and (ii) the identification of the constraints in the policy, regulatory and institutional framework that influence or impact on these flows. The principal objective was to develop proposals that will address the problems and constraints with a view to increasing remittance volumes, facilitating the shift from informal to formal channels and leveraging the use of remittances for sustainable poverty reduction. A review of the Philippine remittance environment and the study of the profile and demography of Filipino remitters strongly suggested that all the basic ingredients that could contribute to the accomplishment of the above objectives are present in the Philippine remittance system. The Philippine financial system is quite developed, whilst Philippine banks and money transfer agencies have established a strong presence in major cities worldwide and have developed market mechanisms characterized by partnerships, use of new technology and revenue sharing amongst both bank and non bank remittance agencies that has contributed to a healthy competitive spirit in the remittance industry and maintaining reasonable transaction costs. The

[75] For instance, a Filipino professional who had undergone five years of academic training for accountancy may receive less pay than a worker from another country who went through training for longer periods.

[76] The excessive charging occurs mostly in the placement fees and hidden fees such as escorting expenses at the international airport, in order to facilitate departure of OFWs leaving as tourists.

market study has also strongly indicated that by and large, the Filipino remitter, particularly the contract based workers, are receptive to and in fact are already using formal remittance channels.

233. Given that, and with formal flows at the level of $7 billion dollars yearly, and actual flows estimated at double that figure, there is tremendous potential for harnessing these remittance flows for more productive use and as a tool for poverty reduction. Examples of migrant sending countries which by successful leveraging of their migrant remittances, have become net labor importing countries, strongly suggest that remittances, when properly harnessed and leveraged, and coupled with fiscal discipline and mobilization of savings, could in the long term serve as a driver for economic reform for migrant countries of origin. In the case of the Philippines, the challenge lies in addressing the various regulatory and practical barriers and gaps that hinder the flow of remittances and other migrant resources to be used for strategic economic purposes and putting to maximum use the various levels of financial institutions, government agencies and civil society organizations. In this connection, we support the multilateral development institutions' plan to further initiate technical assistance for in-depth studies of other remitter countries, as well as initiatives that may be taken by the Philippines government with host countries with huge OFW populations, such as the opening of remittance windows for Philippine banks or remittance entities, which could give greater access to formal channels, enhance competition and lower remittance costs.

B. Breaking Down Barriers and Bridging the Gaps

1. Licensing Costs and Restrictive Regulations

234. The main barriers to improvement on first mile issues have to do with the high costs of licensing, bonds, minimum capital requirements for Philippine banks and remittance companies and service charges imposed by host country banks, and highly restrictive laws from remitting countries such as the US and some European countries such as France and the UK. Liberalization policies by Singapore could offer some insights on achieving an ideal balance between liberalization and competition on one hand and enforcement on the other. A similar move from the US, the Middle East countries (especially Saudi Arabia), Japan, PRC and several European countries would further open up remittance markets in areas that are underserved by Philippine banks or formal money transfer agencies. The increased volumes of business generated by the increase in remittances inflows through the banking sector or the favorable impact on the economic standing of migrants or their families from possible increase in their use of banking and financial services, should offset whatever may be lost in the reduction of service charges. In this connection, we support the multilateral development institutions' plan to further initiate technical assistance for in-depth studies of other remitter countries.

2. Irregular Workers

235. A solution must be found to enable millions of OFWs with irregular status in major remitting countries, to have access to banking or other formal remittance facilities. Lack of access drive these workers to use unregulated remittance channels, discourage savings and encourage consumptive spending. This might be addressed through the introduction of low-cost technology based products, or in the case of the US, serious consideration could be given by US authorities to the proposal to accept identity cards issued by Philippine consular officials as acceptable identification for opening US bank accounts, similar to the Mexican matricula cards. Regulations in remitting countries could be liberalized in order to allow Filipino banks, through

their overseas offices or through money transfer agencies, to facilitate the introduction of their Philippine based savings and investment products, or the opening of Philippine-based accounts for remittance beneficiaries. This makes logical sense if the objective is to leverage remittances in migrants' countries of origin.

3. AML Compliance

236. Compliance with AML requirements has added incremental costs especially to banks and remittance agents of banks in remitting countries. By some accounts of the Philippine banks, the transaction and processing costs have increased by as much as 10-20% due to the continued inclusion of the Philippines in the FATF's negative list. These costs result from increased requirements in areas such as enhanced due diligence in identification of client, in-depth record keeping, quicker discrepancy resolution, audit readiness programs and training programs, investments in more sophisticated softwares, and more senior management time spent in looking into suspicious transactions. Moreover, the inclusion of the Philippines in the list of non-cooperative countries by the FATF, may have generated tension and discomfort not only within the banking industry but could also adversely affect not only remittance flows but also flows of foreign direct investments. While there may be justification for the Philippines remaining in the list, there are also arguable reasons for maintaining clear communications and dialogue between the Philippines (including representatives of the Philippine banking industry) and US authorities and the FATF, in order to address gray areas that impede communication and understanding of expectations and roles and the lack of funds to upgrade Philippine technical capability to enforce AMLA. The threat of sanctions, could only work to the prejudice of millions of remittance-receiving beneficiaries and the Philippine financial system. It could also surely drive more remitters to use unregulated money transfer channels.

237. The AML Council participation could be expanded to include the private banking sector, informal remittance practitioners and even non-bank foreign exchange dealers. It would be noted that the WB-DFID conference last year proposed a conference between formal and informal remittance sectors. This would ensure a wider coverage of knowledge, foster understanding of each other's situation, and exchange of useful information in the implementation and refining of the AMLA. While the BSP is considering the various options and proposals for the registration and monitoring of non-bank money exchange and remittance agencies, it may be useful to include such agencies for dialogues and discussions at this early stage. Many in the banking industry have complained about an unfair competition situation in the remittance and foreign exchange market between banks and non-bank entities, in the application of AMLA and foreign exchange rules. Banks are subject to more stringent rules and costs than non-banks. It appears necessary and is even now mandatory that agencies that deal with foreign exchange and remittance have to be regulated and subjected to BSP rules, regulations, supervision and examination. This does not mean having to drive off the non-bank industry out of business but simply making certain that liberalization of currency exchange is not abused to the detriment of the financial system. Regulating the non bank affiliated foreign exchange and remittance companies will also facilitate recording of remittances and AML monitoring, encourage foreign exchange transactions through the banking system and consequently assist in increasing international reserves.

C. Remittance Cost Reduction

238. The study strongly suggests that there is vibrant competition in the remittance market between the Philippines and other remitting countries, particularly from the US and Singapore, which rank first and sixth among remitting countries to the Philippines. With the entry of more

players and even nontraditional ones, not only should this development drive costs further down, but will also increase the share of the formal sector in the remittance flows, which at present is already at a high of 80%.

239. Door-to-door operations add an incremental cost of at least $2 to remittance price, and reduces the chances of the remitter/beneficiary in saving part of the remittance proceeds, aside from being unsafe. Given the archipelagic nature of the Philippines and the absence of development in many areas, the door-to-door system will continue to be used. Greater participation of community-based institutions such as rural banks, cooperatives and microfinance institutions, as well as postal offices, in the provision of remittance and other financial products and services to migrants' beneficiaries, could lessen door-to-door usage. We recommend that BSP and the various banking and non-bank associations lead the effort to improve domestic interconnectivity to allow for more efficient last mile distribution of remittance proceeds. Multilateral institutions on the other hand, should consider assistance for technical studies and funding of interconnectivity projects. Improvement of roads, bridges and the peace and order situation will also certainly facilitate effective distribution.

240. Establishment of online remittance systems and straight-through processing enhances remittance systems and results in significant cost reduction. Commercial banks that may wish to have the capability but are hampered by the huge investments required, might be encouraged to upgrade their systems by opening a window for financing alternatives, preferably in local currency, or providing other incentives such as a rating system for operational efficiency. Features for operational efficiency may include: level of computerization, cost management, standard processing and straight through processing. The multilaterals may assist for technical studies from operation research banking experts to create benchmarks which BSP may utilize in the rating system. Banks should also consider outsourcing to reduce costs as BSP's current regulations allow outsourcing (BSP Circulars 268, dated 05 December 2000 and 408, dated 13 October 2003).

241. The initiative to extend the Federal ACH for US payments to the Philippines should be actively considered, given its potential to drive remittance costs down. However, the key issue to be resolved has to do with ensuring equitable opportunities for banks to participate in revenue earnings from foreign exchange transactions, frequently their main source of revenues on remittance transactions. An industry cost/benefit analysis and the participation of commercial banks in the formulation of policies on ACH implementation, appear to be imperatives to its effective implementation. It would also depend on the readiness of banks (i.e. their level of computerization, capitalization requirements, connectivity, among others). Interconnectivity with automated clearing houses of other countries including a regional interconnectivity platform within the Asia Pacific region should be explored.

1. Increasing Remittance Volumes

242. The volume of remittance flows may be influenced by several factors, such as the fluctuations in the demand for Filipino workers in overseas markets, competition from migrants from other countries, labor nationalization laws and economic recession in host countries, job credential issues that downgrade migrant wages and the cost of pre-departure expenses. The Philippine government could respond to these issues by upgrading the quality of preparatory education and augmented by special skills training, identifying new labor markets provided they do not endanger worker's welfare, negotiation with host governments for the proper accreditation of workers' academic and work experience and review of pre-departure expenses. Effective and meaningful reintegration programs by the Philippine government as well as civil

society must be put in place to absorb the eventual or sudden return of workers due to forced repatriation or contract completion. Savings mobilization (including studies to determine unbanked population), enterprise development, skills training and financial literacy programs must be in place and may be linked to technical assistance or funding assistance from international and multilateral agencies.

D. Enhancing Efficiency of Government Overseas Deployment System

243. The Philippine government is mandated to set up and install a Shared Government Information System which requires the setting of databases among agencies involved in the overseas deployment system, and then linking these databases for the exchange of vital information on migrant stocks and flows, improving communications between home agencies and overseas offices, authentication of various documents needed to process applications, and other services which could be enhanced by automation. When these databases are electronically linked, such a system could definitely enhance not only the deployment process and improve the monitoring of migrant stocks and flows, and even of remittances, but also save both government and migrants money and man-hours. It could also serve as a central portal for information by migrants on available programs and services existing not only with government but also with private agencies on livelihood, skills training, counseling, credit access, and other valuable resources for the reintegration of returned migrants. Efficiency and transparency build trust and confidence by the public on government, and could generate an enabling climate for increased use of otherwise idle resources and, in the long term, the increase of savings and investments in communities. Funding agencies and multilaterals may seriously consider studying and supporting the completion of this project.

244. The Pre-departure Orientation Seminar (PDOS) that is being conducted under the auspices of the OWWA offers opportunities for offering financial literacy and the culture of savings among OFWs, despite its limitations. Preferably, specialists should be given more prominent role in handling financial literacy subjects. The fact that 22% of OFWs surveyed attributed their opening of savings accounts to the PDOS is indicative of its potential. Better still, financial literacy and education should be started at the barangay level, long before migration has been taken as an option. It will also make good sense to include financial literacy as a curriculum among primary school students. The BSP and the PDIC are encouraged to accelerate financial literacy and savings programs.

245. One of the main gaps in the formulation of policy is the difficulty in obtaining reliable information from government agencies. This could be addressed by the systematic and purposeful recording of information from the public which transacts business with these agencies, such as the SEC, the DTI, the POEA, and the various local government units which grant business permits and the improvement of interconnectivity and management information systems among these agencies. Better recording and disaggregation of data are key to enhancing information systems which could also improve the recording of remittance flows.

E. Leveraging Remittances for Development

246. The role of community-based financial or economic institutions such as rural banks, thrift banks, cooperatives, microfinance institutions in linking remittances to development should be given a closer look. They service millions of financially underserved sectors of society, yet are not fully integrated to the financial system. Each of these sectors have self-regulatory mechanisms through networks that lay criteria for good governance. Interventions from the government should be in the form of support for their operations and projects that will improve

their interconnectivity, and opening windows for programs initiated from these sectors, in linking migrant remittances to development.

247. Windows for funding or institutional support could be opened to link initiatives from NGOs or microfinance institutions which are linking OFWs with their programs for savings mobilization, investments, credit access, or enterprise development in migrants' communities of origin. Such programs could complement the recently legislated tax and other incentives offered under the Barangay Micro Business Enterprise Law. It could also be in the areas of new products development, capability building of microfinance institutions, and encouraging the access of remittance receiving families and households to community based financial institutions such as cooperatives and microfinance NGOs which could offer simple entry level financial products and services, remittance services, or insurance. Lessons could be learned from the IADB's MIF program, particularly on linking remittances to enterprise development and capability building for NGOs engaged in service delivery to migrant families.

248. The impact on development of the initiatives of FAO is an area worth looking into by multilaterals. Thousands of these regional or hometown associations are already active in mobilizing funds and repatriating these to the Philippines to fund social economic projects as well as infrastructure in needy areas. A study could be separately made to identify how these widely disparate organizations could be better organized, in order to attain better economies of scale through the pooling of resources. The Philippine government already has a structure - the Commission on Filipinos Overseas, whose system could be enhanced through technical assistance. The study could focus on an assessment of the development impact of such donations, identification of barriers or gaps that impede more activities of this nature, and policy measures that will increase these flows, starting with elimination of the VAT on donations. Multilateral agencies might also consider study and support for matching funds with amounts donated by these overseas associations for greater capital buildup.

249. There are some 2.6 to 3 million contract-based workers who will have to return to the Philippines upon the expiration of their overseas contracts. As shown during the Asian financial crisis, locally available employment opportunities could not accommodate the sudden influx of Filipino workers who were deported or asked to leave by host countries hit by recession. In the Middle East where some countries such as Saudi Arabia and the United Arab Emirates host millions of OFWs have an ongoing program for nationalizing labor, the return of thousands of such workers should be anticipated by measures which will reabsorb them into the Philippine labor force. Efforts of government on reintegrating returning workers could be supplemented by technical assistance that could fund a focused study on reintegration and support initiatives of networks of reintegration groups or others that render vital psycho-social services to migrant workers.

250. Philippine Laws, regulations and policies that have set up a system of incentives in the form of tax exemptions and property privileges to expatriate capital must be evaluated with the view to reviewing not only their expected impact on local economy development, but also their ability to attract serious and long term productive investments from overseas Filipinos such as in small and medium enterprises, or the transfer of acquired skills and technologies. The effects and implications of the Dual Nationality Act on former Filipinos should be fully discussed between policymakers and overseas Filipino communities. These discussions could go hand in hand with programs supporting the initiatives of local governments on generating domestic and foreign investments in their respective communities. Linking expatriate capital with their communities will enable resources to trickle down directly and much faster to the countryside where these infusions of capital might be sorely needed. If properly designed and implemented,

bonds issued by local governments and guaranteed by their internal revenue allotments, could be offered as savings or investment vehicles to OFWs originating from these communities, in order to fund local infrastructure that will in the long term benefit migrant families and the communities where migrant workers will eventually reintegrate.

251. With expected flows of more than $7 billion per annum from overseas Filipino workers' remittances, there exist opportunities to utilize these flows for developmental initiatives, as tried already in other countries such as Turkey and Latin American countries, as vehicles for investments. Securitization drivers include funding benefits (cost effective funding, diversity of funding), capital and asset yield enhancements, and credit risk mitigation. Several foreign banks based in the Philippines have been offering securitization transactions to local banks multilateral institutions and the government using dollar flows from overseas workers remittance flows as the subject of securitization. Credit enhancements could be provided by multilateral institutions to achieve desired investment grade ratings. Microfinance institutions or local development projects could be the targeted areas of investments.

F. Regional Cooperation

252. Both migrant origin countries and host countries are key stakeholders in labor migration. Countries of origin find more labor markets for its migrant workers to increase potential remittances, while host countries need migrant labor to fill labor shortages and enable its local employment to shift to more productive occupations. Bilateral agreements that the Philippine government has entered into with certain host countries are essentially government-to-government arrangements containing procedures and general guidelines on recruitment terms and conditions without any commitments on the number of workers to be recruited. It is in the interest of both host and origin countries to address issues and concerns not only on remittances, but also on other core migration issues, such irregular workers, illicit trafficking of migrants, downgrading of terms of employment and academic credentials of foreign workers, through bilateral initiatives or within the ambit of regional economic groupings such as the Association of South East Asian Nations (ASEAN) or Asia Pacific Economic Cooperation (APEC), whose membership include both host and origin countries.

253. Host countries have shown reluctance to sign bilateral labor agreements, while it is perceived that regional institutions in place such as the Asian and Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN) have not taken migration issues as a serious part of their agenda. Thus, the report of the APEC Alternative Remittance Systems (ARS) Working Group on informal fund transfer systems is encouraging as it may possibly be the first time that a migration issue is discussed in a major regional grouping like APEC, which counts as members both major host countries and migrant countries of origin. The ADB, as a major development agency in the Asian region, could support or sponsor conferences or dialogues between host and sending countries on remittance and migration issues, including the identification of best practices that could be replicated in other countries.

STATE LICENSING REQUIREMENTS

Top Ten States with Documented Filipinos

Parameters	California	Hawaii	Illinois	New Jersey	New York	Washington	Texas	Florida	Virginia	Nevada
Filipinos - Actual Census 2000	918,678	170,635	86,298	85,245	81,681	65,373	58,340	54,310	47,609	40,529
Estimated by CY-2003	1,003,864	186,457	94,300	93,150	89,255	71,435	63,750	59,346	52,024	44,287
License Requirement	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Regulatory Agency	Dept. of Financial Institutions	n/a	Dept. of Financial Institutions	Dept. of Banking & Insurance	State Banking Dept.	n/a	Dept. of Banking	Dept. of Banking & Finance	State Corp. Comm. (BFI)	Dept. of Business & Industry
Applicable Statute	California Financial Code	n/a	Illinois Transmitters of Money Act	New Jersey State Act	New York Banking Law	n/a	Texas Finance Code	Florida Statutes	Code of Virginia	Nevada Revised Statutes
Minimum Required:										
- Tangible Networth	$250,000	n/a	$35,000	$50,000	$500,000	None	$25,000	$100,000	$100,000	$100,000
- Pledged Assets	$250,000	n/a	$100,000	$25,000	$500,000	None	$300,000	$12,500	$25,000	$10,000
- Cash	Yes	n/a	No	No	No	n/a	No	Yes	No	Yes
- Bond	No	n/a	Yes	Yes	Yes	n/a	Yes	Yes	Yes	Yes
- Time Deposit	No	n/a	No	No	No	n/a	No	Yes	Yes	Yes
- Govt Securities	Yes	n/a	No	No	Yes	n/a	No	Yes	Yes	Yes
License Fee	$2,500	$150	$100	$1,200	$500	$75	$500	$1,000	$750	$100
Application Fee	$5,000	None	$100	$300	$1,000	None	$1,500	$500	$500	$250

BFI = Bureau of Financial Institutions (Virginia, US).

Source: Association of Bank Remittance Officers Incorporated (ABROI).

Notes:

1. Total number of documented Filipinos in US is 1,847,952 (2000 Census).
2. Filipinos rose from 1,419,711 in 1990, for an annual average of 3.0164% (2000 Census).
3. Estimate for CY-2003 is based on average annual growth rate of 3.0%.
4. Fee for Hawaii and Washington refer only to city business permits.
5. Undocumented Filipinos estimated at between low of 200,000 to high of 350,000, mostly in California, Nevada and Hawaii.
6. OFWs only in Florida does not include Filipino crewmen aboard cruise liners; estimated to be at least 16,000 in ports of Miami, Fort Lauderdale and Tampa.

LIST OF STAKEHOLDERS

Agency/Organisation	Objectives	Desired Results
Philippine Migrant Regulatory Agencies		
Department of Labor and Employment	To understand its role in the setting of policies and measures and enforcement of laws relating to recruitment, deployment, and protection of the welfare and rights of overseas Filipino Workers, enforcement of labor contracts, and the effective repatriation of their earnings to their families.	An assessment of the problems, concerns and constraints faced by the sending country in the deployment of overseas workers, and possible recommendations on measures for more effective protection of their rights particularly the maximisation of their earnings and resources for their benefit and of their families
Philippine Overseas Employment Administration (POEA)	To examine its specific role in the recruitment, documentation, deployment of OFWs, regulation of recruitment agencies and the orientation of OFWs on socio-cultural environment, protective mechanisms and remittance facilities available at the workplace.	An understanding of the problems and concerns characterising the recruitment process, statistics and numbers of OFWs.
Overseas Workers Welfare Administration (OWWA)	To understand the specific role of this agency in protecting the welfare of OFWs in their foreign workplaces, and the mechanisms employed to achieve this purpose.	An assessment of the welfare programs and services of the Philippine government relating to OFWs and possible recommendations on improving its capability to administer and manage OFW Contributions.

Agency/Organisation	Objectives	Desired Results
Department of Foreign Affairs	To understand its specific role in the deployment of OFWs, the protection of their welfare and rights, the role of diplomatic posts vis-à-vis OFWs, residents, and ethnic Filipinos overseas, and the other government departments such as the DOLE, OWWA, and others;	To obtain data regarding international or regional cooperation agreements entered into between the Philippines and migrant-receiving countries on migration and financial matters, to identify the Department's role and possible measures for enhancing their capacity to improve OFWs ability to maximise or repatriate their earnings;
Commission on Filipinos overseas (CFO)	To obtain information on its role in the documentation and reach out to overseas Filipinos, its programs and activities in encouraging, facilitating and monitoring the economic contributions of overseas Filipinos to economic, humanitarian and infrastructure projects in the Philippines, the size, nature, areas of deployment, and its assessment of the impact of these contributions to Philippine development	An overview of the size, nature, areas of deployment and an assessment of the development impact of overseas Filipino philanthropic activities on local communities with a view to enhancing these contributions through linkages with current or future development programs or financial counter parting mechanisms

Agency/Organisation	Objectives	Desired Results
Securities and Exchange Commission (SEC)	To understand its supervisory, monitoring and regulatory role in the registration of entities, particularly money transfer and money exchange entities, its participation in inter-agency committees, if any, in the enforcement of currency laws;	Policy Recommendations to improve its capability in the monitoring and enforcement of SEC registration and compliance with currency laws
Department of Trade and Industry (DTI)	To identify its monitoring and regulatory role in the registration of business entities, particularly money transfer and money exchange entities, overseas Filipino investments in the Philippines, statistics and numbers of OFWs who have registered investments and have availed of investment incentives, programs and recommendations that will encourage overseas Filipino investments in the Philippines	Identification of the Department's role in the registration and monitoring of entities engaged in money transfer and exchange, an estimate of the geographical distribution of such entities; the services relating to OFW investments and trade which could be enhanced through future program support.
Formal Financial Institutions		
Commercial Banks	To discuss from their perspective the barriers or incentives in the legal, regulatory and policy framework of the Philippine financial and banking system, the Philippine financial/ payments infrastructure, including telecommunications infrastructure, if applicable, and how it assists banks in managing their various remittance products; barriers or disincentives in the remitting country, mainly the US and Singapore; factors which significantly affect the cost and speed of remittance delivery, trends in the market on	To come up with policy and practical recommendations for the consideration of both Philippine government and the regulatory agencies in remitting countries, for the adoption of measures that

Agency/Organisation	Objectives	Desired Results
	migrants' remittances, including ATM machines, smart cards, as well as the informal sector; an update on services and products, including any investment products offered, its market size and volumes of remittances, outreach within the Philippines and overseas.	could result in remittance cost reduction, encourage more remittances to flow through the formal sector, and the generation of innovative remittance products, financial products and services that will increase the reach out of formal or regulated remittance services to migrant remitting populations and their beneficiaries
Rural banks, Development/Thrift banks (including Microfinance Banks)	To discuss these sectors' activities, if any, on the servicing of the remittances of OFWs, accessibility of OFW families to their banking products and services, activities on micro-finance and enterprise development, barriers or practical problems that hinder them from expanding operations, including interconnectivity issues.	To come up with recommendations on how on how rural banks, development, thrift banks could take an enhanced role in the formal remittance system and in leveraging remittances for the productive use among migrant families in the countryside.
Non Formal Financial Institutions		
Cooperatives and their networks	To obtain information on the Philippine cooperative system, particularly numbers, types, areas of operation, best practices, an estimation of the families with OFW breadwinners among coop members, cooperatives formed among returned OFWs.	The identification of existing or potential programs where cooperatives could play an active role through link aging with remitters and

Agency/Organisation	Objectives	Desired Results
		other international cooperative agencies.
Microfinance NGOs	An overview on the current size of microfinance industry, the major players, its reach out by geography and number of beneficiaries and areas of enterprise engaged in, barriers, gaps and deficiencies in the legal and regulatory environment, as well as assessment of government policies on microfinance, current activities or potential activities on the servicing of remittances, programs for linking OFWs and their families to microfinance services.	An understanding of the the current and potential role of the microfinance industry in the servicing of savings, credit and financial needs of OFWs and their families and identification of current or potential best practices, which could lead to policy recommendations for programs which will improve links between microfinance providers and remitters and the offer of financial products and services.

AGENCY/ORGANISATION	OBJECTIVES	DESIRED RESULTS
Money Transfer Agencies	To understand the nature of their operations and their relation to the formal or regulated sector; the nature, potential size and characteristics of the markets served**;**	An assessment of their role and extent of their participation in servicing remittance needs of OFWs, and identification of measures or recommendations regarding the monitoring and regulation of these agencies.
Financial Regulatory Agencies		
Bangko Sentral ng Pilipinas (BSP)	To understand the role of the BSP, the problems and concerns, in the registration and monitoring, as well as in the enforcement of Philippine laws and compliance with international commitments relating to banks and other financial institutions, including non formal entities such as domestic or foreign money transfer agencies, and money exchange centers;	To come up with policy recommendations that address the gaps and barriers existing in the legal and regulatory environment of remittances, its recording and reporting, the extent of its regulatory authority on banks, non bank financial institutions, money transfer agencies and money changing entities, payments systems and the monitoring of

AGENCY/ORGANISATION	OBJECTIVES	DESIRED RESULTS
		compliance with Philippine and international currency laws and commitments
Monetary Authority of Singapore	To identify and assess current monetary policies of Singapore as they relate to the regulation and monitoring of money transfer agents and banks, particularly Philippine banks engaged in money transfer; local laws, regulations and practices regarding the opening of bank accounts by foreign workers; local laws and practices on the tax and other monetary obligations assessed by the Singapore government on foreign workers.	An overview of Singapore monetary laws, regulations and practices as they impact on the operations of banks and money transfer agencies and on the remittance practices and behaviour of OFWs.
US Treasury Department	To identify current US laws, regulations and policies of the US as they relate to the regulation, registration and monitoring of banks, particularly Philippine banks, money transfer agencies, money exchange entities, particularly fiscal or banking regulations which may impede or encourage the flow of remittances from the US to the Philippines; to identify current or future plans in the US to improve international financial infrastructure and follow up of cooperation agreement between the finance departments of the Philippines and the US.	An understanding of the issues, concerns and problems regarding the enforcement of An identification of possible legal, regulatory or practical gaps, or barriers as they may impact on the remittance flows from the US to the Philippines and access by Filipino migrants to the banking or regulated sector; an assessment of the problems, issues and concerns in the Enforcement of AML and FATF laws; possible

AGENCY/ORGANISATION	OBJECTIVES	DESIRED RESULTS
		recommendations to rationalise AML/FATF enforcement and the identification of potential best practices on US financial compliance;
Multilateral Institutions		
Inter-American Development Bank	To deepen knowledge and gain first hand information on ADB's programs on increasing migrant remittance flows to the formal sector and leveraging these for development	An understanding of the multilateral institution's role in supporting initiatives for remittance cost reduction measures, increasing the multiplier effects of remittances through increased remittance flows, and linking these to development programs; an identification of best practices for possible replication in the Asian region;
Inter-American Dialogue (Manuel Orozco)	To learn about the approaches, methodologies, lessons, and the role of the Inter-American Dialogue in the Mexican/Latin American initiatives on remittances and leveraging these for development in countries of origin, and in particular best practices and the Mexican counter parting programs	Identification of best practices for possible replication in the Asian Region

AGENCY/ORGANISATION	OBJECTIVES	DESIRED RESULTS
Overseas Filipinos		
Overseas Filipinos and their dependents	In general, to study market behaviour regarding remittances and their use; how these are affected by the availability of banking services, decision making regarding remittance channel options, economic and socio-cultural incentives for remitters and recipients to channel remittances to productive use, profiling of remittance senders and remittance households, as well as to validate some remittance behaviour explained in existing surveys and studies, i.e. average amount and frequency and mode of remittance;	An overview of the problems, issues, concerns and other factors that may affect influence the remittance and use of migrant earnings, including savings, investments and other financial products and services.
Civil Society Organisations (NGOs and Migrant People's Organisations) engaged in service delivery to Filipino migrant workers	To identify and understand the role of migrant NGOs and people's organisations in facilitating and assisting socio-economic activities of OFWs, the extent of their outreach overseas and in the Philippines;	An identification of barriers, practices and disincentives that prevent NGOs from effectively delivering services to OFWs; emerging best practices in helping OFWs leverage earnings and remittances for savings, investments or enterprise development; policy recommendations on how the work of Migrant NGOs could be enhanced through support and linking with existing development programs.

AGENCY/ORGANISATION	OBJECTIVES	DESIRED RESULTS
Overseas Filipino associations based in the Philippines and receiving countries.	To deepen knowledge about existing or potential Filipino migrant activities that support development or humanitarian projects in the Philippines or in their specific communities of origin and their motivations, size and nature.	An overview of the size, nature, areas of deployment and the impact of contributions by overseas Filipino association to development of local communities in the Philippines; to identify problems and issues, as well as gaps and barriers, and recommendations on how to enhance the increased flow of such philanthropic contributions which could be addressed by private or public sector support.

TABLE A3.1: SUMMARY OF REMITTANCE FEES/CHARGES FROM CALIFORNIA TO THE PHILIPPINES, MARCH 2004
($)

Item	Philippine Bank Affiliates			Filipino Remittance Agencies			U.S. Remittance Companies			U.S. Banks		
	Average Price $200	**Price Range**	**Average Price as a % of $200/$400**	**Average Price $200**	**Price Range**	**Average Price as a % of $200/$400**	**Average Price $200**	**Price Range**	**Average Price as a % of $200/$400**	**Average Price $200**	**Price Range**	**Average Price as a % of $200/$400**
Credit to Acct $/PHP	7.00	6–8	3.5/1.7	8.60	7–12	4.3/2.1	8.5/	7.45–23.4	4.2	40.00	35–45	20/10
Same Bank FX charge	2.10		1.0	2.50		1.25	2.10		1.00	2.10[a]		1.00
Total	**9.10**		**4.5/2.7**	**11.10**		**5.6/3.4**	**10.6**		**5.2/5.2**	**42.10**		**21.0/11.0**
PHP:$ rate	55.79[b]	55.70–56.00[b]		55.70[c]	55.60–55.80[c]		55.79[d]	55.17–56.41[d]		55.79[e]		
Pick up at Br. $/PHP	9.60	6–12	4.8/2.4		Not available		14.00		7/3.5		Not available	
FX Charge	2.10	–	1.0				5.30		2.60			
Total	**11.70**		**5.8/3.4**				**19.30**		**9.6/6.1**			

Continued on next page.

Table A3.1—*Continued*

Item	Philippine Bank Affiliates			Filipino Remittance Agencies			U.S. Remittance Companies			U.S. Banks		
	Average Price $200	**Price Range**	**Average Price as a % of $200/$400**	**Average Price $200**	**Price Range**	**Average Price as a % of $200/$400**	**Average Price $200**	**Price Range**	**Average Price as a % of $200/$400**	**Average Price $200**	**Price Range**	**Average Price as a % of $200/$400**
PHP:$ rate	55.79						54.89[f]					
Door to Door $/PHP Metro Manila	11.60	10–12	5.8/2.9	11.8	11–12	5.9/3.0						
FX Charge	2.10		1.0	2.50		1.25						
Total	**13.70**		**6.8/3.9**	**14.30**		**7.1/4.2**						
Door to Door $/PHP Province	13.60	12–14	6.8/3.4	13.60	11–16	6.8/3.4						
FX Charge	2.10		1.0	2.50		1.20						
Total	**15.70**		**7.8/4.4**	**16.10**		**8.0/4.6**						
Credit to Acct $/$ Same Bank Up to $500	17.40	15–20	8.7/4.3	15.00	15	7.5/3.8	14[g]	14	7.0/3.5	40	35.45	20/10
Credit to Acct $/$ Different Bank	24.20	17–30	12.1/6.0							40	35.45	20/10
Other bank	2.50		1.2/0.6							2.50		1.2/0.6
Total Up to $500	26.7		13.3/6.6							42.50		21.2/10.6

Continued on next page.

Table A3.1—*Continued*

Item	Philippine Bank Affiliates			Filipino Remittance Agencies			U.S. Remittance Companies			U.S. Banks		
	Average Price $200	**Price Range**	**Average Price as a % of $200/$400**	**Average Price $200**	**Price Range**	**Average Price as a % of $200/$400**	**Average Price $200**	**Price Range**	**Average Price as a % of $200/$400**	**Average Price $200**	**Price Range**	**Average Price as a % of $200/$400**
Acct to Acct $/PHP	9.50	6–15	4.7/2.3	11.6	10–15	5.8/2.8						
Other Bank	2.50		1.2/0.6	2.50		1.2/0.6						
FX Charge	2.10		1.0	2.50		1.25						
Total	**14.10**		**6.9/3.9**	**16.60**		**8.2/4.8**						

FX = foreign exchange, PHP = Philippine peso.
[a] Beneficiary bank FX rate. Additional charges by Philippines beneficiary bank maybe imposed.
[b] Actual FX rates quoted on 26 March 2004.
[c] Actual FX rates quoted on 26 March 2004.
[d] Internet for remitter/ ATM for beneficiary.
[e] US Bank, Philippine Bank to be nominated by remitter.
[f] Actual FX rates quoted on 26 March 2004.
[g] Pick up at agent, up to $400.
Note: FX average rate in Philippine Dealing System (PDS) for 26 March 2004 is ₱56.40 for $1.0.
Source: ADB Consultants.

TABLE A3.2: SUMMARY OF REMITTANCE FEES/CHARGES FROM SINGAPORE TO THE PHILIPPINES (April 2004)

($)

Type of Remittance[a]	Money Transfer Companies with Philippines Bank Tie-Ups			Philippine Local Bank		Singapore Bank with Philippine tie-up		International Money Transfer Agent		International Money Transfer Agent	
(S$ to PHP)	**Average Price $200**	**Price Range**	**Average Price as a % of $200/400**	**Average Price $200**	**Average Price as a % of $200/400**	**Average Price $200**	**Average Price as a % of $200/400**	**Average Price $200**	**Average Price as a % of $200/400**	**Average Price (AP)**	**Average Price as a % of $200/400**
Credit to Account (Same Bank)											
Fee	3.00	2–5	1.50/0.75	4.70	2.35/1.12	2.64	1.30/0.65				
FX	1.43		0.75/0.75	2.20	1.11/1.11	1.84	0.92/0.92				
Total	**4.43**		**2.25/1.50**	**6.90**	**3.46/2.23**	**4.48**	**2.22/1.57**				
Credit to Account (Different Bank)											
Fee	3.00	2–5	1.50/0.75	5.29	2.6/1.32	3.53	1.80/0.88				
Other Bank fee	2.50		1.2/0.6	2.50	1.2/0.6	2.50	1.2/0.6				
FX	1.43		0.75/0.75	2.20	1.11/1.11	1.84	0.92/0.92				
Total	**6.93**		**3.45/2.1**	**9.99**	**4.9/3.03**	**7.87**	**3.92/2.4**				

Type of Remittance[a] (S$ to PHP)	Money Transfer Companies with Philippines Bank Tie-Ups			Philippine Local Bank		Singapore Bank with Philippine tie-up		International Money Transfer Agent		International Money Transfer Agent	
	Average Price $200	Price Range	Average Price as a % of $200/400	Average Price $200	Average Price as a % of $200/400	Average Price $200	Average Price as a % of $200/400	Average Price $200	Average Price as a % of $200/400	Average Price (AP)	Average Price as a % of $200/400
Door-to-Door Cash (Metro Manila)											
Fee	5.43	4.23–7.05	2.70/1.35	6.47	3.23/1.62	4.41	2.20/1.10				
FX	1.43		0.75/0.75	2.20	1.11/1.11	1.84	0.92/0.92				
Total	**6.83**		**3.45/2.10**	**8.67**	**4.34/2.73**	**6.25**	**3.12/2.02**				
Door-to-Door Cash (Provinces)											
Fee	7.94	5.2–11.76	3.97/1.98	8.23	4.10/2.05	5.50	2.75/1.37				
FX	1.43		0.75/0.75	2.20	1.11/1.11	1.84	0.92/0.92				
Total	**9.37**		**4.72/2.73**	**10.43**	**5.21/3.15**	**7.34**	**3.67/2.29**				
Pick up at same bank branches											
Fee	5.23	5.23	2.61/1.30	5.88	2.94/1.47	4.41	2.20/1.10	7.50	3.75/1.88	15.00	7.5/3.75
FX	1.43		0.71/0.71	2.20	1.11/1.11	1.84	0.92/0.92	3.80	1.90/1.90	2.00	1.00/1.00
Total	**6.66**		**3.32/2.01**	**8.08**	**4.05/2.58**	**6.25**	**3.12/2.02**	**11.30**	**5.65/3.78**	**17.00**	**8.50/4.75**
FX Rate	33.29			33.16		33.22			32.89		33.19

FX = foreign exchange, PHP = Philippine pesos.
[a] Remitter gives S$, beneficiary receives PHP.
Note: FX average rate in Philippine Dealing System (PDS) for 7 April 2004. Php33.53 per S$1.00, Php56.29 per $1.00, S$1.70 per $1.00.
Source: ADB Consultants.

KEY ACCOMPLISHMENTS OF THE ANTI-MONEY LAUNDERING COUNCIL (AMLC)*

A. Helped in Amending the AMLA

1. RA No. 9194, amended R.A. No. 9160, which took effect on 7 March 2004. The amendments have sufficiently addressed the main legal deficiencies in the Philippines anti-money laundering regime previously identified by the FATF.

B. Helped in the Drafting of the Revised AMLA's Implementing Rules and Regulations which took effect on 7 September 2003.

C. Established Anti-Money Laundering Desk

2. Upon AMLC's initiative, An AML desk was created in all relevant law-enforcement, regulatory and other government agencies which serves as AMLC's contact point in the investigation of money laundering cases, which includes the sharing of vital information.

D. AMLC is now a Member of the National Law Enforcement Coordinating Committee (NALECC).

3. NALECC is a policy-coordinating and action monitoring mechanism for all government agencies with a role in formulating law enforcement and regulatory policies that are currently being implemented, providing inputs and recommendations and enabling the passage of important legislations affecting the country's peace and order, economy and environment. NALECC consists of 50 member-agencies as of 31 March 2004.

E. Sub-Committee on AML/CFT

4. Upon AMLC's request, the NALECC created the Sub-Committee on Anti-Money Laundering/Combating the Financing of Terrorism on 15 August 2003, with the AMLC Secretariat Executive Director as Chairman, to ensure closer coordination and to enhance cooperation in the investigation/prosecution of ML cases and predicate crimes.

5. Composition of the Sub-Committee on AML/CFT

(i) Bangko Sentral ng Pilipinas (BSP)
(ii) Securities and Exchange Commission (SEC)
(iii) Insurance Commission (IC)
(iv) Bureau of Immigration (BI)
(v) Bureau of Internal Revenue (BIR)
(vi) Criminal Investigation and Detection Group (CIDG), Philippine National Police (PNP)
(vii) Bureau of Customs (BuCus)
(viii) Department of Justice (DOJ)
(ix) Department of Finance (DOF)
(x) Department of Foreign Affairs (DFA)
(xi) National Bureau of Investigation (NBI)
(xii) National Intelligence Coordinating Agency (NICA)
(xiii) Intelligence Service Armed Forces of the Philippines (ISAFP)
(xiv) Philippine Center on Transnational Crimes (PCTC)

(xv) Philippine Drug Enforcement Agency (PDEA)
(xvi) Philippine Postal Corporation (PhilPost)
(xvii) Anti-Terrorism Task Force "Sanglahi"
(xviii) Police Anti-Crime and Emergency Response (PACER)
(xix) National Anti-Kidnapping Task Force (NAKTF)*

*observer status

F. Created Two Special Teams of DOJ AML Prosecutors and State Counsels

6. Upon request of the AMLC, a Task Force against Money Laundering (composed of State Prosecutors) was created by the DOJ on 5 July 2002.

7. Its tasks are:

(i) To conduct preliminary investigation of ML cases filed by the AMLC; and
(ii) To handle the prosecution, together with AMLC lawyers, of ML cases in court.

8. Likewise, upon AMLC's request, the DOJ established an AML Desk (composed of State Counsels) on 6 August 2003 tasked to assist and coordinate with the AMLC in Mutual Legal and Assistance Treaty (MLAT) and extradition matters related to money laundering cases.

G. Designated Anti-Money Laundering Courts

9. Sec. 5 of R.A. 9160 expressly vests in Regional Trial Courts the authority to hear and decide ML cases.

10. AMLC has nominated some judges handling money laundering and civil forfeiture cases to participate in domestic and foreign AML seminars & workshops.

H. Detailed/Assigned Personnel of Law Enforcement Agencies to AMLC

11. Upon AMLC's request, the National Bureau of Investigation and the CIDG detailed one (1) financial investigator each in AMLC to assist in the investigation and prosecution of money laundering activities and predicate crimes.

I. Directed all covered institutions to report to AMLC transactions and assets, if any, of any person/group with links to terrorist organizations.

12. The AMLC has issued several resolutions requiring covered institutions to report to AMLC transactions and assets of persons/group of persons identified with Osama Bin Laden, AL-Qaeda, Jemaah Islamiyah, the Taliban, and other terrorist organizations designated by the UN Security Council (UNSC), the US and other foreign governments.

13. It has also circularized lists of designated terrorist individuals and organizations, relevant UNSC resolutions and the US President's Executive Order No. 13224 and its Annexes.

J. Signed Extradition Treaties and Mutual Legal and Assistance Treaties (MLATs).

14. The Philippines has extradition treaties with:

(i) Australia
(ii) Canada
(iii) Hongkong Special Administrative Region (HSAR)
(iv) People's Republic of China (pending ratification)
(v) Indonesia
(vi) Republic of Korea
(vii) Micronesia
(viii) Switzerland
(ix) Thailand
(x) US

- and MLATs with:

(i) Australia
(ii) People's Republic of China (pending ratification)
(iii) Hongkong SAR (pending ratification)
(iv) Swiss Confederation (pending ratification)
(v) US

15. In this regard, the Philippine government, through the AMLC and the DOJ, has extended assistance to and shared valuable information with other jurisdictions in their investigation/ prosecution of predicate offenses and money laundering activities.

K. Ratified the Int'l Convention for the Suppression of the Financing of Terrorism (ICSFT)

16. On 14 October 2003, the Philippine Senate ratified the ICSFT.

L. Has trained and will continue to train its AML personnel as well as personnel of other key constituencies

17. Apart from continuously sending its financial analysts and investigators to AML seminars, workshops and courses, both local and foreign, the AMLC is conducting/sponsoring/co-sponsoring AML seminars, workshops, trainings and lectures for personnel of reporting institutions, police investigators, public prosecutors, compliance officers, industry associations, businessmen, members of the academe, civic clubs, the media, non-government organizations, charitable institutions, and the general public.

18. As of 30 April 2004, the AMLC had conducted/ sponsored/co-sponsored 150 AML seminars, lectures, workshops, etc.

M. Set aside ₱100 million for AMLC's Transaction Monitoring and Analysis System

19. Upon instruction of President Gloria Macapagal Arroyo, the Department of Budget Management allocated ₱100 million for the procurement/ establishment of AMLC's IT System that will enable its analysts and investigators to readily and easily detect and monitor ML patterns, indicators, and trends.

N. Submitted the Philippines' Anti-Money Laundering Implementation Plan

20. On 19 January 2004, the AMLC submitted to the Asia Pacific Review Group of the FATF the Philippines' Anti-Money Laundering Implementation Plan, which is the second of three (3) stages in the FATF's NCCT delisting process.

21. The first stage is the enactment of an anti-money laundering legislation which the Philippines had already done, and the third and final stage is the FATF's evaluation of the Philippines' implementation of the AMLA and its amendments.

O. Had Undergone Mutual Evaluation by the Asia Pacific Group on Money Laundering (APG)

22. The APG mutual evaluation of the Philippines was held on 10-14 November 2003.

23. The team conducted on-site visit/evaluation in AMLC and other relevant government agencies (Bangko Sentral ng Pilipinas, Department of Finance, Department of Justice, Insurance Commission, Bureau of Immigration, Department of Foreign Affairs, Philippine Stock Exchange, Ombudsman, National Intelligence and Coordinating Agency, Intelligence Service of the Armed Forces of the Philippines, National Bureau of Investigation, Office of the Solicitor General, Criminal Investigation and Detection Group, Police Anti-Crime & Emergency Response, Bureau of Customs and Philippine Drug Enforcement Agency) and private sectors (Bankers Association of the Philippines, Association of Bank Compliance Officers of the Philippines, Metropolitan Banking and Trust Company and Hongkong and Shanghai Bank) to assess the Philippines' anti-money laundering regime.

24. They also paid a courtesy call to Senate President Franklin M. Drilon and other members of the Senate, notably Senator Ramon B. Magsaysay, Jr., Senate Panel, Congressional Oversight Committee (COC) and to Congressman Jaime C. Lopez, Chairman, House Panel, COC.

P. Entered a Memorandum of Understanding (MOU) with other Relevant Government Agencies

25. The AMLC has an existing MOU with the Criminal Investigation and Detection Group, Department of Justice, Philippine Center on Transnational Crime and Philippine Drug Enforcement Agency.

Q. To Enter a Memorandum of Understanding (MOU) with other Financial Intelligence Units

26. To facilitate the exchange of information, the AMLC is now in the process of entering into an MOU with counterpart FIUs, initially with the Korean Financial Intelligence Unit (KoFIU) which is scheduled to be signed in March 2004 and the Australian Transaction Reports and Analysis Centre (AUSTRAC).

27. On 18 December 2003, the AMLC Secretariat's Executive Director was authorized by the President of the Philippines to conclude, sign, execute and deliver MOUs with financial intelligence units of other jurisdictions concerning cooperation in transnational investigation and prosecution of persons involved in money laundering activities and the exchange of financial intelligence related to money laundering and related offenses.

R. Had Undergone an Egmont Assessment Visit on 1-5 March 2004

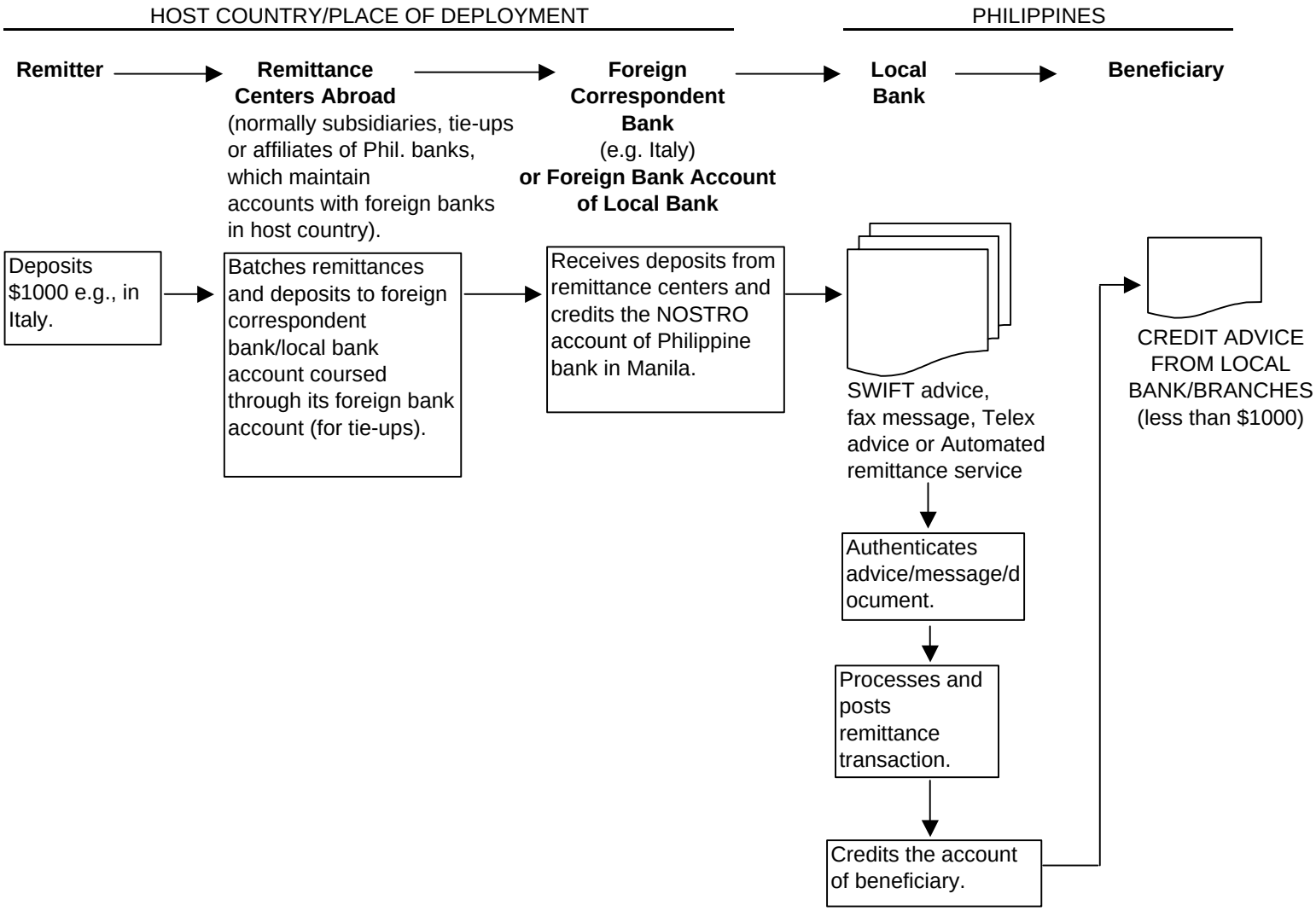
28. The US Financial Crimes Enforcement Network (FinCEN), in conjunction with the AMLC's other sponsor, FinTRAC (Canadian FIU), conducted an official Egmont visit to the AMLC for sponsorship purposes, on 1-5 March 2004. The team was composed of Ms. Heather Moye (FinCEN), Matthew Johnson (Office of the Comptroller of the Currency), Ms. Susan Ireland (FinCEN), Joseph Bognanno (FinCEN), and Rebecca Gieseler (FINTRAC).

29. AMLC experts' team to submit its report to the Egmont Legal Working Group prior to Egmont's next working Group Meetings to be held in Denmark on 29 March – 1 April 2004.

*Source: Anti-Money Laundering Council, May 2004.

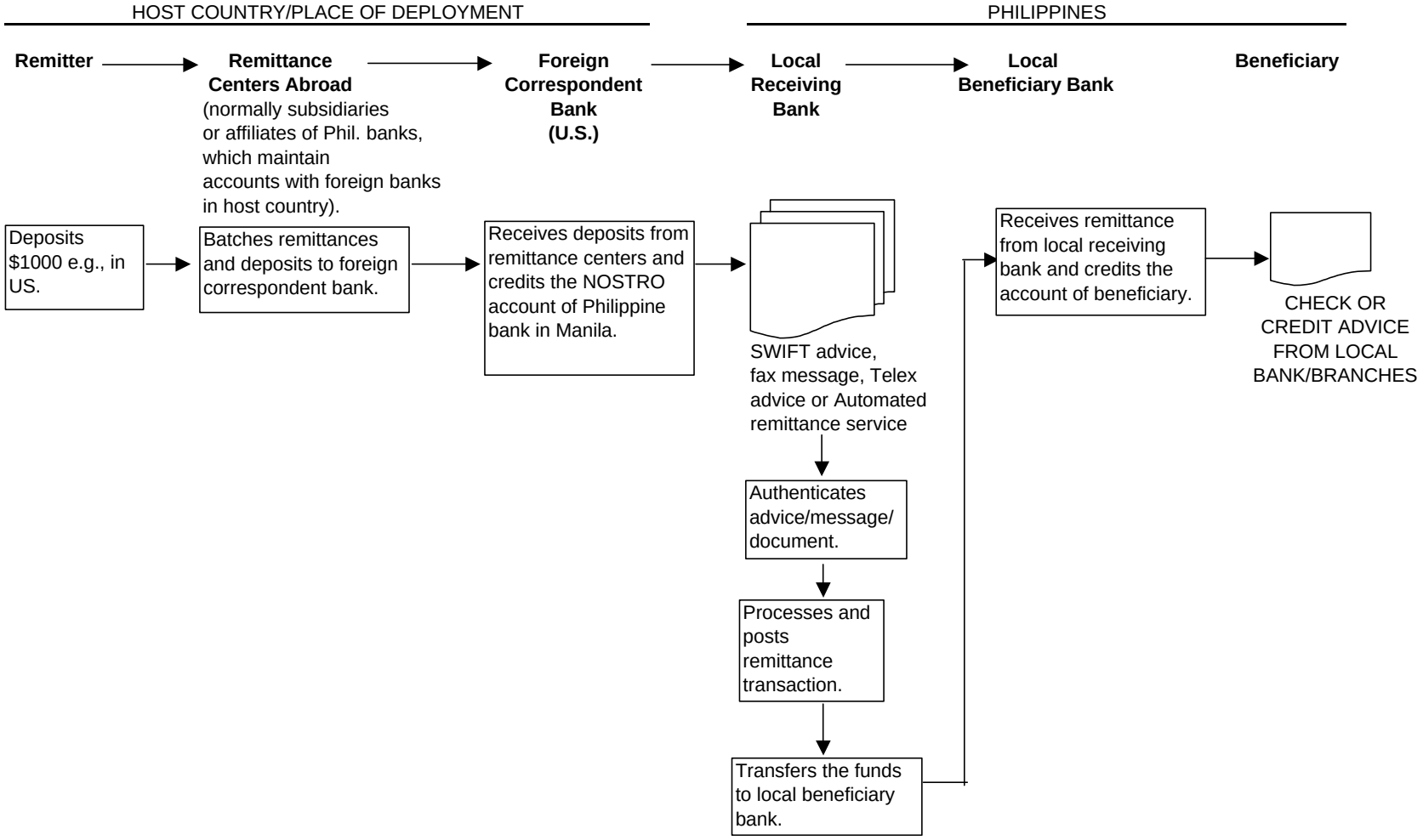
TABLE A5.1: REMITTANCE VIA CORRESPONDENT BANK

Case 1. Local Bank is also the Beneficiary Bank.



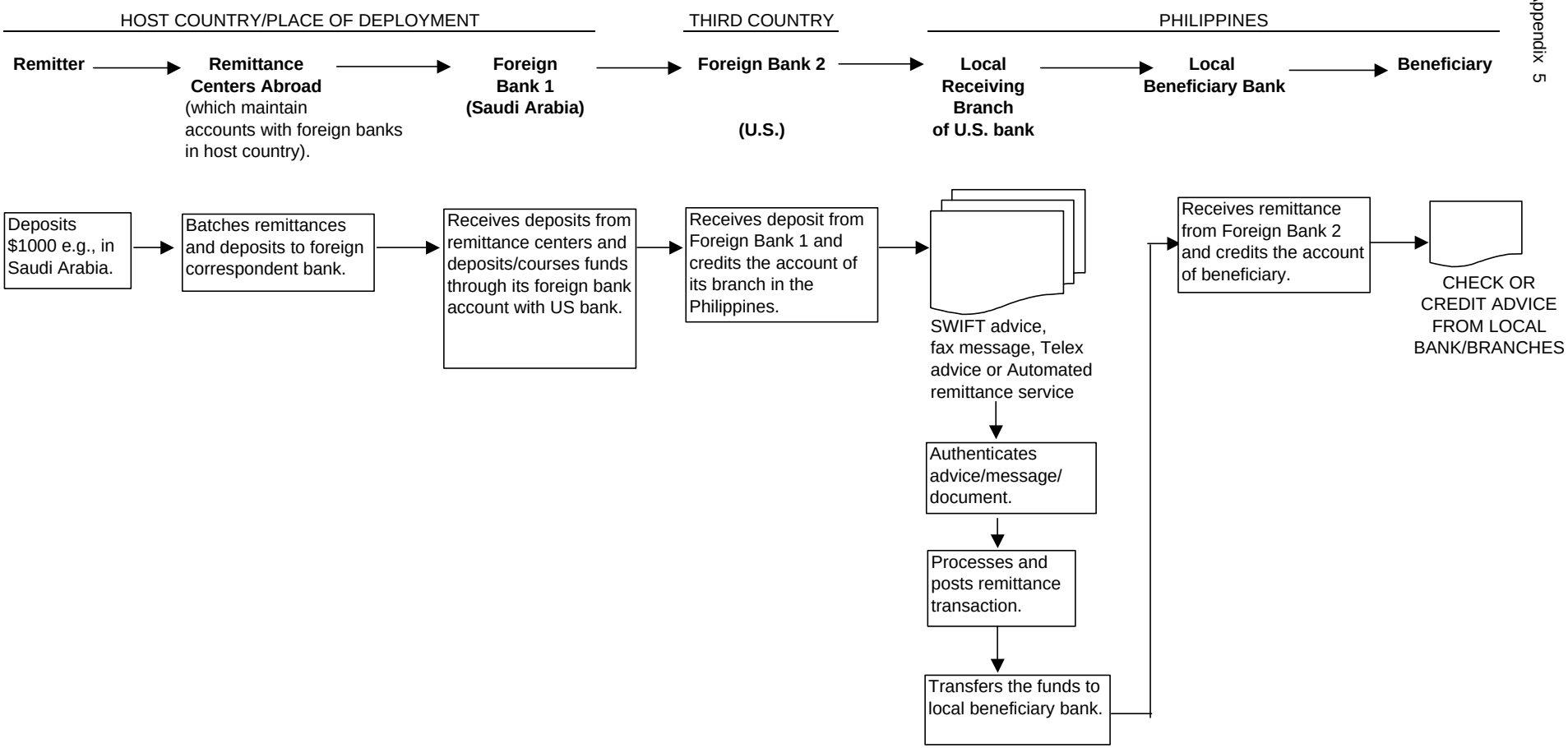
Source: Bangko Sentral ng Pilipinas

Case 2. Local Bank affiliated with the Foreign Correspondent Bank is not the Beneficiary Bank.



Source: Bangko Sentral ng Pilipinas

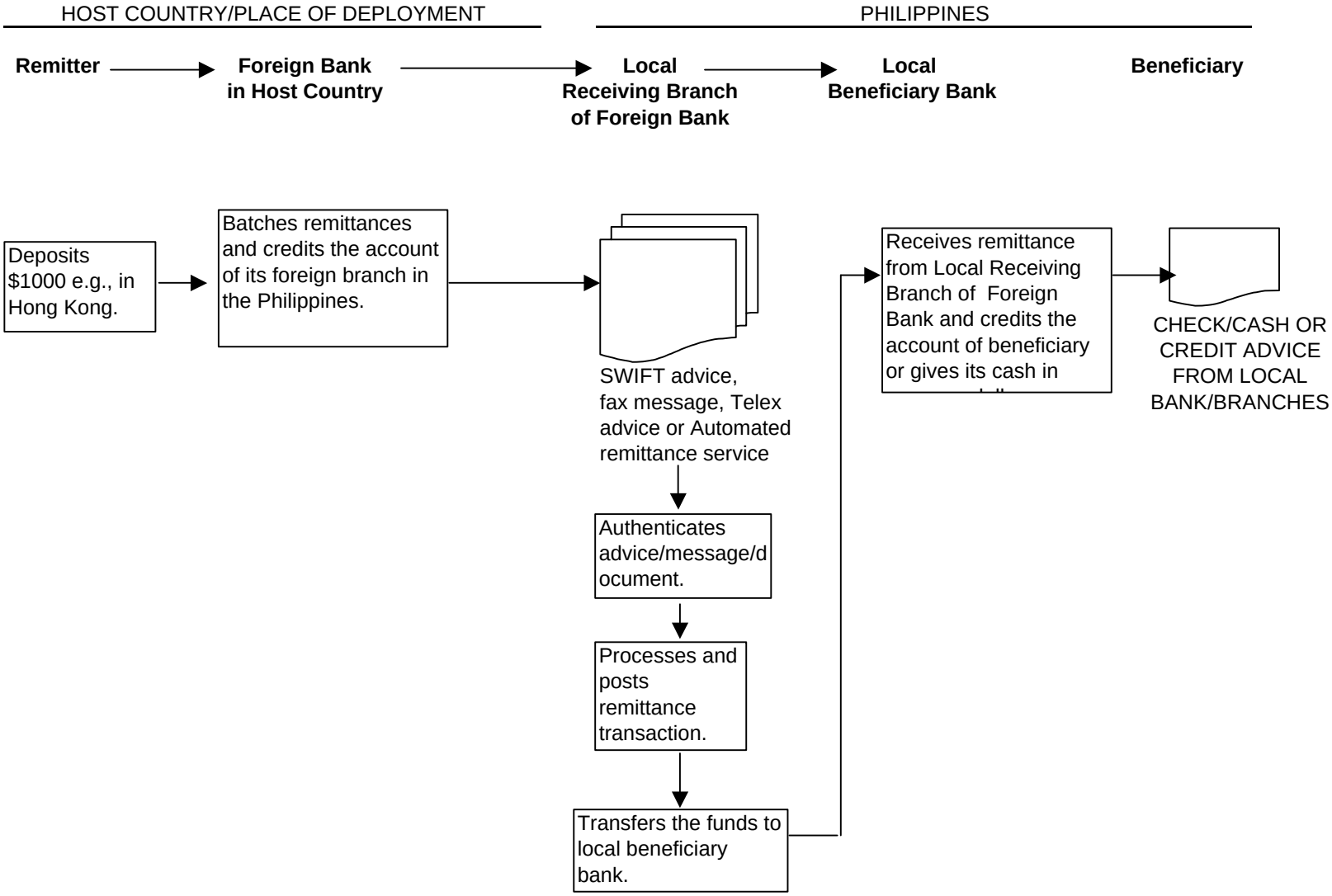
Case 3. Depository foreign correspondent bank of remittance centers abroad has no local correspondent bank in the Philippines.



Source: Bangko Sentral ng Pilipinas

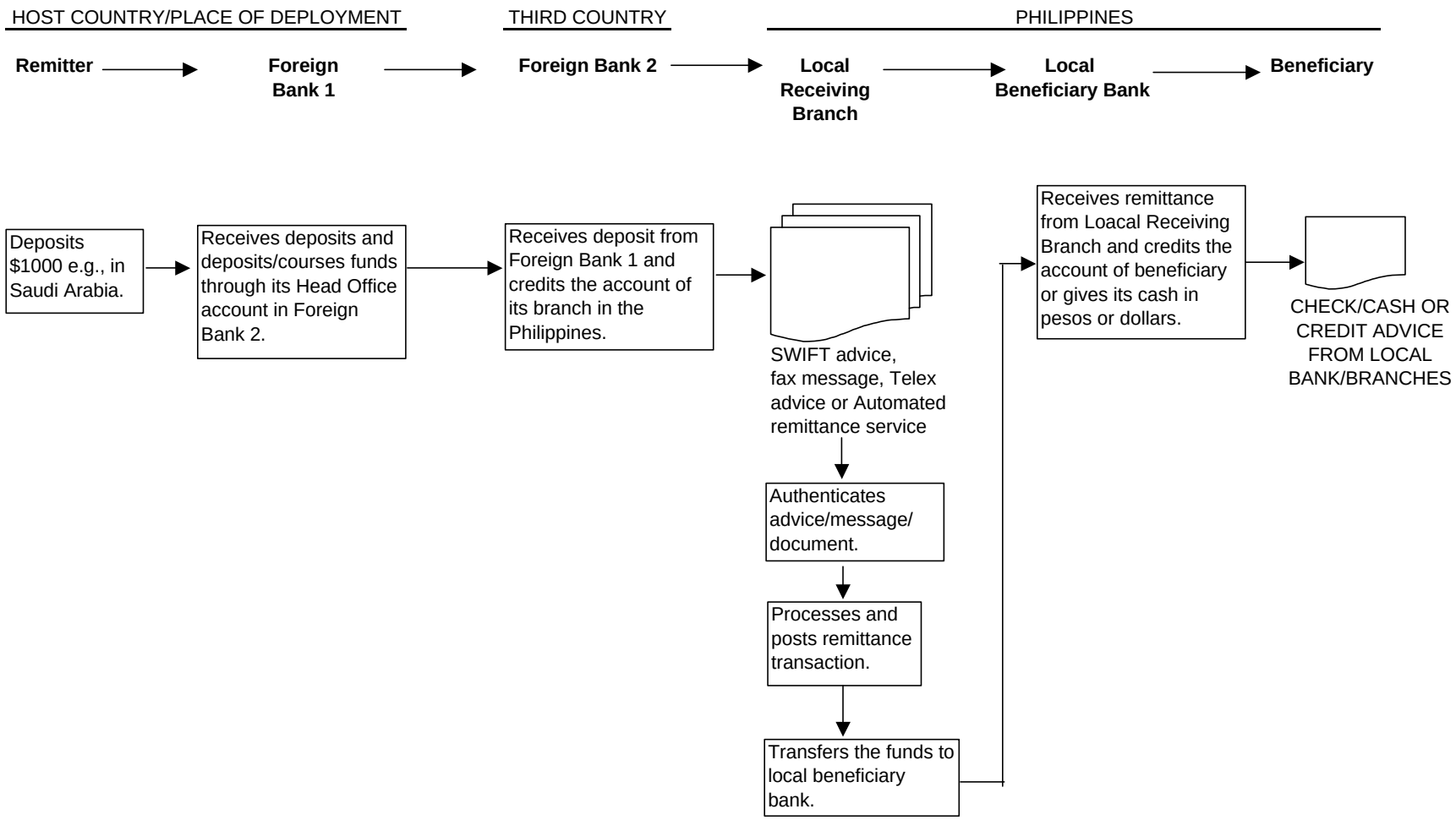
TABLE A5.2: REMITTANCE VIA FOREIGN BANK

Case 1. Remittance direct to foreign bank branch in the Philippines.



Source: Bangko Sentral ng Pilipinas

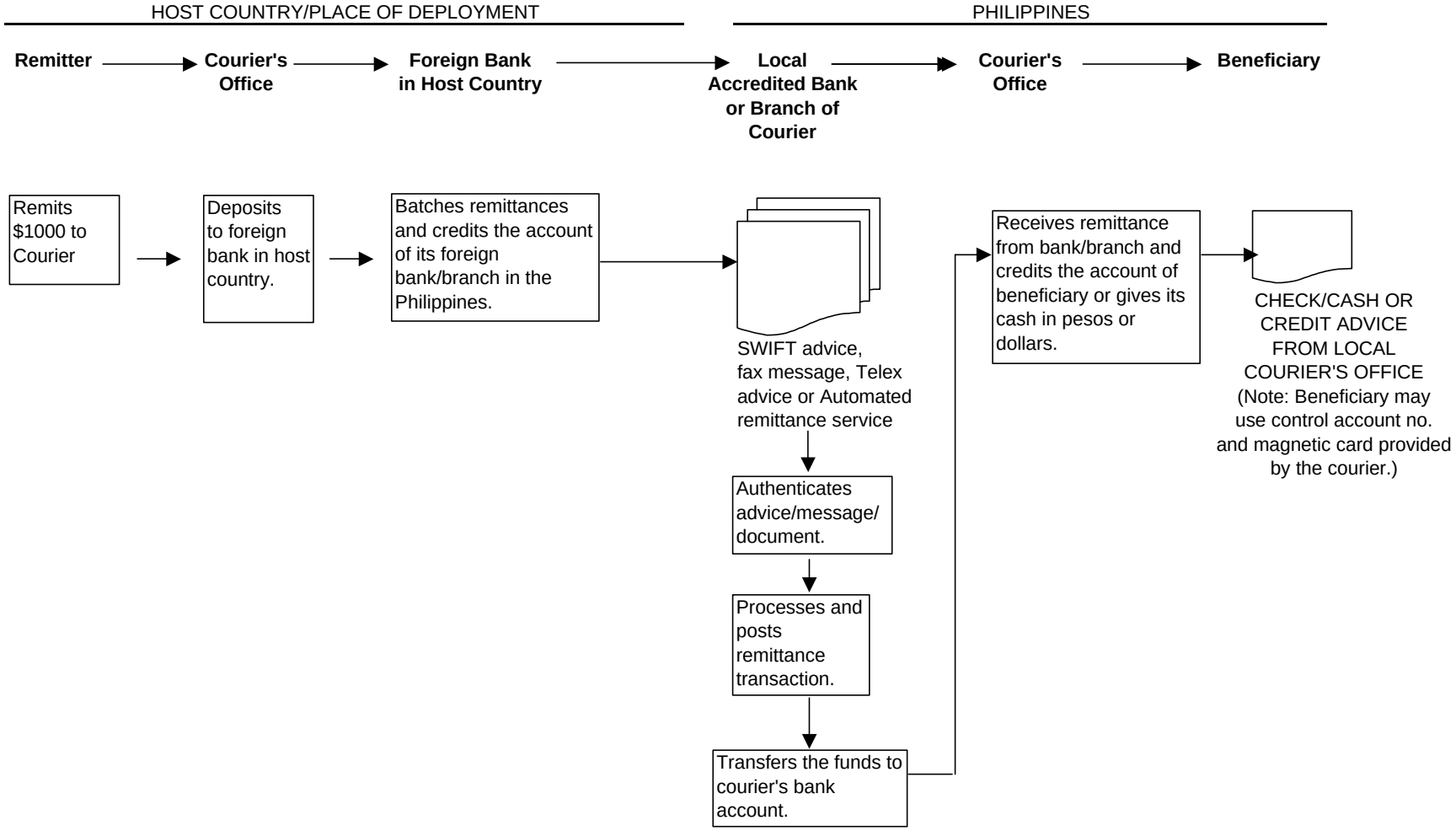
Case 2. Remittance coursed through its Head Office in the US.



Source: Bangko Sentral ng Pilipinas

TABLE A5.3: REMITTANCE VIA COURIERS

Case 1. Remittance direct to foreign bank branch in the Philippines.



Source: Bangko Sentral ng Pilipinas

THE US FEDERAL AUTOMATED CLEARING HOUSE (FEDACH)
(Basic Information and Philippine Implications)

A. Basic Information

1. The Automated Clearing House (ACH) is an electronic payment mechanism used by banks in the US as an alternative to check or paper payments. ACH transactions are processed through the ACH network, a reliable, efficient and secure nationwide electronic funds transfer system governed by the National Automated Clearing House Association.[1] A cross-border ACH was also introduced by the US for Canada. Aside from Canada and US, current international ACH destinations include Austria, Germany, Mexico, Netherlands, Switzerland, and UK.

2. In an ACH transaction, five to six parties are usually involved. These parties and their roles in the process are:

(i) Originator - a person or organization that agrees to initiate ACH transactions into the payment system according to an arrangement with a receiver.

(ii) Originating Depository Financial Institution (ODFI) - A financial institution that receives payment instructions from Originators and forwards the transactions to the Federal Reserve ACH Operator.

(iii) Federal Reserve ACH Operator - The Federal Reserve Bank receives transaction from an ODFI, distributes the transactions to an RDFI, and performs the settlement functions for the appropriate financial institutions (Also a gateway operator for international ACH).

(iv) Receiving Depository Financial Institution (RDFI) - A financial institution that receives ACH transactions from the Federal Reserve Bank and posts them to the accounts of its customers (Receivers).

(v) Receiver - A person or an organization that has authorized an Originator to initiate an ACH entry to their account with the RDFI.

(vi) Gateway Operators - for international ACH a participant in the national payment system of the originating country and receiving country. Some gateway operators and the countries they service are:

Table 1: Gateway Operators and Areas Serviced

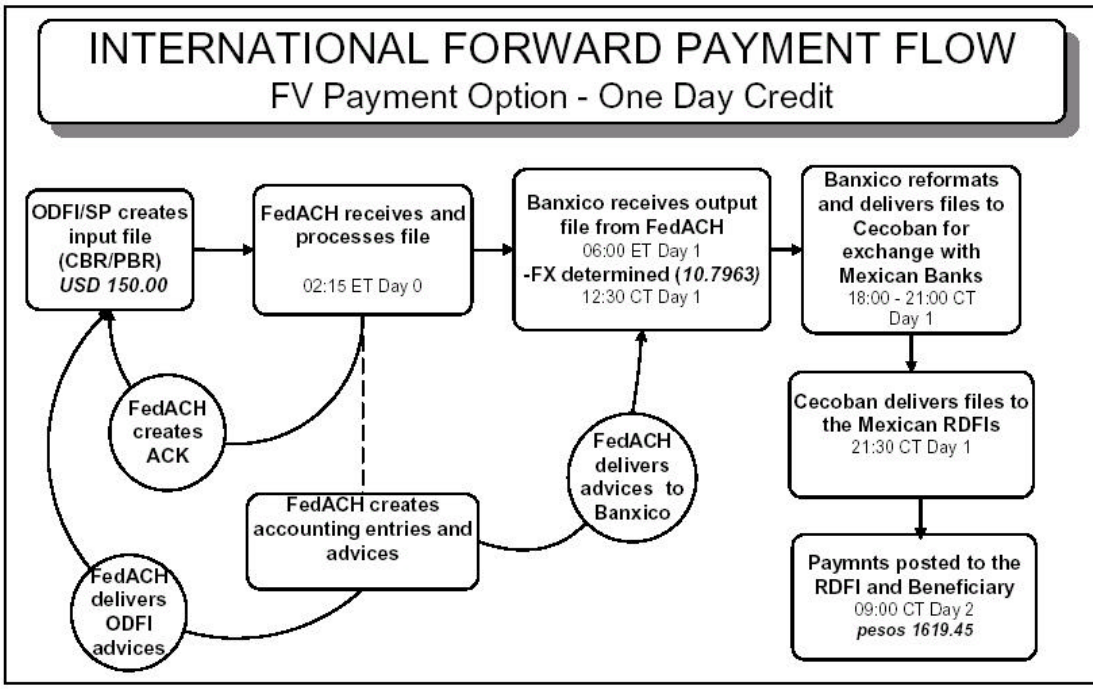
Country / Area	Gateway Operator
United Sates	Federal Reserve Bank of Minneapolis
Canada	Toronto Dominion Bank
Mexico	Banco de Mexico
Europe	Eurogiro*

*Eurogiro is a gateway intermediary that links payments to the gateway operators in the European countries.

[1] Federal Reserve Bank

3. The Canada ACH took about 4 years before a pilot project began in 1999. The pilot test was declared successful in 2001 and opened to any bank that wished to use it.

4. The Mexican model below illustrates the payment flow where transactions are originated in a fixed amount of $ and credited in variable amount in Mexican pesos.



Note: The above example is for illustration purposes only.
* The convention of "day 0" and "day 1 and 2" is used to distinguish the "day" in which processing occurs versus the "day" in which settlement takes place and reflects the FedACH processing day cycle (e.g. start of day "0" at 03:00 ET Monday, through close of day "0" at 02:15 ET on Tuesday). Subsequently, there is only short window between the FedACH end-of-day close and the 06:00 ET file delivery to Banxico on "day 1".

Source: FED WEBSITE –Mexican Service Manual

5. The chart above depicts the US to Mexico flow of a 1-day credit transaction using the FV (fixed dollar to variable local currency) payment option with FedACH (Federal Reserve Bank of Minneapolis) as the OGO (originating gateway operator). The US ODFI (Originating Depository Financial Institution) or Sending Point (SP) sends an ACH input file to FedACH, which edits and processes the file. This is done by 02:15 ET on Day 0 (the FedACH processing day). FedACH delivers an acknowledgement (ACK) of receipt to the ODFI/SP, creates the accounting entries, and delivers an ACH Advice to the ODFI and Banxico as the RGO (Receiving Gateway Operator). Banxico receives the Mexican items in the file from FedACH by 06:00 ET on Day 1. Banxico reformats the item, initiates the foreign exchange to pesos through its agent and delivers the payment to Cecoban (Mexican ACH operator) for exchange with the Mexican RDFI (Receiving Depository Financial Institution). Settlement with US participant is in US dollars. Funds are available in pesos to the RDFI and beneficiary on Day 2 by 09:00 CT (local time in Mexico).

6. In the Mexican model, transactions delivered to the Federal Reserve Bank are settled in the US on the value date indicated in the US that is 1 or 2 days after origination. Settlement

procedures from Banco de Mexico to the Mexican RDFI require 1 day after the US settlement date. The beneficiary's account in Mexico is also credited one day after the US settlement date for the full amount of the payment with no fees deducted by the Mexican RDFI. Banco de Mexico determines an official foreign exchange rate called the "FIX " daily. The daily foreign exchange rate applicable to 1-day ACH credit items is equal to the FIX minus a maximum 1% Foreign Exchange spread.

7. The Mexican model took about two years to put into production and today handles only mostly US Government payment and minimal commercial payments.

B. Philippine Implications

8. The introduction of ACH to the Philippines is being seriously considered by the both the US and Philippine governments.[2] From the Philippine government's position, the ACH seems applicable since an electronic payment system, the Electronic Peso Clearing and Settlement is already operational. The review of its application should focus instead on cost savings for the remitter and/or beneficiary, the effects of a centralized foreign exchange function with Philippine gateway operator and the delivery period.

9. From the US perspective, the "ACH provides an end-to-end payment, which includes settlement for domestic and international payments unlike swift and correspondent banking systems". This implies that the "international service also includes a foreign exchange translation as well as conversion from one format (e.g. NACHA in the US to another e.g. TEF in Mexico and SWIFT format in Europe."

10. In the Philippines, large commercial banks also have their own international payment products that require a correspondent bank in another country and all payments must be funneled through that single pipeline. The ACH, on the other hand, allows any bank to make a payment to any other bank without having to maintain a correspondent relationship.

11. FED ACH also imposes International charges i.e. for Canada is $0.39, for Mexico is $0.79 and for Europe is $2.00 over the standard rate of $0.25. It would still have to be determined if the originating bank in the US has additional charges. Also, foreign exchange rate is 1.0% to 1.25% over wholesale rates depending on the country.

12. Aside from these considerations, the laws of the country to which a payment is sent govern reclamations. Payments are also essentially final after they are settled in the US and the country, which wishes to receive ACH payments, must have an electronic payments network through which all bank accounts are accessible.

13. The ACH costs tend to be lower and working with a central bank authority ideal if they are participants in the payments system. However, any commercial bank can serve as a gateway operator but should be able to assist with format conversion to the local ACH or electronic payments network aside from doing the foreign exchange conversion on the outbound payments.

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[2] A member of the study team and Mr. Larry Schulz of the Atlanta Federal Reserve Bank exchanged information on the advantages of the ACH system over the existing systems in place in the Philippines for the overseas payments. In addition, discussions with the Bangko Sentral ng Pilipinas (BSP) were made to review the applicability of the ACH system in the Philippines.

Payment Methods

	1999	2000	2001	2002	2003
Currency Issue	₱275.5 billion	₱308.2 bilion	₱312.9 billion	₱356.1 billion	₱293.2 billion (July)
Checks					
Check Volume	116.2 million	117.6 million	118.9 million	129.8 million	139.6 million
Check Value	n.a	₱16.1 billion	n.a.	n.a.	n.a.
Electronic Payments					
Pesos Average Monthly Vol.	₱12.3 billion	₱87.7 billion	₱143.5 billion	₱175.8 billion	₱22.6 billion
Average Monthly Tx vol	39,978	40,155	42,205	45,766	53,290
Amount per year					
Tx Volume per year	₱147.7 billion	₱1,052.6billion	₱1,722.1billion	₱2,100.3billion	₱272.0billion
	478,537	481,863	510,722	549,197	639,477
US Dollars					
Average Monthly Vol	$29.9million	$24.1million	$22.8million	$29.1million	$31.3million
Average Monthly Tx vol	8,161	8,040	8,797	8,422	8,758
Amount per year	$359million	$289million	$274.1million	$349.3million	$375.7million
Tx Volume per year	97,936	96,478	105,579	101,066	105,098

Volumes do not include RTGS volumes (large interbank treasury items administered by the BSP)
* per PCHC the bigger volumes in years 2000 to 2002 were caused by a technicality as some banks included high value-treasury transactions. Banks began using Philpass (Philippine Payments and Settlement System) for treasury payments in late 2002. Philpass is being administered by BSP.

RTGS = Real Time Gross Settlement, PCHC = Philippine Clearing House Corporation, n.a. = not available.
Source: Philippine Clearing House Corporation.

	1999	2000	2001	2002	2003
Credit Cards					
Number of Credit Cardholders:	2.7million	3.1million	3.6million	3.6million	4.4million
Gross Billings	₱77 billion	₱100 billion	₱118 billion	₱132 billion	₱141 billion
Number of Issuers (principal only)	16	15	14	13	15
Source:Credit Card Association of the Philippines					

	1990	1995		1999	2002	April 2004
ATMs						
Number of ATM cardholders	370,000	n.a	2,089	11.1 million	n.a	15.3 million
No. of ATM terminals	n.a			3,485	4,328	4,533
Source: Megalink, Bancnet, Expressnet, M. Lamberte Philippine Institute for Development Studies (PIDs), BSP						

n.a. = not available.
Source: Megalink, Bancnet, Expressnet, Philippine Institute for Development Studies , BSP.

STATE REGULATION OF MONEY SERVICE BUSINESSES IN THE UNITED STATES

State	Check Seller	Check Casher	Currency Exchange	Wire Transfer
Alabama	√			
Alaska				
Arizona	√	√	√	√
Arkansas	√			
California	√	√		√
Colorado	√			√
Connecticut	√	√		√
Delaware	√	√		√
Florida	√	√	√	√
Georgia	√	√		
Hawaii				
Idaho	√			√
Illinois	√	√	√	√
Indiana	√	√		√
Iowa	√			
Kansas	√			√
Kentucky	√	√		
Louisiana	√			√

Appendix 8

State	Check Seller	Check Casher	Currency Exchange	Wire Transfer
Maine (Jan. 1, 1998)	√	√	√	√
Maryland	√			√
Massachusetts	√	√		√
Michigan	√			√
Minnesota		√		
Mississippi	√			
Missouri	√			
Montana				
Nebraska	√			
Nevada	√			√
New Hampshire				
New Jersey	√	√		√
New Mexico	√			
New York	√	√		√
North Carolina	√	√		√
North Dakota	√			
Ohio	√	√		√

State	Check Seller	Check Casher	Currency Exchange	Wire Transfer
Oklahoma	√			
Oregon	√			
Pennsylvania	√			√
Rhode Island	√	√	√	√
South Carolina				
South Dakota	√			
Tennessee	√			√
Texas	√		√	√
Utah	√			√
Vermont				
Virgin Islands				
Virginia	√	√		√
Washington[1]	√	√		
West Virginia	√			√
Wisconsin	√	√		√
Wyoming				

Source: Asian Development Bank Consultants.

1 The District of Columbia (Washington, D.C.) requires registration of businesses that provide check selling, check cashing, and wire transfer services, "District of Columbia Money Transmitter Law (DC Act 13-322)."

NEW PRODUCTS

Product/Status of Availability for Filipino Remitters	Type and Delivery Time	Price	Account Opening Required		Description
			Remitter	Beneficiary	
1. Wells Fargo PARA. Specifically targeted for Filipino workers and migrant population in the United States. Launched in June 2004.	Dual ATM system, funds available next day. Alliance with HSBC.	$8 charged for each deposit into Wells Fargo non-interest bearing account in the United States. HSBC FX rate to be applied.	Yes	No	Depositor receives ATM card and Remittance ATM Cash Card for their beneficiary. Depositor can deposit any amount at Wells Fargo locations or through telephone. Beneficiary can withdraw only $400 a day in local currency one day after deposit in about 4,000 ATMs in the Philippines.
2. Times of Money. Indian company current actively selling system to local Philippine banks.	On line, real time internet-based. Acts like an information engine for Philippine local banks.	$10 charged for each transfer. Local bank FX rate to be applied. Local bank has no capital expenditure.	Yes	Yes	Web-enabled money transfer service, plug & play solution, white labeled to local bank. Can sign in many local banks. Customer account with U.S. bank debited through NACHA by correspondent bank. Beneficiary withdraws through ATM of local banks.
3. Philippine National Bank-7/11-Citibank. Launched in Hong Kong in December 2002. Collection/payment process using Citibank's data processing capability for convenience stores.	Funds available next day. Electronic funds transfer withdrawable via ATM or over the counter at PNB Philippine branches Funds available next day. Remitter registration at PNB offices required at counters or by phone.	$2.6 (HK$20) for each remittance–maximum HK$3000 ($400). PNB Philippines minimum balance requirement: Php100 ($1.80). PNB FX rate to be applied.	No	Yes	Remitter calls PNB HK to obtain exchange rate. Gives cash and presents remittance card to 7/11 outlet. Available to remitter at 650 outlets of 7/11, open 24 hours.

Product/Status of Availability for Filipino Remitters	Type and Delivery Time	Price	Account Opening Required		Description
			Remitter	Beneficiary	
4. Bank of America "Safesend". Available for Mexican migrants only. Plans to roll out to 5 major Latin American countries. No current plans to introduce to Filipino workers or migrants.	Fund available in 6 minutes. Started as international ATM service. Product has evolved into prepaid, reloadable card. Remitter can be a BA customer or non customer with a Visa or Mastercard debit or credit card.	Fee $10.00 per transfer, $1,500 limit per transfer, aggregate limit of $3,000 per month. FX rate to be applied is Bank of America's FX rate.	No	No	Beneficiary receives a card which can be used to withdraw funds from 20,000 ATMs with Plus logo in Mexico or to purchase products directly from merchants. Remitter registers and reloads at BA U.S.A. through branch, phone or internet.
5. Citibank New Access, Global Transfers. Available in 17 countries including Singapore and Indonesia. Will introduce to China soon. Exploring introduction to Filipino workers or migrants.	Real time electronic funds transfers. Beneficiary must have a Mastercard debit card for cash withdrawals.	Fee $10.00 for countries other than Mexico. Fee $5.00 for transfers through Banamex Mexico, no minimum balance requirement.	Yes	No	Beneficiary receives Mastercard debit card for cash withdrawal at ATMs and for purchases from merchants. Also gives remitter a wide range of Citibank services including a line of credit-linked secured credit card.
6. Philippine Electronic Postal Money Order (ePMO). Project of Rural Bankers' Association of the Philippines, Philippine Postal Corporation, & Philippine Postal Savings Bank. Target: U.S.A. and Canada initially. Status: Project stalled due to funding constraints.	Same day. Multi-remitter options: Foreign Postal offices, direct debit of foreign bank account, credit card account, web or mobile interface offered by overseas remittance partners. Multi-beneficiary options.	Pricing not yet available.	No	No	Beneficiary can obtain remittance proceeds by: over the counter at post offices, Postal Bank branches, rural banks or via Postal Money Order and later through ATM/debit cards. Greatly improves last mile as there is a postal office in each locality.

Product/Status of Availability for Filipino Remitters	Type and Delivery Time	Price	Account Opening Required		Description
			Remitter	Beneficiary	
7. OFW Visa E Card. All purpose card issued by partnership through partnership with Equitable Card, Visa Electron and Department of Labor. Available now in the Philippines.	Same day. OFW permanent identification card issued by POEA which signifies membership of OWWA and can be used to access government benefits, also an ATM and credit/debit card.	$6-8 if funded by bank account to account transfer. Initial deposit of Php50.00 ($0.90). $3.00 for every ATM withdrawal.	No	Yes	Initial partner bank is Equitable card. Other banks may be used. Funds can be withdrawn at ATMs of Bancnet, Megalink and Expresslink and Visa Plus ATM abroad and be used for purchase at Visa Electron merchants.
8. IRNet. A remittance service provided by the World Council of Credit Unions. (Initial step of implementation)	Available the next day. Credit union may advance funds on day one and obtains reimbursement from MTO next day Credit Union in the United States to Credit Unions in the Philippines. Currently distributes from 38 states in the US into 6 countries in Latin America.	$10.00 for remittance to El Salvador, Guatemala, and Honduras for amounts up to $1,500. Vigo FX rate is used on day remittance is sent from US.	No	Yes in Credit Unions	Uses Vigo and Travelex network infrastructure. Distribution to be done by credit unions in the Philippines and is intended to service low-income people in remote areas. WOCCU links national credit organizations in other countries together with VIGO so that senders in the U.S. can send funds from VIGO's 3,200 outlets in 38 U.S. states for distribution through credit unions. WOCCU also connect U.S. credit unions to VIGO as sending outlets. On receiving side, the national credit organizations have tripartite contracts with WOCCU and participating MTO's. The national credit union organizations receive the electronic data transfers from MTO partners and distribute them to their member credit unions that in turn distribute the funds to credit union members and non-member remittance receives. After transferring the funds to the credit unions, the national credit union organizations are reimbursed by the MTO (VIGO) via deposits into a clearing account at an international bank.[a]
9. RCBC Telemoney Direct. Verified by Visa. Launched in early 2004 by local bank, RCBC and Visa (Philippines).	On line, real time, internet based. Remitter must have internet access and a Visa credit card.	$8.00 Limit of $300.00 per transaction and $1,000 per week.	No	Yes	Verified by Visa provides remitters password for internet use. Beneficiary must have an account with any of RCBC's 177 branches in the Philippines.

Product/Status of Availability for Filipino Remitters	Type and Delivery Time	Price	Account Opening Required		Description
			Remitter	Beneficiary	
10. iRemit Visa Electron. Debit Card. Launched in 2003 (Philippines).	Same day debit and ATM card issued by Standard Chartered Bank.	Not Available.	No	No	Reloadable. Cash sent to beneficiary's iRemit Visa Electron Card for every remittance. Withdrawable at all visa affiliated ATMs, Bancnet, Megalink ATMs in the Philippines. Also a debit card for Visa merchants.
11. Yahoo Paydirect. Launched in 2003.	On line real time, Internet based. Remitter must have internet access and debit or credit Visa Electron card.	$5.95 plus $1.5 withdrawal fee or total $7.5	No	No	Payment through visa electron/debit/ATM/reloadable card mailed to beneficiary card. ATMs must have cirrus sign.
12. Xoom/Paypal/EquitablePCI Bank. Xoom is a California based money transfer service company partnering with Paypal and has available service in 38 remitter countries with recipients in nine countries including Bangladesh, Hong Kong, India Nepal, Pakistan, Sri Lanka, Dominican Republic. The Philippine service was introduced in April 2004 with Equitable PCIB as local partner. Launched in 2004.	Same day, internet based, remitter must have internet access, a bank account or credit/debit card.	$17.00 (for $200), $22.50 (for $300), and $28.60 (for $400).	No	No	System uses Xoom website, Paypal for processing and Equitable PCI Bank for distribution. Beneficiary picks up cash at designated Equitable PCI Bank 400 branches. Has email notification when money delivered or picked up by the beneficiary.

Product/Status of Availability for Filipino Remitters	Type and Delivery Time	Price	Account Opening Required		Description
			Remitter	Beneficiary	
13. My Ayala. Remittance service in partnership with 12 local commercial banks including the top remittance players in the industry. Door-to-door service added recently.	Internet based, on line. Remitter must have internet access, and a credit card.	$11.00 (for $90 to $178.00), and $16.00 (for $178.00 to $539.56). Charges quoted in pesos converted to $ as fees are paid in local currency FX rate used is credit card company's exchange rate.	No	No	Beneficiary can receive pesos via bank account to account or through door-to-door service.
14. IKOBO. Atlanta U.S.A. Internet based money transfer service.	10 minutes. An online account, remitter must have internet access and transfer money from a credit card, ATM card or bank account to an I-Kard, a debit card to be sent to beneficiary.	$8.00 for $200, $12.00 for $300, and $16.00 for $400.	No	No	Prepaid visa electron, reloadable ATM/debit card I-card mailed to beneficiary. Funds can be withdrawn from any ATM with Visa Plus sign.
15. Smart Padala. Mobile phone text- based service advertised as the "world's first international cash remittance through text", introduced in July 2004 by Smart Communications, Inc., a Philippine based company	Ten minutes. Beneficiary receives text confirmation of remittance.	Beneficiary – P3.00 flat to P10.00 flat or P1.00 for every P100.00 amount remitted depending on remittance center used in the Philippines. Remitter - $8.00 for remittance amounts up to $500.00 for remitters in the United States. Fee quoted by Dollar American Exchange (DAX) one of Smart Padala's remittance partners in the United States. Fee differs from country to country.	No	No	Remitter must physically bring cash to Smart Padala Partners abroad (Banco de Oro, Forex HK, DAX, New York Bay Remittance, CBN GRUPO). Beneficiary receives text from remittance partner/Smart confirming remittance and beneficiary can obtain proceeds (only in pesos) through Smart Padala Centers in the Philippines which include Smart Wireless Centers, a fast food chain, a department stores, a convenience store, a pawnshop. If beneficiary has a Smart Money Card, proceeds may be accessed through ATMs of Banco de Oro and ATM networks – ExpressNet and Megalink .

ATM = automated teller machine, BA = Bank of America, FX = foreign exchange, HSBC = Hong Kong Shanghai Banking Corporation, IKOBO = IKOBO Money Transfer, IRNet = International Remittances Network, MTO = Money Transfer Office, NACHA = National Automated Clearing House Association, OFW = overseas foreign workers, OWWA = Overseas Workers Welfare Administration, PARA = Philippine ATM Remittance Account, PCIB = PCIBank, PNB = Philippine National Bank, POEA = Philippine Overseas Employment Administration, RCBC = Rizal Commercial Banking Corporation, US = United States, VIGO = VIGO Remittance Corporation, WOCCU = World Council of Credit Unions.

MAJOR SOURCE OF COUNTRIES OF LINKAPIL DONATIONS (1990-2002) BY FILIPINO OVERSEAS ASSOCIATIONS

Country	Cumulative Amount (in ₱ million)	%
United States of America	957.56	80.67
Germany	57.96	4.88
Canada	51.61	4.35
Australia	39.72	3.34
Japan	30.13	2.54
The Netherlands	10.71	0.90
Korea	8.91	0.80
Belgium	6.78	0.50
Sweden	5.00	0.40
Italy	3.89	0.40
Others	14.73	1.22
Total	**1,187**	**100.00**

Source: Commission on Filipino Overseas.

OVERVIEW OF OVERSEAS REMITTANCE SECURITIZATION

A. Overview of Potential Future Flow Securitization Transaction

1. We contemplate structuring a transaction for utilizing future US dollar denominated cash flows resulting from customer transfers sent on MT100 and 200 Series (most common) messages via the SWIFT remittance system (the "Receivables" or the "Remittances").

(i) The transaction will involve a "true sale" under Philippine Law by the Local Bank of the Remittances to a bankruptcy remote trust (the "Trust").

(ii) The Local Bank, through the Trust, will issue Notes (the "Notes") secured by a perfected security interest in the Receivables.

(a) The Notes will be sold to international capital markets investors.

(b) A third-party credit enhancement provider may provide a full/partial guarantee on the Notes, to improve its credit and pricing.

(iii) Debt service due on the Notes will be paid directly to note holders from an offshore collection account controlled by a trustee (the "Trustee").

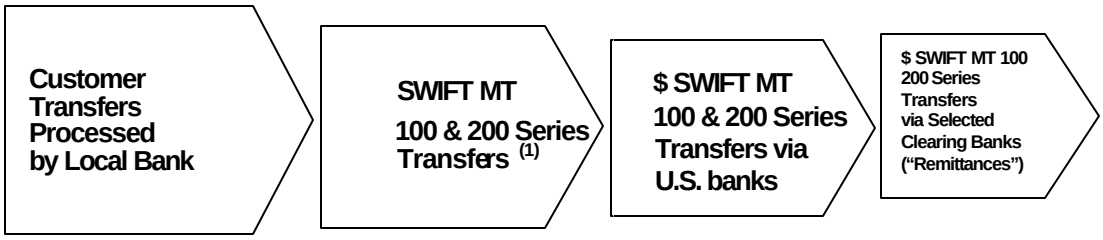
(iv) Once debt service has been collected in the offshore collection account, excess proceeds will be remitted to the local bank.

2. Through the use of the structured security, the local bank should be able to de-link from the sovereign and borrow US dollars at a rate based primarily on the perceived operating risk of the company as a going concern.

3. The key feature of the transaction is that while investors are exposed to the operating risk of the local bank, the structure mitigates the risk of currency inconvertibility and non-transferability associated with the Philippines.

B. The Remittances

Local Bank's Customer Transfer Business



(1) SWIFT MT 100 and 200 Series Transfers refer to Customer Transfers sent via the SWIFT network as MT 100 and MT 200 Series Payment Orders (electronic messages).

4. "Customer Transfers" are transfers of funds originated by individuals or businesses made through the banking system for the purpose of making payment to a beneficiary.

5. Customer transfers include those processed via the SWIFT network, telex, mail orders, etc. received from the local bank's own branch network, other banks and foreign post offices.

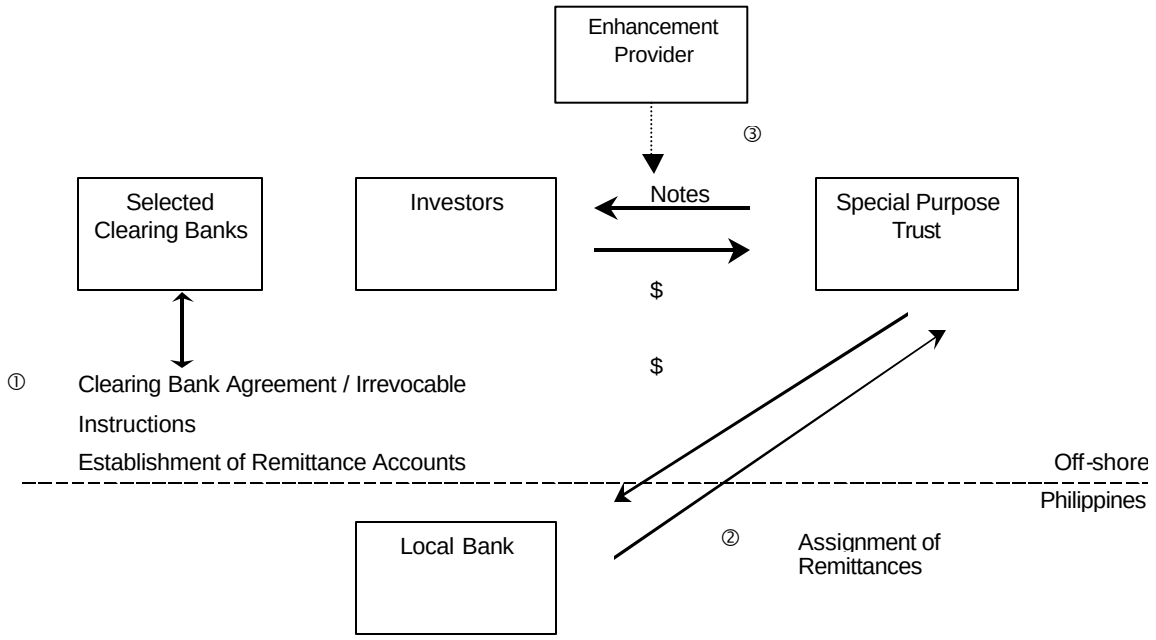
6. The remittances are $ SWIFT MT 100 and 200 Series transfers cleared by the selected clearing banks.

7. It is anticipated that the remittances will be a substantial portion of the $ SWIFT MT 100 and 200 Series transfers cleared through US Banks. (The local bank will appoint additional selected clearing banks if at any time the level of Remittances falls below [60%][1] of the total US Dollar denominated SWIFT MT 100 and 200 Series transfers processed by it.)

8. The transaction would focus on remittances denominated in U.S. Dollars and cleared via the SWIFT system through selected money center banks.

C. Transaction Structure

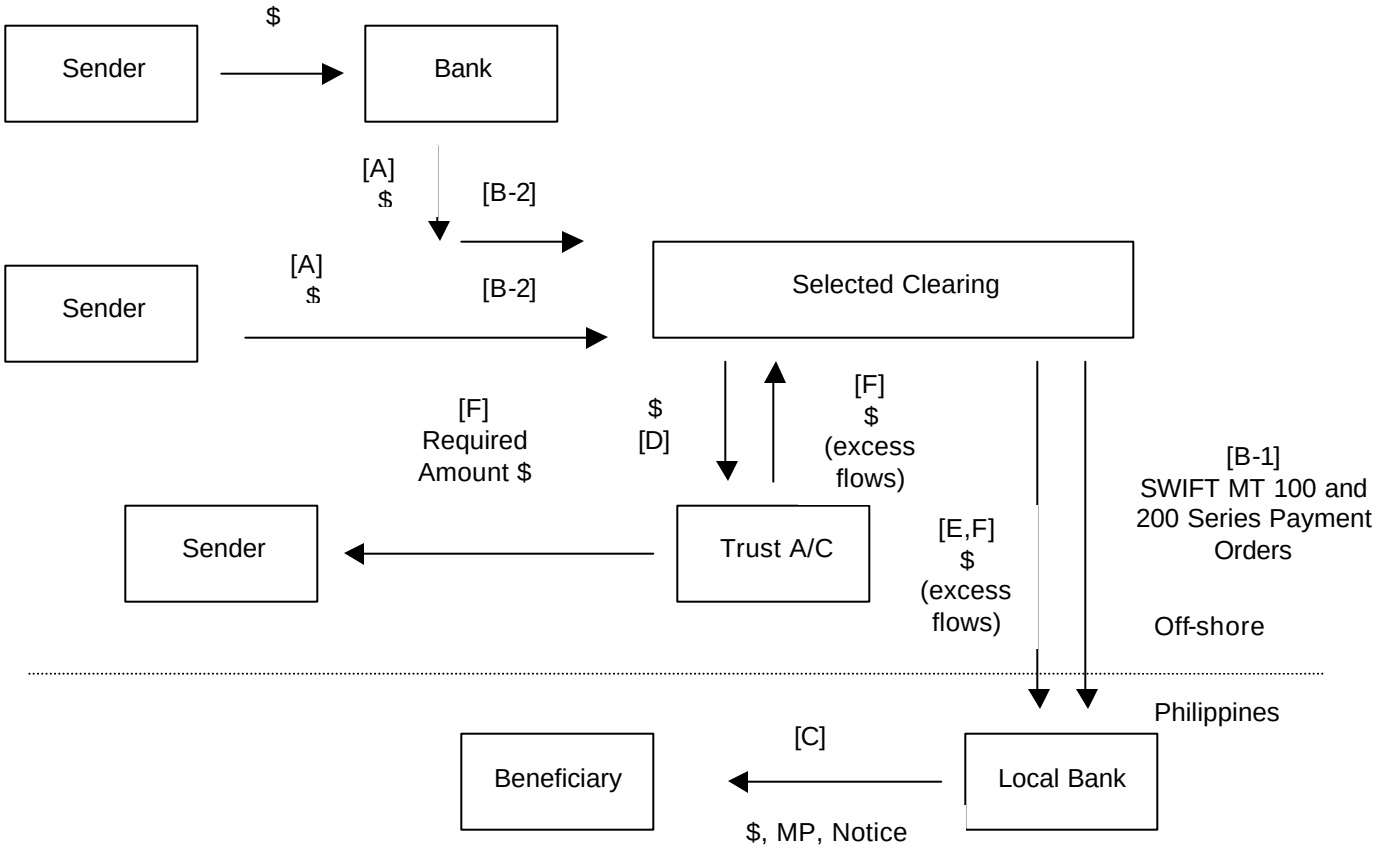
Initial Flow of Funds



1. Clearing Bank Agreement between the local bank and the selected clearing banks, which provides irrevocable instructions to the selected clearing banks to pay all future remittances at the direction of the trustee.
2. Sale of the remittances by local bank to a special purpose trust.
3. The trust issues notes representing an ownership interest in the remittances; such Notes maybe covered by a guarantee from a credit enhancement provider.

[1] Actual percentage determined through due diligence and negotiation with rating gencies.

Ongoing Flow of Funds



Flow	Description
A	The flow of funds leading to the remittances will commence when a sender or the sender's bank makes a payment order initiating a funds transfer via a selected clearing bank for further credit to a beneficiary via the local bank
B-1	The selected clearing banks accept such payment orders by following the instructions contained in the payment orders they receive and issuing either SWIFT MT 100 Series or 200 Series payment orders of their own to the local bank.
B-2	Upon acceptance by the local bank of the selected clearing bank's SWIFT MT 100 or 200 Series payment order, the selected clearing bank is obliged to pay the local bank the amount of the order.
C	Acceptance of such payment orders by the local bank occurs on the earlier of when the local bank: • pays the beneficiary • notifies the beneficiary of receipt by the local bank of the order • notifies the beneficiary that its account has been credited, or • receives payment from the selected clearing bank.
D	The selected clearing banks will pay their orders by crediting the remittance accounts directly; payments made to the remittance accounts in respect of the required debt service will be transferred daily to the trust account
E	Once the trustee has received sufficient funds in the trust account to pay the required debt service for each period, it will instruct the selected clearing banks to pay all excess funds in the remittance accounts for the remainder of the distribution period to the local bank.
F	At each payment date, the trust will use all funds available to pay the required amount to the holders and remit all excess funds on deposit in the trust account to the local bank.

9. The remittance accounts will be owned jointly by the local bank and the trust and controlled by the trustee. The trust account will form part of the trust estate.

Source: Citibank.