

ADVANCING THE FINANCIAL INCLUSION OF FILIPINO MIGRANTS

A CASE STUDY

APRIL 2020



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INTRODUCTION

Over 2.3 million Filipinos are employed around the world as “Overseas Filipino Workers” (OFW) in a mix of blue collar and professional skilled jobs. These migrants send more than US\$33 billion in remittances back to the Philippines annually, which represents over 8 percent of the country’s national income.¹ Lebanon has become a popular destination for migration, and of its estimated 200,000 migrant workers in 2019, approximately 29,000 were Filipinos, mostly women working as domestic workers. These women are hired under the “Kafala” system that binds them to their employers and provides them limited rights. Nonetheless, the draw of a US\$500 per month salary, exceeding the average monthly household income in the Philippines, is sufficient to attract and retain a large number of these workers. Most of these women send a large percentage of their salary home to support family members and often do not save sufficiently for the future. As a result, they are forced to stay in Lebanon by renewing their employment contracts annually or return home with little to show for their time overseas.

Al Majmoua, Lebanon’s leading microfinance institution (MFI), has been offering migrant workers, primarily from the Philippines, a short-term group lending product for more than a decade. While portfolio quality has consistently been strong (less than .07 percent portfolio at risk), and Al Majmoua believes this lending has helped migrants to cover their periodic financial needs and establish small businesses, the institution has been concerned that the loans are not contributing to the migrant Filipino women’s longer-term socio-economic development. In response, Al Majmoua decided to develop a cross-border support strategy to help migrant worker clients take advantage of their ability to access financial services in Lebanon to improve their livelihoods in the Philippines when they return.

With the support of FMO, the Dutch development bank, Making Cents International was contracted to work with Al Majmoua to develop this cross-border strategy. Making Cents and Al Majmoua conducted both quantitative and qualitative research in Lebanon and the Philippines to understand the situation of Filipino migrants, then co-created a feasible strategy to respond to their financial needs. While the strategy was relevant in 2019 when initially developed, the COVID-19 crisis makes this type of program even more important as a means to support migrant workers’ successful reintegration in the future.

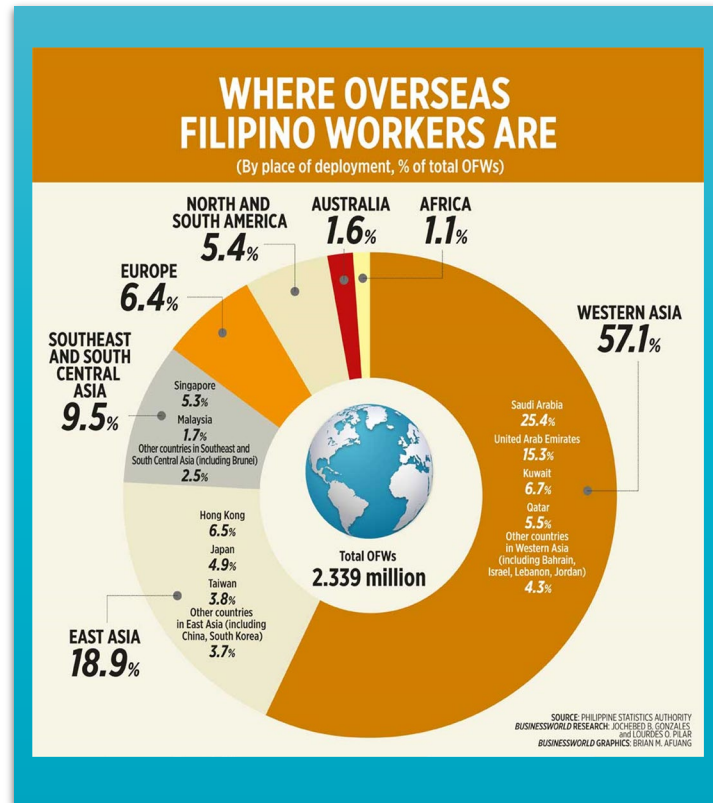
This case study, finalized in April 2020, describes the research methodology, summarizes key research findings, and outlines Al Majmoua’s strategy to support the financial health of Filipino migrant workers. Its publication was delayed due to the COVID-19 Pandemic.

BACKGROUND ON FILIPINO MIGRATION

The Philippines has a long history of migration. While migration began as far back as the 16th century with the early seafarers, it was in the 20th century that it became a major trend for the island nation. Initially, migration was fueled by unskilled labor traveling to the U.S. to support

¹ Philippines Overseas Employment Agency statistics

infrastructure development. After World War II, skilled labor, notably doctors and nurses, began migrating to North America and Europe to meet the demands of the healthcare industry. Beginning in the 1970s, fueled by rapidly growing economies in the Middle East and a Filipino government initiative to absorb surplus labor, a massive third migration wave began. This wave deployed both skilled workers (engineers, health professionals, IT technicians) and unskilled workers (domestic workers and caregivers) to the Middle East; currently, over 55 percent of these OFWs are women. Unlike previous periods, during which many migrants resettled permanently in destination countries, most Filipinos now are temporary workers and will return home after 5-10 years.² This eventual return makes a successful resettlement a key concern for Filipino migrant workers and policymakers.



Source: Businessworld Magazine; May 25, 2018

DRIVERS OF MIGRATION

Migration today has become part of the culture and economy of the Philippines. It is driven by a variety of factors including:

1. **Unemployment and Low Wages.** The Philippines economy is growing, but at an insufficient rate to provide enough jobs at high enough wages to retain capable Filipinos, especially when the salary for domestic workers in the Middle East can exceed the median average salary in the Philippines.³
2. **Discrimination and Uneven Meritocracy.** The *padrino* system, a cultural practice to give favors to relatives, friends, and authority figures in return for future favors, is often cited as a cause of migration for low-income populations who lack the local connections or resources to get ahead.

² Valuing the Social Cost of Migration, An Exploratory Study, UN Women, 2013

³ Department of Education and St. Louis University in the Philippines last 2018

3. **Enhancement of Professional Skills.** Gaining a global experience can give Filipinos a career edge among other professionals who remain in the Philippines and enhance their marketability and compensation when they return.⁴
4. **Curiosity and Adventure.** Filipinos also go abroad out of curiosity to experience the culture and life of other countries. It gives them an opportunity to see the other side of the world through their own eyes, take pictures of their adventures, and show them off to friends and relatives.⁵

"Masakit umalis, pero gutom ang aabutin dito."
(It is painful to leave, but staying here means going hungry.)

Interview with OFW

Source: UN Women Report 2013

CHALLENGES AND FEARS OF OVERSEAS FILIPINO WORKERS

While earning additional income has been a net positive for migrant families and for the Philippines overall, migration is associated with its own particular risks, especially for women. These risks are:

1. **Violence and Abuse.** OFWs fear physical and psychological abuse in the workplace or sudden termination of their employment. This fear encourages them to remit as much money as they can, even when their earnings are reduced.
2. **Racial Discrimination.** OFWs often encounter discrimination or prejudice in their workplace, especially from their employers. "There was a time when I received lesser salary than the right amount I should have received because of my race," shared one OFW.⁶
3. **Weakened Family Ties.** OFWs face the challenge of weakened family relationships or even marriage breakups when they leave home for another country. "I fear that my children will rebel against me, my husband will get another wife, and my money and efforts will be put to waste," said one OFW.⁷
4. **Negative Impacts on OFW Children.** In a UN Women study from 2013, children found it difficult to accept long-term separation from their parents due to migration. The absence of immediate parental supervision and the need for parenting by extended family members exposes children to many risks and can negatively impact their psychological and academic performance.

⁴ Feljone Galima Ragma, Ed.D, and John Patrick Molina; *Angst of Warriors: The Fears of Overseas Filipino Workers (OFWs)*, St. Louis University, Baguio City, Philippines, 2018. <https://www.researchgate.net/publication/324137028>. Accessed July 7, 2019.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

5. *Familial Overdependence on Remittances.* Increasing family expectations and dependence on the OFW's income sometimes make it a challenge for migrant workers to develop substantial savings and can drive more materialistic or consumerist lifestyles among OFWs that are difficult to sustain.⁸
6. *Limited Economic Opportunities upon Return.* Economic reintegration remains the biggest challenge for many returning migrant workers. While they may have gained experience and skills by working abroad, migrant workers find it hard to gain or maintain similar employment opportunities when they return. Some are then forced to accept wages not commensurate with their abilities and experience, or potentially migrate again.⁹
7. *Lack of Social Protection.* Many migrant workers do not have adequate protection against economic and social distress in times of illness, employment injury, unemployment, disability, and old age, either overseas or when they return. While OFWs are required to pay fees to PhilHealth and the Overseas Workers Welfare Administration (OWWA), these benefits are limited in coverage.¹⁰

AL MAJMOUA'S SUPPORT TO MIGRANT WORKERS

Al Majmoua has extended loans to migrant workers in Lebanon, particularly female domestic workers from the Philippines, for more than a decade. Over 99 percent of their Filipino clients are women who earn on average US\$550 per month, of which they remit US\$300-400 directly to their parents or children for household, education, and social security expenses. While a good salary by Philippine standards, they often need to borrow for lump-sum purposes like paying school fees for their children, covering health emergencies, or making business investments. Al Majmoua meets this demand by offering a group lending product, and Filipino clients regularly borrow US\$500-\$1,000 via this product over a six-month period. As of April 2019, Al Majmoua had a portfolio of US\$1.6 million distributed among 2,900 clients,



As an initial step to serve this clientele better, Al Majmoua also tested the Hawiyati Digital Identity solution with 500 migrants in the spring of 2019. Hawiyati – meaning “my identity” in Arabic – is a block-chain based digital identity solution launched by Making Cents International that enables users to record their loan data and develop a cross-border credit history. Al Majmoua's migrant clients were excited by the solution and the potential it offered to help them access financial services both in Lebanon and upon their return to the Philippines.

⁸ Public Services International, *Return and Reintegration to the Philippines An Information Guide for Migrant Filipino Health Workers*, France.

⁹ Ibid.

¹⁰ Ibid.

with a Portfolio-at-Risk rate of less than .07 percent — better than Al Majmoua’s overall portfolio. This positive experience has encouraged Al Majmoua to expand its lending further to Filipino migrants, and also to consider other services that it can provide to support their livelihoods (see text box on their pilot of the Hawiyati digital identity solution).

RESEARCH METHODOLOGY

RESEARCH ACTIVITIES

Making Cents and Al Majmoua conducted research in both Lebanon and the Philippines using a mix of qualitative and quantitative methods to understand and quantify aspects of the migrant, especially domestic worker, context. Research in Lebanon focused mostly on understanding the situation of Al Majmoua’s clients through an online survey, focus group discussions, and key informant interviews, whereas activities in the Philippines focused on developing an assistance strategy through interviews with potential partners.

FINANCIAL HEALTH FRAMEWORK

To analyze the situation of migrants and focus on the outcomes of financial inclusion rather than the outputs of providing loans or training, results were aligned within the Financial Health framework. This framework was originally developed for high-income country contexts and has been adapted by Accion’s Center for Financial Inclusion for middle- and low-income countries. The framework helps assess how well one’s daily financial routines build resilience from shocks and create opportunities to pursue one’s dreams. The model assumes that whether they live in rural or urban areas, in countries both developed and developing, individuals share a common



Source: Center for Financial Inclusion, Accion International

aspiration for financial health. Within a developing world context, the global financial health framework consists of six primary indicators used to measure consumer financial health, as well as four contextual factors that are important to consider.¹¹ Initial findings from the OFW research are presented using this framework (see the following section), and the programmatic responses have been designed to improve specific aspects of Filipino financial health.

FINDINGS

The research indicated that Filipino migrant workers have fair to good financial health while in Lebanon, but that their prospects diminish when they return home. Findings also provided insights into the specific interventions that may improve financial health both in Lebanon and upon return to the Philippines.

STATUS OF MIGRANTS' FINANCIAL HEALTH

1. Balances Income and Expenses

Current Situation: Good

- OFWs have shown capability to generate income that greatly exceeds personal needs, as evidenced by the frequent and consistent remittance of their earnings to the Philippines. As determined in focus group discussions and based on academic studies, OFWs are able to provide for family needs such as education, shelter, food, and utility payments while employed abroad.
- It was revealed during interviews that OFWs also borrow from lenders or utilize the *paluwagan* traditional group savings system for large sum purchases.

Future Situation: Fair

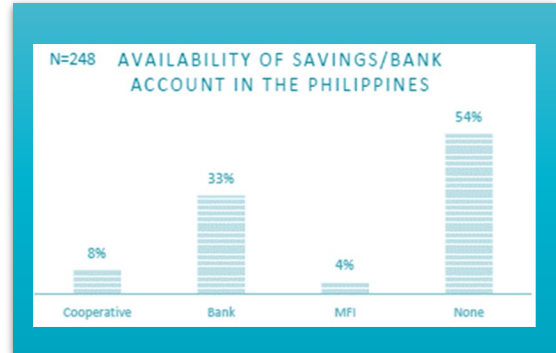
- OFWs are concerned that they will not be able to meet personal or family needs without steady income upon return to the Philippines. As a result, they continuously look for ways to gain business experience while overseas or to start small businesses, usually managed by a close family member, back at home.
- Despite this strong interest in starting or running businesses, OFWs are concerned that they may not have the necessary skills for long-term success. Hence, they have indicated interest in training on business and money management skills and vocational skills in areas such as culinary arts and others. In an online survey conducted by Al Majmoua in June 2019, out of 157 respondents to the question on training, 61 percent are interested in how to start a business, followed by financial guidance or advice on household matters (15 percent), and artisan or craft training (13 percent).

¹¹ Center for Financial Services Innovation and Center for Financial Inclusion at Accion, *Beyond Financial Inclusion: Financial Health as a Global Framework*, March 2017.

2. Build and Maintain Reserves

Current Situation: Fair

- OFWs keep some savings “under the mattress” or at their places of residence for daily or emergency requirements. Many OFWs save for the short-term (up to one year) through the paluwagan group savings system. The micro-businesses set up in the Philippines, or investments in livestock as a result of their remittances, are also used to offset volatilities of household cash flows by liquidating inventory of goods or livestock.
- In the online survey by Al Majmoua, a majority of respondents did not have a savings or bank accounts back home because they do not have enough money available (36 percent) or enough time to open an account (19 percent), or they do not live in the Philippines so believe it is pointless (10 percent). Moreover, 5 percent prefer to keep the money with them, use their husband’s/children’s account (4 percent), or keep it with their employers (2 percent). Several clients mentioned they had trust issues or were unable to open an account.



Source: Al Majmoua Client Survey - June 2019

- As revealed in the focus group discussions, online survey, and desk review, few OFW use formal savings accounts for longer-term savings. Most of the money sent home is used for daily and monthly household expenses as well as payments for education, working capital for businesses, and property acquisition.¹²

Future Situation: Poor

- As a result of the lack of savings, many OFWs do not have sufficient funds for their own needs and will be dependent on children or family upon return. They also rely on businesses set-up as a steady source of future cash flow.
- In the same survey, out of 204 respondents to the question on where they would like to open a savings account, OFW clients indicated that they would open savings accounts in rural banks (31 percent) or MFIs similar to Al Majmoua (29 percent). Unfortunately, these services are not always available to them in their return communities.

3. Manages Debt and Has Access to Resources

Current Situation: Good

¹² Kevin C. Galvez, *Allocation of Remittances of Overseas Filipino Workers' (OFWs) Households in Cebu Philippines*, University of San Carlos, Cebu, Philippines, January 2017.

- OFWs are able to manage current debt levels across a number of lenders, including Al Majmoua. In general, OFWs have been known to be prudent in their debt management by borrowing only if they have the repayment capacity. A number of focus group discussants shared that they are averse to borrowing and only came to Al Majmoua to help a friend form a group to access a group loan. In a survey of OFW households in the Philippines, only 39 percent have an existing loan while 61 percent do not have a loan.¹³

Future Situation: Fair

- When they return to the Philippines, OFWs are concerned they will not be able to service debt in the future without steady income from a business or a job. They are acutely apprehensive of expenses that pile up upon their return, even during their vacation back home. To prepare for this, clients are looking for additional sources of funding, such as a loan from a bank or OWWA fund, to finance a prospective or existing business.

4. Plans and Prioritizes

Current Situation: Fair

- Most OFWs are already proficient in establishing the amount of and sending remittances based on the needs of the family for consumption, education, shelter, and health purposes. They proactively invest in family-run businesses. Their remittance allocation prioritizes household expenses and treats education as a long-term investment.¹⁴
- Although they plan for family needs, many do not plan for personal needs, especially upon retirement, and are dependent on family support upon returning home.

Future Situation: Poor

- In focus group discussions, OFWs expressed concerned they will not be able to manage different priorities in the future as their economic situation changes. With the little pension they might receive from social security or with no pension at all, they have begun to consider learning new skills to make themselves self-reliant and earn new sources of income from food production or dress making.

5. Manages and Recovers from Shocks

Current Situation: Fair

- Since OFWs lack personal savings to cushion cash flow gaps, they rely on a variety of sources to offset liquidity issues due to death, disability, illness, or disaster. Although OFWs have healthcare coverage through their employer, most OFWs do not have life insurance policies that will take care of their families in case of death or disability. In case of emergencies or disasters back home, they rely on access to Al Majmoua credit to provide

¹³ Ibid.

¹⁴ Ibid.

for funds for those shocks. On a personal level, OFWs leverage their social networks for additional financial resources or non-financial assistance and support.

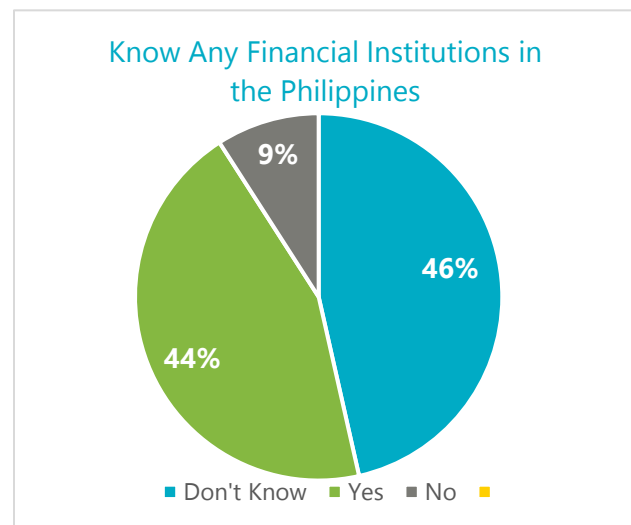
Future Situation: Fair

- OFWs can access the national healthcare system in the Philippines. But if an illness requires long-term or specialized treatment, costs might exceed the health insurance program reimbursement caps.
- Due to relatively low levels of savings, OFWs may not have a sufficient cash cushion to draw on in times of illness, disability, disaster, or other emergencies. It would therefore be prudent for them to develop alternative sources of support from MFIs, family networks, and social groups to tap resources needed to recover from these shocks. More importantly, due to OFWs' long absence from the Philippines, they will need to revive dormant social networks or create new ones once they return home.
- OFWs have an opportunity to apply and pay into social, health, and welfare benefits through payments to the Philippines social security system, PhilHealth, and Overseas Workers Welfare Association. These social safety nets will provide for their needs during times of crisis or emergencies upon their return.

6. Uses an Effective Range of Financial Services

Current Situation: Fair

- Although generally OFWs do not have bank accounts or personal insurance, they still utilize other financial services such as money transfer and credit services. They also borrow from Al Majmoua, and some have experience with Philippine MFIs and cooperatives. They also tap moneylenders and family for sources of funds.
- However, there remains room for financial education and supporting Filipinos to utilize more effective money management techniques. For example, many use relatively expensive money transfer services, but more experienced OFWs compare the total cost of money transfer for both sending and receiving as well as calculated foreign exchange rate losses to maximize the yield for the recipients back home.



Source: Al Majmoua Client Survey – June 2019

Future Situation: Poor

- Since many have stayed outside the Philippines for years, OFWs' knowledge of financial services in the Philippines is limited. Many are not familiar with, understand the use of, or know where to obtain savings accounts, insurance products, and financial investment opportunities. Should OFWs return to the Philippines, they will need time to understand the market for financial products and expand their know-how, which can hamper the growth of their businesses or financial security of their families. In addition, the lack of credit history may inhibit access to credit for consumption or business investment.

OTHER KEY FACTORS TO CONSIDER

A. Absolute Income Level

Although the Philippines is a middle-income country, most migrants originate from poor communities with average income for similar domestic work at US\$100 per month versus US\$400-US\$600 in Lebanon. This wage differential and opportunity to earn consistent income has driven many rural women to work overseas. This assertion was confirmed in focus group discussions in which women discussed their places of origin and the earnings derived from domestic work. Remittances even at US\$200 monthly are enough to cover their family's basic food, shelter, and education needs. This has also led to the rise of second-generation OFWs who see this as a way of life to earn for household needs and support the previous generation of family OFWs when they retire.



Source: Center for Financial Inclusion, Accion International

B. Income and Expense Volatility

Current OFW income is stable, providing a strong base for planning and saving. However, this stability must be protected through insurance and asset-building to support OFWs' return to the Philippines. Instituting social, health, and welfare safety nets also enhance protection from volatility, especially in times of death, disability, illness, violence, and government bans on deployment (enacted by the Philippines government when receiving countries are affected by conflict or crisis). Since household expenses are fixed, OFWs normally maximize their cash flow by having side businesses apart from their main occupation or borrowing from lenders such as Al Majmoua to pay for large expenses back home.

C. Social Network

OFWs have good social networks overseas, especially in countries like Lebanon where they have been working for a long time period. The focus group discussions showed how extensive the Lebanese social network is, with over 25,000 Filipinos being members of over a dozen Filipino associations and numerous online chat groups. In the online survey by Al Majmoua, out of 164 respondents to the question on social support, 78 percent find social support from individual Filipino friends, while 12 percent find it in church or religious groups and 10 percent from social or civic activities. Nonetheless, these networks may not translate to home communities since they may not have kept abreast of social or filial developments during their absence.

D. Financial Role in Household

Most OFWs in Lebanon are female breadwinners, impacting their relationship to families back home. They have become decision-makers on how remittances are budgeted, used, and maximized. Many focus group discussants have separated from or divorced their husbands, further accentuating their role as head of the household. This change in status makes their beneficiaries in the Philippines dependent on remittances generated by the OFW. Money sent to parents or children also influences many life choices by their loved ones, especially the children. Even family issues such as illnesses, behavioral problems, or personal conflicts affect how remittances are deployed, thereby potentially derailing the OFWs' personal financial plans or deferring their return home.

PROJECT ROADMAP

As a socially-oriented institution that provides credit services to migrants, Al Majmoua is in a unique position to assist Filipino workers to improve their financial health both in Lebanon and when they return to the Philippines. Based on findings from research conducted with current clients, other financial institutions, and support organizations, Al Majmoua can provide OFWs needed non-financial services, adapt and add new financial services in Lebanon, and link OFWs to financial institutions and support organizations when they return. These services will have an impact on all aspects of financial health, but especially their ability to *Build and Maintain Reserves, Use an Effective Range of Financial Services, Plan and Prioritize, and Manage Debt*.

Al Majmoua and Making Cents developed a project roadmap that Al Majmoua originally intended to begin implementing in 2020, but due to the confluence of COVID-19 and economic and social crises in Lebanon, the initiative has been delayed until 2021 at the earliest. The overall project goals, objectives, and proposed activities is described below:

PROJECT GOALS AND OBJECTIVES

Goal: Al Majmoua will support Filipino Overseas Foreign Workers (OFW) to develop sustainable livelihoods upon their return to the Philippines through a set of lending, education, and referral activities in both Lebanon and the Philippines.

Objective 1: Education and Training: Provide educational services to OFWs to promote better financial management and the development of sustainable businesses upon return

- 1a. Provide financial education training to Filipino OFWs
- 1b. Provide business management training to Filipino OFWs

Objective 2: Financial Services: Provide loans to OFWs that meet their needs and encourage savings in the Philippines.

- 2a. Provide lending services to OFWs in Lebanon
- 2b. Encourage savings through partnerships in Lebanon and the Philippines

Objective 3: Referral Services: Support OFWs to transfer credit and employment history and gain access to financial services and non-financial support upon return.

- 3a. Participate in Hawiyati Protocol system to develop digital identities for Filipino OFWs
- 3b. Provide linkages to financial services and support systems in the Philippines

ACTIVITIES

1a. Offer relevant financial education training in Lebanon

Al Majmoua will offer short financial education courses to OFWs to encourage savings, compulsory payment to relevant government agencies, and the opening of formal savings accounts. The courses will be provided through a partnership with Pinoy Wise International, a well-respected Filipino NGO that provides training to OFWs.

1b. Offer relevant business management training in Lebanon

Al Majmoua will offer short business management training to Filipino OFWs that encourages investments of savings in productive businesses that can sustain OFWs upon return.

2a. Revise Loan Products

In response to client demand, Al Majmoua will adjust loan amounts and terms to enable qualified Filipino OFWs to borrow larger amounts for a longer time period or smaller amounts for shorter periods.

2b. Create Linkages to Savings in the Philippines

Al Majmoua will encourage savings through partnerships with Philippines-facing remittance agents or financial institutions. This encouragement can occur through simple education programs (along the lines of 1a) or through a more direct relationship with an institution. Two examples of direct relationships could include:

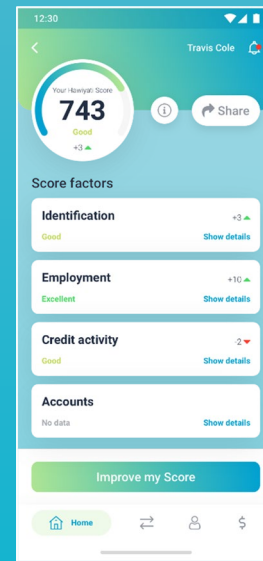
- I-Remit. Develop partnership with I-Remit agent in Lebanon whereby Al Majmoua directly transmits loan amount to I-Remit agent; most of the loan is then remitted at the client's direction, but a part is deposited into the client's savings account and/or government pension program.
- Philippine Banks. Build relationships with one or multiple major Philippine banks that have digital finance offerings (e.g., BDO and Unionbank) and facilitate savings account opening by becoming third-party agents for "Know Your Customer" or KYC purposes.

3a. Transfer credit histories through digital identity solution

Incorporate digital identity system (e.g., Hawiyati Protocol) into operations as a means to verify identities and build transferable records for migrant workers that will help them to access financial services upon return.

3b. Create linkages to support services in the Philippines

Provide support services to returning Filipinos through collaboration with a Filipino organization such as Pinoywise International that supports OFWs and/or their families.



Potential Partnership: Hawiyati

The Hawiyati digital identity solution was piloted with Filipino migrant workers and Syrian refugees by Al Majmoua in 2019. Results indicated that Filipinos were very interested in the solution and especially how it could help translate employment and credit history documentation to the Philippines, allowing them to gain access to credit or other financial services upon their return. Making Cents is working with other partners to develop the platform further, add additional financial education features, and determine the best way to scale up the platform in the MENA region and the Philippines. If successful, the identity solution could serve as an important link for Filipino migrants to financial health information and to financial services at home. Learn more about Hawiyati at www.hawiyati.com.

NEXT STEPS

Migration has become a way of life for many Filipinos. It provides employment opportunities for millions and income support for over a quarter of Filipino households. However, the financial health of migrant workers is variable and their prospects often poor when they return. The current COVID-19 crisis lays bare these challenges, as tens of thousands of migrant workers are suddenly returning home without the resources to manage or recover from this economic shock.

Our research indicates that support designed to improve migrant workers' financial health while overseas may better prepare them for their eventual return. Through education, adapted loan products, and links to their home country's financial system through a digital identity and relationships with support service providers, Al Majmoua is proposing actions that can improve Filipino migrant worker financial health while overseas and upon return. More broadly, these types of actions have the potential to facilitate the return of the over 250 million migrant workers and refugees globally.