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Microfinance for Migrant Workers: Asia's Next New Market Opportunity?

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Employment in developed countries is often the main source of income for many people at the bottom of the pyramid in developing countries and has led to the growth of an industry based on remittances. Patsian Low studies the ramifications this has for developing microfinance in host countries and the potential for cross-border collaboration in Singapore and Asia.

INTRODUCTION: AN OVERLOOKED MARKET PRESENCE

In a globalised economy, migration for the purposes of employment is a common phenomenon. People move to countries where economic potential inspires hopes of higher wages. Monies earned by migrant workers are then sent to home countries, creating a significant industry in the processing and handling of remittances. The World Bank recently estimated that although reported migrant remittances amount to US$305 billion in 2008, the true levels are likely to be much higher due to under-measurement of underground and informal remittance mechanisms.[1] This powerful flow of money has sparked the interest of many in the industry to explore how else migrant worker earnings can be served by inclusive financial services.

FINANCIAL SERVICES FOR MIGRANT LABOUR TODAY

Migrant workers represent a diversified range of skills and professions. Skilled migrant workers

Patsian Low

Patsian Low is a microfinance and social finance consultant and an Assistant Director at the National Volunteer & Philanthropy Centre in Singapore. She has mentored social enterprises in Singapore and overseas and also sits on the executive committees of the Microfinance Society (Singapore) as well as Social Venture Partners (Singapore).

cross borders with the support of multi-national employers, including the full range of formal financial intermediaries and services at their disposal, not just remittances, but also the necessary financial tools for utilisation of remittances (at home or overseas) for economic independence and empowerment.

However, the International Labour Organisation (ILO) reported in 2000 that migration flows are still dominated by those moving to fill low-skilled jobs. In Asia the ILO estimates that a total of 2 million workers leave their countries to work under short-term contracts.[2] Among the low-skilled labour segment, remittance amounts may be individually small but with significant scale. Yet there appears to be scant support for inclusion in the financial system, apart from money transfer operators that provide remittance services. Although prominently available to the high-wage segments of migrant workers, the links between remittance services and other financial services have not been well-established for low-skilled migrant workers.[3]

THE LOW-WAGE MIGRANT WORKER FINANCIAL PROFILE

Low-wage migrant labourers are typically from lower-income segments in their home countries and work to channel their earnings to support their families' needs. Although mostly men in years past, the ILO reports that women are now an increasing proportion of workers in Asia (ranging from 61% to 78%), with Indonesia, Philippines, Sri Lanka and Thailand as main source countries, and Hong Kong, Singapore, Malaysia, and the Middle East as the dominant destinations. These migrants' families back home are typically low-income, relying on remitted funds primarily for basic subsistence needs and education, and secondarily for improving housing and lifestyle. Only a small percentage is allocated to savings or investing in income or employment generating activities, like starting a business or buying tools or land.[4]

WHAT MORE THAN JUST REMITTANCES?

Given the magnitude of remittances in some of these countries, governments and policy makers have a vested interest in encouraging the utilisation of remitted funds towards income and employment generating activities, including investments in local micro-entrepreneurs and small entrepreneurs. Concurrently there is a push to improve the inadequate savings and asset-building options available to low-wage migrant workers and their recipient families back home. A Foundation for Development Cooperation (FDC)-Monash Asia Institute-University of Tasmania 2007 joint report recommends access improvements between transfer points and savings facilities, the lack of which discourages savings such that remittances have to be received entirely in cash. Migrant families typically face a lack of savings facilities and remittance-linked credit, which had been hypothesised as a possible impediment to leveraging remittances more optimally for development benefit.[5] An ILO report cites that "only a small percentage" of global remittances are used for savings and "productive investments" (e.g. income- and employment-generating activities), estimated at less than 10%.[6] The World Bank Research Policy Paper points out that whether remittances are primarily used to meet basic subsistence needs, improve standards of living or for community development, lack of financial intermediation for remittances can inhibit the potential positive impact it can have on migrant families.[7]

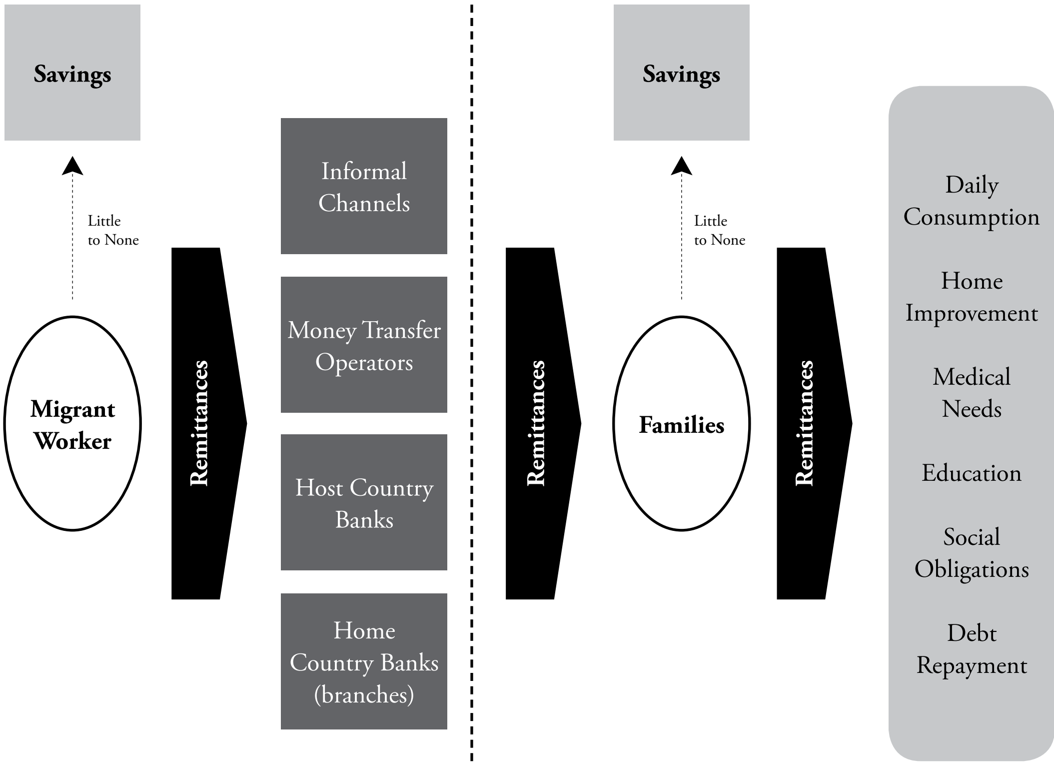
WHAT IS MISSING IN HOST COUNTRIES

The remittance process itself is largely monopolised by specialist money transfer operators like Western Union, or mainstream banks who have either obtained licences or partnered with money transfer operators to process foreign exchange transactions. Low-wage migrant workers, who are typically cost-conscious, gravitate to low-cost money transfer operators or unofficial channels (e.g. the *hundi* or *hawala* network in India, Pakistan and Bangladesh[8], friend and family hand-carrying funds across borders, etc.). Other forms of financial services are rarely present in host-countries for these workers, not even in the form of a savings mechanism. Some migrant workers may well experience higher levels of security and convenience in income utilisation if broader financial services were made available in host countries.

Of particular interest is the availability of pre-departure financing facilities, since bank loans are typically not available for this purpose in home countries. Households that do not have the savings to pay for migration have had to resort to high-cost informal moneylenders and migration agents. Many migrants therefore see a large (sometimes total) cut in the disposable income available to be remitted back home during the initial period of their work tenure.[9]

THE OVERALL FINANCIAL PICTURE

Figure 1: Illustration of Cash Flows for Migrant Worker Remittances and Uses



World Bank Policy Research Papers opine that the variety of remittances utilisation outlets in migrant households clearly underscore that their macroeconomic contributions are important and growing, with clear opportunities for financial intermediation to improve these contributions.[10] The FDC-Monash study points out poor migrant households have "particular difficulties" in transforming remittance income into sustained improvements in well-being. Country studies showed that more needed to be done by existing financial services to reduce transfer costs, encourage savings and attract remittance monies for investment.[11] Figure 1 demonstrates that apart from processing of remittances, there are other services which clearly provide open opportunities for financial inclusion. This is where microfinance institutions (MFIs) appear to be ideally suited to step in.

MICRO FINANCE INSTITUTIONS: SUPPORTING SAVINGS AND ASSET GROWTH

Considering the socio-economic profile of low-wage migrant workers and their families, microfinance institutions are well-placed to meet their needs. Financial transactions are small in size, and migrant families are typically in locations not well-served by mainstream banks. MFIs can therefore support both the sending and utilisation of remittances by providing money transfer services, savings and cash management products, remittance-linked lending and other forms of non-financial support for migrants and their families. The ILO's Social Finance Unit particularly emphasised savings, credit and investment facilities that suit the risk profiles of migrant workers as important services MFIs could provide. MFIs can assist migrant families to save, manage their income streams, accumulate assets and cultivate sound financial habits so that their creditworthiness can be improved. MFIs can also become another distribution channel for money transfer operators who are looking to penetrate more remote areas. These MFIs offer money transfer operators a strong presence in rural areas that commercial banks do not have.[12]

A SOURCE FOR WAGE-SECURED CREDIT

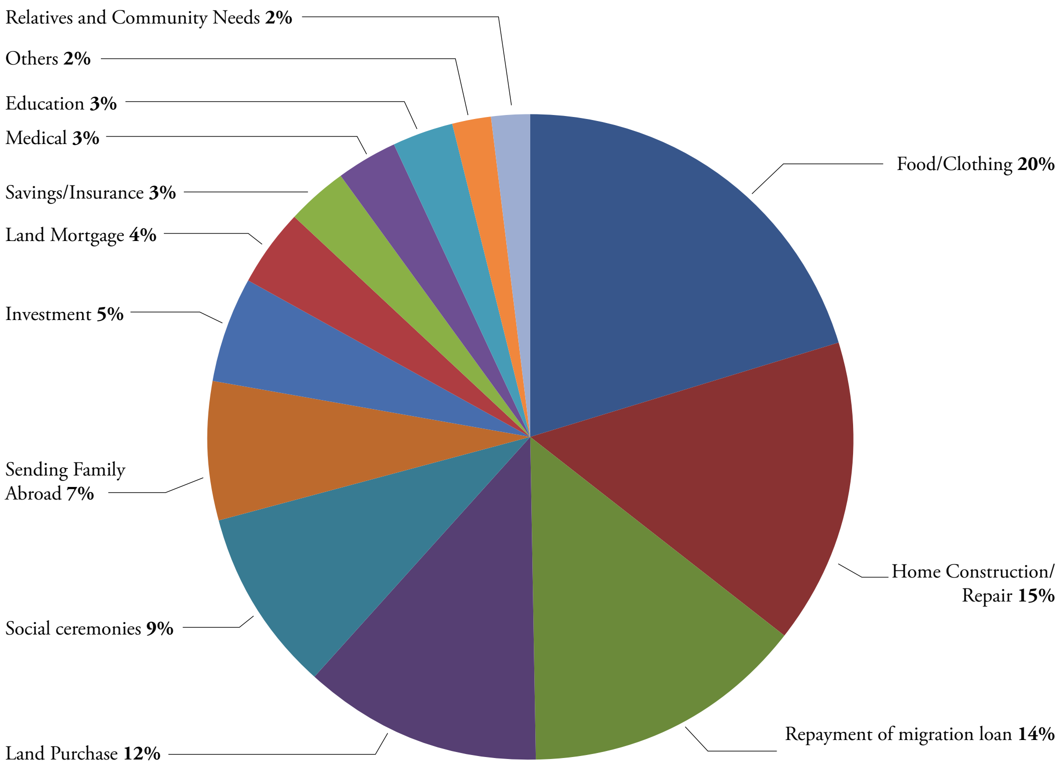
Not all low-wage migrant workers are transient in nature, nor their families destitute in their home countries. In Singapore, for example, there are migrant household workers who have been working for over 20 years and support families at home who are considered low- to middle-income. This is a segment that may well be neglected by both the informal channels at home that cater to the destitute poor and the mainstream banks that serve high-end customers. MFIs can address this gap by providing lending products that suit remittance customers with little additional risk. The FDC tripartite report suggests including stable remittances as part of creditworthiness evaluation for loan eligibility, using remittance savings to secure credit lines, or issue loans where repayments are deducted from remittances.[13] Migrant workers with long-term stable employment may well pose better credit risks than their families who receive (and spend) the remittances.

IMPLICATIONS FOR ASIA

Singapore, Hong Kong and Malaysia are popular destinations for migrant workers, where at least 25% of the workforce labour (including household help) consists of such labour. Some of the labour-exporting countries in this region also have a strong MFI presence, notably in India, Bangladesh, Philippines, Thailand, Indonesia and Cambodia.[14]

Further, studies of remittance utilisation in Asia show a pattern consistent with what has been observed in the World Bank Policy Research Papers. An estimated 50-60% of remittances in Asia are spent on daily consumption, with less than 10% in "investments". The remaining is typically spent on a variety of household and social needs.[15] Using Bangladesh as an example, a representative study (Figure 2) shows families receiving remittances indeed spend less than 10% on savings or investments, the rest on a variety of needs, including consumption, home improvement, migration costs, social and ceremonial needs.[16] This spending pattern and the lack of savings, as is the case in Latin America, can be better managed with the availability of remittance-linked products from MFIs that can help migrant families meet both household spending and income-generating/asset-building needs.

Figure 2: Spending Allocation of Received Remittances



Source: ILO Social FInance Programme, Survey of 100 Families in Bangladesh that received remittances, *Working paper 38: Migrant Worker Remittances and Microfinance in Bangladesh*, Siddiqui and Abrar, 2003.

This region has a unique confluence of strong financial sector expertise in developed countries given the high levels of financial intercourse with U.S., Europe and Japan, a long history of migrant labour and remittances, and a strong MFI presence in labour-exporting countries. Together, they provide an interesting opportunity to explore the ways and means through which MFIs and mainstream financial institutions can work together for inclusive financial services for migrant labourers and their families.

Although Asian MFI penetration into this market space is still nascent, the progress made by some trailblazers (typically from the labour-exporting countries) to provide inclusive financial services to migrants and their families have been significant.

BANGLADESH: PROVIDING SERVICES IN HOST COUNTRIES

Agrani Bank from Bangladesh, a labour-exporting country, has tied up with 17 exchange houses worldwide where Bangladeshi labourers have migrated to, through which remittances can arrive directly into accounts at Agrani Bank back home. Islami Bank has taken a different approach by establishing grassroots outreach efforts where pockets of migrant workers have congregated. It provides banking services in destination countries including savings, micro-pension and credit facilities for the wages earned by labourers. Together with financial education presentations and non-typical banking hours to suit labourers' workdays, Islami Bank's network may not be as wide as large financial institutions, but it may have deeper outreach.[17]

Grameen Bank and BRAC[18], two pioneering MFIs in Bangladesh, have not yet made strides into the remittance industry. Although they have acknowledged that MFIs do have the rural outreach capacity and product diversification to encourage the savings, credit and investment needs of the families of migrant workers, the technical capacity required to enter the remittance market is still a challenge. Grameen posited a model whereby it either receives foreign exchange permission from regulators, or it ties up with a local mainstream bank with an established remittance channel or network.[19] BRAC too foresees that it can utilise its programmes to increase grassroots level savings among families of migrant workers - a service it feels is lacking today.

PHILIPPINES: EXPANDING SERVICES AT HOME

Philippines is arguably the second highest labour-exporting country in the world, where its MFIs and NGOs have progressed further in filling in the service gaps for migrant workers and their families. A local NGO, Unlad Kabayan Migrant Services Foundation, Inc. ("Unlad"), mobilises remittances from migrant workers for productive use and community development. It provides savings accounts, investment channels to existing businesses and special microenterprise start-up funds. In addition, Unlad provides training, social and logistical support to educate and organise migrant workers. Through these measures, it hopes to achieve its objectives of creating new jobs through sustainable businesses, spurred by the mobilisation of remittances. Certain localities have also established Migrant Savings and Investment Funds where savings are pooled by migrants to be invested for community development back home. The New Rural Bank of San Leonardo has also implemented programmes to channel remittances to community development, which involve stakeholders like enterprising migrant workers, their families, local governments and MFIs. Other products for migrant workers include savings, education and pension plans, and small enterprise investment funds.

INDONESIA: REMITTANCE-SECURED LOANS

Indonesia is another large labour-exporting country in Asia, in which Bank Rakyat Indonesia ("BRI") is a dominant MFI. BRI's extensive network in the rural areas allows deep outreach to migrant workers' families and potential new migrant workers. Not only does it capture remittances from migrant workers in the form of savings accounts, BRI also provides loans to migrant workers' families where payments are deducted from remittances. Potential

A preliminary focus group study among Filipino domestic workers showed that there is a wide variety of such workers in Singapore, with distinctively different financial habits and therefore different levels of credit risk. Many migrant workers have been in Singapore for several years, with steady employment that pays regular wages. Once a migrant worker has "settled" into Singapore and has a credible work-history, his/her income and expense patterns become more stabilised

new migrant workers can access pre-departure loans for their migration costs, secured by local solidarity groups.[20]

MFIs FACE CHALLENGES IN MIGRANT WORKER MARKET PENETRATION

Despite these developments, experience from MFIs in other parts of the world have shown that challenges remain in converting migrant workers to remittance clients of MFIs, and then into savings clients.

MFIs have difficulty providing an alternative remittance method from money transfer operators due to technology and cost constraints.[21] To overcome this problem, most are leveraging opportunities to partner pre-existing money transfer operators or licensed banks. Secondly, to effectively utilise remittance savings, technology-leveraged banking like card-based transactions or mobile banking require infrastructure that may be beyond the resources of most MFIs. Thirdly, robust management information systems and internal controls are required to service the entire process from remitting monies to saving and utilising funds productively. MFIs do not yet have the scale, or the resources to establish these controls.[22]

Regulation continues to be a challenge that could take years to overcome. In some countries, MFIs are not licensed to deal with foreign exchange transactions. In others, there are cost subsidies for mainstream financial institutions or strict currency controls which make it costly for MFIs to enter the remittance market. For certain countries, where MFIs are not yet permitted to mobilise deposits to increase credit facilities, MFIs may be constrained in providing the needed services without incurring significantly higher costs of operations which may impact both sustainability and client fees.[23]

SINGAPORE'S MIGRANT WORKER MARKET OPPORTUNITY

Singapore's migrant labour has become a focus of attention given the increasing role they have been playing in our workforce, especially over the past 30 years. At 29% of Singapore's total labour force (2000), this is the highest proportion of foreign workers in Asia.[24] Singapore also clearly distinguishes foreign low-skilled labour from skilled professionals in terms of work conditions, permitted lengths of stay, eligibility for permanent residency and repatriation conditions.[25] By 2006, there were about 580,000 lower-skilled foreign workers in Singapore, and 90,000 skilled foreign talent.[26] They are expected to be a continued market presence and have proven to be a strong enough remittance market to attract Western Union to establish one of their largest networks in Singapore.

The government has acknowledged that continued reliance on migrant low-skilled labour may be unavoidable. Acting Minister for Manpower Gan Kim Yong noted in 2009 that, "Even in a slowdown, our economy still needs foreign workers. Many of them take on jobs that Singaporeans may not want to do or are unable to fill, like in [the] construction and marine [industries]."[27] Household work is the other major category of lower-skilled foreign workers. Live-in domestic workers – mainly women from the Philippines, Indonesia and Sri Lanka – currently number about 160,000, translating into about one domestic worker for every seven households.[28]

The opportunity to explore microfinance in Singapore lies in these lower-skilled foreign workers, who work in Singapore from anywhere between a few months to twenty years. Foreign banks with Singapore branches cater to skilled foreign labour with much higher wages. Yet a typical construction worker or a domestic worker does not make enough on a monthly basis to meet the minimum required balance to maintain a bank account without hefty transaction fees. As an example, the Singaporean Post-Office Savings Bank (POSB) has a scheme called Moneysense, which requires a minimum balance of $500 in the user's account. While this is the lowest requirement stipulated by any bank in Singapore, for most low-wage workers, accruing savings that meet even this minimum balance is rarely possible. Most lower-skilled foreign workers save their money in the form of remittances back home, by purchasing high-value assets (e.g. jewellery),

or through cash saved on-hand. Access to credit through formal channels is non-existent. Most either borrow through informal community networks (friends or groups in their home village or town), or from illegal moneylenders.

SINGAPORE'S MIGRANT WORKERS CAN BE GOOD CUSTOMERS

A preliminary focus group study among Filipino domestic workers showed that there is a wide variety of such workers in Singapore, with distinctively different financial habits and therefore different levels of credit risk.[29] Many migrant workers have been in Singapore for several years, with steady employment that pays regular wages. Once a migrant worker has "settled" into Singapore and has a credible work-history, his/her income and expense patterns become more stabilised (i.e. no further deduction of agent fees from wages; home remittances are habitual; cost of living in Singapore is better managed). This allows the migrant worker to build a savings habit which becomes a basis for asset-building and be a better credit risk based on a steady income and constant remittances back home.

Furthermore, many are supported by advocacy groups that offer educational opportunities to migrant workers in Singapore (e.g. aidha's financial education classes[30]; skills upgrading classes offered in the Indonesian School supported by the Embassy of Indonesia[31]). These developments indicate that there is a segment of the migrant labour population in Singapore that is well-positioned to be reliable customers for financial institutions.

POSSIBLE SAVINGS AND ASSET-BUILDING SERVICES

Microfinance services for low-wage migrant workers can help narrow the services gap they currently experience. Provision of savings and asset-building services can be a strong step towards bringing financial independence and empowerment to migrant workers, allowing more options than just remitting monies back home. Partnerships between Singaporean financial institutions and those in labour-exporting countries can provide more efficient linkages between wages earned in Singapore and their economic uses back home. Examples include local currency credit secured by wages in Singapore and savings or educational funds in Singapore or at home.

MICROLOANS THAT LEAD TO EMPOWERMENT

Many migrant workers in Singapore look at their time here as a chance for creating a better life for them and their families back home. Interestingly, focus group feedback shows that those who stay for longer periods in Singapore also see an opportunity for self-improvement so they can become more successful individuals when they return home.[32] For those whose employment gives them the time to do so, they rarely have the financial means to improve their skills during their time in the country. Official statistics on the percentage of migrant domestic workers that have prolonged employment in Singapore or have expressed interest in skills training are not published, yet the increasing number skills-training facilities (including aidha, Indonesian Embassy courses, the Foreign Domestic Workers Association for Skills Training, etc.) that target foreign workers demonstrate a response to such perceived demand. There are also cases where workers have difficulty accessing medical services despite the requirement for employer health insurance. Migrant workers who seek to purchase self-improvement tools and services (e.g. textbooks, learning aids, computers, educational courses) or seek additional medical treatment can utilise microloans which are repaid by their steady wages, so as to prevent unnecessary stress on cash flows or premature reductions in savings.

BENEFITS OF A FINANCIALLY-INCLUDED MIGRANT WORKER POPULATION

A migrant worker population that is well-supported in financial services can benefit Singapore in many ways. Greater financial stability makes it less likely for migrant works to seek unpermitted or out-of-scope extra work in an effort to supplement their income, which lowers incidences of migrant workers breaking work permit rules. Demographically, financial services that lead to asset-building and self-improvement improves the quality and calibre of our workforce. Financially, migrant workers can contribute to greater economic stability in Singapore by participating in our economy in a more productive and less transient manner than is currently the case. However, a key complicating factor is the challenge involved in balancing credit risk management and financial sustainability. There is a segment of the migrant worker population with urgent financial needs precipitated by employer abuse, workplace injuries and other unforeseen problems such as impending repatriation. But these individuals are not likely to be good lending cases. Instead, such workers require grants or other forms of financial assistance. A microfinance solution for Singapore will need to balance these factors and more in order to address the significant presence of migrant workers in the country.

CONCLUSION

As national borders become more porous and transportation less costly, the desire to make a living in a higher-wage country will continue to inspire labour mobility. It is time to recognise the size and significance of this sometimes transient, but never temporary market opportunity in Asia. Although estimates indicate that the remittance market stands at approximately US$305 billion, this is only the tip of the iceberg.[33] Market players that effectively tap on the potential financial needs of this sector can play a big part in poverty alleviation and economic empowerment in labour-exporting countries, and place Singapore in the centre of innovations that combine commercial solutions with social impact.

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[17] See note 16 above.

[18] Formerly known as “Bangladesh Rural Advancement Committee”, the organisation has been re-branded to BRAC to reflect its scope of work expanding beyond Bangladesh and working with urban as well as rural communities.

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