Chapter 7

Migration, investment and financial services in the Philippines

With the right policies in place, migration and remittances can spur development through household consumption and investments in entrepreneurial activities and real estate. The Philippines is one of the world's largest remittance recipients, offering enormous development potential. This chapter explores the links between migration, remittances and investment in the Philippines, and asks how policies on investment, financial services, and financial literacy training could help that potential be fulfilled. It examines whether remittances are linked to business and real estate ownership, and the degree to which return migrants are investing productively. It also reports on households' access to the formal banking sector through the possession of bank accounts, and the extent to which they are reached by financial literacy programmes.

The potential positive effects of migration and remittances on investment and development in the origin country have been acknowledged both in the research and by policy makers. The new 2030 Agenda for Sustainable Development recognises migration as a multi-dimensional phenomenon that can contribute positively to inclusive growth and sustainable development (UN, 2015).

Through remittances, international migration can be a significant driver of capital investment. The total amount of remittances sent home to developing countries reached USD 432 billion in 2015 (Ratha et al., 2016). Besides serving as an important resource for securing the basic needs of recipient households, these funds can also be used productively – investing in local micro-enterprises or purchasing physical capital such as land. In this way they contribute to welfare, growth and development both within the household and beyond.

The Philippines has seen high and robust inflows of remittances in recent decades. In 2015 it was the world's third largest recipient of remittances with USD 28 billion (Ratha et al., 2016). The Philippine Government has recognised the investment potential of these transfers, and implemented various programmes and initiatives to strengthen the economic and social benefits of remittances for migrants and their families as well as for communities and the country as a whole (de Vries, 2011).

Migration and remittances can help overcome constraints in access to financial and human capital, especially in countries where access to credit is limited and formal financial markets are underdeveloped. Although remittances are private household income and their use is decided by the household, a favourable policy environment can increase returns to investments and expand investment options for remittance-receiving households.

The chapter starts with an overview of the investment and financial service sector in the Philippines. It then examines the links between investments and migration, remittances and return migration, before analysing the role of public policies, particularly those related to financial inclusion and financial training, in migrant and remittance decisions. The chapter concludes by summarising the policy recommendations of the findings.

A brief overview of the investment and financial service sector in the Philippines

The Philippines has experienced robust economic growth in the last six years, and improved its credit-rating rank in the last half decade, making it more attractive to investments both from local and foreign investors. The country's official economic planning agency, the National Economic and Development Authority (NEDA), reports that total approved foreign and local investments reached over PHP 697 billion (Philippine Pesos) (or about USD 16.5 billion) in 2012, primarily in manufacturing, electricity, and real estate. Around 60% of these investments were made by Filipino nationals (NEDA, 2014). Net foreign direct investments (FDI) reached USD 5.7 billion in 2015, as reported by the Central Bank (*Bangko Sentral ng Pilipinas*, BSP) (Delavin, 2016).

Nevertheless, the benefits of national economic growth have yet to be enjoyed by the majority of the population, especially the poor. Inclusive growth has become a high priority for the government in the last decade (NEDA, 2014). In addition, the high cost of doing business in the Philippines is a barrier to investment. The country continues to lag in the ease of doing business rankings, coming 99 out of 190 countries worldwide (Table 7.1). The Philippines is still facing numerous challenges across all fronts in terms of doing business, especially when it comes to starting a new business (rank 171 out of 190 countries).

Table 7.1. **The Philippines has a less favourable business environment than its neighbours**

	The Philippines	Thailand	Malaysia	Cambodia	Indonesia
Ease of doing business	**99**	**46**	**23**	**131**	**91**
Starting a business	171	78	112	158	151
Dealing with construction permits	85	42	13	183	116
Registering property	112	68	40	120	118
Getting credit	118	82	20	7	62
Paying taxes	115	109	61	124	104
Trading across borders	95	56	124	102	108
Enforcing contracts	136	51	104	178	166

Note: Economies are ranked on their ease of doing business, from 1-190. A high rank (represented by a *low* numerical value) indicates a relatively more favourable business environment. Ease of doing business is the overall ranking, taking ten topics into account. As well as the overall ease of doing business rank, rankings in seven selected topics are also presented in the table.

Source: World Bank (2016a) *Doing Business*, *www.doingbusiness.org/rankings*.

Every year, billions of dollars in remittances are sent by migrant Filipinos to their families in the Philippines. In 2015, remittance inflows reached USD 28 billion, and constituted close to 10% of national GDP (Ratha et al., 2016). These income transfers are mainly sent through the formal financial

system, especially banks and their subsidiaries. Of the total amount sent by migrants, data from the 2015 Survey on Overseas Filipinos show that about 62% are sent through formal banks (PSA, 2016). The share of banks in sending cash remittances has been increasing since the 1990s (Abenoja, 2004).

Despite financial shocks, the Philippine financial system continues to show resilience, which is partly due to the steady and significant inflow of remittances. The Philippine financial system is primarily bank-based. Banks play a leading role in providing credit, mobilising savings, and other forms of financial intermediation (NEDA, 2011). Bank density in the Philippines is approximately six banking offices per city/municipality or an average of one bank and two automated teller machines (ATMs) for every 10 000 Filipino adults (BSP, 2011). However, access to banks and the share of individuals with a bank account is low compared to other countries in Southeast Asia. Formal saving rates are also relatively low in the Philippines (Figure 7.1). Fewer than one in three adults (31%) has a bank account, and only 15% have formal savings. According to the National Economic and Development Authority, only about 21% of households had deposit accounts in 2009. Nevertheless, the banking sector is said to account for over 80% of the total assets of the Philippine financial system, with the rest being held by the non-banking sector (NEDA, 2011).[1]

Figure 7.1. **Fewer than one in three individuals has a bank account in the Philippines**

Formal savings (%) and bank account possession (%)
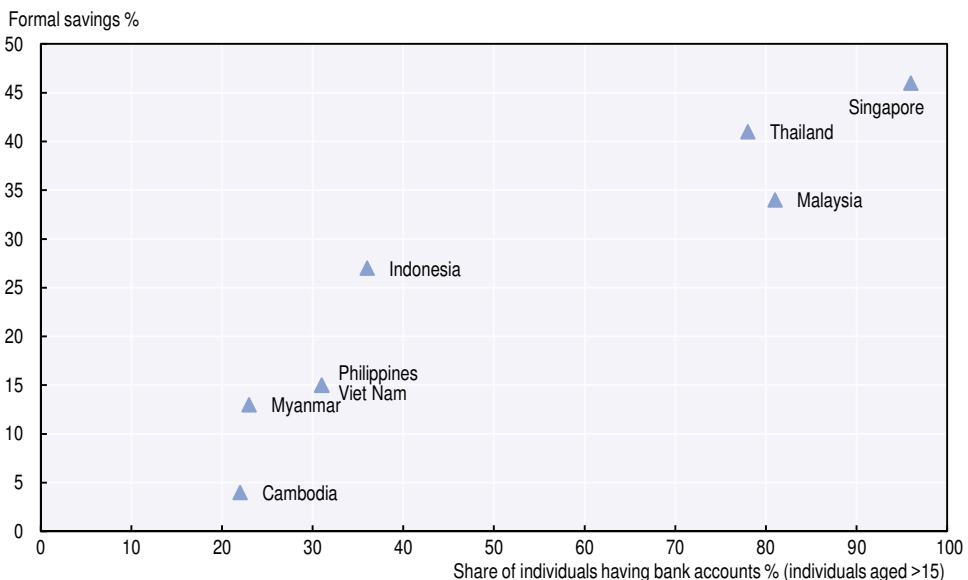
Note: The definition of formal savings is having saved in a formal bank or other financial institution. The database does not include information about Lao PDR and Brunei Darussalam.

Source: World Bank (2016b), *Global Findex Database, http://datatopics.worldbank.org/financialinclusion/.*

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One factor that contributes to the low bank account possession is the high concentration of banks in highly urbanised areas. About 43% of all deposit accounts in the Philippine banking system are held in Metro Manila (BSP, 2011). Descriptive statistics based on the IPPMD community survey also show a higher coverage of financial service institutions in urban areas than in rural areas (Figure 7.2). This is true for all three types of financial institution (microcredit organisations, money transfer operators and banks). The data show that microcredit organisations and money transfer operators are more widespread than banks. While close to half the sampled communities are covered by microcredit organisations (overall 54-64% of the urban communities and 48% of the rural communities), only about one in five communities in the IPPMD sample have a bank (22% in urban areas and 18% in rural areas).

Figure 7.2. **Urban communities are better covered by financial service institutions**

Share of communities with financial institutions (%)

Source: Authors' own work based on IPPMD data.

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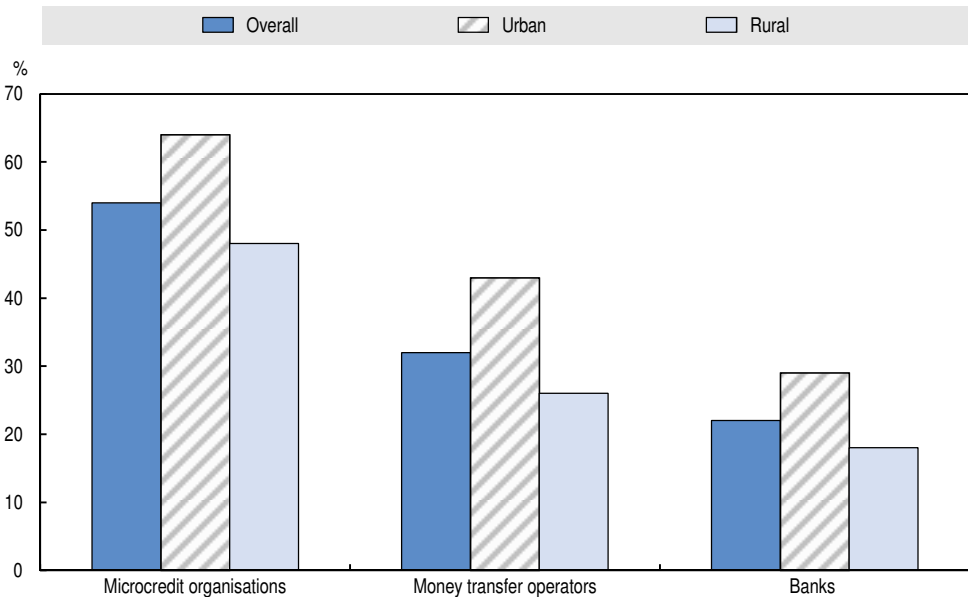
How does migration affect investments in the Philippines?

Migration can have various effects on investments and the financial sector. On the one hand, remittances can be a driver of investments and motivate the financial sector to better address the needs of migrants. Remittances can be used for productive investments in enterprises, commercial activities and housing and real-estate ventures. Another important use of remittances is consumption. Previous studies from a number of countries have shown that remittances

are used for consumption purposes to a large extent (Chami, Fullenkamp and Jahjah, 2003; Zarate-Hoyos, 2004). It is important to point out that such investments also contribute to household wellbeing, and indirectly also to growth and development. The large inflows of remittances to the Philippines are an important resource for spurring domestic consumption, which in turn is key for economic growth (Ratha et al., 2016).

Besides the welfare benefits for the migrant households, remittances invested in productive activities can have a multiplier effect on the local economy in terms of generating employment and fostering a demand for certain goods and services. In this way, migration can set in motion a "development dynamic" (Taylor, 1999). On the other hand, migration can also have disruptive effects on investment if households need to sell their business or other valuable assets in order to finance migration.

Similarly, return migrants may invest capital and knowledge accumulated abroad in productive activities in their home country. Growing evidence in the global literature shows that return migrants accumulate savings abroad and start a business upon their return (Labrianidis and Hatziprokopiou, 2006; McCormick and Wahba, 2001). On the other hand, migration may also have a disruptive effect on labour market integration; business activities can sometimes be the "last resort" if return migrants face challenges on the local labour market (Mezger Kveder and Flahaux, 2013).

Previous studies on migrants' contributions to development in the Philippines show somewhat mixed effects. While some studies found a positive relationship between remittances and investments, particularly in human capital investments such as education and health and in durable goods (Tabuga, 2007; Tullao, Cortez and See. 2007; Zosa and Orbeta, 2009), other studies found limited effects on household investments (Ang, Sugiyarto and Jha, 2009). The evidence related to migration and entrepreneurship in the Philippines is scarce. However, one study found a positive link between migration and self-employment and business activities, especially investments in relatively capital-intensive business activities (Yang, 2008).

As the net effect of migration and remittances on investments is not clear, the analysis which follows teases out the individual impacts of various aspects of migration and their links to investment. The analysis focuses on productive investments, defined in this study as investments in business activities and real estate.

Migration and remittances are linked to property but not business ownership

The IPPMD questionnaire asked what activities migrant and remittance-receiving households carried out following the departure of a household member (Figure 3.8 in Chapter 3), listing a number of potential investment areas such as real estate, businesses, education and health. The most common activity reported by

households was paying for the education of family members (37% of remittance-receiving households reported having undertaken this activity). Education is a high priority for Filipino households, as discussed in Chapter 6. Other significant activities include repaying loans (28%), building or buying a house (17%), and paying for medical care. Around 6% of the households receiving remittances state that they set up a business after a member left the household and around 8% bought land.

As shown in Figure 7.3, households receiving remittances are more likely to own real estate assets (non-agriculture land and property other than the family residence).[2] Non-agricultural land is more common among households receiving remittances – 66%, compared with 48% among households not receiving remittances. Housing, such as condominiums, was also mentioned in the IPPMD stakeholder interviews as one area in which migrants and their families typically invest their money. One stakeholder described how real estate development in Naga City is significantly driven by investments by the large population of overseas Filipino families.

Comparing business ownership for remittance-recipient households with households not receiving remittances in the IPPMD sample did not reveal any major differences, however. Around 30% of the households own a business, regardless of whether they receive remittances (Figure 7.3).

Figure 7.3. **Households that receive remittances are more likely to own non-agricultural land and property**

Share of households owning business, housing and real estate (%), by remittance status
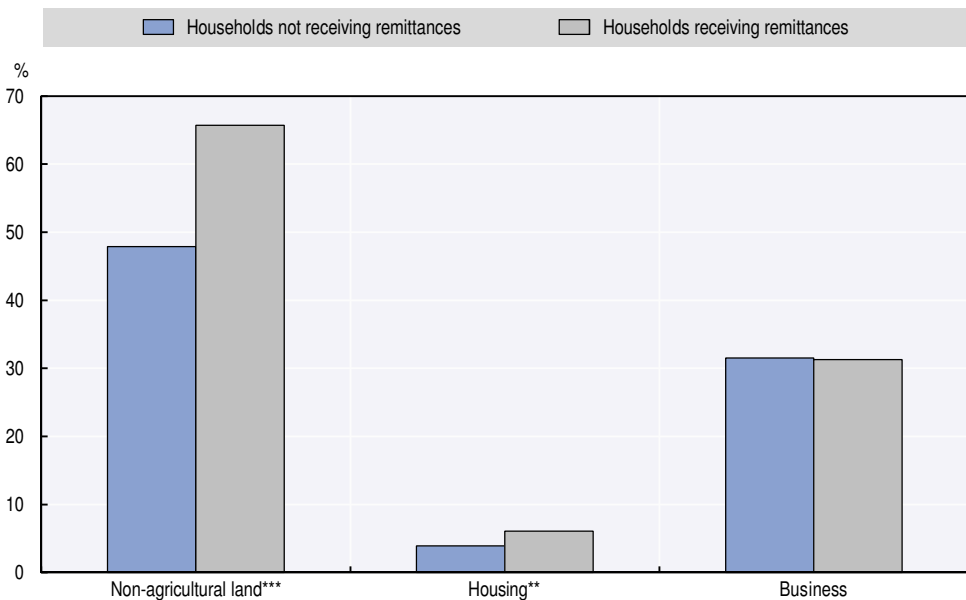
Note: Business ownership is defined as a household running at least one business. Statistical significance calculated using a chi-squared test is indicated as follows: ***.99%, **.95%, *.90%.
Source: Authors' own work based on IPPMD data.

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The relationship between migration, remittances and business ownership in the IPPMD dataset was analysed further using regression analysis (Box 7.1). The results show no association between migration, remittances and owning a business. Households with migrants and remittances are not more likely to own a business, and the results do not vary depending on whether the household is urban or rural. Additional analysis was also carried out investigating the link between migration and self-employment, but no link was found (results not displayed here).

Box 7.1. **The links between migration, remittances and business ownership**

To test the link between migration, remittances and business ownership, a probit models was applied taking the following form:

$$Prob(business)_{hh} = \beta_0 + \beta_1 remit_{hh} + \beta_2 emig_{hh} + \gamma controls_{hh} + \delta_r + \varepsilon_{hh}$$

where $business_{hh}$ represents business ownership of the household and takes on value "1" if a household owns at least one business and "0" otherwise. $remit_{hh}$ represents a dummy variable for remittances that takes on a value "1" for households that receive remittances and "0" otherwise. $emig_{hh}$ represents a dummy variable for whether the household has an emigrant or not, and $controls_{hh}$ are set of observed household characteristics that are believed to influence the outcome.[a] δ_r represents regional (municipality level) fixed effects and ε_{hh} is the randomly distributed error term.

Three different specifications were carried out. Specification (1) investigates the link overall between migration, receiving remittances and household business ownership, controlling for all above mentioned household characteristics. Columns (2) and (3) show the results for urban and rural households respectively.

Table 7.2. **Migration and remittances are not linked to business ownership**

Dependent variable: Household runs at least one business
Main variables of interest: Household has an emigrant/receives remittances
Type of model: Probit
Sample: All households

Variables of interest	Sample		
	(1) All	(2) Urban	(3) Rural
Household has an emigrant	-0.039	-0.026	-0.053
	(0.040)	(0.056)	(0.058)
Household receives remittances	-0.020	-0.030	-0.008
	(0.039)	(0.053)	(0.056)
Number of observations	1 938	965	973

Note: Results that are statistically significant are indicated as follows: ***: 99%, **: 95%, *: 90%. Standard errors are in parentheses and robust to heteroskedasticity.

a. The set of household and individual explanatory variables included in the model are the following: household size and household size squared, household dependency ratio (defined as the number of children and elderly in the household as a share of the total members in working age), household head education level, a dummy for urban location (column 1), and finally an asset index (based on principal component analysis) that aims to capture the wealth of the household

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One potential explanation for these findings is the high barriers to doing business in the Philippines, especially when it comes to starting a business (Table 7.1). This was confirmed by several stakeholders interviewed for the IPPMD project, who stated that the Philippines lags behind other countries in the region when it comes to providing a business-friendly environment.

Regression analysis also explored the links between migration, remittances and real-estate ownership (Box 7.2). The results show that households with a current emigrant are more likely to own real estate, while households receiving remittances are not. Dividing the sample into rural and urban households shows that migration is only associated with real-estate ownership in urban areas but not in rural areas. A potential reason could be that real estate is more available, and a more profitable investment, in urban areas.

Box 7.2. **The links between migration, remittances and real-estate ownership**

The same approach as described in Box 7.1 was taken to estimate the impact of remittances on real-estate ownership. The dependent variable was real-estate ownership, taking on value 1 if the household owns non-agricultural land and/or property, and 0 otherwise. The same control variables as in the estimations in Box 7.1 were used to control for household characteristics.

Three separate estimations were carried out: column (1) analyses the relationship between real-estate ownership, migration and remittances by using binary variables for households having a migrant and household receiving remittances. Columns (2) and (3) analyse households residing in urban and rural areas respectively.

Table 7.3. **Migration is positively linked to real-estate ownership,
but only in urban areas**

Dependent variable: Household owns real estate
Main variables of interest: Household has an emigrant/receives remittances
Type of model: Probit
Sample: All households

Variables of interest	Sample		
	(1) All	(2) Urban	(3) Rural
Household has an emigrant	0.063**	0.086*	0.039
	(0.036)	(0.049)	(0.053)
Household receives remittances	-0.046	-0.058	-0.035
	(0.035)	(0.048)	(0.051)
Number of observations	1 930	962	968

Note: Real estate includes housing and non-agriculture land. Results that are statistically significant are indicated as follows: ***: 99%, **: 95%, *: 90%. Standard errors are in parentheses and robust to heteroskedasticity. Separate analysis for non-agriculture land was also performed, and the results are similar to the results for the aggregated ownership of housing and/or land ownership presented above.

Return migration is linked to higher productive assets and business ownership

Research on the impacts of return migration in the Philippines is scarce. The limited evidence that exists does not indicate that migrants return with new knowledge or capital that is used to support business activities (Ang, Sugiyarto and Jha, 2009). Filipino migrants often return upon the termination of their contracts (although they may renew), or due to job displacements resulting from pre-termination of contracts or a crisis. The latter case often makes return migrants more likely to want to secure new job contracts overseas, rather than seek employment or self-employment opportunities in the local labour market (Ang, Sugiyarto and Jha, 2009). Some initiatives to support return migrants business activities have been carried out by the government. Since 2005, the Overseas Workers Welfare Administration (OWWA) has implemented a programme for returning migrants, handing out enterprise loans at a favourable interest rate (Ang, Sugiyarto and Jha, 2009). The National Reintegration Center for OFWs (NRCO) was established in 2007 to co-ordinate the government's programmes in providing support to return migrants. As mentioned in Chapter 2, under RA 10801 (signed into law on 10 May 2016), also known as the OWWA Charter, reintegration was identified as a core programme of OWWA, and transfers the NRCO under OWWA for policy and programme co-ordination.

The IPPMD data include information about return migrants in households as well as household business activities. However, the latter is limited to the household level, so it does not reveal if the businesses are run by the return migrants themselves or by other members of the household. The analysis was therefore carried out at the household level, comparing productive assets and business activities for households with at least one return migrant and households without a return migrant.

The descriptive statistics depicted in Figure 7.4 reveal significant differences between households with and without return migrants when it comes to business and real-estate ownership. Among households with return migrants, 38% run a business, while the corresponding number is 30% for households without return migrants. Return migrant households are also more likely to own non-agriculture land: 68% of households with return migrants own non-agriculture land compared to 52% of households without return migrants.

A regression analysis explored these links in more depth (Box 7.3). The results show that return migration is linked to business ownership, but the link depends on where the household is located. When urban and rural households are analysed together, the link between having a return migrant and owning

real estate is positive and statistically significant, while no link between return migration and business ownership was found. However, when urban and rural households are analysed separately, a positive association between return migration and real estate is found only in urban areas, while a positive link between return migration and business ownership is found in rural areas. The findings are in line with those found in Box 7.2: investments in real estate seem more prevalent in urban areas. Households with return migrants being more likely to run businesses than those without return migrants in rural areas could potentially be explained by labour market constraints in rural areas. If jobs are scarce in rural areas, return migrants may be inclined to turn to self-employment activities.

Figure 7.4. **Households with a return migrant are more likely to own a business and real estate**

Share of households owning business, housing and real estate (%), by return migration status
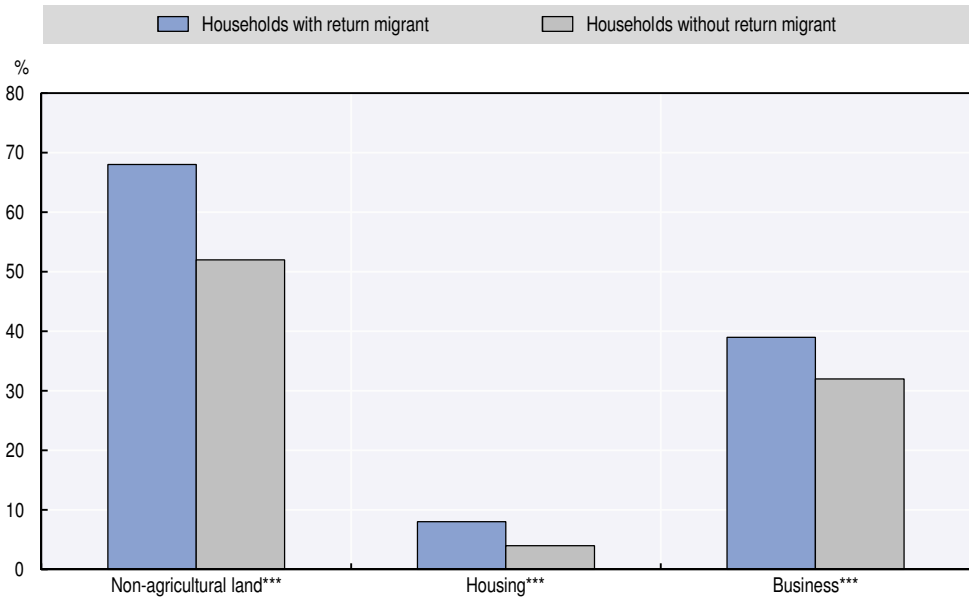
Note: Business ownership is defined as the household running at least one business. Statistical significance calculated using a chi-squared test is indicated as follows: ***.99%, **.95%, *.90%.

Source: Authors' own work based on IPPMD data.

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Box 7.3. **The links between return migration and productive investments**

To analyse the link between return migration and productive investments, a probit model with the following form was applied:

$$Prob(investment)_{hh} = \beta_0 + \beta_1 return_{hh} + \beta_2 emig_{hh} + \gamma controls_{hh} + \delta_r + \varepsilon_{hh} \qquad (1)$$

where $investment_{hh}$ is either business ownership or real-estate ownership (depending on the specification) undertaken by the household . $investment_{hh}$ takes on value "1" if a household owns at least one business/owns real-estate and "0" otherwise. $return_{hh}$ represents a binary variable for return, where "1" denotes a household that has at least one migrant and "0" otherwise. $controls_{hh}$ is a set of observed household characteristics that are believed to influence the outcome.[a] δ_r represents regional (municipality level) fixed effects and ε_{hh} is the randomly distributed error term.

Four different specifications are presented. Specification (1) investigates the link between return migration and household business ownership, controlling for all the household characteristics mentioned above. Specification (2) looks at household real-estate ownership and return migration. Specification (3) presents the results for business ownership only for household in rural areas, and specification (4) presents the results for real-estate ownership in urban areas. Analysis for business investments in urban areas and real estate investments in rural areas was also carried out, but no statistically significant results were found (results not shown due to space limitations).

Table 7.4. **Positive links between return migration and productive investment vary by rural and urban location**

Dependent variable: Household runs at least one business/ owns real estate
Main variables of interest: Household has a return migrant
Type of model: Probit
Sample: All households

Variables of interest	Sample (dependent variable)			
	(1) All	(2) All	(3) Urban (real estate)	(4) Rural (business)
Household has a return migrant	0.030	0.082***	0.116***	0.075*
	(0.027)	(0.027)	(0.036)	(0.042)
Number of observations	1 933	1 930	962	973

Note: Results that are statistically significant are indicated as follows: ***: 99%, **: 95%, *: 90%. Standard errors are in parentheses and robust to heteroskedasticity.

a. The set of household and individual explanatory variables included in the model are the following: household size and household size squared, household dependency ratio (defined as the number of children and elderly in the household as a share of the total members in working age), household head education level, a dummy for urban location (column 1), and finally an asset index (based on principal component analysis) that aims to capture the wealth of the household. .

How do investment policies affect migration?

The relationship between investment and financial service policies and migration is multifaceted. This section investigates how policies related to access to bank accounts and financial training affect remittance patterns.

Box 7.4. **Investment and financial service policy**

The IPPMD questionnaire asked households to state whether they had benefitted in the five years prior to the survey from a range of policies related to business or financial services (listed in Figure 7.5). However, these questions were only asked to households with businesses employing at least four non-family individuals. The sample size is therefore very limited and these questions are not analysed in this report. The questionnaire also asked if anyone in the household had taken part in a financial training programme in the five years prior to the survey, and whether anyone in the household possessed a bank account. Possession of a formal bank account is a way into the formal financial sector, which can facilitate remittances and other capital transfers, encourage more remittances sent through formal channels, and facilitate access to credit and other financial services. Unbanked households are often subject to higher costs when accessing basic financial services. The community questionnaire had complementary questions to the household survey, asking community leaders about available programmes related to financial training and other financial support to households.

Figure 7.5. **Investment and financial service policies explored in the IPPMD survey**

Policies related to businesses	Policies related to financial services	Programmes included in the community survey
• Economic zone • Tax subsidies • Other type of government subsidies	• Financial training programme • Access to bank accounts	• Banking and financial tools/financial literacy training • Business creation and business management training • Loans for business creation • Economic advantages to businesses

Note: Economic advantages provided to businesses include tax exemptions, subsidies, and lower export/import tariffs.

Access to the formal financial sector translates into higher levels and more formal remittances

Access to the formal financial sector may facilitate the sending and receiving of remittances and hence encourage more remittances to be sent in general, and through formal channels in particular.

Up until the 1980s, Filipino migrants overseas experienced many difficulties in sending their remittances back home (Business Planners, 2006). Formal banking institutions charged such high rates for sending remittances that

these transactions were not seen to be financially viable. Banks would normally require formal identification documents for transactions, which migrants in irregular situations overseas could not readily provide. Additionally, as these banks were limited to highly urbanised areas, many of the families of migrants (who mostly lived in rural areas) were unable to access them. This added to the time lag in receiving remittances, and convinced many migrants to send their income through less formal channels (e.g. cargo and courier companies as well as independent money transfer agencies and even recruitment agencies). Although costs were higher, such informal channels required less formal documentation and were able to provide door-to-door delivery, which the migrants greatly appreciated.

Through the efforts of the Central bank, *Bangko Sentral ng Pilipinas* (BSP), to reform the financial sector, the country has seen the emergence of various remittance channels as alternatives to banks. In the last three decades, many independent players have entered the remittance service market in the Philippines, following a growing demand for reliable, safe, convenient, and fast remittance services. Mobile phone technology and web-based services are becoming more and more established, providing a convenience not offered by traditional banks. In many cases, such services do not require remittance receivers to open a deposit or savings account in a commercial bank, and include door-to-door delivery in the local currency, eliminating the need for money changing (Abenoja 2004; Business Planners, 2006). In this context, the challenge is to be able to channel more and more of the cash remittances that migrants send through the formal banking system. Today, all major Philippine banks offer door-to-door services, while most non-bank agents are promoting bank credit-to-account transfers (Business Planners, 2006). There is now a vast array of interrelated services for remittances, with banks, courier services, money transfer agents, and even pawnshops being involved in what is now a multi-billion dollar industry.

The IPPMD survey used the possession of a bank account by a member of the household as an indicator of household access to the formal financial sector. In general, possession of a bank account in the Philippines is fairly low, at around 30% (Figure 7.1). The IPPMD survey found a higher share of households that reported having access to a bank account (48%). This higher value is not surprising as the latter is a measure at household level (whether anyone in the household has a bank account) while the former measures individual access to banking.

Figure 7.6 compares total amounts of remittance received among households with and without bank accounts. These descriptive statistics indicate that households with bank accounts receive on average more than three times more

remittances than households without bank accounts. Descriptive statistics also show that a majority of households receive remittances through formal channels, mainly through money transfer operators (61%) or bank transfers (31%). Only about 3% of the households in the IPPMD sample receive remittances through informal channels (informal agents, family and friends or bring the money home with them).

Figure 7.6. **Households with bank accounts receive on average three times more remittances than households without**

Amounts of remittances received (in PHP), by having a bank account or not

Amount of remittances (PHP)
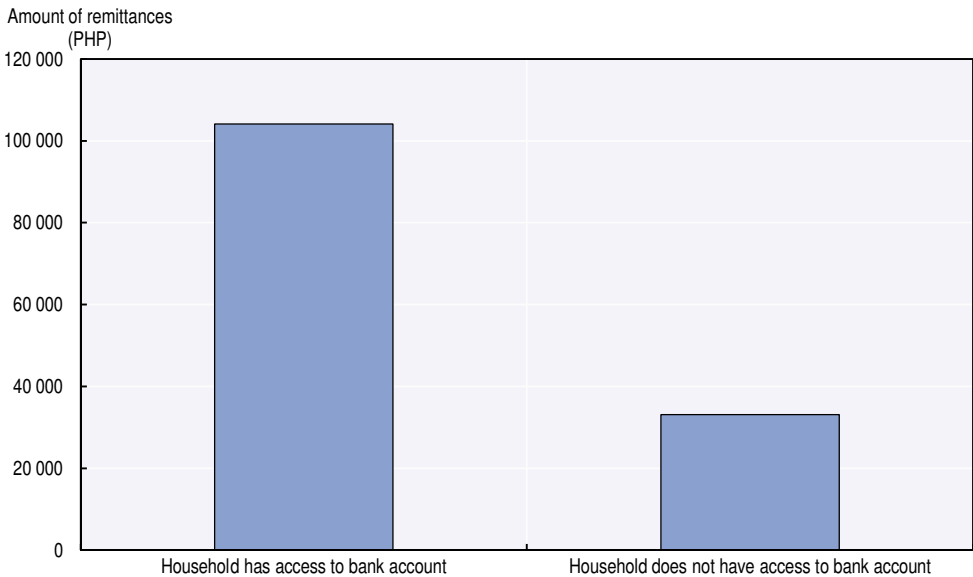
Note: Remittance amounts specified in Philippine Pesos (PHP). Households with bank account received on average PHP 104 114 (about USD 2 387) in the past 12 months prior to the survey, compared to households without a bank account who received PHP 33 136 (about USD 760).
Source: Authors' own work based on IPPMD data.

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Regression results support the hypothesis that access to financial institutions translates into positive effects on the mode of remittance sending and the amount of remittance sent (Box 7.5). Having access to a bank account is associated with a lower likelihood of receiving remittances through informal channels and a higher amount of remittances received by the household and (although only when the amount of remittances is in logged form) (Table 7.4). It is however important to note that the sample of households receiving remittances through informal channels was very small (only 22 households) so the results need to be interpreted with caution.

Box 7.5. **The links between formal bank accounts and remittance-sending behaviour**

Regression analysis was applied to estimate the effects of bank accounts and financial training on remittance patterns, using the following two models (probit and OLS respectively):

$$Prob(informal\_remitt)_{hh} = \beta_0 + \beta_1 bank\_account_{hh} + \gamma controls_{hh} + \delta_r + \varepsilon_{hh} \qquad (1)$$

$$Ln(amount\_remitt)_{hh} = \alpha\beta_0 + \beta_1 bank\_account_{hh} + \gamma controls_{hh} + \delta_r + \varepsilon_{hh} \qquad (2)$$

where the dependent variable in model (1) and (2) is the amount of remittances the household receives (in USD) in absolute values (column 1) and in logged values (column 2), and in column (3) the probability of receiving informal remittances. $bank\_account_{hh}$ represents a binary variable indicating if the household has a bank account, where "1" denotes a household with a bank account and "0" if not. *controls* are a set of observed household characteristics influencing the outcome. δ_r represents regional (municipality level) fixed effects and ε_{hh} is the randomly distributed error term.

Table 7.5. **Households with bank accounts receive more remittances**

Dependent variable: Amount of remittances received/household receives formal remittances
Main variables of interest: Household has a bank account
Type of model: Probit/OLS
Sample: All households receiving remittances

Variables of interest	Dependent variables		
	(1) Amount of remittances received	(2) Amount of remittances received (logged value)	(3) Household receives informal remittances
Household has a bank account	489.0 (444.1)	0.204** (0.095)	-0.055*** (0.018)
Number of observations	702	702	736

Note: Results that are statistically significant are indicated as follows: ***: 99%, **: 95%, *: 90%. Standard errors are in parentheses and robust to heteroskedasticity.

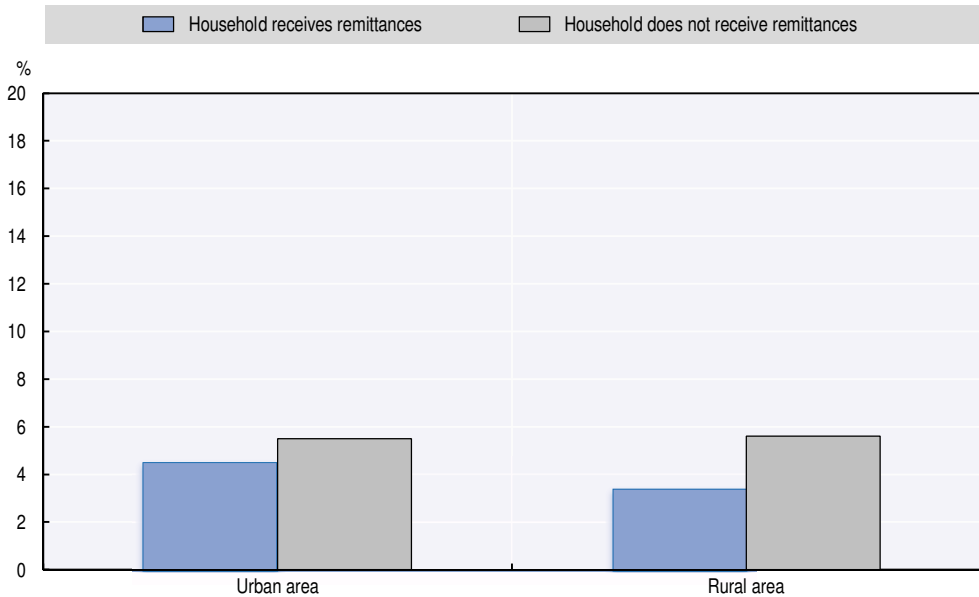## Participation in financial literacy programmes is low

Financial literacy can be linked to investment decisions. Better knowledge about savings and investment possibilities can mean remittances are channelled into more productive investments. Investing in business start-ups and business activities also requires business management skills. Financial training is one way to build financial literacy, provide information about business opportunities and encourage more remittances and return migration

funds to be invested productively. Research has shown that financial training can encourage more remittance savings (Doi, McKenzie and Zia, 2012; Atkinson and Messy, 2015).

The Philippine government has initiated several financial literacy programmes – not only among migrant households and returnees but also among the general population. The Philippine Deposit Insurance Corporation (PDIC), a government entity designed to protect bank depositors through the provision of deposit insurance, has undertaken several financial literacy initiatives (PDIC, n.d.). The PDIC has formulated programmes in collaboration with the Department of Education and the Commission on Higher Education to promote financial literacy among young people by incorporating financial training in public high schools and tertiary education curricula in order to foster a greater sense of savings awareness. The PDIC has also entered into a tripartite agreement with the Government Service Insurance System and the Social Security System to foster greater financial literacy among employees in both the public and private sectors. The *Bangko Sentral ng Pilipinas* also has initiatives to promote financial inclusion, including a special focus on overseas Filipinos and their families. In addition to these government-initiated financial literacy programmes, numerous non-governmental initiatives have been undertaken aimed at families left behind as well as migrants living and working abroad. Notable among these initiatives are those of the Atikha Overseas Workers and Communities Initiative, Inc. (ATIKHA) and Alay sa Kaunlaran, Inc. (ASKI), among others.

Despite these initiatives, few households in the IPPMD sample reported having benefited from a financial training programme in recent years. Only about 4% of households that receive remittances had participated in a financial training programme in the five years prior to the survey, while about 5.5% of households not receiving remittances had taken part in a financial training programme. The pattern looks similar when comparing urban and rural areas (Figure 7.7), and when comparing households with and without return migrants (around 5% of households with return migrants have benefited from financial training). The community survey also shows that only a few communities are covered by financial and business management programmes. Less than one-third of the communities are covered by training in banking and financial tools, and about half by courses in business management. The low supply of financial and business related courses, and the low household participation rates, suggests opportunities are being missed to encourage more remittances to be invested productively.

Figure 7.7. **Few households in the sample benefited from financial training**

Share of households receiving financial training (%) in past 5 years, by regional area

Source: Authors' own work based on IPPMD data.

StatLink ᴬᴵˢᴸ *http://dx.doi.org/10.1787/888933458484*

Conclusions and policy recommendations

This chapter has examined the link between migration and investments in the Philippines, and the extent to which public policies in the investment and financial service sector may influence migration investment decisions.

The results indicate that migrant households are more inclined to invest in more traditional and potentially safer undertakings such as property, rather than in business. The main reason is likely to be the difficulty of doing business in the country – for both local and foreign investors. More investment-friendly policies, as well as policies that facilitate business creation and operation, are hence important for spurring more investments from remittances and return migration. Some government initiatives to support return migrants' business activities are underway, such as entrepreneurial activities supported by the National Reintegration Center for OFWs, but as the findings in this chapter indicate, more needs to be done to stimulate the use of remittances to promote entrepreneurship. The results also point to particular barriers to real estate investments in rural areas.

Finally, the research reveals that having a bank account is associated with higher remittances and lower use of informal remittance channels. Yet fewer than one in three surveyed households have a formal bank account.

The low supply of, and household participation in, financial and business-related literacy courses also suggest opportunities are being missed to encourage more remittances to be invested productively. Expanding financial inclusion and providing literacy training would facilitate household saving and investment and strengthen the development impacts of remittances.

Policy recommendations are as follows:

- Policies to promote entrepreneurship – providing support for the various phases of developing, starting and managing a business – should help migrants and their families to overcome investment barriers and stimulate more productive remittance investments.

- A national programme to enhance the financial literacy of Filipinos in general and migrants and their families in particular could also encourage more remittances to be invested productively. Including financial education in the high school curriculum would reach an even broader population. The expansion of financial literacy programmes could be coupled with the development of financial instruments tailored to the needs and the resources of remittance-receivers and return migrants.

- To stimulate more formally sent remittances, policy makers should aim to reduce the number of Filipinos who are unbanked by expanding the presence of financial institutions and delivering financial services beyond more developed and urbanised areas.

Notes

1. Non-bank entities can perform quasi-bank functions and can include investment houses, finance and investment companies, securities dealers and brokers, pawnshops, lending investors, non-stock savings and loan associations, electronic money issuers, remittance agent, credit-granting entities, credit card companies under BSP supervision, and private and government insurance companies (i.e. SSS and GSIS) (NEDA 2011).

2. This chapter only focuses on non-agricultural land, as agriculture and agricultural investments are discussed in Chapter 5.

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