Overseas Filipino workers' (OFWs) remittances: compilation practices and future challenges

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Background

Philippine migrant workers, commonly called Overseas Filipino Workers (OFWs), perform a vital role in the economy. The stock of OFWs has averaged 4.8 million over the last five years, with about 95 percent classified as land-based workers.[2] OFW remittances have emerged as a major source of the country's foreign exchange inflows. Remittance flows contribute significantly to economic growth with its share in gross national product (GNP) averaging 8.9 percent over the last five years.

In 2005, remittances channeled through banks amounted to US$10.7 billion, or a year-on-year growth rate of 25.0 percent. Robust inflows were mainly attributed to the: (i) sustained demand for OFWs; and (ii) improved capture of remittance flows. Filipino workers' professionalism and technical competence continued to be the source of strength to remain competitive in the overseas labor markets. As OFWs grow in numbers (by latest count they constitute about 6 percent of the Philippine population), local banks have benefited from their new economic status, with OFWs increasingly accessing banking channels to remit funds to Philippine beneficiaries. Commercial banks' faster delivery systems and wider choice of remittance centers abroad further facilitated the shift to formal channels. By 2005, therefore, only 13 percent of total remittances, from a high of about 25 percent in 2001, were channeled outside the banking system.

Compilation efforts prior to 2004 revision

The shift to the use of the Balance of Payments Manual, 5th edition (BPM5) as the framework for balance of payments (BOP) compilation, which started in 2000, was gradual given the data limitations and institutional constraints. One of the problem areas was the measurement of OFWs' contribution to the external accounts. Basically, their contribution had been measured in terms of remittances which grew steadily to become a major component in the country's BOP. However, data on remittances were entirely based on the bank reporting system, with no details provided on the volume of foreign exchange transactions reported to the central bank. This limitation, and other factors, prevented the full adoption of internationally recommended concepts and coverage.

The old estimation procedure is described as follows:

1. The rule on residency was not followed. All contract workers, regardless of the length of stay in the host economy, were considered as residents.

2. Compensation of employees was measured net and not gross as required in the BOP system. Estimates of income were based on the amount of cash remittances,

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[1] Bangko Sentral ng Pilipinas.

[2] Based on Stock Estimates of Overseas Filipino Workers (OFWs) by the Commission on Filipinos Overseas, Department of Foreign Affairs.

therefore net of workers' expenditures spent abroad. Likewise, remittances in kind were not covered in the estimates.

3. Only remittances channeled through the banking system are captured. Country attribution is traced to the immediate source of fund transfer. Thus, the use of correspondent banks located outside the countries of deployment tends to distort statistics on the true source country.

4. As a consequence of the net measurement of income, there is no estimate in the BOP of workers' travel expenditures.

Recognizing the deficiencies of the old approach and the need to conform to international standards, the Bangko Sentral ng Pilipinas (BSP) created an Interagency Task Force on OFW and Travel Statistics in 2001 to address data gaps and unify statistics on migrant workers. The interagency group set out to harmonize estimation methodologies with the System of National Accounts (SNA). The Task Force also aimed to establish a data system that would complement bank reports in monitoring workers' remittance and travel accounts for BOP compilation purposes.

The Task Force instituted the following changes, among others:

(a) Established benchmark estimates of the number of Overseas Filipinos including contract workers. The Task Force utilized combined sources such as censuses of host countries, reports on headcount by Philippine embassies and consulates, and membership databases of overseas workers' welfare agencies.

(b) Initiated collaborative effort to gather average salary per worker by skill and country through random sampling of employment contracts. To estimate the average salary data, the Task Force reviewed employment contracts processed for deployed workers, as well as data results of skills mapping exercises.

(c) The Commission on Filipinos Overseas (CFO), Philippine Overseas Employment Administration (POEA) and the Overseas Workers Welfare Administration (OWWA) serve as the lead government agencies involved in implementing and institutionalizing the above activities.

In 2003, the BSP handed over the supervision of the Task Force to the National Statistical Coordination Board (NSCB), the country's highest statistical policy-making body, so as to align the task force activities with parallel efforts of the NSCB's Inter-Agency Committee (IAC) on Labor, Income, and Productivity. Based on the updated results of the Task Force's activities, the reorganized IAC approved the conduct of bilateral consultations between the BOP and the SNA compilers. The consultative efforts were geared toward unifying their methodologies.[3]

2004 BOP revision: estimation methodologies and data sources

Starting in 2004, BPM5 recommendations have been fully adopted across all major accounts in the BOP, among which are the OFW-related accounts – income, travel, and current transfers. Recently, historical data going back to 1999 have also been revised to bring about consistency for time series analysis.

The following are the salient points of the methods being adopted by the BOP compiler specifically on OFW-related accounts:

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[3] The Philippine SNA has not shifted to the 1993 manual and continues to treat all OFWs as residents.

A. Concept of residence

The BOP observes the one-year rule for residency, as an OFW intending to work abroad for less than one year is considered a resident of the Philippine economy. Conversely, an OFW intending to work abroad for one year or more is considered a non-resident of the Philippine economy.

Based on this principle, OFWs are classified into two main categories:

1. Sea-based workers – considered as Philippine residents regardless of the length of work contract. This treatment follows the BPM5 concept on the mobility of seafarers who are in international waters most of the time and thus have not established a center of economic interest in any given economy.

2. Land-based workers

   (i) Performing artists – considered as Philippine residents since they normally have six-month employment contracts.

   (ii) All others – considered as non-residents since land-based workers generally sign two-year employment contracts.

B. Estimation of the stock of OFWs

Based on the benchmark numbers (per category) established by the task force, monthly updating is based on a moving total, computed as follows:

$Stock_{t=1} = Stock_{t=0} + number\ of\ deployed_{t=1} - number\ of\ workers\ with\ finished\ contracts$

Example:

$Stock\ of\ Performing\ artists_{t=Jan04}$

$$= Stock_{t=Dec03} + deployed_{t=Jan04} - deployed_{t=Jul03}$$

$Stock\ of\ Sea\text{-}based_{t=Jan04}$

$$= Stock_{t=Dec03} + deployed_{t=Jan04} - deployed_{t=Jan03}$$

$Stock\ of\ Other\ land\text{-}based_{t=Jan04}$

$$= Stock_{t=Dec03} + deployed_{t=Jan04} - deployed_{t=Jan02}$$

The benchmark estimate for stock of OFWs was established for 1998 and 1999 data series, using information from Philippine embassies and consulates supplemented by reports from OWWA welfare offices in host economies on stock data of undocumented workers.

C. Estimation of compensation of employees (CE)

1. Sea-based workers

$CE_{Sea\text{-}based} = Remittances \div 0.80$

As stipulated in the work contracts of sea-based workers, it is mandatory that 80 percent of the basic salary be remitted to the officially designated beneficiary. Thus, banks' electronic reports on remittances are magnified to represent total compensation. It should be noted, however, that overtime pay earned by seafarers on board is not captured using this approach. However, other databases, particularly the Survey of Overseas Filipinos (SOF), provide parameters for estimating remittances in kind, which are then assumed as being financed by overtime pay. In short, remittances in kind also represent estimate of overtime pay and other benefits.

2. Performing artists

$CE_{Performing\ artists}$ = *Stock of workers$_{t=0}$ x average salary per worker$_{t=0}$*

> Plus: *number of deployed$_{t=1}$ x average salary per worker$_{t=1}$*

> Less: *number of workers with finished contracts x average salary per worker prevailing at the time of their employment*

The POEA provides data on the average salary per worker used in the above estimation method for compensation of performing artists.[4]

D.   Estimation of workers' remittances

Workers' remittances cover current transfers to the Philippines in cash and non-cash sent by non-resident OFWs. Cash remittances of non-resident OFWs are computed by deducting remittances of resident OFWs from the global estimate of remittances, which is the sum of remittances channeled through banks and informal channels.

The BSP compiles data on cash remittances that are sourced from electronic bank reports (or FX Form 1) generated through the International Transaction Reporting System (ITRS). FX Form 1 reports are also used to derive data on OFW remittances by country and type of worker.

Since 2001, thrift banks, offshore banking units (OBUs) and foreign exchange corporations have been included as entities required to report their foreign exchange transactions to the BSP. However, the data series do not accurately reflect the actual country of deployment of OFWs due to the common practice of remittance centers in various cities abroad to channel remittances through correspondent banks mostly located in the United States. Since local banks attribute the origin of funds to the most immediate source, the U.S. therefore appears to be the main source of OFW remittances.

To account for cash remittances through informal channels and come up with the global estimate of remittances, a raising factor (r), based on the results of the SOF, is applied as follows:

Global estimate = remittances through banks x 1.r

Remittances in kind are likewise estimated as a percent of cash remittances based on the SOF results.

E.   Travel expenditures

- Travel debit (imports)

Travel expenditures abroad of resident OFWs are derived as follows:

Travel imports$_{Sea-based}$ = Compensation of employees (CE)

> Less: *Total remittances*

where *Total remittances = cash$_{banks\ +\ other\ channels}$ + in kind*

The BSP also makes use of partner country data to complement domestically generated information. For instance, since more than 90 percent of performing artists/entertainers are

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[4]   The POEA and OWWA are government agencies attached to the Department of Labor and Employment (DOLE) specializing in OFW employment issues and welfare concerns. The POEA provides data on salary per worker by skill and country of origin, although with a considerable time lag due to the agency's manpower constraints. The time lag could be one year or more from the reference year.

employed in Japan, the Family Income and Expenditure Survey (FIES) of Japan is used to estimate entertainers' travel expenditures abroad.

- Travel credit (exports) and current transfers debit

Based on POEA information, the bulk of deployed land-based workers are basically rehired under work contracts with the same employer or new overseas firms. It is a common practice that after the end of the two-year work contract, the land-based OFWs embark on home visits for at least a month. Travel exports are imputed to represent their local expenditures during their home visits. However, it is also assumed that the family provides for all the expenses and thus current transfers (or payments) are also recognized. The estimates of travel exports and the equal amount of transfers are based on the per capita personal consumption expenditure under the SNA.

Travel credit = Transfers debit

> *= per capita personal consumption expenditure X number of non-resident OFWs*

F. Summary methodology of total remittances

While the estimate of total remittances is not shown explicitly in the BOP report, the BSP prepares a supplementary table on the estimate for analytical purposes. Total remittances are categorized into two main sources, as follows:

- Resident OFWs

$R_{1 \text{ Performing artists}} = CE - \text{Travel expenditures}$

$R_{2 \text{ Sea-based}} = (\text{Cash remittances through banks})$

> *x raising factor*

> *+ remittances in kind*

Remittances by resident OFWs are segregated by type of worker, in order to account for the diverse remittance practices of performing artists and sea-based workers.

- Non-resident OFWs

$NR_{\text{Sub-total}} = (\text{Total cash remittances through banks})$

> *x raising factor*

> *– remittances of resident OFWs ($R_1 + R_2$)*

> *+ remittances in kind*

It should be noted that the raising factor was reduced from a high of 28 percent in 2001 to 20 percent in 2004. In 2005, it was further reduced to 15 percent to account for the increase in the volume of remittances passing through formal channels.

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Box1

Survey of Overseas Filipinos (SOF)

The SOF is a nationwide survey conducted every year by the National Statistics Office (NSO) that seeks to gather information on Filipino citizens who left for abroad during the last five years. It is a rider survey in the October round of the NSO's quarterly Labor Force Survey (LFS).

Collection of data on the profile of overseas workers started in 1982 using a one-page rider questionnaire in the Integrated Survey of Households, but has since evolved to derive the estimate of the number of OFWs and other information on migrant Filipinos. In 1993, the two-page questionnaire was renamed Survey of Overseas Filipinos.

The SOF aims to provide data on overseas Filipinos, particularly overseas contract workers and their contribution to the economy. Specific objectives are:

1.   to obtain national estimates on the number of overseas Filipinos including overseas workers and their socio-economic characteristics (e.g., name, age, sex, civil status, highest educational attainment, occupation); and

2.   to provide estimates on the amount of cash and in kind transfers received by the families, as well as their modes of remittances.

The survey involves a probability sample of about 51,000 households, which are considered representative samples of private households in all provinces of the country. Two forms are used in the survey, namely:

SOF Form 1 – gathers the socio-economic characteristics of overseas Filipinos, the amount of cash and in kind transfers received, and the modes of remittances, among others; and

SOF Form 2 – serves as a household control form to be used as basis for determining households with members who are overseas.

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Statistical issues

The BSP has identified the following areas of concern in measuring data on workers' remittances:

1.   There is an urgent need to at least set up a well-coordinated system of monitoring that will cater to the individual statistical needs of each concerned agency, given the varying objectives and mandates among agencies. In particular, population statistics and other administrative data do not conform exactly to the BPM5 definition. Even the Philippine SNA has not yet adopted the recommended definition of residence, which is supposed to be consistent with the BPM5 recommendation. At present, all contract workers, regardless of the length of stay in the host economies, are treated as residents in the SNA. Meanwhile, population statistics' cover of residence extends up to a five-year period, so that a migrant worker will be dropped from the Philippine population count only after five years of working abroad.

2.   The present system of monitoring the headcount of migrant workers is still subject to a number of deficiencies:

   (a)   the difficulty of monitoring migrant workers with no valid work documents or those counted as tourists upon departure

   (b)   tendency of an upward bias in the headcount due to:

      (i)   mobility, especially in landlocked countries, which results in counting the same worker in two different places in one accounting period;

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the fact that returnees with unexpired work contracts are not covered in the estimation process as the system does not closely monitor returnees; and
the possibility that workers who are frequently on vacation could also be counted more than once in one accounting period upon their return to the host countries.

3. There is a need to conduct an independent survey as the sampling design of the present SOF is not intended to provide efficient estimates and parameters on OFW statistics. The present SOF is just a rider survey to the October round of the NSO's quarterly Labor Force Survey (LFS) and, consequently, the sampling frame is the same as that of the LFS.

4. More in-depth cross border comparative analysis should also be undertaken in order to increase the reliability of statistics on OFW remittances. Partner country data could be verified initially on a regional level and with major host economies, to be expanded to other source economies of workers' remittances. However, the observance of thresholds, particularly in partner countries' ITRS, has been a limiting factor, since relatively small values are missed out in their systems.

Future direction

In collaboration with other Philippine statistical authorities, the BSP adopts a forward-looking approach to fully address the domestic issues in compiling workers' remittance data. The interagency committee aims to: (i) harmonize the definition of terms and come up with reconciliation points; and (ii) strengthen the current system to monitor the headcount of migrant workers. In technical meetings with the POEA planning office, the BSP and POEA have drawn up joint timelines for measures that are aimed at further disaggregating the OFW database, particularly data on monthly salary by skill and on deployment of workers. The BSP has also lined up a project with the CFO on the improved computerization of migration statistics. Meanwhile, the BSP continues to coordinate with the NSO on a medium- to long-term target of improving the SOF's sampling design, by launching the survey independent of the LFS with OFW households as the direct respondents.

In a parallel move, the monetary and statistical authorities in the region are focusing on compiling workers' remittance data that would serve relevant policy needs. The regional compilers recognize the vital role of central banks' initiatives toward sound regulatory environments that will promote the efficient use of remittances. The initiatives would encourage partner countries to: (i) explore ways to reduce transaction costs; (ii) develop payment systems and financial intermediation functions; and (iii) improve financial literacy and labor conditions. The ultimate goal for policymakers is aligned with the Millennium Development Goal of reducing poverty, which could be achieved if migrant workers are provided the proper infrastructure and mechanisms for channeling their foreign exchange savings to micro-enterprise activities and other alternative financial instruments.