

International Remittances in the Philippines: A Strategy for Economic Development

「フィリピンにおける海外送金戦略と経済発展： その現状と課題」

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Abstract

The Philippines is one of the largest exporters of labor in the world, and as such it has also depended largely on the overseas Filipino's remittances as a source of economic growth. Indeed, encouraging more remittances, especially those sent through formal channels, and using them for productive use, are regarded as priority goals of policies and programs spearheaded by the Philippine government. In this paper, we give a general overview of the trends in international remittances in the Philippines, particularly on its impact on the household's spending behavior and review the current policies of the Philippine government towards remittances. By using our results on the expenditure propensities of remittance recipients vis-à-vis the non-recipients, we also attempt to draw some recommendations about how remittances can further contribute to the economic development of the country.

Using microdata from the Family Income and Expenditures Survey (2003), it was found out that international remittances allow its recipients to spend more (in terms of absolute values) on all expenditure items. However, remittance recipients tend to spend a relatively larger proportion of their income on education, which is investment in human resources. This implies that the impact of international remittances should be assessed in transgenerational and long-term perspectives. Second, regardless of having income from abroad or not, households in the study seem to behave similarly in terms of their propensity to spend on non-current consumption such as housing, savings and investment in business. If the Philippines is to continue making international migration a pillar of economic development, greater efforts should be taken to raise the propensity to save and invest, of remittance recipient households and give more opportunities to members of remittance recipient households to take up higher levels of education.

Keywords: Philippines, international remittances, international migration, consumption behavior

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概 要

フィリピンは世界で2番目に多い労働者の輸出国であり、在外フィリピン人労働者が母国に送る外貨はこの国の経済発展に対してとても重要な役割を果たすことが出来る。確かに、フィリピン政府はこのことを認識し、海外送金額の増加やその生産的な活用を目的にする政策を多く導入している。本稿では、まずフィリピンにおける海外送金の現状について述べ、次に海外送金を受給する家計の消費行動を調べ、それを経由した海外送金の経済に与える影響を実証的に分析したい。最後に海外送金がどのように経済発展により貢献できるのかを検討したい。

本研究の実証分析では、2003年の「Philippine Family Income and Expenditures Survey (FIES)」のマイクロデータを用いた。そこで、サンプル全体を、海外送金を受給した家計の集団とそうでない集団に分類し、さらに、それぞれのグループを消費支出総額の大きさによって10段階に分けた。また、各段階について、飲食料・教育・教育以外の非飲食料・不動産の購入・銀行預金・投資・住宅の建築・ローンの返済のような項目別に平均支出額とそれぞれの総支出に占める割合を計算した。その結果、平均支出の金額を見れば、海外送金を受給した家計の方は多く使っていることが分かった。それは、彼らの海外送金を含めた総所得は高いからである。また、彼らは総支出の大きな割合を教育、つまり、人的資源への投資に使っていることも分かった。したがって、海外送金の経済に与える影響はトランスジェネレーションかつ長期的な視点から評価すべきである。次に、不動産の購入・銀行預金・投資・住宅の建築・ローンの返済が総支出に占める割合については、このデータを見る限り、海外送金を受給した家族とそうでない家族の間には違い（傾向）があまり見られない。以上の結果より、これから、海外送金を経済発展の支柱として考えるのであれば、それを受給した家族に対しより多くの教育の機会を与え、また、彼らの投資・貯蓄のような多期間・多世代にわたる項目への支出性向を高めるような政策を導入すべきである。

キーワード：フィリピン、海外送金、国際労働移動、消費者行動

1. Introduction:

The aims of this paper are twofold: first, to give a general overview of the trends in international remittances in the Philippines, particularly on its impact on the household's spending behavior; and second; to review the current policies of the Philippine government towards remittances and attempt to draw some recommendations about how remittances can further contribute to the economic development of the country. This paper focuses on international remittances, which are the strongest economic tie between the migrant and those members of his family left behind and a main source of foreign financing considered to have the strongest positive impact on the economic development of the home country. However, it must be noted that sending workers abroad is with very important costs to those left behind, in terms of its effect on family relations, and to the country as a whole in terms of, for example, brain drain.

Based on estimates by the United Nations, about 3% or 175 million people in the world are migrants. The growth rate in volume has slowly accelerated from 2.4% in the 1970s to about 3% since the 1980s, and is expected to remain at such level for the next 25 years. Consequently, international remittances have also increased dramatically. It is estimated to have reached \$232 billion in 2005, the bulk (\$167 billion) of

which went to developing countries¹. Indeed, international remittances have emerged as the biggest source of foreign currency for these countries, underscoring international migration's role in economic development.

The Philippines, as a sending country, is not an exception. It is a leading exporter of labor and the fifth largest recipient of remittances from abroad (Global Economic Prospects [GEP], 2006)². It has been actively sending its workers abroad since the early 1970s, reaching about 10% of its population in 2005. As a result, it is estimated that an estimated foreign currency of US\$12,762 billion was sent by these workers in 2006³. This country has a long history of organized migration, and is one of the first few countries in the world in which the government has been actively participating in the export of its workers through establishing an agency, the Philippine Overseas Employment Administration (POEA) that regulates the deployment and employment of overseas Filipino workers. Indeed, the Philippines has turned into its overseas workers and the remittances they send as a major resource for economic growth.

This paper is organized as follows: In the next two sections, I describe international migration and foreign remittances in the Philippines. Then, I evaluate the current policies and set some policy directions that will help maximize international remittances' contribution to the economic development of the country. Finally, I summarize my findings in the last section.

2. The Filipinos Overseas

The size and impact of international remittances in the Philippines depend on the size and characteristics of Filipinos going abroad. Therefore, before discussing remittances, I shall discuss the trends in the outflow of workers from the country.

As of 2005, there is an estimated 7.9 million Filipinos all over the world, making up roughly about 10% of the total population of the country (see Table 1). Of the Filipinos abroad, 43% are permanent migrants, 46% are temporary migrants and the rest (11%), irregular migrants⁴. The majority of permanent migrants live in the United States, and this can be traced to the long history of migration between the two countries. This is known in the literature as the first wave of Philippine migration. Other than the US, Filipino permanent residents can be found as spouses and dependents in East Asia, particularly Japan, and European countries like Germany and UK.

1 This is still a conservative estimate as it only includes remittances sent through formal channels.

2 Data for world migration and remittances are quoted from "Global Economic Prospects (2006)" chapters 2 and 4. The International Bank for Reconstruction and Development/World Bank (electronic copy) accessed Feb. 1, 2007 <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/GEPEXT/EXTGEP2006/>

3 Data for Filipinos overseas and their remittances are taken from the Philippine Overseas Employment Administration (POEA) and the Central Bank of the Philippines.

4 Permanent migrants are defined as those whose stay abroad are not dependent on work contracts, temporary migrants are those whose stay abroad is employment-related and are expected to return upon termination of said contract. Irregular workers are also called undocumented or overstaying aliens.

Table 1. Stock Estimate of Overseas Filipinos

as of December, 2005

Region/Country	Permanent	Temporary	Irregular	Total
World Total	3,391,336	3,651,727	881,123	7,924,186
Africa	318	61,525	17,160	79,003
Asia (East and South)	186,906	891,088	238,238	1,316,232
Asia (West)	2,330	1,565,726	112,750	1,680,806
Europe	211,351	523,442	123,282	858,075
Americas/Trust Territories	2,758,067	304,547	357,923	3,420,537
Oceania	232,366	57,692	31,770	321,828
Sea-based		31,770		31,770

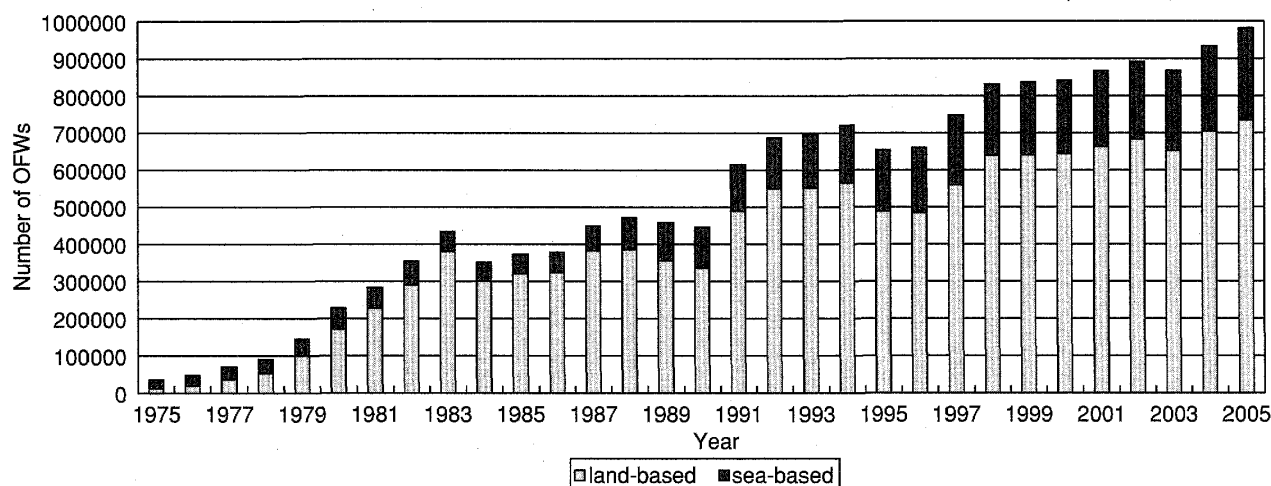
Source: Commission on Overseas Filipinos

Almost half of the temporary migrants live in West Asia, mainly Saudi Arabia, United Arab Emirates and other Middle East countries. This “second wave of Philippine migration” began during the time of Marcos in the 1970s. Then from the late 1980s, more and more Filipino workers have been deployed in East and South Asian countries, making the population of Filipino overseas workers (OFWs) in this region the second largest (the Third Wave) next to the Middle East. However, accurate data for irregular Filipinos abroad are hard to find. Official estimates released by the Commission on Overseas Filipinos (COF) claim that there are about 880,000 mostly in the United States and East and Southeast Asia (Malaysia, Singapore and Japan).

Of these three categories of Filipino migrants abroad, the government has concerned itself mainly with the temporary migrants for the following reasons: First, they are under contract, and are expected to come back to the Philippines after the commencement of their final contracts. As such, they are more highly motivated to remit and bring home their income earned abroad. Second, as they are “guest workers”, they tend to have less bargaining power in terms of labor conditions – they are more prone to exploitation with the threat of being sent back home if they complain or defy their employers. Therefore, there is a greater need for them, compared to other types of migrants, to be protected by the embassies abroad. Third, theoretically, they will make a greater contribution on the development of human and physical capital when they return from abroad. Partly due to the government’s active participation in their deployment, the number of OFWs has been generally on the rise since the 1970s (see Figure 1) ⁵ from a mere 36,035 in 1975, with two-thirds of them sea-based, to about 980,000 in 2005, 75% of those deployed abroad are now land-based.

5 It must be noted that the estimates on the stock data of Filipinos based on their status abroad (permanent, temporary and irregular) and Filipino workers deployed overseas annually (land-based and sea-based) are independent from each other and therefore may not necessarily coincide.

Figure 1. Annual Deployment of Filipino Workers Overseas



Notes: *The data shown here are the number of OCWs *deployed* by the Philippine Overseas Employment Authority. Prior to 1984, the data shown here are the number of land-based workers *processed* by POEA. It must be noted that not all workers whose contracts are processed by the POEA are eventually deployed.

Sources: 1984-2005: Philippine Overseas Employment Administration (POEA)

1975-1983: Carino in Battistella and Paganoni (1992), Table 2, p. 8.

A few emerging features of the international migration of Filipinos are notable. First, while in the past, many of the OFWs were in the production sector, the number of OFWs in the services sector, consisting mainly of laborers, unskilled workers, trade workers and trade-related workers, has been continually on the rise for the past decade. As a matter of fact, from 1995-2005, the ratio of OFWs deployed in the services sector increased by 10%, while those in the production sector decreased by almost 12%. POEA data show that in January-November, 2006, 47.84% of new hires were deployed as service workers – many of them in the basic services sectors (as domestic helpers, nurses and caregivers). This reflects, among others, the destination country's increasing demand for such workers in the light of demographic changes such as the shrinking and graying of their population and higher participation of women in the labor force.

There is also a trend towards feminization of OFWs, especially of those who left the country for the first-time (the newly-hired). Longitudinal data show a change in the ratio of females to total newly hired overseas workers from 50% in 1992, 56% in 1997, 69% in 2002 and 72% in 2005. This feminization of labor is particularly true in household and other service sectors where Filipinas are employed as domestic helpers, health care givers and overseas performing artists.

3. Remittances from OFWs

In the Philippines, the inflow of remittances is substantial and is thus a major concern for those drafting policies for economic development. In 2006, the total amount of remittances from workers reached US\$12,762 million, which is a 19.39% increase from the amount in 2005. The sources of international remittances to the Philippines are also as varied as its Filipino migrant senders. More than half of remittances, though (at US\$6,526 million), is reported to originate from the United States (Table 2). It must be noted however, that not all of this was sent by Filipino workers from this country, as a considerable amount of remittances from Middle East countries which traditionally employ the biggest number of

Filipino land-based workers, are sent to the Philippines via the United States. Moreover, while only 3% of the stock of OFWs is sea-based, they sent about 15% of total remittances. This is because seamen are required to remit 80% of their basic salary to their officially-designated beneficiaries using official channels, thus making it easier to track down the remittances from these workers(Gonzaga, 2006).

Table 2. Overseas Filipino Workers' Remittances by Region and Type of Worker (1997-2006)

Country/Worker	in thousand U.S. dollars									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
TOTAL*	5,741,835	7,367,989	6,021,219	6,050,450	6,031,271	6,886,156	7,578,458	8,550,371	10,689,005	12,761,308
ASIA	454,791	401,419	645,566	831,779	1,049,551	1,116,336	894,310	918,329	1,172,373	1,496,120
AMERICAS	4,127,656	6,443,587	4,505,232	4,000,022	3,300,327	3,537,768	4,370,705	5,023,803	6,605,231	7,198,212
(USA)	4,109,430	6,403,215	4,444,440	3,944,639	3,202,230	3,443,547	4,299,850	4,904,302	6,424,848	6,526,429
OCEANIA	19,396	17,060	87,336	21,360	21,188	34,793	44,470	42,600	54,573	85,610
EUROPE	436,050	329,317	457,671	534,675	406,194	889,094	1,040,562	1,286,130	1,433,904	2,061,067
MIDDLE EAST	25,375	60,682	263,004	594,198	711,918	1,242,809	1,166,376	1,232,069	1,417,491	1,909,208
AFRICA	0	598	1,898	4,450	3,600	3,959	11,371	3,439	4,546	10,272
OTHERS	678,567	115,326	60,512	63,966	538,493	61,397	50,664	44,001	887	819

r/ January-June 2005 levels were revised due to post audit of bank reports by the BSP

* Breakdown may not add up to totals due to rounding off.

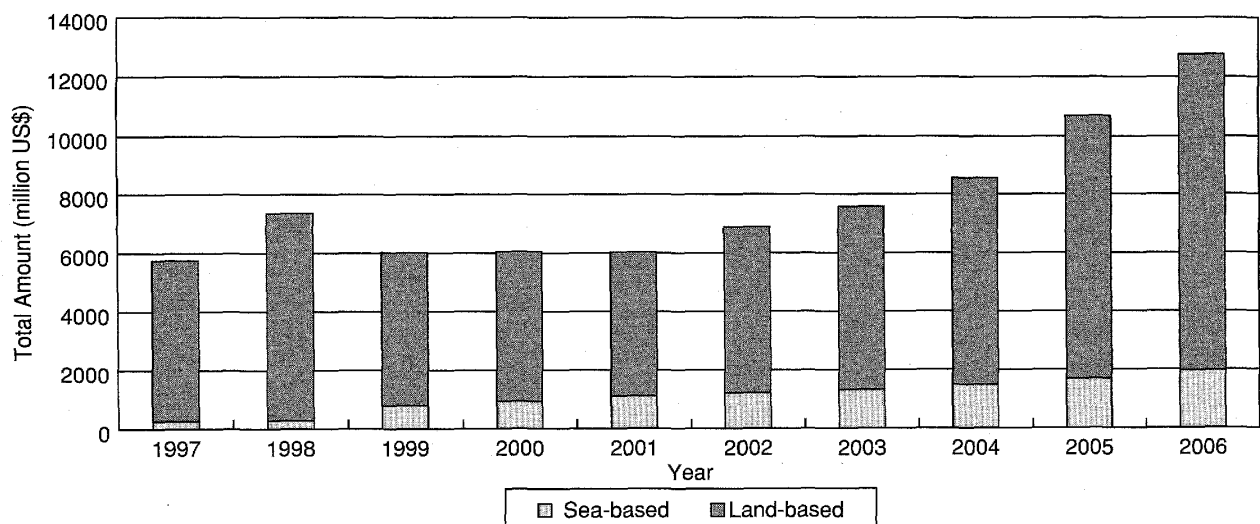
** Data are based on bank reports submitted to BSP as contained in FED Form I prior to April 1999 and FX Form 1 from May 1999 onwards. Beginning 2001, transactions reported by thrift banks, OBUs and FOREX Corps. are likewise included. Data are not truly reflective of the actual country of deployment of OFW's due to the common practice of remittance centers in various cities abroad to course remittances through correspondent banks mostly located in the U.S. Since banks attribute the origin of funds to the most immediate source, U.S., 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.

Source: Bangko Central ng Pilipinas (Central Bank of the Philippines) website:<http://www.bsp.gov.ph/statistics/key-stat/ofw.htm> accessed March 25, 2007.

Figure 2 also shows the growth of money remittances in the past 10 years. Apparently, it showed a decrease from 1998-99, probably as a result of the Asian financial crisis, which took place in 1997. After 2001, remittances from abroad showed a steady increase, and the Central Bank estimates that it will rise by 10% in 2007. The significant growth of remittances sent through the official financial intermediaries are attributed to the better capture of remittances especially after the 9/11 terrorist attack, as well as to the increase in the number of OFWs and their per capita remittances arising from cheaper transfer costs (Gonzaga, 2006).

Figure 2. Amount of Remittances of OFW (Land-based and Sea-based) 1997-2006



Source: Central Bank of the Philippines

The amount of money remittances coursing through official channels is highly comparable to other sources of income as well as foreign financing. In 2006, it was equal to 10% of the country's gross national product, 25.7% of total merchandise exports, 24.8% of total merchandise imports, 29 times the level of foreign direct investments (at US\$2.35 billion) and 1.5 times that of the total debt service burden. The data for 2001-2005 are also shown in Table 3. Its amount is larger than the amount of Japanese ODA (US\$211.38 million in 2004) which was 2.5% of total remittances and only 77% of remittances of OFWs in Hong Kong.

Table 3: Value of International Remittances Compared to Others Source of Financing

	Level in US\$ (billion)	International Remittances as % of			
		GNP	Exports	FDI	Debt Service
2001	6	7.9	17.5	3092.8	92.4
2002	6.9	8.4	18.2	446.6	88.7
2003	7.6	8.9	19.6	1543.4	95.3
2004	8.6	9.2	20	1242.7	118.5
2005	10.7	10	23.9	944.3	142.2

Source: Bangko Sentral ng Pilipines (2006)

<http://www.imf.org/external/np/sta/bop/2006/luxgrp/pdf/philip.pdf> accessed March 25, 2007.

It must be noted though that the data shown here are only those that are officially recorded and estimated by the Central Bank of the Philippines. The results of the "Survey on Filipinos Overseas(SOF)" (2006) which was conducted to Filipino households with migrants for the period April-September, 2005, give us more details about the nature of remittances. International remittances include cash sent (70.3%), cash brought home (25.1%) and remittances in kind (4.6%). This implies that the amount of remittances reported by the Central Bank is only 70.3%, and if we account for the cash brought home, the total remittances in 2006 could have well reached US\$18 billion. Of the cash sent, 75.8 percent were remitted through banks, 19.1 percent were sent through door-to-door delivery while the remaining 5.1 percent were remitted through their agency or local office, friends/co-workers and other means. The largest aggregate cash remittance was sent by OFWs working in Asia (in terms of destination) and by laborers and unskilled workers (in terms of occupation). Apparently, this is because many of the OFWs are in these categories. Ironically, in terms of average remittance per migrant, the laborers and unskilled workers remit only approximately half of all other migrants, while those working in Asia have lower average remittances compared to those in other regions.

Average remittances also vary. Based on the SOF results, in April-September, 2006, the average cash brought home by migrant is high at P90,600, while cash sent through remittance agencies averaged only 57,300 pesos in the same period. Filipinos in North America and Europe sent the highest per capita remittances. Asian Development Bank studies (2006 and 2004) also showed comparable results, which are at \$3,248 per year for South East Asia (2006, p. 29) and \$340 per month (2004, p. 122).

Why do migrants remit? Using pooled data from the Survey of Overseas Filipinos (SOF) from 1997 to 2002, we showed in a previous paper the relationship between remittances and three groups of independent variables, (1) human capital of the migrant (age, gender, educational attainment) (2) migration attributes (type/status of migration, duration of stay, expected return to home country) and (3) host country attributes (occupation in the destination and income). The major findings are as follows (for details, see Carlos, 2007) :

1. The level of remittances changes depending on the duration of stay of the OFW abroad. It increases at first, reaches its peak after two years, and then decreases, the magnitude and speed of which change according to the characteristics of the migrant.
2. An OFW, on the average, sends his or her maximum amount of remittances on the 29th month from deployment. Since contracts are normally for 2 years, the results imply that remittances from a contractual worker do not, at the least, decrease until his contract expires and he returns to the Philippines.
3. Looking at the relationship between migrant attributes and remittances over time, it was found that men have higher remittances-duration of stay profile than women and the former reach the remittance peak at an earlier time than the latter. Women tend to have a more stable remittance pattern, although at a lower level than men. The reasons cited for this observation are (1) that men earn more than women and (2) that men are more altruistic towards the family as they are usually the head of the family assuming the main economic responsibility. Thus, the feminization of migration in the Philippines might result in lower but more stable inflow of remittances.
4. Household heads tend to remit a considerably higher amount of cash to his or her family back home, compared to the spouse or other relatives (like children or grandparents). Apparently, college graduates send the highest average amount of remittances. This shows that indeed, the investment motive (repayment of loans) drives the migrant to send money back home. The impact of occupation on the amount of remittances over the time the migrant stays abroad is similar to that of education, with the professionals having higher and steeper remittances-duration of stay profile.

In the discussion above, it was shown how remittances by overseas Filipinos have increased and are sent to those left behind. It also described some of its determinants. With such a huge amount, it has a strong potential to become a vehicle for domestic growth. Therefore, it is important to examine how remittances can be leveraged for economic growth. For this purpose, we look deeply into 2 policy strategies - using remittances in a “productive” way and raising the amount of remittances, especially that which are coursed through official channels, in the next section.

3. Uses of Remittances

One way of evaluating remittances' contribution to economic development is through the consumption-expenditures-investment channel, i.e. the effect of remittances depends on how such remittances are used. Most findings from empirical research on the impact of remittances on the aggregate level through the consumption expenditures-savings channel claimed that since remittances are used for “unproductive” or “wasteful” expenditures, and thus contribute little to economic growth⁶. Asian Development Bank (2006 p.214) reports that remittances in the Philippines are used for consumption of food, clothing, electricity, furniture, appliances, mobile phones, etc. and nonprofit activities and not for savings, which is a potential source of capital for the country. It further concludes that “remittances do not have a multiplier effect, as opposed to the effects of FDIs and ODA”. In this paper, I provide latest evidence as to the consumption and savings behavior of two kinds of households – those that receive income from abroad and those that

6 See for example, Amjad, R. editor. (1989). *To the Gulf and Back*. Geneva: International Labour Organization; Battistella, G. and Paganoni, A., editors. (1992). *Philippine Labor Migration: Impact and Policy*. Manila: Scalabrini Migration Center; and Brown, R. (1995). “Consumption and Investments from Migrants' Remittances in the South Pacific.” *International Migration Papers* no. 2. Geneva: ILO

do not, using the 2003 Family Income and Expenditures Survey data⁷.

First, I look at the difference in the average spending propensities per expenditure item of these two groups. The results are shown in Tables 4a and 4b. On average, the actual per capita total disbursements of non-recipients are only about 51.5% (28,420 pesos) of those who receive income from abroad (55,176 pesos). This is a significant decrease from that in 1997 in which the value was higher at 64% (Carlos, 2003), suggesting that remittances contribute to income inequality in the country. In absolute values, the spending of households having income from abroad are higher than those which do not have income from abroad, for all items in all income deciles. This difference can be attributed to the higher average income for remittance recipients even within an income decile.

I also examine the average per capita propensity to spend based on income decile. My results reveal that both groups showed a decreasing trend in food's share to total expenditures (a decreasing Engel's coefficient) as income increases, and also non-recipients generally having higher propensity to spend on food in all deciles compared to remittance recipients. (see column A in Table 4b). Remittance recipients tend to use a larger share of their income than non-recipients on non-food items that include utilities, education, transportation and communications, personal care, clothes, recreation, medical services and durable furniture and appliances. One important result derived from this exercise is that of the differences in the propensity to spend on education between remittance recipients and non-recipients. Those who receive income from abroad, for all income deciles, have a higher average propensity to spend on education, i.e., that in the Philippines, international remittances are used to invest in human capital. As such, any assessment on its impact should also include its transgenerational and long-term aspects.

We can also see from our results that in general, there are not many differences in the average spending propensities (shares) on items not intended for current consumption only (also called other disbursements), such as purchase and amortization of real estate, construction and major repair of houses and bank deposits/investments (see Table 4b columns (E), (F) and (G)) between the two groups, except for the highest income decile. This implies that in general, these two groups, with the same amount of income and regardless of its sources, behave similarly in terms of expenditure in these items. Filipinos, in this sense, if given the opportunity to earn income from domestic sources, are capable of saving the same proportion of their income.

I also examine the relationship between the amount of debt of a household and remittances. When a member of a household goes abroad to work, he incurs loans to pay for the recruitment fees and transportation cost – leaving his family indebted. Remittances are then used to pay for the principal on loans. Thus, it could be hypothesized that remittance recipients have higher loan payments compared to non-recipients. In the results (see Table 4a and 4b column H) however, it was found otherwise – i.e., that non-recipients pay more in terms of absolute values and as ratio to total expenditures. This suggests that while remittances may be used to pay loans incurred to migrate overseas, loan payments may not become a burden to the family left behind. As a matter of fact, working abroad has generally become a viable alternative

7 For an analysis of per capita consumption and savings behavior of remittance and non-remittance households, see, for example, Carlos, M.R.D. (2001) PhD Dissertation, Kobe University. The microdata was obtained from the National Statistics Office, Manila.

Table 4a. Spending Behavior of Remittance Recipient and Non-Recipient Households in the Philippines (2003)

Per Capita Income Decile	Food (A)	Education (B)	Non-food except education (C)	Total expenditures (D)	Purchase/ amortization of real estate (E)	Bank deposits/ investments (F)	Construction and major repair of house(G)	Loan Payments (H)	Other disbursements (I)	Total other disburse-ments (J)	Total disburse-ments
	Total Expenditures (per capita)			(A+B+C)	Total Other Disbursements (per capita)					(E+F+G+H+I)	(D+J)
	Remittance Recipient Households										
1	6,271	192	3,337	9,800	6	2	27	58	94	187	9,986
2	7,568	279	4,908	12,756	70	100	130	127	107	534	13,290
3	8,104	430	5,968	14,502	35	43	157	203	114	552	15,054
4	10,145	487	7,834	18,465	18	239	164	257	200	878	19,343
5	11,368	703	10,161	22,233	61	559	99	232	331	1,283	23,515
6	12,620	948	12,322	25,889	240	447	270	348	405	1,710	27,599
7	13,884	1,246	15,367	30,496	111	675	207	624	531	2,149	32,645
8	16,768	1,781	21,016	39,565	304	1,111	691	851	986	3,943	43,508
9	19,473	2,736	30,107	52,316	381	2,723	1,372	793	1,538	6,806	59,122
10	28,770	6,151	74,079	109,000	2,945	15,064	4,959	2,301	4,182	29,451	138,451
All	16,879	2,309	27,815	47,003	737	3,782	1,391	878	1,384	8,172	55,175
	Non-remittance Recipient Households										
1	5,400	133	2,813	8,346	2	12	25	81	38	157	8,503
2	6,882	191	4,093	11,166	10	23	38	137	70	278	11,444
3	8,050	264	5,419	13,733	9	66	80	197	161	513	14,246
4	8,840	294	6,462	15,596	36	102	89	259	157	643	16,239
5	10,613	412	8,661	19,687	55	245	112	430	265	1,107	20,794
6	11,864	525	10,767	23,156	81	291	260	556	411	1,600	24,755
7	13,851	777	14,160	28,789	97	662	225	618	620	2,223	31,012
8	16,187	1,161	19,278	36,626	131	1,063	485	1,245	1,176	4,100	40,726
9	19,337	1,799	28,475	49,612	473	2,099	702	1,726	1,992	6,992	56,603
10	28,117	4,658	66,264	99,040	1,596	17,750	1,959	3,451	6,776	31,532	130,571
All	11,359	765	12,365	25,059	168	1,436	289	658	811	3,362	28,421

Notes: A remittance-recipient household is defined as a household which receives income from abroad. Other disbursements include cash loan payments, installment payment for appliances and private transportation, loans granted to persons other than the family and other disbursements not elsewhere classified.

Source: Calculations by the author from the Family Income and Expenditures Survey (2003) National Statistics Office, Manila, Philippines

Table 4b. Expenditure Propensities of Remittance Recipient and Non-Recipient Households in the Philippines (as percentage of total disbursements)

Per Capita Income Decile	Food (A)	Education (B)	Non-food except education (C)	Total expenditures (D)	Purchase/ amortization of real estate (E)	Bank deposits/ investments (F)	Construction and major repair of house(G)	Loan Payments (H)	Other disbursements (I)	Total other disburse-ments (J)	Total disburse-ments
	Total Expenditures (per capita)			(A+B+C)	Total Other Disbursements (per capita)					(E+F+G+H+I)	(D+J)
	Remittance Recipient Households										
1	62.8%	1.9%	33.4%	98.1%	0.1%	0.0%	0.3%	0.6%	0.9%	1.9%	100.0%
2	56.9%	2.1%	36.9%	96.0%	0.5%	0.8%	1.0%	1.0%	0.8%	4.0%	100.0%
3	53.8%	2.9%	39.6%	96.3%	0.2%	0.3%	1.0%	1.4%	0.8%	3.7%	100.0%
4	52.4%	2.5%	40.5%	95.5%	0.1%	1.2%	0.8%	1.3%	1.0%	4.5%	100.0%
5	48.3%	3.0%	43.2%	94.5%	0.3%	2.4%	0.4%	1.0%	1.4%	5.5%	100.0%
6	45.7%	3.4%	44.6%	93.8%	0.9%	1.6%	1.0%	1.3%	1.5%	6.2%	100.0%
7	42.5%	3.8%	47.1%	93.4%	0.3%	2.1%	0.6%	1.9%	1.6%	6.6%	100.0%
8	38.5%	4.1%	48.3%	90.9%	0.7%	2.6%	1.6%	2.0%	2.3%	9.1%	100.0%
9	32.9%	4.6%	50.9%	88.5%	0.6%	4.6%	2.3%	1.3%	2.6%	11.5%	100.0%
10	20.8%	4.4%	53.5%	78.7%	2.1%	10.9%	3.6%	1.7%	3.0%	21.3%	100.0%
All	30.6%	4.2%	50.4%	85.2%	1.3%	6.9%	2.5%	1.6%	2.5%	14.8%	100.0%
	Non-remittance Recipient Households										
1	63.5%	1.6%	33.1%	98.2%	0.0%	0.1%	0.3%	0.9%	0.4%	1.9%	100.0%
2	60.1%	1.7%	35.8%	97.6%	0.1%	0.2%	0.3%	1.2%	0.6%	2.4%	100.0%
3	56.5%	1.9%	38.0%	96.4%	0.1%	0.5%	0.6%	1.4%	1.1%	3.6%	100.0%
4	54.4%	1.8%	39.8%	96.0%	0.2%	0.6%	0.5%	1.6%	1.0%	4.0%	100.0%
5	51.0%	2.0%	41.7%	94.7%	0.3%	1.2%	0.5%	2.1%	1.3%	5.3%	100.0%
6	47.9%	2.1%	43.5%	93.5%	0.3%	1.2%	1.1%	2.2%	1.7%	6.5%	100.0%
7	44.7%	2.5%	45.7%	92.8%	0.3%	2.1%	0.7%	2.0%	2.0%	7.2%	100.0%
8	39.7%	2.8%	47.3%	89.9%	0.3%	2.6%	1.2%	3.1%	2.9%	10.1%	100.0%
9	34.2%	3.2%	50.3%	87.6%	0.8%	3.7%	1.2%	3.0%	3.5%	12.4%	100.0%
10	21.5%	3.6%	50.7%	75.9%	1.2%	13.6%	1.5%	2.6%	5.2%	24.1%	100.0%
All	40.0%	2.7%	43.5%	88.2%	0.6%	5.1%	1.0%	2.3%	2.9%	11.8%	100.0%

Notes: A remittance-recipient household is defined as a household which receives income from abroad. Other disbursements include cash loan payments, installment payment for appliances and private transportation, loans granted to persons other than the family and other disbursements not elsewhere classified.

Source: Calculations by the author from the Family Income and Expenditures Survey (2003) National Statistics Office, Manila, Philippines

source of income for households such that they do not need to borrow money and pay interest on it, although initially, such households may need to take up loans to pay for recruitment and resettlement costs.

In summary, it can be seen that having income from abroad has influences on the spending behavior of the recipient household, given the same income decile group. That more is spent on non-food than food may be partly due to their higher income even within the same decile group. However, in any case, having such income relaxes the budget constraint especially of lower-income households and allows them to spend more on education which contribute to human capital and promises transgenerational and long-term gains. There is no significant difference in the spending behavior of those that receive remittances from abroad and those that do not on non-current consumption items such as housing, real estate and investments. Finally, international remittances may provide an alternative source to obtaining domestic loans, so that recipients have lower absolute amounts and propensity to use income on payments of loan principal.

4. Remittance System

Another crucial policy issue with regards to remittances is how to raise its amount, especially that which are sent through formal channels⁸. As a receiving country, the Philippines has tapped not only its formal financial institutions but also its social networks in intermediating between the senders and recipients. There are 17 commercial banks and about seven thrift banks that handle international remittances. The bulk of remittances (about 80%-90%) sent through formal channels, however, are coursed through five major banks which strongly compete in terms of speed, exchange rate, transfer fee, credibility, easy access and customer service. There are also domestic and international money transfer agencies that usually also run cargo door-to-door delivery of goods. International money transfer agencies like Western Union usually have maintained a wide network of shops, banks and even pawnshops all over the world that makes sending remittances accessible, convenient and quick.

Other channels involve some sort of informal social networks that are based on trust. Some of the more common systems are the “*padala*” system in which money is sent through a person who goes back to the Philippines and the “*kaliwaan*” (hawala) system which requires a business partnership between the remittance operator in the sending country, who accepts the money from the remitter and his or her “agent” in the Philippines who delivers it to the recipient. Finally, remittances are also brought home personally by the OFW upon his or her return to the country, either on vacation or upon termination of his or her work contract overseas. This is common among entertainers in Japan whose salary for their entire stay is given right before they return to the country.

In recent years, telecommunication companies have also begun participating in the remittance transfer market. Some of the systems they have introduced are electronic transfers using a credit card, text (SMS) messaging and cellular phone subscription. In the case of credit cards, the money is electronically

8 In this section, I introduce the results of two studies conducted by the Asian Development Bank, “Enhancing the Efficiency of Overseas Filipino Workers Remittances (Final Report)” released in July, 2004, and “Workers’ Remittance Flows in Southeast Asia.” (2006).

transferred to a credit card – functioning like a prepaid card account. Partner cellular phone companies use text messaging to transfer money. The recipient is advised of the amount of remittance and the account in which it was transferred and then claims it from the company's remittance centers, selected McDonald's outlets, department store branches, gasoline stations or pawnshops; or has it loaded in his credit card account. One telecommunication company has also introduced a system in which the sender "loads" money to an existing subscription account or through the company's branch, gets a pin code and sends the relevant information through text message to the recipient in the Philippines. The "e-money" can be used to pay for goods and services at selected stores, and be exchanged for cash in remittance centers of these telecommunication companies.

Some of the features of remittance transfer mechanisms in the Philippines are (1) they do not necessarily require bank accounts for the beneficiary; (2) the use of ATM, and not door-to-door services, has dominated as a mode of receiving remittances; and (3) receiving remittances in dollars instead of pesos has become an option to remitters, which is more expensive, to make up for the lost exchange rate spread for the remittance agency, but is preferred due to the stability of the dollar. The exchange rate spread, which usually is in the range of 1%-1.25% (international money transfer companies have spreads of 2%-2.7%) is also a source of profit for remittance agencies.

The increasing number of remittance agencies and the expansion of their networks have largely contributed to the stiff competition among them, and thus, to a decrease in remittance fees. Advances in technology, such as remittance through the internet and cellular phones, have also lowered such fees as well. In the United States, among the international remittance players, US banks charge the highest transfer fees, at least 3 times as much as what Philippine bank affiliates and Filipino remittance agencies charge. For example, for a \$200 remittance sent from California to the Philippines, credited to an account, Philippine bank affiliates charge \$6-\$8, Filipino remittance agencies \$7-\$12, US remittance companies \$6-\$23, and US banks \$35-\$45. For remittances picked up at a bank or delivered door to door, the rates are slightly higher. Whether the recipient holds an account with the remitting bank, and whether the money is to be delivered in or outside Manila, also affect the transfer fee. It has also been observed that Singapore and Hongkong remittance agencies charge the lowest transfer fees, at about S\$4 (US\$2.62) while Japan charges the highest, at around \$18 per transaction⁹.

5. Leveraging Remittances for Economic Development

As mentioned above, raising the amount of remittances, especially that going through formal channels, and putting them into productive use are two of the major ways for remittances to help in the economic development of the sending country. In the Philippines, the government has been very active in implementing policies related to this. In this section, we describe the major policies in details.

1. On raising remittances especially that are sent through official channels

Since the 1980s, the Philippine government has been implementing many laws and programs that will

⁹ It must be noted however that these costs may not vary up to a certain amount of remittances. The data for Singapore was derived from the author's fieldwork in February, 2007.

entice Filipinos abroad to spend their money in the country. The mandatory remittance law flopped due to difficulties in implementation (with the exception of the mandatory remittance scheme for seamen). The “*Balikbayan*” program was introduced and became an incentive for Filipinos abroad to return, spend and invest in the country. Tax-related provisions of the program were exemptions from duty upon importation of goods for consumption and livelihood business and from travel tax. Former Filipinos are also allowed to stay in the Philippines without a visa for 1 year. Some variations of this program are also being implemented, like “Bring Home a Friend” and the “Retire in the Philippines” programs. These in general are successful, as Filipino families like to congregate and Filipinos like to return to the home country when they get old.

In order to encourage former Filipinos or permanent resident Filipinos abroad to bring in money to the country, they are allowed to buy real estate properties, although with some limitations on their size and use under the Foreign Investment Law. Filipino World War 2 veterans who have migrated to the US are also allowed permanent resident status to encourage them to come back and settle in the Philippines.

A new law implemented in 2003, known as the “Citizenship Retention and Reacquisition Act of 2003” (Republic Act No. 9225) allows a former Filipino to regain his Filipino citizenship as long as the law in the foreign country allows for it, otherwise, he or she has to give up his or her foreign citizenship. He and she enjoys the economic and political rights and privileges of a Filipino, like the right to vote, own properties, seek public office, practice his or her profession, engage in business allowed for Filipinos and travel with a Philippine passport.

The government has also established the “Link for Philippine Development (LINKAPIL)” in order to facilitate transfer of grants and contributions in cash and kind intended for local projects in education and skills training, microenterprises and livelihood, small-scale infrastructure and health and education. This program links hometown associations and other foreign groups that want to help the local government and their fellowmen and women whom they want to give assistance.

Remittances sent from abroad through banks and foreign exchange corporations are considered foreign exchange transactions, and as such, are subject to rules stipulated by the General Banking Law, and some other Central Bank Circulars that detail rules and regulations on such transactions. In allowing non-banks to participate freely in the foreign exchange market and to operate as remittance agents, the number of remittance industry players has considerably increased, contributing to improved services and lower transfer fees. However, the provisions of the Anti-Money Laundering Act have made it difficult to send remittances without the scrutiny of the Anti-Money Laundering Council and declaration of the identity of the sender, including his or her name, present address, permanent address, source of funds, tax identification and social security numbers as well as details about the remitter’s occupation and employer. Improvement in speed, cost and reliability has also contributed to the increase in remittances.

2. On putting remittances into productive uses

The first way to influence the economy through more efficient remittance use is through the consumption channel, in which spending on current consumption (like food and non-durables) will result in

higher private consumption and higher demand and higher production, in what is called the multiplier effect. However, influencing and altering the consumption behavior of households remains to be a challenging policy goal as there is a tendency for consumers to buy imported instead of local goods, thus having a negative impact on trade balance.

The second one, through the savings-investment nexus, is a more straightforward linkage, and indeed, the Philippine government has been implementing programs to channel savings of recipients to investments. We can see that at least in the forms of savings and investments identified in this research, the propensities are almost the same for those who do not receive recipients. To maximize the impact of remittances through this channel, the government should exert more efforts to induce higher saving propensities of remittance-receiving households, as they are more capable of saving since they have higher average income. Also, for OFWs, saving and investing in the Philippines while abroad are necessary to sustain them upon their final return to the Philippines.

Currently, most of the savings-related programs are designed for OFWs or contract workers. We mention some of these here. The government introduced a "*Pag-ibig*" Voluntary Savings Program in which an OFW pays a monthly contribution in exchange for a lump-sum amount of money after 5-10 years. Under the program, he or she can also avail of a housing loan at a low interest rate. The Social Security System pension plan (SSS) was also extended to cover overseas workers as well, thus entitling them to avail themselves of the usual privileges and pay the same amount of monthly contribution to the pension fund as the local workers. A provident fund scheme, known as SSS Flexi-Fund was also established in which any contributions in excess of the SSS monthly fees are put in a fund to earn interest tax-free, and can be withdrawn as early as after three years from commencement or upon retirement.

In order to facilitate the conversion of savings into investment, the government also established the Livelihood Development Program for OFWs, in which it provides entrepreneurial skills training and credit facilities to the OFW, his family and organization, in order to establish a small business. There is also the "*Groceria* (grocery)" program in which the OFW and his or her family is provided with a loan of \$1,000 dollars worth of goods to start a small grocery store, with interest free, payable for up to 2 years. The impacts of these policies, however, are not clear yet and thus require future studies.

That remittance receiving households have higher propensity to spend on education, compared to those households in the same income decile but do not receive any remittances is remarkable. Perhaps one reason for this is the greater appreciation of those who work abroad for the importance of education, especially if having more human capital is considered as a viable way for their children to work abroad in the future. Therefore, the government can provide assistance to these remittance-receiving households by giving more information and opportunities on education for the families of Filipinos abroad. Education plans for children left behind can be introduced and marketed to OFWs abroad.

6. Summary and future research issues

The Philippines is one of the largest exporters of labor, and as such, has also depended largely on the overseas Filipino's remittances as source of economic growth. The following are the major features of

migration from the country:

1. Permanent and temporary migrants make up an equal proportion (about 45% each) of OFWs, while about 10% are irregular or undocumented. Most permanent migrants are in North America, while a majority of temporary workers are in East Asia and the Middle East.
2. Based on the results of the government survey, SOF, OFWs make up a young population, with about 80% younger than 40, with a high percentage of women in the 25-34 years-old age-bracket. Many of them are employed as semi- or unskilled workers, and the type of occupation is stereotyped based on the destination.
3. Remittances have been growing significantly in the past 10 years, and the volume is highly comparable to those of other sources of foreign financing like exports, FDI and ODA.
4. In the same income decile, those households that receive remittances from abroad tend to spend a higher share of their income on education. These findings imply the transgenerational and long-term impact of migration and remittances.
5. Considering the number of OFWs and the huge economic impact of remittances, encouraging more remittances, especially those sent through formal channels, and using them for productive use, should be one of the priority goals of policies and programs spearheaded by the Philippine government.

To some extent, remittance policies have been drafted and implemented. The Philippines has pioneered in the organized and institutionalized deployment of its citizens abroad. More and cheaper ways to send remittances have been introduced through government and private initiatives. It has also implemented incentive programs, including granting of dual citizenship, to encourage Filipinos abroad to return, spend and invest in the homeland. Savings are also mobilized through social security, health insurance and provident fund schemes for OFWs who intend to go back after the expiration of their contracts.

My findings suggest that if the Philippines is to continue making international migration as a pillar of economic development, greater efforts should be taken to raise the propensity of remittance recipient households to save and invest and give more opportunities for members of remittance recipient households for higher levels of education.

However, at the same time, it is noteworthy to ask the question: "Are remittances a stable source of financing for development?" Should labor-sending economies continue to send its people overseas to sustain economic development? To contribute in the discussion regarding these issues, future research studies about migration and remittances in the Philippines should first be directed towards a more accurate estimation of the number of migrants and their remittances. The results will then be very useful in identifying what specific areas are to be targeted by policies and what tools can be used to mobilize remittances for economic development. For it is mainly in this channel that economic development can be achieved in the long term without sending more Filipinos overseas.

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