

## **Final Draft RBAP Presentation**

### **OFW Money Flows to the Countryside**

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#### **Introduction**

I congratulate the Rural Bankers Association of the Philippines, its members, officers and staff, for steering the industry into where it is now-a leader and an indispensable partner in local economy development. In the course of my work with a nongovernment organization(NGO) focused on migrant economic concerns, we have become familiar with some of the challenges associated with countryside development. In the development world, there is a term known as Imperial Manila, which connotes Manila as being the repository and concentration of all political and economic power and opportunity, despite the reality that the nation depends on the countryside for its food and vital natural resources-a classic example of the "tail wagging the dog". In any case, our organization has believed early on, that development of the countryside and its local economies is the way to go, and that one of our priorities, if we were to economically empower local economies through OFW contributions, would be to link with development agents in the countryside. Rural banks have been the natural and perhaps rational choice.

I was first introduced to rural banks when I attended a migrants' conference in Athens way back in 1997, after listening to one of the presentors, the "barefoot banker" from Nueva Ecija, Boypee Panganiban, talk about how their work on microfinance had transformed the lives of many local residents and the local government itself, as well as the important role that OFWs could play in the process. It is a model that has guided our work since then.

We had written and discussed this model in our presentations for conferences and studies on migration and development, sponsored by national and international agencies. We had also shared this vision with many overseas Filipino communities in major cities in Europe, where we were actively assisted by no less than Mr. Panganiban, your former President Danny Arcenas, and more recently, in our European roadshow, last November, with Gen. William Hotchkiss. This model also eventually inspired our ongoing program advocating for OFW time deposits in microfinance rural banks. It is a program that had already raised some Php600,000 in long-term time deposits made by OFWs from Europe in the two rural banks in Northern Mindanao managed by one of your members, Fr. Emeterio Barcelon, S. J.

It is difficult to hide my delight that the sector of Overseas Filipinos are finally discussed in a rural banking convention, and made the possible subject of a cooperation agreement between our organization and the RBAP. Today, I would like to share with you what we know about Overseas Filipinos, their profiles, issues, needs, concerns and aspirations, for the purpose of enhancing their contributions to local economy development thru links with grassroots financial institutions. There are challenges, roadblocks and even myths and perceptions in the way we know Overseas Filipinos, and perhaps even how OFs look at rural banks, even the whole area of making choices in the way they spend their hard earned money.

#### **Backgrounder on OFWs**

*Classification/Definitions of Classes.* (Show Figure 1, ADB study)

Overseas Filipinos may be classified into three main categories:

1. Immigrants or Permanent Residents, or those who have acquired permanent residence or settled status in foreign countries, estimated to be about 3,187,586.
2. Contract based workers, commonly referred to as OFWs, whose stay overseas is temporary on the basis of a work contract. Although temporary, many contract-based workers have stayed overseas for long periods of over 10 years or more. These are estimated to number about 3,599,257.

Included in this category are Filipino seafarers, who are more or less around 255,000, comprising 28% of the world's total merchant marine

3. Irregular workers, who are employed or engaged in gainful occupation but are not documented to work or live overseas. These are estimated to be at 1,297,005.

These all add up to a total of 8,083,848 or almost 10% of the total Philippine population. Please note here that while the topic reads as OFW Money Flows to the Countryside, I am using the term Overseas Filipinos (OFs) to include all categories, unless I specifically refer to contract based workers alone.

#### *Geographical Locations Overseas*

Immigrants or permanent residents are concentrated mainly in North America (the US and Canada), Europe, Japan, Germany, the UK and Australia. Countries with the highest number of contract based workers are Hong Kong (China), Saudi Arabia, Japan, Taipei and the United Arab Emirates. Undocumented workers are almost everywhere, but are preponderant in Italy, Japan, the US and Malaysia.

#### *Philippine Communities of Origin*

Filipino contract workers being deployed overseas have to go through the POEA for the approval and processing of their work contracts. The POEA is rich in data if one wished to know the statistics on departures of contract based workers, their disaggregation as to occupation, sex, destination countries and geographical origins. On the other hand, it is the Commission on Filipinos Overseas that monitors overseas-bound Filipinos with permanent resident visas.

Although data recording is not perfect, the statistics from the POEA and CFO represents the most reliable data source on OFs depended upon by researchers and government agencies. During my involvement with the ADB study on enhancing Filipino migrants remittances, the POEA released to us 2003 data on workers deployed from 1998 to 2002, showing their regions/provinces of origin. If we define the Philippine countryside as those areas outside of Metro Manila or other metropolitan cities, it might be concluded as the ADB did, that 2/3 of contract based workers originate from the countryside or the rural areas.

Among the regions, the National Capital Region had the highest number of OFWs at 574,756, followed by Southern Tagalog with 273,388, and Central Luzon with 243,748. By province, Bulacan, Pampanga, Cavite, Laguna and Batangas registered the highest numbers. Although the highest number of OFWs per region was attributed to the NCR, these numbers could still be less, given the known practice by OFWs from the countryside of initially working and establishing residence in Manila or giving Manila addresses to facilitate their recruitment or processing of their work permits by recruitment agencies and government agencies which are mostly in Manila. (Attach Annex 1- Geographical Origins of OFWs)

#### **Backgrounder on remittances**

Cash remittance captured by the BSP through formal channels, totaled about USD10,689,005,000. The origin of the bulk of remittances came from the Americas at 6,605,231,000 with the US (US\$6,424,848,000) accounting for about 97% of this total. Middle East remittances are a far second at US\$ 1,417,491,000 with Saudi Arabia (US\$949,372,000) accounting for 67% of ME remittances. Following are those from Europe with 1,433,904,000, with Italy, the UK and Germany, accounting for about 60% of the total. The fourth largest source is Asia with US\$1,172,373,000, with remittances from Hongkong, Japan, and Singapore alone accounting for more than 80%.

Studies show that contract-based workers remit frequently and at more regular intervals than immigrants and other categories. The table of countries with preponderance of such workers, as captured by the BSP in 2005 are:

Country	In US\$
Saudi Arabia	949 million
Italy	430 million
Hong Kong Special Administrative Region	338 million
Japan	356 million
United Kingdom	300 million
United Arab Emirates (lumping together remittances from Dubai and Abu Dhabi)	257 million
Singapore	240 million
Kuwait	91 million

Source: *Bangko Sentral ng Pilipinas (2005)*

Other sources with notable volumes of remittances are from Taipei and Malaysia, as well as those from seafarers. In 2003, seafarer remittances constituted about 20% of the total formal remittances. It is to be noted that there is a clause in manning agreements that 80% of seafarer remittances are retained by shipping companies in the Philippines and forwarded to their designated beneficiaries.

#### *Channels/ Modes of Remittances/Remittance Behaviour*

Filipino remitters have used *banks, money transfer agencies and an informal system called Padala*, to remit money to the Philippines. Estimates from studies by the National Census and Statistics Office and the ADB, indicate that about 70 to 80% of remitters use the formal or regulated channels, while the rest use non-formal channels.

In the ADB study, migrants surveyed listed *Speed, Reliability(Trustworthiness) and Good Service*, in that order, as the top three attributes that have influenced their choice of remittance institution. Significantly, they also listed *exchange rates and accessibility of remitter and beneficiary to points of sale and distribution*, as areas that should be improved.

#### *Participation of Philippine Banks in the Remittance system.*

The number of banks within the Philippine Banking system consists of a total of 879 banks, of which 41 or 5% are Commercial Banks, 84 being thrift Banks, and 754 or 86% are rural banks. In the Philippine remittance system, 17 Philippine financial institutions service remittances through branches, affiliates or agents in 30 countries. Of the 41 commercial banks, 16 are involved in remittance operations, and only 4 from Thrift banks. The 6 major players are Equitable PCI, RCBC, PNB, BPI, Metrobank and Land Bank. Commercial banks have an annual remittance operation turnover of about USD7.15billion or 93.6% of the market, followed by USD444million or 5% for foreign bank affiliates. Thrift banks account for USD43.6million or 0.6% of the market.

During his term, RBAP president Senen Glorioso had pointed out in a presentation, that about 340 rural banks or 46% of the total, processed about 187,308 remittance transactions with an estimated value of about USD56,200,000 as of September 2004. The rural banking system entered the remittance market in 1998 as pay-out and domestic transfer partners of large remittance companies. This is understandable, since interconnectivity and utilization of clearinghouse facilities are key to direct remittance operations, and on which rural banks have no access or participation due to the high infrastructure or participation cost on clearinghouse facilities.

#### **Money Flows to the Countryside**

Since it is said that 2/3 of OFWs originate from the countryside, would it be valid to say that 2/3 of the 10.6 billion US dollars remittances registered by the BSP for 2005 have flowed to the countryside? Not necessarily, because these remittances comprise remittances from the three categories of Overseas Filipinos (immigrants, contract workers and undocumented workers) and not only for contract based workers. The most accurate approach would be to ask the banks, remittance and door-to-door agencies, their total turnover per province. However, these agencies would not normally release these figures for their own reasons.

Varying approaches have been suggested to estimate the volume of actual remittances entering the country. For instance, the US Money Transfer Association, estimated that the average remittance made by a

Filipino migrant worker is about USD250 made from 8 to 10 times a year. The ADB 2004 study which included a nationwide market research in all Philippine regions, indicated that the average monthly remittance amount sent by migrants in the Philippine nationwide survey was at USD340.00, sent monthly or more frequently.

#### *Overseas Filipino Associations*

Another source of money flows, other than, or over and above funds sent by migrants for the personal use of their families, are those raised by Overseas Filipino associations or individuals and then remitted or brought over to the Philippines for some charitable, benevolent or development purpose. According to the Department of Labor, they have on file the names of some 12,000 Overseas Filipino associations all over the world, while the Commission on Filipinos Overseas (CFO) have a database of around 4,000 active associations. As a matter of fact, the CFO itself had mobilized or facilitated the amount of around 1.3 billion pesos of such donations from 1998 to 2003, in the form of cash, services, or in-kind donations, through a program called Linkapil. An analysis we recently made indicated that:

1. Over 90% of donations come from developed countries in North America, Australia and New Zealand and Europe, with the US alone accounting for 82.66%. (Show CFO table of donations by country of origin, CSP paper)
2. Filipinos from countries with large concentration of contract-based workers, including service workers, such as in Japan, Korea, Italy, or Hong Kong, Malaysia, Singapore, Taiwan and Bahrain, also mobilized some 49.91 million pesos or 3.21% of the total donations.
3. Figures for the year 2004 indicate that there was dispersal of these resources to 20 out of the 26 provinces mapped to be in the depressed situation. (Show table of donations by province)

We believe that these amounts represent only the tip of the iceberg, since not all such donations pass through formal channels and may be personally brought in by the donors themselves when they visit the country.

#### **What does this data tell us?**

*There is a segmentation among Overseas Filipinos which affects their remittance, spending, savings and investment behaviour.*

- OFWs or contract workers generally remit less amounts but in more frequent intervals than permanent residents. On investments, OFWs in the service sector, such as domestic workers, entertainers, factory workers, and similar occupations are known to go into small business, with their relatives taking care of the business. Contract workers, especially those in the service sectors raise or borrow large amounts to pay for recruitment expenses.
- Permanent residents generally earn more per capita but remit less frequently than contract workers, simply because their family members may have already joined them overseas. In terms of investment choices, permanent residents, have in addition to the usual options, are also inclined towards sophisticated mechanisms such as stocks, mutual funds, trust funds, capital markets, and the like. However, contract based workers who are professionals with higher educational attainments, such as those working in Singapore, Hongkong, the United Nations offices, in North America, Europe and Australia, might have the same portfolio. They would also tend to remit electronically through their banks, and generally have access to computers.
- Undocumented workers normally go to small remittance transfer agents or send money through friends returning home, simply because their irregular status prevent them from transacting with banks.

#### **What the data does not tell us:**

1. *OFs of all types generally do not have access to reliable information on the various savings, investment or business options and rely generally on relatives and friends when making investment or business choices.*

2. *OFs are absentee investors, and need a reliable partner in the Philippines to assist them in identifying viable investments or businesses.*
3. *Because of their overseas experience, they are used to efficient systems, and they expect no less from Philippine service providers.*

### **Matching OFW Needs with Rural Banks**

While rural banks constitute only a mere 2.67% of the Philippine banking industry's total assets, their widespread presence in the countryside or rural areas puts them in a strategic position to serve the needs of OFWs, majority of whose beneficiaries are situated in the countryside. Table \_\_\_ gives the ratios of OFW households and deployed OFWs by geographical region in relation to the number of rural banks within the region.

Aside from that, rural banks have in-depth knowledge of the real needs of rural folk and have greater chances of serving OFW families, particularly the unbanked rural population, as well as assisting migrants, their families, and beneficiaries in personal financial planning or financial literacy, pre-departure assistance or assisting returned migrants in reintegrating to local society. As a matter of fact, rural banks could help in mentoring or assisting OFW family members in entrepreneurial or agricultural activities in the absence of the overseas breadwinner.

By their mandate, rural banks are more directly involved with poverty alleviation and marginalized folk. Consider the statistics: 78.8% of food poor families are in the rural areas (ARMM, Bicol and Central Mindanao) while rural families account for 70% of total poor. Moreover, the Philippines remains dependent on agriculture, which contributes to 20% to GDP. 40% of employment comes from agriculture, and 60% of our population relies on agriculture.

Data from the RBAP and the BSP indicate that 42% of the portfolio of rural banks are geared towards agriculture. 90% of deposits generated by rural banks are from small savers. A notable contribution of rural banks to local development and poverty alleviation is in the area of microfinance. As of December 2003, the MABS has worked with more than 114 banks, disbursing over 320,220 loans totaling more than Php3.3 billion to more than 111,302 microentrepreneurs. 48 rural banks likewise participate in the microfinance program of the PCFC, and constitute 26% of its total conduits.

### **Enhancing Relationships between OFs and Rural Banks.**

Let me mention what I believe are some of the major challenges that must be hurdled in enhancing the links between Overseas Filipinos and rural banks, or any rural-based financial institution for that matter.

Lack of Outreach.

One of the main barriers that had prevented the rural banking industry from an enhanced participation on OFWs economic activities, have to do with limitations on overseas outreach and interconnectivity issues. Perhaps the practical application of internet and sms-based remittance systems could address interconnectivity issues, provided of course that remittance charges could compete with traditional services that have been long offered by commercial banks, door to door or money remittance companies. Rural banks must have to rely on the acceptability of its partners' remittance mechanisms and overseas networks. With regards to the lack of outreach, it could partner with OF NGOs or organizations based overseas or in the Philippines.

Image Problem.

Based on our experience in advocating the promotion of rural banks' services to OFWs, one barrier relates to an image problem that probably has to do with a traditional peoples' mindset on the stability of rural banks and associating the safety of their money with big banks. We had in the course of our advocacy for rural banks, emphasized that rural banks are not only self-regulating, but are also strictly regulated by the BSP, aside from the fact that deposits are insured by the PDIC. An effective and serious media plan would go a long way in improving the rural banks' competitiveness with other OFW service providers.

Capacity building

From recent pronouncements and actual accomplishments, the RBAP is gearing the industry for the increasing and sophisticated demands brought about by globalization. While professionalisation and capacity building is basic, the industry probably has no option but also to embrace and show the willingness to invest in innovation and technology or to link up with existing service or technical providers, as it has gradually done in the last two years.

#### Know Your Client(KYC)

A serious plan to link OFWs and their families should involve nothing short of endeavouring to know their needs and concerns, not only financial but also social. You must be aware about some of the huge social costs of migration, such as family problems brought about by long absence or separation. RBAP could start by urging its member banks to conduct simple surveys within their respective territories to determine who among their clients have OFW breadwinners or relatives overseas. This would give them important demographics and a fair idea of the economic and social needs of OFWs and their families, enabling them to tailor-fit or diversify their strategies, services and products to these needs. KYC here does not refer to its regulatory meaning, but entails knowing the needs of the one who sends, as well as those who make the spending decisions. The future RBAP academy which will engage in training on microfinance and community banking, could well include research and development on the OFW sector.

#### Increase RB links to community

I know of certain rural banks who have found it useful to field community organizers for the purpose of information dissemination, but also in helping the public in financial literacy and understanding the uniqueness of financial products offered by rural banks, especially microfinance and small business. Although it could take time, an effective community outreach would go a long way on building public confidence on rural banks and brand recognition based on trust and loyalty to the institution.

#### **Possible Role of Ercof and other migrant NGOs.**

Prior to this convention, we had discussed with the current leadership of the RBAP, the potential role that a migrant-focused NGO like Ercof could play in enhancing economic and social links between OFWs and rural banks. The areas of cooperation had been tentatively listed in a draft memorandum of cooperation between Ercof and the RBAP. These are in the areas of familiarizing and enhancing links between OFWs overseas and their families and rural banks' services, collaboration on business development, focusing on OFW primary needs such as in housing and real estate, health, educational, agricultural and entrepreneurial loans, purchase of shares of stocks in rural banks, and rural banks participation in pre-departure and reintegration needs of OFWs, and of course, increased participation in direct remittance activities. The recent authority given by the BSP for rural banks to engage in FCDU operations opens doors of opportunities to enhance OFW links.

With the assistance of its partners and focal organizations in 8 countries in Europe, as well as in Saudi Arabia, Japan and Singapore, as well as its other partnerships in the Philippines with OFW coops and family associations, Ercof could assist in linking OFWs and their families to rural banks. Collaboration could also extend to assisting in hometown association projects using the database of Ercof and its partners. Your past and present leadership had the opportunity to observe over the years of our association, how overseas partnerships could be made and cemented, not only with Overseas Filipino communities, but also with development organizations, international financial groups, as well as development cooperation agencies of foreign countries, which appear now to prefer favor development work directly made with local, rather than national institutions.

#### **Conclusion**

A final word. The Overseas Filipino sector is obviously a market, a big market with huge potentials of profitability for service providers. However, we must not forget that migrant workers are human capital. We have to be professional in our dealings and try to address their needs. If needs are not workable, we have to at least show them that we have their best interests at heart. By their culture, perhaps rural bankers may be more natural in showing "the personal touch" than other financial institutions. Mababaw lang naman ang kaligayahan ng pinoy, regardless of station in life, whether or not one is an Overseas worker or not. Let us nurture their goodwill, endeavour to offer services that will address not only their economic but also their social aspirations. It is a long term project that will be worth the wait.

Thank you and more power.