International Migration and Migrant Workers' Remittances in Indonesia

Findings of Baseline Surveys of Migrant Remitters and Remittance Beneficiary Households

IOM International Organization for Migration

ERCOF
Economic Resource Center for Overseas Filipinos

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FOREWORD

With 200 million migrants worldwide sending home an estimated USD 316 billion of foreign exchange earnings in 2009 (World Bank), remittances are the most visible and immediately measurable gain from international labour migration. By strengthening families' purchasing power, remittances are also believed to boost local economies. As this occurs, important questions have been raised as to how remittance flows have actually made an impact on development.

Indonesia is the most populous and geographically largest country in South-East Asia. It has also the second largest migrant worker population in the region, reaching 748,825 placements in 2008 with a steady increase yearly, according to the National Board for Placement and Protection of Indonesian Overseas Workers. Most Indonesian labour migrants are found in Malaysia and Saudi Arabia, and Bank Indonesia recorded that remittances sent back home by Indonesian labour migrants reached USD 6.6 billion in 2009. This amount has reached one third of the total inflows of foreign direct investments and has exceeded the official development assistance.

This study reviews the migration and the remittance scenario in Indonesia through a development lens. Indonesian workers abroad send home the fruits of their hard work to improve the lives of their family members and to contribute to the local economy through investments. The Government of Indonesia has improved its policies for easing the procedures on remitting money back to Indonesia. It has also provided capacity- building and facilitated financial services to migrants, including collaborating with commercial banks to provide loans and credit for placement cost and remittance services. However, while these are commonly observed, complex issues and challenges remain. This study hopes to contribute to the discussion of these issues and to the various efforts to enrich baseline data that are useful in migration and development analysis.

The International Organization for Migration (IOM) aims to build the knowledge about the impact of migration on development and how migration can spur development. Through this research paper, the IOM hopes to support the Government of Indonesia in translating knowledge into policy and action.

Denis Nihill

Chief of Mission – Indonesia
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This publication is dedicated to understanding remittance flows to Indonesia, which are increasing at a fast pace. The findings and recommendations of the research will serve to inform and benefit the implementation of the pilot projects that aim to promote productive use of workers' remittances in Indonesia.

The research team that conducted this study consists of the following: from ERCOF – Ildefonso F. Bagasao (Principal Researcher), Ma. Lourdes T. Lopez, Dr. Fernando Aldaba, Jeremaiah M. Opiniano, and Bernadette Radcliffe; and from IOM – Aiko Kikkawa (Project Manager), Cecilia Cantos, Hendra Adi, and Ann Kangas.

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[1] The aim of the project is to promote the link between remittances and development in South-East Asia (SEA), as well as to provide support to the European Union's (EU) ongoing efforts to manage migration challenges and promote development in SEA countries of origin through data gathering, policy dialogue, and pilot project activities.

LIST OF ACRONYMS AND ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
ATM	Automated Teller Machine
BCA	Bank Central Asia
BI	Bank Indonesia
BNI	Bank Negara Indonesia
BNM	Bank Negara Malaysia (Malaysia Central Bank)
BNP2TKI	Badan Penempatan dan Perlindungan Tenaga Kerja Indonesia (National Board for Placement and Protection of Indonesian Overseas Workers)
BP3TKI	Balai Pelayanan Penempatan dan Perlindungan Tenaga Kerja Indonesia (Service Agency on Placement and Protection of Indonesian Migrant Worker)
BPR	Bank Perkreditan Rakyat (People's Credit Banks)
BRI	Bank Rakyat Indonesia (Indonesian People's Bank)
BSP	Bangko Sentral ng Pilipinas (Philippine Central Bank)
ERCOF	Economic Research Center for Overseas Filipinos
GDP	Gross Domestic Product
IEC	Information, Education and Communication
ILO	International Labour Organization
IOM	International Organization for Migration
IT	Information Technology
MFA	Ministry of Foreign Affairs
MFI	Microfinance Institutions
MICRA	Microfinance Innovation Center for Resources and Alternatives
MMT	Ministry of Manpower and Transmigration
MOU	Memorandum of Understanding
MTOs	Money Transfer Organizations
NGOs	Non-Governmental Organizations
PPP	Purchasing Power Parity
RSP	Remittance Service Providers
SBMI	Serikat Buruh Migran Indonesia (Indonesian Migrant Workers Union)
SMS	Short Messaging System



I. EXECUTIVE SUMMARY

A. International Migration from Indonesia

Unemployment and poverty, inadequate infrastructure, a complicated regulatory environment, and regional inequality are all push factors driving international migration. The number of migrant workers deployed from Indonesia is rising and has reached 748,825 in 2008. Adding to this is the large number of irregular migrants leaving the country without going through the formal recruitment scheme. Indonesia is now recognized as having the second largest migrant worker population in South-East Asia, second only to the Philippines. Indonesian migrant workers, the majority of whom are women (79%), are mostly employed in Asia (59%) and the Middle East (41%). Most migrant workers are employed in the informal sector (77%) mainly as domestic workers or labourers.

In light of increasing migration, the Government of Indonesia has attempted to improve the quality of recruitment, training, and pre-departure services to protect those who want to migrate overseas for employment. Despite this, reports of abuse of Indonesian workers, both by private recruitment agencies in Indonesia and employers abroad, are reported on a regular basis. To decrease this, the government is now implementing a conscious strategy of facilitating the overseas deployment of more skilled and therefore highly remunerated workers.

The migration, deployment, and recruitment system involves numerous entities and agencies with identical and overlapping functions. This structure creates layers of bureaucratic procedures, confusion, and even lapses in governance, which add to recruitment costs that migrant workers eventually bear. Additionally, many migrants are recruited through informal "'sponsors'" or middlemen in their villages, a practice that results in extra charges and risks to the recruitment process, as some of the sponsors have ties with illegal recruitment agencies. Local governments are aware of this and have attempted to deal with the problem in various ways since decentralization was introduced in 2000. In Malang, East Java, agents working for private placement agencies have to register with the District Manpower and Transmigration Office and attend an orientation course before they can recruit workers within the area. In Mataram, West Nusa Tenggara, a One-Stop Center for migrants' documentation and processing has been established to ensure all migrants are properly documented.

In light of the increasing number of deployments of Indonesian workers overseas, remittances to Indonesia have also increased, reaching USD 6.6 billion in 2009. The largest amounts remitted come from Malaysia (USD 2.3 billion) and Saudi Arabia (USD 2.2 billion). A significant amount of remittances to Indonesia are sent through informal channels. The Bank Indonesia (BI) is therefore attempting to encourage the formalization of these flows through a number of initiatives. These include making it mandatory for all overseas migrants to open a bank account and for BI to provide financial literacy classes to migrants before departure.

In the last couple of years, BI has been encouraging non-bank agents conducting remittance transfers to register as formal channels. BI has also initiated a number activities to facilitate and promote the use of formal remittance transfer service by establishing banking networks, initiating dialogue with destination countries, and engaging other stakeholders to implement financial literacy sessions and orientation on banking and remittance procedures for migrants.

B. Survey Findings of Remittance Beneficiaries in Indonesia

The survey conducted among remittance beneficiary households in Indonesia, which consisted of 500 households, found the following:

Profile of Remittance Beneficiaries in Indonesia

The average age of the beneficiary household heads was 40 years old and most of them were married with children (80%). Majority have low education levels, with 83 per cent having earned junior high school diploma or below. The occupations of the beneficiaries were farmer/fisherman (29%), housewife (26%), merchant (14%), and unskilled worker (13%). Majority (63%) of the households have a monthly family expenditure of USD 100–194 per month. Most of the households have electricity (95%), colour TV (84%), and kerosene stove (80%). Majority of them also live in a home they own or that is not mortgaged (94%). Roughly half (56%) of the households claim to have a savings account, but only 16 per cent have Automated Teller Machine (ATM) cards. Ownership of other bank products was virtually nil.

Remitter Profile

Most migrant workers (who were working abroad at the time of survey) were found to be in the 18–34 age range (66%). Majority worked in unskilled occupations with most female workers employed as domestic helpers (81%) and most males employed as labourers (72%). The top destination countries for migrant workers were Saudi Arabia (43%) and Malaysia (39%). The vast majority (92%) of migrants from the surveyed households were said to be formally recruited through private recruitment agencies. The main drivers for seeking overseas employment were economic reasons: mainly, wanting to improve the family's economic condition (48%) and to find higher salaries (also 48%). Migrants' wages were found, in general, to range between USD 100 and USD 200 a month.

Financing of Overseas Employment

The average amount of recruitment fees a migrant paid was about IDR 4.8 million (USD 484) prior to departure, but the fees also depended on the country of destination. Pre-deployment expenses include documentation fee (74% answered they have paid this fee), meals during trips (64%), transportation cost to the agency and other locations (58%), communication (58%), and medical fees (43%). To raise money, migrants borrowed funds from recruitment agencies (55%), used their household/family savings (51%), or loaned from people other than household/family members (20%).

Remittance Channels and Frequencies

A total of 45 per cent of households received money about three or four times a year, while 17 per cent received money every other month. The average amount of remittance sent per transaction was IDR 3 million (USD 303), although the amount per transaction varied significantly by destination country. The amount sent per transaction of the migrants working in Malaysia was IDR 2.2 million (USD 222), while that of migrants working in other Asian countries was IDR 3.9 million (USD 393).

Most migrants used official banking channels such as Bank Negara Indonesia (BNI) (52%), BRI (20%), and Western Union (17%) to transfer remittances. Although a substantial number of migrants had hand-carried the money home in the past, only a small proportion (3%) was still using this mode. The survey also revealed that the beneficiaries seemed to have minimal or no influence at all in the migrants' choice of remittance channel to use.

Remittance Utilization

Most households (85.4%) were not solely reliant on remittances, but have other sources of income such as family members' salaries (60%), occasional employment (34%), and income from own business (29%). However, even the households that are not fully dependent on remittances mainly used remittances to pay for their daily needs. In terms of the volume of expenditure, food items were the largest (IDR 4,107,000 or USD 414), followed by house maintenance and repair (IDR 3,717,000 or USD 375), furniture and equipment (IDR 1,889,000 or USD 190), and education (IDR 1,853,000 or USD 187).

More than 50 per cent had some form of savings. The purpose of the savings was to prepare in case of an emergency (49%), for future expenses such as children's education (27%), pension (16%), or collect capital for business purposes (8%). A typical household saves about IDR 374,000 (USD 37) per month and keeps the money in the bank. In addition, some (14%) claimed to have some form of investment. These are mainly in farms, small grocery shops, or houses.

Slightly more than 30 per cent claimed they participated in voluntary donations while 66 per cent had not. The survey indicates there is low level of interest in philanthropic behaviour among respondents from areas with higher recruitment fees and higher incidence of poverty. Those who did show an interest in contributing to the community mentioned they would like to contribute money for religious needs (30%), to help the poor (22%), and for village development (13%).

C. The Migration and Remittance Environment in the Malaysia–Indonesia Corridor

Labour Migration to Malaysia

Malaysia is both an origin and a destination country of migrant workers. Despite its economic success in almost all sectors in the last 15 years, Malaysia has experienced structural shortage of labour supply in a number of sectors.

As of the end of December 2008, out of a total of 2,062,596 foreign migrant workers in Malaysia, Indonesian workers constituted 52.6 per cent (1,085,658). There is also a large number of irregular Indonesian migrant workers in Malaysia. Indonesian workers are mainly found in certain occupational sectors, such as domestic work (24.83%) and plantation work (25.33%), which they tend to dominate. For the past decade, the Malaysian government has made a conscious effort to reduce dependency on foreign workers from a particular source country by practicing diversification. As a result, the share of Indonesian workers has dropped over the past few years.

The Malaysia–Indonesia Remittance Corridor

Both Malaysia and Indonesia each have one dedicated regulatory body that is responsible for all remittances that go through remittance companies and their national banks (Bank Negara Malaysia (BNM) and (BI), respectively). According to BNM, a total of RM 1,021.8 million (USD 290.2 million) were remitted to Indonesia in 2008. Meanwhile, data from BI for the same year indicate that as much as USD 2.3 billion were channeled to Indonesia from Malaysia. Different methods of data collection and large flows of informal remittance transfers may account for the difference.

Nevertheless, the total remittance outflows from Malaysia indicate an increasing trend through the years, reflecting an increase in the number of foreign workers and new entries of remittance service providers (RSPs) to the market. The main channel of remittance outflow is through banks, but the market share has dropped from 93 per cent in 2005 to 77 per cent in 2008. This is a result of a series of liberalization measures introduced by BNM in the last few years, including allowing qualified non-bank operators to provide remittance services, allowing banks to appoint local agents to collect and disburse funds for remittance, and supporting regional ATM initiatives. This has led to the number of RSPs in Malaysia almost doubling between 2005 and 2008, which has resulted in greater competition and improved service levels in terms of cost and speed. The beneficiaries of the liberalization have primarily been low-skilled migrant remitters, who now enjoy greater access to formal channels.

D. Survey Findings of Indonesian Remitters in Malaysia

The second survey covered 300 Indonesian migrant workers in Malaysia. They are located in Klang Valley and Sabah Estate, two provinces where there is a high concentration of Indonesian migrants. Sampling quotas were enforced on migrants' occupations and legal status, with 30 per cent of the surveyed population claiming to be irregular workers.

Profile of Indonesian Remitters in Malaysia

Two thirds of the respondents surveyed were male (66%) and one third (34%) were female. This may be attributed to the sampling quota of a high proportion of labourers, the dominant group of Indonesian workers in Malaysia. The majority of respondents fell within the 18–34 age group, with an equal distribution between respondents claiming to be married with children and those saying they were still single (42% each).

The reasons given for migrating to Malaysia were higher salary/better income (abroad) (27%) and difficulty in finding a job in Indonesia (21%). Majority had paid recruitment fees, with the average amount for those paying in Indonesian rupiah being IDR 5.3 million (USD 353) and for those paying in Malaysian ringgit being RM 2,838 (USD 806). To finance the initial migration costs, 70 per cent of workers borrowed money from their own family to cover the pre-departure expenses. However, service workers (58%) and domestic helpers (53%), occupations dominated by female workers, relied more on parties other than their family members to finance their migration costs.

The respondents reported annual salaries in Malaysia that ranged from RM 26,032 (USD 7,395) for professionals to RM 9,556 (USD 1,185) for labourers and RM 4,172 (USD 1,185) for domestic workers.

Remittance Transfers and Knowledge about Remittance Services

The average amount of remittance sent per occasion ranged from RM 412 to RM 1,352 (USD 117 to USD 384), with technical workers sending the highest amount followed by professionals. Domestic workers sent a higher proportion of their salary as remittance (58% of their salary on the average) compared with all other occupations (below 40%).

Remittances were sent frequently. About 33 per cent of migrants sent money monthly and 24 per cent every other month. Banks, money exchangers (foreign exchange houses), and hand-carry were some of the most commonly used methods of remittance transfers. The respondents revealed a high regular usage of informal remittance transfers; foreign exchange houses recorded 34 per cent of patronage among all migrants, while 21 per cent said they regularly used the hand-carry method. There was a high patronage of foreign exchange houses among migrants in professional (34%), technical (58%), and service (59%) occupations. Reasons given by migrant workers for choosing a particular remittance channel were that channel was the safest (26%), most convenient (24.4%), and cheapest (22.1%).

Around 21 per cent of migrants were not aware of the service charge they pay for each remittance transfer. Some 85 per cent of respondents did not know the breakdown of their remittance charges. This finding may indicate a lack of knowledge among some segments of the migrant population on how to choose a RSP wisely for their benefit.

Savings, Investment Patterns and Community Development Activities

Less than half of the respondents (41%) have some forms of savings, which they plan to use to cover any urgent or current needs (22%), future needs (17%), or for retirement (14%). The average savings was about RM 323.7 (USD 93) or IDR 1 million (USD 101). Of those migrants in Malaysia who have savings, nearly half (48%) keep the funds at home, while 47 per cent keep it in the bank.

Only 3 per cent of all surveyed migrants said they have invested in Indonesia. Majority said they have no money to invest in Indonesia (67%) and they have no interest in investing (12%). However, it is notable that many migrants indicated their plans to return and retire in Indonesia (82%) and to own a business (22%) or a restaurant (8%) upon return.

A significant proportion (35%) of respondents expressed disinterest in supporting community work. This can partly be explained by the fact that many migrants are struggling to make ends meet in their own household. Of those who expressed interest in contributing, many would like to help poor communities (52%), contribute to religious needs (19%), or help victims of natural disasters (15%). About a fifth of the surveyed migrants (21%) had participated in voluntary donations, with most of them donating once a year.

E. Recommendations

Protecting Workers through More Transparent Migration Processes

Protecting migrants from abuse and exploitation is the most important mandate of the origin countries of migrant workers. It is ideal that migrants are able to gainfully contribute to the development of their communities and countries of origin, and this can happen if their rights and welfare in the destination countries are well protected.

- Indonesia needs a more effective oversight over both formal and informal recruitment service providers to come up with a migration process that is uncomplicated, fast, and affordable. The roles and responsibilities of the agencies should be clearly defined, and the offenders should be held accountable by punitive measures. Introducing a mechanism whereby recruitment agencies are held responsible for the misconducts committed by agencies, middlemen or employers (joint and solidarity liability) should be considered. Blacklisting of offenders is also critical; this can be done not only for agencies but also for the owners of agencies. Unions and civil society can supplement the work by monitoring the quality of service provided by agencies.

- Streamlining the administrative work required to obtain clearance for overseas employment should also be sought to minimize costs and the scope for fraud. The One-Stop Center established in Mataram District of West Nusa Tenggara Province (see Annex 6) serves as a good example for other provincial and district offices to follow.

- More effort should be made to empower migrants through the introduction of extensive skills and language training in means other than the existing pre-departure orientation, which is very short and non-participatory. The creation of mutual support groups among migrants, strengthening of inter-State cooperation, and improved migration data collection and sharing will contribute to this objective.

Encouraging Formal Remittance Transfers and the Productive Use of Remittances

The existing efforts of financial institutions, governments, and civil society to promote formal remittance transfers and the productive use of remittances may be enhanced through the following measures:

- As a means of promoting fair competition, further provisions should be introduced to allow migrant workers' bank accounts to remain open with low maintaining balances for a longer period of time (up to one year) regardless of inactivity. This is to address the realities that many migrant workers are not able to remit earnings during the first six to eight months of employment due to their pre-departure loan repayments. Alongside this, more effort can be made to familiarize migrants with banking services.

- For the Malaysia–Indonesia remittance corridor, more effort should be made to formalize informal service providers, which are dominating the market, in order to create a fair ground of competition among various service providers.

- Central banks and formal RSPs should seek alternative forms of identification to facilitate the access of irregular migrants to use their services. This may include the possible use of an Indonesian national identity card (Kartu Tanda Penduduk or KTP), based on biometric data, which is currently being piloted in Indonesia.

- To promote innovation, there is an urgent need to draft an e-money regulatory framework in Indonesia that will allow mobile-based and other innovative remittance services. As a means of promoting competition, it is also recommended to require RSPs to publicize their remittance fee structure so migrants are better informed in choosing the services.

- More research and surveys can be done to understand the utilization pattern of remittances and its links to development in Indonesia along with the continuation of existing effort to better capture remittance data. Inter-State dialogues with destination countries of Indonesian migrants are vital to bring clarity to the remittance inflow.

Providing Financial and Banking Service to Migrants and their Family Members

The survey affirmed the importance of orientations and other pre-departure measures that can influence and encourage the formal transfer of remittances and their productive use. Basic financial literacy, covering skills and knowledge on how to leverage earnings productively, and information on the different forms of remittance channels and their benefits and disadvantages in terms of speed and cost structure, should be imparted not only to migrants but also to the beneficiaries. Access to financial services has been identified as a gap in the remittance environment and the study recommends the following:

- It is important to review the existing financial literacy training module and information campaign strategies and assess the appropriateness of contents and medium, especially considering various categories and needs of migrants. The standardization of modules and producing, sharing, and disseminating relevant information education and communication (IEC) materials are highly recommended. Information must reach not only migrants, but also their family members through the involvement of local governments.

- Banks, in partnership with grassroots financial institutions, should enhance their product development efforts to come up with products and services that will cater to the needs of migrant families, such as microbusinesses, agricultural and emergency loans, real estate and home improvement loans, and health and educational insurance. Technical support, capacity-building, and human resource development targeting microfinance institutions (MFIs) and cooperatives could be provided by financial institutions or even development agencies.

- As an entry point to providing banking and other financial services to migrants, providing loans to migrants at fair rates to pay for initial migration costs can be further explored. The formation of migrants' cooperatives could be another viable alternative in obtaining funds to defray placement expenses, apart from other services such as savings and money transfers.

- To ensure more productive utilization of remittances and migrants' earnings, regional governments should develop and strengthen entrepreneurship training for returned migrant workers in the form of a reintegration programme. This should include training on business skills, financial planning, and accessing markets and credit and financial institutions such as commercial and rural banks, MFIs, and cooperatives.

II. INTRODUCTION TO THE STUDY

A. Overview of Overseas Employment from Indonesia and Workers' Remittance

Migrant remittances have ballooned in size worldwide. In 2010, there were almost 214 million persons living or working in countries other than their own (UN, 2009). Officially recorded remittance flows to developing countries reached USD 316 billion in 2009 (World Bank, 2010). These flows did not include remittances that were sent through informal channels, which, if recorded, would significantly enlarge the volume of remittances.

According to the National Board for Placement and Protection of Indonesian Overseas Workers (BNP2TKI), the number of migrant workers from Indonesia [2] has been increasing over the years, from 380,690 in 2004, to 748,825 in 2008 (BNP2TKI, 2010). In addition, remittances sent by these workers, which, according to BI, amounted to USD 6.6 billion in 2009, have been an important factor in the country's renewed economic growth in the past few years. According to a BI survey report, remittance inflow contributed to Indonesia's balance of payment in the amount of 27 per cent of all services, income, and current transfer value (BI, 2009).

Migration and remittances have corresponding costs and benefits to both the providers and the beneficiaries of foreign labour. Labour-beneficiary countries, which are mainly advanced or newly developed countries, view foreign labour as a strategic resource urgently needed in areas that are or will be in short supply, or as a solution to address demographic changes, specifically in ageing societies. On the other hand, a visible and huge migrant population may present real or perceived issues associated with labour competition, migrant-related crime, discrimination, and even racial issues.

To migrants' countries of origin, remittances provide a lifeline to poor migrant households and, at the macro level, contribute to an essential source of foreign exchange reserves and a stabilizing force for the economies of origin countries even during turbulent times. However, previous studies (Lucas, 2005; Ghosh, 2006) also showed that while remittances resulted in the alleviation of poverty for migrants' families and provided multiplier effects on the broader economies of developing countries, the benefits were asymmetrical, limited to the less-poor areas, and not automatically widespread throughout the whole country. That migrants are often paying significant amounts of transfer fees to remit money home is also well documented. The question has also been raised whether remittances could compensate for losses of skilled workers (the reality of brain drain), the social and psychological costs associated with the separation of families, and the perpetuation of a culture of dependency among migrant families and their countries of origin. Instances of abuse and exploitation of migrants

[2] In Bahasa Indonesia, they are called Tenaga Kerja Indonesia (TKI).

continue to be documented or reported in increasing frequency. These social and psychological costs of migration cannot be measured in monetary terms.

As highlighted in the series of debates taking place in the frame of international fora such as the Global Forum on Migration and Development, more governments, members of civil society, private sector, and migrant organizations have taken a closer look at the potential of migration and acted upon measures to harness the development impetus of migration while mitigating the negative consequences. An increasing number of migrant origin countries in partnership with destination countries are introducing measures to reach out to its diaspora for their technical and financial contribution to promote development, to reduce remittance transfer costs, and to promote saving, investment, and wise spending of remittance.

An effort to leverage migration for human development is a relatively new strategy for migrant countries of origin such as Indonesia, which began to experience large migration outflows in very recent years. Since 2006, BI has been conducting remittance surveys among remittance beneficiaries to better understand the transfer and utilization of remittances. In the same year, Indonesia's Coordinating Ministry for Economic Affairs also initiated work on the financing aspect of migration as a way to promote the welfare of migrant workers by seeking to provide mechanisms or access to less-burdensome financing options. Amid these initiatives, this process could be facilitated by documenting and collecting more evidence on how remittances are impacting migrant households and the source communities to help the government make better informed policy decisions.

It is in this light that this study was conducted with an aim to better understand the existing flow of remittances to, and migration from, Indonesia, through innovative surveys that specifically look at the knowledge, attitudes, and practices on remittance management among migrant remitters and remittance beneficiaries. These surveys complement existing studies, not only because of their specific focus to elucidate the remittance behaviours of migrants and the families, but also for their innovative survey methods that capture a good mix of migrant groups of various occupations and legal status, which had not been achieved in earlier studies. Another innovative feature of this study is that its remitter survey collects information directly from migrant remitters in a destination country (Malaysia). Compared to earlier studies, which mainly relied on the family members left behind and the returned migrants as the survey target group, this methodology will provide a comprehensive picture of how remittances are managed from the perspective of the migrants themselves. The report will thus present some empirical findings and baseline information on remittance transfer channels, preferences and choices, and expenditure patterns of Indonesian remittance senders and receivers. As an important background to the survey presentation, the study also collected the latest information on migration and remittance policy and programmes in Indonesia, including the issue of decentralization, which plays an important role in providing necessary services and protection to migrants. It is hoped that the insights generated in this study will offer solutions to the problems and constraints that hinder the migrants' and government's ability to maximize migration gains.

B. Structure of the Report

The findings of the study are divided into three main parts. **Part I** will provide a comprehensive overview of the international migration scenario in Indonesia, and will touch upon the provisions of concerned laws and the responsibilities of national agencies and local governments in charge of regulating and facilitating migration. It will also discuss initiatives taken by the Indonesian government and other stakeholders such as recruitment agencies and other intermediaries in the migration process to protect its overseas workers. Furthermore, challenges facing migrants, their families, and the government in their desire to translate migration gains toward the development of their beneficiary households, their communities, and the country at large will be presented and discussed.

The discussion then leads to the financial environment surrounding remittance, which is regulated by BI. The market players not only include the Indonesian government, private and rural banks, but also non-bank agencies, such as private money transfer agencies, which are also participating in recording the inflows and outflows of money to and from the country. This chapter provides an overview of the remittances business and other migrant-related financial services, and information on the receipt of remittances, in terms of costs, speed, and other features. Initiatives and measures taken by BI to encourage formal transfers and to improve access by Indonesian migrants and their households to banking and other financial services within Indonesia and in foreign workplaces are given ample space of discussion in this section.

The chapter will then present the findings of a survey of 500 Indonesian households receiving remittance from migrant workers abroad to elucidate their knowledge, attitudes, and practices on remittance management. The survey results and some insights are provided on the social and economic profile of remittance beneficiary families, migration process and the financing of recruitment costs, the use of remittances, awareness of remittance channels and costs, the impact of remittances on living standards, household spending, productive investments and savings, and perspectives on philanthropic donations from the viewpoint of the heads of migrant households.

While Part I focuses on understanding the migration out of Indonesia to various destinations and the remittances to Indonesia that originate from these countries, **Part II** centres on Malaysia as a destination country and the source of remittances that are sent to Indonesian beneficiaries. Aside from a brief description of the migration scenario in Malaysia, this section contains a discussion on the banking and remittance environment, which ultimately affects the choice of remittance channels, and measures taken by BNM, the country's central bank, to regulate banks and money transfer agencies. It also features initiatives taken by both BI and BNM on information sharing and bilateral dialogues and on how to enhance the Malaysia–Indonesia remittance corridor.

Part II also contains the findings of a survey of 300 Indonesian migrants working under various, mostly low-skilled or household occupations, in Malaysia. As in the remittance beneficiaries survey in Part I, the findings provide a baseline profile of Indonesian migrants in Malaysia, including education, age, gender, marital status, reasons for going abroad, costs of migration, their remittance behaviour, awareness of remittance channels and remittance channel preferences, decision-making role on the use of remittances, initiatives on savings and investments, perspectives on philanthropic donations, and retirement aspirations.

Part III, the concluding part, discusses, for consideration by both Indonesian and Malaysian policymakers, recommendations on addressing specific issues and challenges on deployment and migration to Malaysia as a specific destination country. It also includes suggested measures to enhance the remittance environment in the Malaysia–Indonesia corridor, including suggestions made by international development and multilateral agencies. This part also includes recommendations to Indonesian and Malaysia stakeholders on harnessing the development potential of migrant workers' remittances by addressing the gaps and barriers and identified lapses in governance in the deployment procedures.

C. Research Objectives

The objective of the study is to enhance knowledge on workers' remittances to Indonesia (in particular, the corridor from Malaysia to Indonesia), with the aim of identifying gaps and challenges, channels used, and opportunities to promote the links between remittance and the social and economic development of Indonesia. To achieve this broad objective, this research carried out the following tasks and makes available the findings to a broad audience to enhance knowledge and understanding in the following areas:

I. Map out remittance flows and volumes, transfer mechanisms, service providers, regulatory policies, formal and alternative remittance channels .

II. Validate the market profiles and remittance behaviour of Indonesian migrant workers considering the various migration and remittance corridor studies available.

III. Enhance understanding of remittance behaviour, its socio-economic impact, and relationship to development issues.

IV. Put forward policy- and action-oriented recommendations to leverage remittances for development.

D. Research Methodology

The research methodology consists of: (i) a literature review, (ii) a baseline profile and market-based surveys of Indonesian migrants in Malaysia and remittance beneficiaries in Indonesia, and (iii) key informant interviews and site visits. The preliminary findings were presented for validation at a conference attended by key stakeholders from both Indonesia and Malaysia.

This study also considered the following important areas relevant to migration and remittances: (i) bilateral, regional, or international cooperation agreements that can likely influence the modality and the scale of migration and remittance flows; (ii) existing and innovative remittance services and banking practices; (iii) best and emerging good practices from migrant or support organizations; and (iv) other insights relevant for consideration by policymakers in existing or future initiatives for development.

Literature Review

Extensive desk research was conducted to review and assess existing studies relevant to Indonesian and Malaysian migration, remittances, and development. The following publications, in particular, were reviewed to feed into a comprehensive analysis of the issues under consideration: (1) a study on the Malaysia–

Indonesia corridor, completed in May 2008 by the World Bank under its Bilateral Research Corridor Analysis (BRCA) programme, provided a detailed analysis of the policy environment of the remittance and migration corridor (World Bank, 2008); (2) a study by the MICRA Foundation of female migrant workers' access to finance generated a wealth of knowledge on the remittance management among female domestic workers from Indonesia (MICRA Foundation, 2008); (3) an ILO study on the utilization of remittances for productive investment (ILO, 2008), the result of which was only partially released at the time of the study, confirmed many of the findings presented in earlier studies; (4) a study conducted by BI on remittance issues and the behaviour of Indonesian migrant workers in 11 Indonesian districts is the largest survey in scale carried out thus far in the area of remittance and presents a good baseline information collected by government officers targeting mostly regular migrants (BI, 2009); and (5) the proceedings of a two-day workshop and policy dialogue convened by the World Bank in Bali, Indonesia, in June 2008 on measures to enhance the effectiveness and integrity of remittance transfers between Malaysia and Indonesia contain good summaries of bilateral information sharing and discussions (World Bank, 2009).

Key Informant Interviews and Site Visits

The key informant interviews were conducted from June 2008 to February 2009 (see Annex 1 for the list of interviews). Site observations were also made and involved visits to both Indonesia and Malaysia. In Indonesia, villages or districts in Subang District Province of West Java, Malang District Province of East Java, and East Lombok District Province of West Nusa Tenggara, which are some of the key migrant origin communities in Indonesia, were visited in June 2008 and February 2009. In Malaysia, observation visits were also made between June and October 2008 in places where migrants congregate and transfer their remittances.

Surveys of Remittance Beneficiary Households in Indonesia and Migrant Remitters in Malaysia

A comprehensive remittance profiling and survey was conducted among remittance-receiving households and remitting migrant workers. These included a survey of 500 remittance beneficiary households in five areas in Indonesia and a survey of 300 Indonesian migrant workers in two states of Malaysia. The survey used a structured questionnaire that was originally designed by ERCOF and IOM. The actual questionnaires were pre-tested with both remittance beneficiary households in Indonesia and migrant remitters in Malaysia. Taylor Nelson Sofres (TNS) Indonesia office was selected as a partner to carry out the surveys and supported the team in fine-tuning and administering the survey questionnaires in Bahasa Indonesia. Data collection was conducted from November 2008 to January 2009. The detailed methodologies of these surveys are found in Chapter V for the remittance beneficiaries survey and Chapter VII for the migrant remitters survey.

Research Validation

The preliminary findings of the research were presented at the Interregional Policy Dialogue: Harnessing the Development Potential of Indonesian Migrant Workers' Remittances (Malaysia–Indonesia Corridor and the Netherlands–Indonesia Corridor as Case Points) held on 6–7 May 2009 in Jakarta. The Policy Dialogue was attended by 70 participants and stakeholders of migration and remittance issues, including the Government of Indonesia, Indonesian and Malaysian central banking authorities, financial institutions and money transfer agencies, Indonesian diaspora organizations, academic researchers, representatives of agencies recruiting Indonesian migrant workers, and civil society organizations. The participants gave valuable comments and feedback on the draft studies. A list of recommended actions aimed at leveraging remittance for the development of Indonesia and drafted by the participants during the dialogue was also incorporated in the research.

PART I

INTERNATIONAL MIGRATION AND REMITTANCES IN INDONESIA

III. INDONESIAN ECONOMY, INTERNATIONAL MIGRATION, AND POLICY FRAMEWORK

A. The Indonesian Economy: The Context for Overseas Migration

Indonesia has the largest economy in South-East Asia, with an estimated gross domestic product (GDP) in 2008 of around USD 932 billion and per capita GDP for the same year at around USD 3,900. [3] The Indonesian economy has recovered well from the 1997 East Asian financial crisis. Its economy enjoyed an average growth rate of 7.87 per cent in the first part of the early 1990s and fell to 0.98 per cent from 1996 to 2000. However, the economy rebounded to an average of 5.07 per cent from 2001 to 2007 (see Table 1).

Table 1: Average GDP growth rates in ASEAN: 1960–2007

	Average 61–70	Average 71–80	Average 81–90	Average 91–95	Average 96–2,000	Average 2,001–07
Cambodia	n.a.	n.a.	n.a.	7.77	7.34	9.68
Indonesia	4.18	7.87	6.41	7.87	0.98	5.07
Lao PDR	n.a.	n.a.	4.54	6.42	6.17	6.56
Malaysia	6.49	7.87	6.03	9.47	4.99	4.79
Philippines	4.93	5.92	1.80	2.19	3.96	5.02
Singapore	9.88	8.83	7.49	8.87	6.40	5.34
Thailand	8.17	6.89	7.89	8.62	0.64	5.05
Viet Nam	n.a.	n.a.	4.63	8.21	6.96	7.74

Source: World Bank Development Indicators; author's computations.

Economic growth in recent years has been propelled by key economic reforms introduced by the current administration of Susilo Bambang Yudhoyono. However, despite the recent growth resurgence, unemployment rates remain high in the country a situation often termed "jobless growth". Unemployment, especially in the rural areas, is a key push factor for international migration. Underemployment is also high at around 20 per cent of the labour force, which shows that around 45 million workers have "low-quality jobs" and are seeking better alternatives.

[3] From the CIA Factbook (www.cia.gov) in terms of Purchasing Power Parity (PPP).

It is notable that as a total, the unemployment rate is higher among the female labour force than the male workforce. With regard to age, unemployment levels are higher among young people; one third of the female workforce and a quarter of the male labour force aged 15–24 were unemployed in 2005. In terms of educational attainment, among the unemployed, over 80 per cent have only earned primary or secondary education (see Table 2).

Table 2: Unemployment in Indonesia (by gender, 2007)

	Total (of total labour)	Male (of male labour)	Female (of female labour)
Unemployment rate (%)	9.1%	8.1%	10.76%
Unemployment rate (% of labour aged 15–24)	28.7%	25.2%	33.8%
Unemployment (% of the unemployed)			
(a) with primary education	44.4%	45.3%	43.3%
(b) with secondary education	40.7%	42.3%	38.6%
(c) with tertiary education	9.6%	7.3%	12.5%

Source: World Bank, 2009a.

Note: The data on the unemployment rate for youths (ages 15-24) was collected in 2005.

Indonesia has scored fairly well in terms of poverty reduction, ranking second to Cambodia among the Association of Southeast Asian Nations (ASEAN), in reducing the number of its poor by almost 50 per cent in just 15 years from 96.7 million to 47.3 million. However, in absolute terms, Indonesia still has the most number of people below the USD 1.25 PPP poverty line in the region and a high 21.4 per cent poverty incidence (see Table 3). Poverty, especially in the rural areas, is a major reason why many Indonesians opt to work abroad.

Table 3: Comparative poverty incidence and number of poor in ASEAN (USD 1.25 at 2005 PPP)

Country	Poverty Incidence %		Average Reduction Per Year (%)	Number of Poor (mil)		Average Reduction Per Year (mil)
	1990	2005		1990	2005	
Cambodia	77.3	40.2	2.47	7.5	5.6	0.13
Indonesia	51.3	21.4	1.99	96.7	47.3	3.29
Lao PDR	65.9	35.7	1.99	2.7	2.0	0.05
Malaysia	1.9	0.5	0.09	0.3	0.1	0.01
Philippines	29.7	22.6	0.47	18.2	19.1	+0.06
Thailand	9.4	0.4	0.6	5.1	0.3	0.32
Viet Nam	34.2	22.8	0.76	22.6	19.0	0.24

Source: Asian Development Bank, www.adb.org.

Aside from poverty and unemployment, Indonesia still confronts challenges such as inadequate infrastructure, a complicated regulatory environment, and regional inequality. Weaknesses in governance, legal system, infrastructure, and tax and labour issues continue to rank high as obstacles to doing business. Indonesia is ranked 122nd among 183 countries in the World Bank and International Financial Corporation (IFC)'s Doing Business 2010 surveys. International business competitiveness is critical to the entry of foreign direct investments and generation of employment (Word Bank, 2009b). The non-bank financial sector, including pension funds and insurance, remains weak and underdeveloped despite efforts to broaden and deepen capital markets.

Poverty, income, employment situation, and the development of financial markets are important factors affecting Indonesian labour migration and remittances. For example, a total of 79 per cent of Indonesian migrants surveyed by BI earned less than IDR 500,000[4] (USD 50) a month before working abroad. This is below the average minimum rural wages of IDR 602,000 (USD 60) and IDR 672,000 (USD 67) for 2006 and 2007, respectively (BI, 2009). The wage differential between working in Indonesia and abroad is high, giving impetus for workers to seek higher incomes abroad.

B. International Labour Migration from Indonesia: An Overview

Indonesia is recognized as having the second largest migrant worker population in South-East Asia. The number of Indonesian migrant workers deployed abroad, as of the end of 2007, reached 4.3 million, slightly below the figure of 4.6 million as of the end of 2006. In 2006, the total number of Indonesian migrant workers who were working overseas officially registered by the MMT was reported to be 2.7 million, or 2.8 per cent of the Indonesian workforce. By region of destination, Indonesian workers were mostly employed in Asia (59%) and the Middle East (41%). Of the total number of workers employed abroad 1,149,028 (38.6%) were deployed to Saudi Arabia. For the same period, 1,077,168 (36.1%) were deployed to Malaysia (see Table 4). By gender, 79 per cent of the workers deployed from Indonesia were female, while by occupation, 77 per cent worked in the informal sector[5] such as domestic helpers. There are large differences between the occupations desired in the destination countries and, consequently, the types of jobs taken up by Indonesian workers. Out of all migrants going to Saudi Arabia, almost all were employed in the household sector. In Malaysia, on the other hand, only a quarter of migrants found employment in the household sector.

Furthermore, there was a relatively small proportion of professionals except in the Americas that stands at 40 per cent (BI, 2009). In recent years, the Indonesian government has attempted to facilitate more skilled migration to overseas markets that offer favourable remuneration and working environment. Remittances into Indonesia rose to an estimated USD 6.6 billion in 2009,[6] five times more than the year 2000 remittance base of USD 1,190 billion (World Bank, 2009a).

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4 USD 1.00 = IDR 9900.99 (as of 31 July 2009).

5 The state placement agency, BNP2TKI, uses the classification term of "informal sector" to refer to contract-based workers employed to do domestic work (e.g., house maids, nannies, and private drivers).

6 According to the 2008 Economic Report on Indonesia by BI, remittance flows into Indonesia were estimated to be USD 5.6 billion (see BI, 2009: 18).

Table 4: Deployment of Indonesian workers abroad by destination countries (2004–2008)

	2004	2005	2006	2007	2008	5-year Total
Malaysia	127,175 (33.4%)	201,887 (42.6%)	270,099 (39.6%)	222,198 (31.9%)	255,809 (34.2%)	1,077,168 (36.1%)
Singapore	9,131 (2.4%)	25,087 (5.3%)	9,075 (1.3%)	37,496 (5.4%)	28,673 (3.8%)	109,462 (3.7%)
Hong Kong SAR	14,183 (3.7%)	12,143 (2.6%)	13,613 (2.0%)	29,973 (4.3%)	39,714 (5.3%)	109,626 (3.7%)
Taiwan Province of China	969 (0.3%)	48,576 (10.2%)	28,090 (4.1%)	50,810 (7.3%)	78,263 (10.5%)	206,708 (6.9%)
Saudi Arabia	203,447 (53.4%)	150,235 (31.7%)	307,427 (45.1%)	257,217 (37.0%)	230,702 (30.8%)	1,149,028 (38.6%)
United Arab Emirates	133 (0.03%)	5,622 (1.2%)	15,494 (2.3%)	28,184 (4.1%)	38,478 (5.1%)	87,911 (2.9%)
Kuwait	15,989 (4.2%)	16,842 (3.6%)	14,725 (2.2%)	25,756 (3.7%)	28,404 (3.8%)	101,716 (3.4%)
Others	9,625 (6.77%)	13,929 (2.8%)	22,740 (3.4%)	43,859 (6.3%)	48,782 (6.5%)	138,935 (4.7%)
Total	**380,652 (100%)**	**474,321 (100%)**	**681,263 (100%)**	**695,493 (100%)**	**748,825 (100%)**	**2,980,554 (100%)**

Source: BNP2TKI, 2009.

C. Irregular Migration from Indonesia

Data on irregular migration are mainly estimates and therefore difficult to verify and compare. Host country estimates suggest there are 1.2 million legal Indonesian workers in South-East and East Asia, of which 1 million are in Malaysia (ADB, 2005). Another study placed an estimate of about 1.2 million irregular workers in Malaysia, of which 60 per cent are Indonesian (World Bank, 2007). However, some studies observe that given the ineffective monitoring of migrants and capturing of data, there could be more Indonesians working in foreign countries in an irregular situation.

The above-mentioned studies on Indonesian migration concur that realities associated with the legal placement process-particularly the manner, the long processing time, the excessive placement and other fees and expenses-drive Indonesian migrant workers to take the illegal route to working abroad. The illegal channels to overseas migration are usually quick and less expensive, but are fraught with risks of abuse and exploitation, and even trafficking. The excessive fees, repressive loans, and inordinately long deployment process and waiting periods in the dormitories of recruitment agencies are said to be triggering irregular migration. Workers have to pay off recruitment expenses advanced by agencies or money lenders, through salary deductions, before they can start remitting to their families. According to the Malaysian Association of Foreign Maid Agencies, the number of workers recruited this way totals about 30,000 every year.

D. Indonesia's Overseas Employment Policies, Governance, and Processes

1. Policy and Legal Framework: Law No. 39 year 2004

Law No. 39, promulgated on 18 October 2004, is the basic law that governs and regulates international labour migration from Indonesia. It was envisioned to: (1) strengthen the international labour migration system and ensure migrant worker protection, thereby replacing old migration ordinances that were no longer responsive to current realities and needs; and (2) give effect to a provision of the 1945 Indonesian Constitution assuring every citizen of the right to employment and a decent living, including the right to be protected while in the exercise of such right, particularly when overseas.

The explanatory note of Law 39/2004 (Placement and Protection of Indonesian Workers Abroad) provides the rationale for the law – that limited employment opportunities in the country have caused numerous Indonesian citizens to seek work abroad, but in so doing could be exposing themselves to the risks of inhumane treatment before, during, and after return to Indonesia. The law likewise defines "placement service" to be one that is "cheap, quick, uncomplicated, and safe", as opposed to other means, that might be considered "illegal placements" or even trafficking. The law also provides the benchmarks and minimum standards necessary for the evaluation and assessment of the implementation of its provisions (Text of Law 39, October 18, 2004; see Annex 2 for more details of the Law).

2. Primary Migration Agencies in Indonesia

There are five main agencies whose functions directly involve regulation, policy planning, and implementation of migration and remittance issues (see Annex 3 for the listing of the 11 relevant agencies on migration and their functions). These are: (1) the Coordinating Ministry for Economic Affairs; (2) the Ministry of Manpower and Transmigration; (3) the BNP2TKI; (4) the MFA; and (5) the BI. In addition to these agencies, local government units in provinces and districts perform a critical role in regulating and implementing placement and protection policies and procedures for migrant workers recruited from their territories (Interviews with BNP2TKI and MMT) (see Annexes 4–6 for a detailed description of local agencies and their key functions).

It is observed that even among the national agencies, mainly the MMT and the BNP2TKI, there is unclear delineation of authority and responsibility, traceable to inter-agency rivalry and political party affiliations. The resulting internal rifts have resulted in confusion and inconsistent application of policies. The last clear example of the rivalry is the 2008 MMT decision to give private recruitment agencies and the regional governments authority in labour recruitment through Ministerial Decree No. 22/2008. This decision has limited the BNP2TKI's role to implementing labour deployment only in countries having government-to-government agreements with Indonesia. Although the decree has already been revoked, the unclear responsibility between both agencies still remains.

3. Role of Local Government

Overseas employment administration has been devolved to local government agencies, as authorized by Law No. 39/2004 on Placement and Protection of Indonesian Workers Abroad. While the level of involvement in the overseas migration administration among local governments and the governors seems to vary significantly, some provinces with high migration incidences such as East Java, Central Java, and West Nusa Tenggara have issued regulations and policies concerning overseas migrant workers (Ford, 2006).

Most Indonesian migrant workers are recruited from remote areas in the countryside, highlighting the key role of middlemen or village sponsors (referred to in Bahasa Indonesia as calo). These individuals serve as a source of information on overseas jobs by virtue of their linkages with national and local private placement agencies. Migrant workers have to contend with additional costs for the service of these job intermediaries, who either earn commissions from the agencies or fees in the form of "donations" made by migrants. Invariably, these middlemen also get involved in sourcing pre-departure loans for migrants who cannot afford the migration costs.

The local governments are already aware of this seemingly widespread practice of village sponsors. Accordingly, government agencies discourage potential migrants from dealing with these middlemen as they often obstruct official functions. Measures are now being introduced to register individual agents working for private agencies at the district level and to subject them for periodic training to distinguish them from informal middlemen. This measure, however, is also criticized for adding another layer to the operating legal placement service, whereby private recruitment agencies are not only required to be registered at the national and provincial levels but their agents must also undergo authorization at the district level.

Local manpower staff interviewed were aware of the reintegration needs of overseas migrant workers particularly in the regency of Malang, which holds semi-annual programmes for entrepreneurship training and support for livelihood projects of returned migrant workers (interview with Manpower and Transmigration Office (MTO), Malang). These efforts, however, are still limited in scope and are in need of evaluation of their impact. Another notable regional initiative is the establishment of a One-Stop Center for migrants' documentation and processing located in Mataram, West Nusa Tenggara. This facility was instituted in December 2008 based on Governor Regulation No. 32/2008 on the formation of a One-Stop Service of Placement and Protection for Indonesian Migrant Workers upon the suggestion of non-governmental organizations (NGOs) and recruitment agencies (see Annexes 4 and 6).

4. Memoranda of Agreement to Protect Migrants' Rights

Law No. 39/2004 makes it mandatory for the government to allow the deployment of Indonesian migrant workers to destination countries whose government has entered into a written agreement with the Government of Indonesia, or which has legislation protecting its foreign workers.

The bilateral labour agreements facilitate orderly labour movements while also setting minimum norms and guidelines for the observance of proper measures for the placement and protection of migrant workers. Unfortunately, destination countries are generally known to shun bilateral agreements due to their more or less binding nature, in comparison to Memorandums of Understanding (MOUs), which offer little security as they can easily be changed to suit economic or market conditions.

Nevertheless, MOUs are a vital step forward, and Indonesia has negotiated and entered into nine such agreements, including one with Malaysia covering rules and procedures for the placement of its female domestic workers (see Annex 7 for a list of MOUs entered into by the Indonesian government). The Malaysian and Indonesian governments formed a technical working group consisting of representatives from both governments to thresh out problem areas in its implementation, particularly on the often-criticized provision authorizing Malaysian employers to keep the workers' passports in their possession, and effectively curtailing the worker's freedom of movement, right to association, socialization and learning of new skills, or choice of remittance channel to use (interview with MMT). The new MOU is expected to be signed in 2010.

5. The Recruitment Process for Indonesian Migrant Workers

The recruitment and deployment for overseas work of Indonesian migrant workers can only be done through private recruitment agencies licensed by the MMT unless migrant workers are deployed under the government-to-government placement scheme, of which the BNP2TKI is in charge. A 2008 publication of the MMT office lists 459 private placement agencies authorized by the MMT national office to recruit Indonesian workers, most of them operating from Jakarta. These agencies have also grouped themselves into federations mainly as a forum for discussing problems and issues and bringing these to the attention of government. The two biggest federations are the Indonesian Employment Agencies Association (IDEA) and the Indonesian Manpower Services Association (APJATI).

Aside from recruitment and placement, private recruitment agencies are also expected to perform certain services for migrant workers, such as advancing pre-departure costs on loan, extending assistance to migrants in opening bank accounts, and collaborating with other national manpower agencies or Indonesian banks in conducting pre-departure orientation training that includes some orientation on how to open bank accounts and send remittance. The study found that repaying pre-departure costs advanced by agencies is one of the major constraints to migrants' ability to remit and choose remittance channels during the time of repaying the debt.

Private placement agencies can only recruit workers in the provinces where they have established a branch office and are complying with the requirements of the provincial MMT office, including the posting of cash bonds. For instance, to open a branch in Surabaya district, an IDR 100 million or USD 10,101 deposit is required. When private placement agencies file their requests for the approval of job orders, the provincial office of MMT works with the recruitment agencies to allocate the job orders among several districts (interviews with Surabaya provincial MMT office).

Layered recruitment costs and processes are major obstacles faced by Indonesians desiring to work abroad. Many are recruited from remote rural villages through the intervention of middlemen or village sponsors, who often have links to both authorized and unauthorized recruitment agencies and whose services have to be paid either through a commission or involuntary donations at the expense of the migrants. These agents are most often known to the families of those recruited, and recruitment is most often realized through an informal invitation to work overseas. At this point, potential migrant workers are given little concrete information about what they can expect before departure, while overseas, or on returning home (Ford, 2006).

Workers recruited by licensed agencies, especially those who are recruited for housework, often have to stay for several months in the dormitories of these agencies, which are usually in Jakarta or in other urban centres. During this waiting period, they undergo training and orientation on their future jobs and country of destination while their papers are being processed. These workers are unable to work while awaiting deployment, compelling their family members to borrow heavily for their subsistence and to cover pre-departure costs. They reportedly borrow through money lenders, village sponsors, or the recruitment agencies at high interest rates. Workers recruited through irregular channels avoid this waiting period.

The multiple layers of brokers, and therefore costs from village, district, and province to Jakarta, are known to benefit the national and local government agencies, considering the numerous documentation materials required, ranging from personal identification, supporting letter from family, approval letter from the village head, health certificate, and passport. In securing these various documents, falsification and bribing of officials have reportedly occurred without being noticed. Observers are almost unanimous that the tedious and costly procedure has driven many intending migrant workers to take the irregular recruitment route and some have become victims of trafficking.

6. Skills Training

In terms of skills training opportunity provided to migrants, it is worth noting a programme for the teaching of information technology (IT) skills to Indonesian migrant workers. A programme called Mah-net-Tik (Rumah Internet Tenaga Kerja Indonesia) is being proposed to enhance the skills and credentials of Indonesian migrant workers and their family members for better job opportunities in Indonesia as well as in destination countries, save on communications cost, and prepare migrants for e-banking, in case that becomes more easily available. With proposed technical cooperation assistance with Microsoft, the project intends to put up Community Technology Centers (CTCs) in 10 districts in six provinces. The project initially involves the assessment of IT knowledge in the pilot districts, followed by training of trainers, purchase of computer equipment, and a small media campaign about the project. The project is structured in such a way that by its second year, approximately 36,000 people will have received training and are able to operate a computer, the income of the beneficiaries will have increased, and IT will have been adopted as a tool for development within the community. Its long-term sustainability is envisioned to be achieved with the local government subsidizing at least 10 per cent of the operational costs, and other resources donated by the private sector and paid through participants' and end-users' fees (interview with Microsoft and Tifa Foundation).

7. Migration and Overseas Employment Data Sharing and Coordination

MMT, its provincial and district offices, and the BNP2TKI, by virtue of their functions, all collect data on migrant outflows. In addition, the Department of Immigration and the Central Bureau of Statistics annually publish the Statistical Yearbook that contains data on international migration based on migrants' place of birth. All of these agencies have websites containing useful data, but unfortunately they do not seem to be linked or unified, and some data are not made electronically available (Sukamdi, 2008).

The overlap between functions of different key migration agencies could result in miscounting of the outflows of migrant workers. For instance, workers leaving for overseas work require approval from the national MMT, in addition to undergoing the registration process with the local MMT office in their birth place. One probable cause for the underestimation of migrant outflows is a failure by regional authorities to report overseas worker registrations, due to some confusion over functions and coordination, especially with the new responsibilities assumed by decentralized regional governments since 2000 (Barnes, 2007).

There is also a deficiency in data on returned Indonesian migrant workers. Other than those from a list of deported workers, there appears to be no institution or agency, or any established system of monitoring the number of returning migrants (Barnes, 2007). Improvement of data collection in these areas of migration information will contribute to enhanced policymaking process by keeping policymakers better informed about the current migration scenario in the country.

IV. WORKERS' REMITTANCES TO INDONESIA: TRENDS AND FRAMEWORK

According to BI, official inward remittances to the country from some 4.4 million of Indonesia's migrant workers abroad have reached USD 6.6 billion as of the end of 2009 (see Table 5). For the past four years (2005–2009), the remittance volume has grown at a steadfast rate of 5.79 per cent, on average. The growth coincides with an increase in the recorded number of Indonesians deployed abroad for employment (see Table 4). BI attributes the drop in 2009 to the global financial crisis, in particular to the moratorium on deployments to Malaysia since 25 June 2009 and to Kuwait since September 2009 (e-mail interview with BI).

The remittances flowing from Malaysia to Indonesia is estimated at USD 2.3 billion, or about 35 per cent of total remittances in 2009. Remittances from Malaysia, in addition to those from Saudi Arabia, of USD 2.2 billion (33%) represent a large majority of remittances (68%) to Indonesia. Other countries of origin of remittances are Hong Kong SAR with USD 425 million (6.6%), Taiwan Province of China with USD 425 million (6.4%), Singapore with USD 425 million (6.4%), United Arab Emirates with USD 179 million (2.7%), and Japan with USD 142 million (2.1%).

Table 5: Remittances coming into Indonesia (in USD million)

Remittances by Country of Destination	2005	2006	2007	2008	2009
Malaysia	2,659	2,732	2,586	2,476	2,335
Saudi Arabia	1,351	1,398	1,747	2,250	2,207
Hong Kong SAR	327	360	417	454	442
Taiwan Province of China	210	281	358	379	425
Singapore	124	135	188	214	425
United Arab Emirates	154	168	145	166	179
Japan	117	117	114	130	142
United States of America	53	54	60	66	107
Kuwait	65	71	77	103	109
Others	235	245	311	380	245
TOTAL	5,296	5,560	6,004	6,618	6,616
Annual growth rate	–	4.98%	7.99%	10.23%	-0.03%

Source: BI, 2010.

A. Banking and Remittance Framework in Indonesia

The remittance environment revolves around three basic elements – regulation, players, and competition – all of which greatly influence the overseas worker's decision on how to send money home, the mode of remittance transfers between the host country and the receiving country, and how the funds would be received by the beneficiaries.

It is BI, the country's central bank, which is responsible for regulating and monitoring remittance transfers into and out of Indonesia. Before December 2006, and with the exception of banks which were not obliged to register to carry out money transfer activities, there was no explicit framework for the regulation of remittances in Indonesia. Thereafter, BI issued Regulation 8/28/PBI/2006 authorizing registered non-bank agents to conduct remittance transfers. The measure also included transitional arrangements encouraging various entities operating remittance transfers without authority to register themselves as formal channels. A deadline for the registration was set by BI at the end of 2008 for registration, and then it was reset to 2009 due to the low turnout of registrants from the money exchange sector. The new regulation on the registration of money transfer agencies is a part of BI's efforts to address what is perceived to be the enormous scale of unregulated informal remittance channels that operate in Indonesia. Many foreign exchange houses in the country have long been serving as remittance outlets and continue to provide the services even if not registered.

The key players in the formal remittance services include large banks such as Commerce International Merchant Bankers Berhad (CIMB), BNI, BRI, and Bank Mandiri. Western Union and MoneyGram are the leading money transfer agencies servicing migrants' remittances. Due to the long distances being travelled by beneficiaries in remote villages to receive remittance proceeds from their senders, some rural banks, MFIs, and even cooperatives have been slowly venturing into the remittance business. The use of short messaging system SMS-based remittance sending has also picked up acceptance with a partnership forged between an Indonesian telecommunications company and Globe, a Philippine company that pioneered in SMS-based remittance transfers. As for the informal services, the IOM–ERCOF migrant remitter survey (presented in Chapter VII) reveals that foreign exchange houses have significant numbers of clients, especially in the Malaysia–Indonesia corridor.

1. Capturing Remittance Data

Prior to 2005, BI recorded workers' remittances on the basis of reports received from banks and money transfer agencies. It realized later that certain gaps may have been contributing to underreporting. For instance, each bank has its own reporting threshold (for instance, only transfers above USD 100 per transaction are recorded) possibly leaving many small remittance transfers unaccounted for. Another gap also existed in remittances sent through Indonesia's postal office which, according to BI, have not been incorporated into the reporting chain. Thus, by 2005, BI decided to adopt a new methodology of estimating remittances, that is, a total remittance inflow is extrapolated, taking into consideration indicators such as deployment data, migrant stock data, estimated number of irregular workers, and the skills/wage level of workers reported by the BNP2TKI. This exercise allows BI to validate the accuracy of the existing reporting system based on the reports of banks and other service providers by providing alternative indicators.

With an aim of improving remittance quality data, BI has recently introduced the following measures: (a) empowering BI representative offices abroad to collect local information including, but not limited to, data and policies; (b) networking with various domestic and overseas stakeholders; (c) harmonizing Indonesia's banking system on remittance transfers from sending countries to Indonesia; and (d) regular sharing and exchange of information with foreign central banks on statistical data including remittances.

2. Recent Policy Development and Initiatives

BI, aside from its regulating and monitoring functions, started to initiate a number of undertakings to facilitate and promote the use of formal remittance transfer service by establishing banking networks, initiating dialogue with destination countries, engaging other stakeholders such as financial institutions, local governments, and private recruitment agencies to implement programmes for migrants such as sponsoring financial literacy sessions and orientation on banking and remittance procedures. Some of the key initiatives include the following:

a. With an aim of enhancing banks' capability to address the challenges in remittance management, monitoring, data collection, and innovations to maximize the effect of remittances on development, BI undertook a remittance survey in 2008. More than 2,000 remittance beneficiaries in 11 districts in Indonesia were surveyed; this survey yielded policy-relevant insights (see the text box).

b. Development of ATM linkages among ASEAN countries, together with other central banks (ASEAN Pay Initiatives). This involves a pilot linkage project between private banks in Malaysia (Maybank) and Indonesia (Bank Mandiri).

c. Development of bilateral ATM linkages between Indonesian and Malaysian banks/institutions through the network operators of each country. Participating banks are BNI and Maybank, as well as Bank Syariah Mandiri and Merchantrade Asia, a Malaysia-based money transfer organization (MTO).

d. Conducting pre-employment and post-employment workshops for migrant workers on banking and remittance in coordination with the Coordinating Ministry for Economic Affairs.

e. Conducting periodic enrichment workshops for Indonesian industrial trainees and migrant workers in Japan focusing on money management and remittances in Tokyo through the BI representative office in Tokyo.

f. Providing trainers for migrant worker/trainee workshops on entrepreneurship and banking products and services, with a focus on savings and remittances, in coordination with the Japan Indonesia Association for Economic Cooperation (JIAEC).

Bank Indonesia Remittance Survey 2008

Initial findings of BI's Remittance Survey 2008 yielded interesting results, particularly on the predominant use of banks and other formal channels:

1. A high percentage of migrants (81.9%) remitted through banks; of the remaining 11.9 per cent who remitted through non-banks, 28.3 per cent remitted through money transfer organizations (MTOs) like Western Union and the post office, which are still considered formal channels. Survey results from BI are the complete opposite of the findings of the World Bank's 2008 study.
2. There were problems encountered on both the sending and receiving sides. On the sending side, the problems reported were the expensive remittance cost (36.6%), remote locations of banks (34.1%), and not being allowed by employers to go to the bank (23.2%). On the receiving side, the main problem was the delay in receiving the proceeds (80.7%).
3. More than half said the remittance proceeds were used for daily living needs (56%), followed by housing improvement (29.7%) and education (25.9%). About 10.4 per cent opened businesses, while 16 per cent bought land. Only 6 per cent saved.
4. The average frequency of remitting is three to six times in a year, totalling more than USD 500.
5. Indonesian migrants who returned after finishing their contracts are able to save between USD 500 and USD 1,000.
6. Factors that serve as obstacles to migrants' ability to harness migration gains have something to do with them being underpaid, their lack of skills and mindset for financial management, and their low education level that renders them uncompetitive for higher paying jobs.

BI also recommended the following measures for the overall enhancement of overseas employment administration in the country:

- Strengthen the role of the BNP2TKI and labour attachés in providing services and protection to migrants.
- Provide skills, entrepreneurship training, and financial literacy education to migrants.
- Provide protection to migrants from abusive immigration and customs officials at the international airport during both departure and arrival.
- Improve access of migrants to information on overseas employment in order to reduce the role of middlemen in the recruitment process.
- Explore the possibility of using Indonesian national ID cards as an alternative form of ID to enable migrants to access formal remittance channels (Key informant interview, BI). According to the survey, the major problem hindering access to formal remittance channels is not a lack of banking infrastructure but a lack of identification (ID) documents among Indonesian workers, many of whom are in an irregular status.

B. Providing Financial and Banking Services to Migrants

Banks and other institutions can provide many useful banking and other financial services to migrants working abroad and to the remittance beneficiary households. Financial institutions can provide remittance transfer services and also help migrants manage remittance through lending, saving, and investment facilities. At present, however, only a portion of migrants are familiar with and benefiting from a range of services that banks offer. According to the 2009 remittance survey of BI, only 34 per cent of migrants who save keep the fund in the bank (BI, 2009).

According to the BNP2TKI, all departing migrants are required to open a bank account in Indonesia (interview with BNP2TKI). Major banks usually ask for a minimum deposit of IDR 500,000 (USD 50.5) for opening a new account, which many migrant workers cannot afford. To facilitate the opening of accounts for migrants, banks offer special migrant bank accounts requiring a minimum balance of IDR 15,000 (USD 1.15), with a monthly charge of IDR 2,500 (USD 0.25) if the account balance falls below the minimum. There is, however, a major problem with this migrant bank account, as it closes if no transaction is made within three months. Many migrant workers will not be remitting home for roughly the first five months because they must first pay off the recruitment fee. Remittance will typically flow in only after the fifth month but the migrant bank account will have been closed by then due to a lack of transaction. Moreover, the minimum deposit will be forfeited by the banks (interview with IDEA).

There seems to be a growing interest among banks and other financial institutions to acquire migrants as their regular clients and have introduced services catering specifically for migrants to achieve this. Among Indonesian banks, BRI, although a recent entrant on migrant workers' financial matters, is one of the key players. BRI provides not only efficient remittance services; it also offers financial services well suited to the needs of migrants and their families and conducts activities for widening migrants' financial access and literacy knowledge. This may be attributed to its wide network, penetration, and existing basic banking technology in the rural areas where many migrants originate.

BRI is a state-owned commercial bank, possibly the largest in terms of resources, and which focuses on micro and small-and-medium business enterprises. In the last few years, it has been offering pre-departure loans on a limited scale and serving as a resource organization on financial literacy during pre-departure orientation courses at district levels. BRI has also started to work with recruitment agencies, where payments for debts incurred by migrants are debited from the migrants' savings account through remittances directly made from the source country by employers or representatives of recruitment agencies, or, in some cases, through guarantees arranged with village elders. BRI had entered into a pilot arrangement with Merchantrade, a Malaysian-based MTO, where migrant remitters will be able to send money that can be received in two seconds through their savings accounts in BRI branches or online cash collection units, with a charge of USD 3.00.

Western Union appears to be a major remittance channel of choice despite the higher remittance cost, possibly due to its extensive network of agents and partners consisting of major banks, foreign (or money) exchange houses, pawnshops, and other retailers within the corridor, including the Indonesian Postal Service. Their success, despite the higher cost, is based on an understanding of the migrants' need for speed, reliability, accessibility to both sender and receiver, and convenient service hours (open seven days a week with extended hours). These features are normally not available or could not be offered by banks. Western Union has a distinct payments platform which is "know-your-customer (KYC)" compliant. It is engaged only in the remittance business and could not offer any banking products. However, it has supported, funded, or co-sponsored financial literacy initiatives for migrants. Remittance services are accompanied by insurance coverage and also scholarships for their clients or family members.

Migration Loan

For the purpose of providing credit facilities for deployment and providing financial assistance to migrant workers being deployed to Taiwan Province of China, the Indonesian government has negotiated cooperation agreements in the past with four foreign banking institutions, namely Bank Chinatrust Indonesia (BCI), Hua Nan Commercial Bank, Sunny Commercial Bank, and First Commercial Bank, in addition to similar existing cooperation agreements by Bank Mandiri and BI. This was designed to provide access to potential Indonesian migrant workers to cover costs arising from their deployment and to avoid extortion and high interest loans. While these programmes are limited to the provision of credit facilities for Taiwan-bound workers, a comparable arrangement could be made with other destinations including Malaysia, similar to what BI has been negotiating.

Non-Bank Players

There are institutions other than large banks that have great potential in serving the needs of migrant workers. Among alternative banking institutions, rural banks, which are well established in the rural areas, provide small entrepreneurs in the rural areas with various financial services, although on a limited scale. They are also an option for migrants and their families in providing for their other financial needs. These banks are on the bottom tier of banks in the Indonesian banking system. Their capability in building resources, banking, and financial ability is now the subject of support of BI (see Annex 8).

MFIs and cooperatives, which are bountifully present throughout rural Indonesia, likewise are promising institutions that could offer viable financial options to migrants and their families. MFIs could play a significant role in providing financial access to migrant workers for four reasons: (1) they operate in or near the origin areas of migrants; (2) MFIs, at least the strong ones, have developed credit systems that could suit the needs of specific sectors, such as the migrant sector, more than other financial institutions, such as commercial banks or even rural banks that provide loans on the basis of collateral; (3) microfinance is experienced in catering to women entrepreneurs, a feature that reflects the majority of Indonesian migrant workers; and (4) while remittance operations may still be unfamiliar to MFIs, they have wide experience in extending credit in areas that are priority needs for migrants, such as placement fees and enterprise lending, to housing finance.

Meanwhile, cooperatives, especially the successful ones, are powerful agents of change through collective projects, which offer distinct economic advantages than individual pursuits. Some small-scale initiatives are already starting among cooperatives. A women's cooperative called Koperasi Citra Kartini (KCK) in a sub-district of Malang has set up a One-Stop Shop offering its members pre-departure loans, savings, and money transfer. Members who desire to work overseas are allowed to retain their membership but have to religiously maintain savings accounts and loan payments. Loan repayments are at rates lower than those charged by informal lenders or recruitment agencies and are made through bank transfers to the cooperative's account in a commercial bank. To minimize remittance costs, the cooperative allows migrant workers to send loan payments and remittances to beneficiaries in one transaction. As of the date of the study, KCK had 1,457 members, about 250 of which are returned or active migrant workers (MICRA, 2008).

Noteworthy is another cooperative composed of former migrant workers originating from the district of Malang, initiated as a socio-economic programme by the migrant workers' union SBMI (for more information on SBMI, see Annex 9). Cooperative capital comes from membership fees and provides lending facilities to members and their beneficiaries at competitive rates. The cooperative, which has been in existence for about two years, has benefited entrepreneurs who have gone into micro-enterprises, such as general stores, production of snacks or dried foodstuff, cattle raising, and cell phone service counters, among others. Indigenous products developed by the cooperative are being sold not only locally but also to migrants working overseas such as those in Hong Kong SAR and Malaysia. This cooperative programme is still in its learning stage, supplementing other cooperative initiatives by building migrants' business skills, a pursuit which is also supported by the Malang district government.

Financial Literacy Programme

Some of these institutions are slowly learning migrants' financial issues and have ventured into financial services for migrants in their localities. Studies and pilot projects have likewise been done and initiated by agencies such as the MICRA Foundation, a microfinance capability builder, to build models of linking migrants with MFIs (MICRA, 2008). Capability building, improvement of their technological infrastructure, and improvement of benchmarking and self-regulatory skills appear to be the challenges MFIs have to overcome.

More initiatives for improving financial literacy among migrants are starting to appear in recent years. The BNP2TKI, IOM, and TIFA Foundation, in cooperation with MICRA in 2009, developed a financial literacy training module targeting Indonesian migrant workers and their family members. The model is appropriate to their current level of knowledge and education. World Bank Indonesia has also implemented a similar programme specifically targeting women migrant workers.

V. SURVEY OF REMITTANCE BENEFICIARY HOUSEHOLDS IN INDONESIA

Understanding the detailed profile and characteristics of Indonesian migrants requires information beyond officially available statistics, which only provide information on the number, gender, destination, and skills level of those who left the country via official channels. Official deployment data also do not reveal in depth the migratory process or the volume and the routes of these unaccounted migrations.

This study (IOM–ERCOF study thereafter) was conducted to better understand the flow of remittances to and migration from Indonesia through a survey that specifically looked at the knowledge, attitudes, and practices on remittance management among remittance beneficiaries. This survey complements existing studies not only because of its specific focus to elucidate the remittance behaviours of the remittance beneficiaries, but also for its innovative methods that capture a balanced mix of migrant groups of various occupations and legal status which was not achieved in earlier studies.

A. Survey Methodology: Beneficiary Household Survey in Indonesia

A total sample of 500 households was set as a target, and five provinces (West Java, Central Java, East Java, West Nusa Tenggara, and South Sulawesi) were identified as the major source provinces of migrants according to the available data from the BNP2TKI and World Bank (2007) research. Quota samples of 50 or 75 were set for the cities in these provinces (see Figure 1 and Table 6).

In-home surveys were conducted for these households using a structured pre-tested questionnaire. Target households were screened for receiving remittances regularly from any household member working as a migrant abroad and for having received remittances for more than one year. Respondents were the main decision makers or major influencers regarding household budgets and expenditures. Soft- stratified quotas were applied (based on the latest deployment data from BNP2TKI and World Bank, 2007) on the gender of migrants at approximately 80 per cent female and 20 per cent male, and the actual survey achieved 79 per cent female and 21 per cent male. As for the country of work (destination), migrants in Malaysia, Middle East, and Singapore were prioritized but no specific quota was allotted. Information was collected through surveys that took place from November 2008 to January 2009.

Questions asked in the survey included respondents' demographic profiles and socio-economic status, profile of family members who are migrants, monthly expenditures, their ownership of durables, belongings and properties, and educational and financial literacy levels. These questions are intended to assess areas where reform could be directed, particularly on savings and investments decisions, how remittances could be used in more productive areas, and level of access to finance by household heads who make the spending, savings and investment decisions.

It must be clarified that the survey was conducted among remittance beneficiary households; therefore the information is provided by and from the perspective of beneficiaries.

Figure 1: Survey locations in Indonesia

Source: Courtesy of www.cia.gov.

Table 6: Remittance beneficiary households surveyed in Indonesia, their location, and gender of migrants

Province	District	N
West Java	Sukabumi Indramayu	50 50
Central Java	Banyumas Pemalang	50 50
East Java	Malang Blitar	75 50
West Nusa Tenggara	West Lombok East Lombok	50 50
South Sulawesi	Marcos	75
TOTAL		500

Gender of Migrants (n=500)	
Females	79%
Males	21%

Source: IOM–ERCOF Survey, 2010.

B. Survey Findings on the Demographic Profiles of Migrant Workers

1. Age Distribution and Ethnic and Religious Background

The core age of migrants falls in the range of the prime working age. The majority of the respondents (66%) fall within the 18–34 age range and the average age is 31 (see Table 7). Although the exact explanation is yet to be determined, the age distribution of migrants across different cities surveyed was found to be different. Migrant workers from Sukabumi and Blitar tend to belong to the older age group (average of 35 years old) than migrants from Indramayu and Maros (average of 28 years old). Almost all the respondents of the survey are Muslim (99.8%) (see Table 8). In terms of ethnicity, nearly half are Javanese (46%); the other represented ethnic groups in the survey include the Sasak[7] (20%) and the Sundanese (19%).

Table 7: Age distribution of migrant workers

Age Distribution (n=500)	
17 or less	1%
18–24 years	23%
25–29 years	22%
30–34 years	21%
35–39 years	17%
40–44 years	11%
45–49 years	5%
50–54 years	1%
55–59 years	1%

Source: IOM–ERCOF Survey, 2010.

Table 8: Ethnic and religious group distribution and country of destination

	N	%
Religion		
Muslim	499	99.8
Christian	1	0.2
Total	500	100.0
Ethnic Group		
Chinese/Tionghoa	1	0.2
Sundanese	96	19.2
Javanese (Java Tengah, Yogyakarta and East Java)	228	45.6
Bugis	34	6.8
Sasak	100	20.0
Makassar	41	8.2
Total	500	100.0

Source: IOM–ERCOF Survey, 2010.

[7] Sasak is the dominant ethnic group in West Nusa Tenggara (Lombok), although in terms of total number nationwide, it is not a large ethnic group. Most Sasaks migrate to work in Malaysia (Sabah) or the Middle East.

2. Educational Attainment of Migrant Workers

Educated and skilled migrants are in a better situation than unskilled ones because they can access jobs with decent wage and conditions and know better how to protect themselves against exploitation. The IOM–ERCOF beneficiary survey found that the typical Indonesian migrant worker has attained a relatively low level of formal education; 78 per cent of migrants have education below junior high school (see Table 9). Among these groups are junior high school graduates (39%) and those who completed elementary school (38%). Only 20 per cent have graduated from senior high school. The 2008 MICRA study also found that 70 per cent had educational levels below high school, which would explain the preponderance of the majority being employed in the informal sector. The survey reaffirms the need for special attention to empower migrants against possible abuses and exploitations and that an effort to improve financial inclusion of migrants must take into account their special needs.

3. Country of Destination

The major destination countries of Indonesian migrants are Saudi Arabia (43%) and Malaysia (39%) (see Table 10). For Saudi Arabia, migrants working in these countries are predominantly female (88%) working in the domestic sector, while migrants in Malaysia are more represented by males (73%) employed in the construction and plantation sectors, among others. There are various factors that come into play in the migrants' choice of destination country. The 2008 MICRA study among female migrant workers[8] found that migrants' ultimate placement was determined by the recruitment agencies in accordance with their educational levels, while others made their choice on the basis of wage, cultural factors, and commonality of religion and language. The IOM–ERCOF survey found that some provinces send more workers to Saudi Arabia than Malaysia (Sukabumi and Indramayu) and vice versa (Pemalang).

Table 9: Educational attainment of respondents

	N	%
None mentioned	9	1.8
Elementary school	188	37.6
Junior high school	196	39.2
Senior high school	99	19.8
Technical	3	0.6
College	4	0.8
Undergraduate/University	1	0.2
Total	500	100.0

Source: IOM–ERCOF Survey, 2010.

[8] This survey focused on female migrant workers in two districts (Malang in East Java and Lombok in West Nusa Tenggara).

Table 10: Countries of destination

	N	%
Malaysia	194	38.8
Saudi Arabia	216	43.2
Other Asia	58	11.6
Other Middle East	30	6.0
Netherlands	1	0.2
United States	1	0.2
Total	500	100.0

Source: IOM–ERCOF Survey, 2010.

4. Employment Sector, Legal Status, and the Number of Years Worked Abroad

Most female migrants work as domestic helpers (81%), and they are concentrated in countries such Saudi Arabia and other Middle Eastern countries (see Table 11). The other most common occupation of a migrant is as a labourer (24%). This segment tends to be male-dominated (72% of all males are labourers). Most labourers are based in nearby Malaysia or other Asian countries. Indonesian labourers in Malaysia are plantation workers (24%), factory workers (10%), construction workers (4%), machine operators (2%), and working in the farm/forestry industry (1%). Other male-dominated occupations are the service industry and technical/professional jobs. Overall, the majority of workers are found in unskilled occupations (65%).

As for the legal status of migrants, up to 92 per cent of migrants from the surveyed households are said to be formally recruited on contracts through private recruitment agencies. Five per cent said they are recruited by the employers and the rest (3%) said they are irregular. As the verification of this claim is difficult, there may be more cases of irregular migration among those who claimed to have migrated using informal channels.

Table 11: Employment sectors of migrants by destination country and gender

	Total	TKI Place of Work				TKI Gender	
		Malaysia	Saudi Arabia	Other Asian Countries	Other Middle East Countries	Males	Females
Base:	500	194	216	58	30	103	397
	%	%	%	%	%	%	%
Working Base							
Land	98	99	100	90	100	92	100
Sea	2	1	0	10	0	8	0
Occupation							
Domestic Workers	65	45	84	57	80	4	81
NETT: Labourers	24	47	6	26	7	72	12
Plantation Workers	9	24	0	0	0	22	6
Factory Workers	5	10	1	7	0	10	4
Factory Workers	4	7	1	5	7	19	0
Informal Workers (unspecified)	3	2	4	5	0	11	1
Machine Operators	2	4	0	5	0	6	1
Farm/Forestry	1	1	0	3	0	3	0
NETT: Labourers	7	6	7	7	13	12	6
NETT: Labourers	3	2	2	10	0	13	1

Source: IOM–ERCOF Survey, 2010.

As for the number of years migrant workers spent working abroad, the average is 3.6 years. Over half (64%) of migrants have already been working abroad for one to three years at the time of the survey (see Table 12). There was no major variation observed in the number of years of stay among various destination countries. However, in general, there are proportionately more migrants working in Malaysia and Saudi Arabia with a relatively shorter duration (1–2 years) than in other destinations in Asia or the Gulf.

Table 12: Number of years abroad (n=500), %

Number of Years	Total	Malaysia	Saudi Arabia	Other Asian countries	Other Middle Eastern countries
8 years and above	6	10	7	10	6
6 to 7 years	7	8	10	12	10
5 years	7	9	9	5	16
4 years	9	7	10	12	13
3 years	19	25	15	23	13
2 years	30	32	29	24	30
1 year	15	19	14	17	10

Source: IOM–ERCOF Survey, 2010.

5. *Reasons for Working Abroad*

Economic reasons are the main drivers for seeking overseas employment among the migrant workers (Table 13). These reasons include a desire to improve the family's economic condition (48%), higher salary (48%), difficulty in finding a job in Indonesia (26%), and low salary in Indonesia (12%). Only a few (9%) indicated a desire to experience life abroad and upgrade their skills.

Table 13: Reasons for migration (base: 500)

Reason Mentioned	All Mentions of Reason (%)
Improve family's economic condition	48
Higher salary	48
Hard to find job in Indonesia	26
Indonesia provides low salary	12
Seeking experience abroad	9
Support education of family members	7
Easy to find job abroad	6

Source: IOM–ERCOF Survey, 2010.
Note: Multiple answers allowed.

C. Profiles of Remittance Beneficiary Households in Indonesia

Household Size and Remittance Beneficiaries' Gender, Age, and Occupation

The migrants' households are composed of an average of four to five people per household (53%), which is a typical household size in Indonesia (see Table 14).

While all the surveyd beneficiary households have at least one migrant worker in the family, 9 per cent have two migrant workers and two 2 per cent have more than two migrants per household.

Table 14: Average number of persons per household (base: 500)

Number of people	N	%
1 to 2 people	26	5.2
3 people	81	16.2
4 people	137	27.4
5 people	124	24.8
6 people	78	15.6
7 to 12 people	54	10.8
Total	500	100

Source: IOM–ERCOF Survey, 2010.

As for the heads of the beneficiary households or the key decision makers of the household who responded to the surveys, there are more males (54%) than females (46%). There appears to be a higher incidence of male heads in Central Java (Bayumas/Pemalang) and East Java (Malang/Blitar). Conversely, a higher number of female heads were identified in Lombok in West Nusa Tenggara Province and Maros in South Sulawesi (see Table 15).

Table 15: Gender and location of beneficiaries

	Total	Percentage share							
		Sukabimi	Indramayu	Banyumas	Pemalang	Malang	Blitar	Lombok	Maros
Base	500	50	50	50	50	75	50	100	75
Male	54	52	56	74	60	67	70	41	28
Female	46	48	44	26	40	33	30	59	72

Source: IOM–ERCOF Survey, 2010.

The average age of the beneficiary household member who responded to the survey is 40 years old. Most of them are married and have children (80%). Half (50%) of the remittance recipients have completed elementary education, while a fourth (25%) earned junior high school education. Only 13 per cent attended senior high school, while 8 per cent have never gone to school at all (see Table 16).

Table 16: Age, marital status, and educational attainment of beneficiaries

Age Distribution (n=500)		Marital Status (n=500)		Highest Educational Attainment (n=500)	
16–24 years	12%	Single/Unmarried	9%	Never gone to school	8%
25–34 years	22%	Married with no children	6%	Elementary school	50%
35–44 years	27%	Married with children	80%	Junior high school	25%
45–54 years	25%	Divorced/Widowed	5%	Senior high school	13%
55 years and above	15%			More than high school	3%
Ave. age (in years)	*40*				

Source: IOM–ERCOF Survey, 2010.

The occupations of the beneficiaries are farmer/fisherman (29%), housewife (26%), merchant (14%), unskilled worker (13%), skilled worker (4%), and employee (4%) (see Table 17). About 6 per cent are unemployed, and the rest are students and retirees (see Table 17).

Table 17: Occupations of beneficiaries

Beneficiaries' Occupation	N	%
Unskilled worker	66	13.2
Skilled worker - work with others	22	4.4
Merchant - having own vehicle	7	1.4
Merchant - having stall / store / kiosk	45	9.0
Entrepreneur (without employee)	15	3.0
Entrepreneur with 1–9 employees	5	1.0
Professional	1	.2
Administration/ Salesman	1	.2
Junior staff in government	5	1.0
Junior staff in private company	6	1.2
Middle/ Senior staff in government	3	.6
Middle/ Senior staff in private company	3	.6
Housewife	131	26.2
Unemployed / looking for a job	32	6.4
Retirement	3	.6
Farmer/fisherman	143	28.6
Student	12	2.4
Total	500	100.0

Source: IOM–ERCOF Survey, 2010.

1. Home Ownership and Monthly Expenditures

Most of the respondents own their houses (87.8%) (see Table 18). Majority of them (63%) have a monthly family expenditure of USD 100–139 and USD 139–194 per month (see Figure 2).[9] Only a few (2%) fall under the category of "very poor households, with a monthly family expenditure below USD 67, or under the wealthier groups with a family expenditure of above USD 278 (4%). Most migrant households have electricity (95.6%), a colour television (84.2%), and a kerosene stove (80.4%) (see Table 19). At least half have motorcycles, hand phones, and music or DVD players. Although 56 per cent of the households claim to have a savings account, only 16 per cent have an ATM card. Ownership of other bank products such as time deposits or credit cards is virtually nil across all areas.

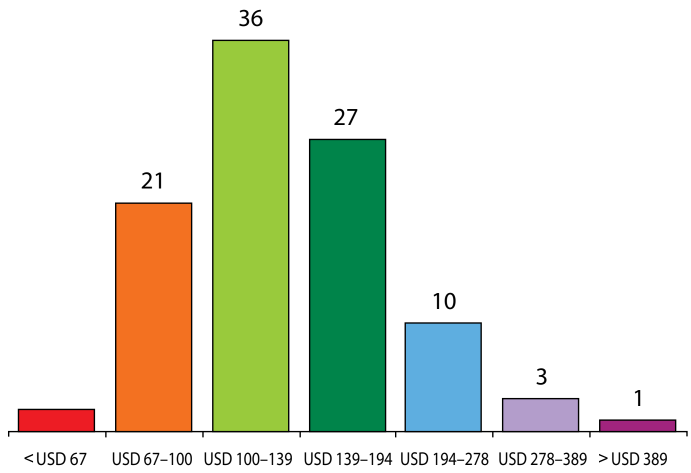
Table 18: Home ownership by remittance beneficiary households

Nature of Ownership	N	%
Own, mortgaged	31	6.2
Own, not mortgaged	439	87.8
Rented	6	1.2
Living with parents/in-laws/ relatives/friends	24	4.8
Total	500	100.0

Source: IOM–ERCOF Survey, 2010.

[9] The survey employed the social-economic stratification indicator of Nielsen Indonesia to classify household economic status.

Figure 2: Monthly expenditure of remittance beneficiary households (base: 500)



Source: IOM–ERCOF Survey, 2010.

Table 19: Common and less common belongings of remittance beneficiary households, %

Appliances and Household Items — More Common Belongings	N	%	Appliances and Household Items — Less Common Belongings	N	%
Electricity	478	95.6	Running water/Public clean water	38	7.6
Colour TV	421	84.2	Sewing machine	27	5.4
Kerosene stove	402	80.4	Fixed telephone	20	4.0
VCD/DVD player	283	56.6	Camera/digital camera	20	4.0
Music player (radio cassette)	274	54.8	Personal computer	12	2.4
CA Savings/CA Account	280	56.0	Parabola/Satellite dish	11	2.2
Cell phone (card)	266	53.2	Water heater	10	2.0
Motorcycle	253	50.6	Car	10	2.0
Bicycle	196	39.2	Washing machine	8	1.6
Electric fan	149	29.8	Cable television	8	1.6
Gas stove	124	24.8	Time deposit	8	1.6
Refrigerator	103	20.6	Electric stove	7	1.4
ATM card	79	15.8	Laptop/notebook	2	0.4
			Air conditioning	1	0.2

Source: IOM–ERCOF Survey, 2010.

D. Survey Findings on Financing Overseas Employment

1. Recruitment Agency Fee

The average amount that a migrant paid the agency was about IDR 4.8 million (USD 484) prior to departure. Fee scale varies depending on the intended destination country. For example, the average fee paid by workers to go to Malaysia and Saudi Arabia was IDR 3.5 million (USD 353), while fees paid for destinations countries in Asia other than Malaysia (Taiwan Province of China, Hong Kong SAR, Singapore, and Brunei) was IDR 12 million (USD 1,212) and those who went to other Middle Eastern countries (Kuwait, UAE, and Jordan) paid IDR 7.1 million (USD 717). By provinces, migrants from the areas of Pemalang (IDR 8.05 million or USD 813) and Malang (IDR 9.19 million or USD 928) and Lombok tend to pay significantly higher fees than those from other surveyed provinces. Service and technical/ professional workers pay much higher fees to the agents, which amount to IDR 8–9 million (USD 808 to USD 909) on average.

2. Itemized Migration Costs

Aside from agency fees, the survey asked respondents about various cost items. The most common pre-deployment expenses incurred for migration are documentation fee (74% answered they have paid this fee), meals during trips (64%), transportation cost to the agency and other locations (58%), communication (58%), and medical fees (43%) (see Table 20). In terms of monetary value, the biggest expense is travel cost to destination country (on average, IDR 1.7 million or USD 171), cost of passport processing (on average, almost IDR 700,000 or USD 70), and other costs, which include training, clothes and other personal items, and lodging for those who live out of town.

Migrants have to contend with additional costs for the service of these job intermediaries, who earn either commissions from the agencies or fees in the form of "donations" made by migrants. While the survey did not yield any definitive amounts paid to the middlemen, it reveals that 8 per cent of the household respondents have paid an average of IDR 371,143 (USD 37) in the form of "tips to any person/group", which may well be fees to middlemen, but this amount seems rather small. It is more likely that the service fees to middlemen are already integrated into the fees for recruitment agencies, which in turn is paid to middlemen as commissions, but this will require further validation.

Table 20: Migration costs and other related expenses

	% Respondents Incurring These Expenses	Average Amount/Item (IDR)
Documentation (production of IDs and travel docs, license, certificate, reproduction, etc.)	74	145,707
Meals during trips or on occasions	64	302,732
Transportation costs e.g. to and from agencies to get documents, etc.	58	185,200
Communication expenses, i.e. mobile calls or text messages	58	106,867
Medical fees, i.e. general and occupation- specific	43	228,689
Companions expenses if any	16	128,836
Lodging if necessary	12	386,818
Cost for getting passport	10	697,439
Tips to any person/group	8	372,143
Transportation to go out of country (e.g. airfare, travel to country, etc.)	6	1,730,250
Caretakers' expenses if any	5	547,059
Others	10	842,222

Source: IOM–ERCOF Survey, 2010.

3. *Identifying Resources to Finance Migration Costs*

Almost all migration costs are financed through sources other than the migrant's personal savings and assets. Many migrants become heavily indebted before they start earning wages abroad. Just over half of migrants (55%) borrowed funds from recruitment agencies, which in most cases will be repaid by the deduction from their salary (see Table 21). This finding validates some of the observations made by key informants that migrants will not remit for the first five months to pay for migration costs (interview with IDEA). Others raise money from their own household/family (51%), or borrow from people other than household/family members (20%). Among those who fund their expenses through their own household/family, more than half of these respondents obtained the money from the family's savings account. Others sold jewelry (25%), livestock (19%), or farmlands (9%) to cover the expenses. It is not clear from the survey if assets are sold/liquidated or pawned.

Table 21: Source of funding to pay for migration costs (base: 500)

Source of Funding	N	%
Borrowed from agency	275	55.0
Personal expense from household/family	253	50.6
Borrowed from others	101	20.2
Borne by the employer	15	3.0
Borrow from bank	4	0.8
My own savings	1	0.2
Covered first by company where I work	1	0.2
Total	500	-

Source: IOM–ERCOF Survey, 2010.
Note: Multiple answers allowed.

Only a very small number of respondents have their migration costs covered by employers (3%) or companies (0.2%). Although some banks have started offering loan schemes for migrants (see Chapter IV), the survey shows a very low of take-up rate (0.8%). The survey did not ask questions on the interest rates of these borrowings and loans, but migrants are said to be paying very oppressive rates. This finding calls for increasing borrowing options for migrants to cover initial migration costs.

E. Survey Findings on Migrants' Remittance

1. Remittance Amounts and Frequency

The amount and the frequency of remittance received by migrants' households in Indonesia are summarized in Tables 22 and 23. An average amount of IDR 3 million (USD 303) is sent per transaction, although the amount varies significantly by destination country. For example, the amount sent per transaction of migrants working in Malaysia was significantly lower at IDR 2.2 million (USD 222) than the amount per transaction sent by those working in Asian countries other than Malaysia, which was 3.9 million (USD 393), and by those working in Middle Eastern countries other than Saudi Arabia, which

Table 22: Remittance received in rupiah per transaction (base: 500)

		Percentage share (%)					
Base: (n)	Total 500	Malaysia 194	Saudi Arabia 216	Other Asian countries 58	Other Middle Eastern countries 30	Males 103	Females 397
Less than 1 million	4	8	0	7	0	4	4
1 million	13	24	5	7	10	16	12
1.5 million	8	9	8	7	3	12	8
2 million	25	33	22	19	10	26	24
2.5 million	7	6	6	4	10	7	7
3 million	16	8	23	21	17	12	17
4 million	8	6	9	6	7	6	8
5 million	9	6	9	14	20	9	9
Above 5 million	7	6	9	15	20	9	8
Mean (in million)	3.0	2.2	3.2	3.9	4.1	2.9	3.0

Source: IOM–ERCOF Survey, 2010.

was 4.1 million (USD 414). Migrants who work in the service industry and as a professional also send higher average amounts per transaction compared to other occupations.

Households receive remittances on a regular basis, but less frequently than every month: only about 10 per cent receive money monthly, and 17 per cent receive money every other month (see Table 23). Almost half (total of 45% of households) receive money about three or four times a year.

Table 23: Frequency of remittance (base: 500)

Frequency of Remittance	N	%
Monthly	50	10.0
About every other month	85	17.0
About four times a year	108	21.6
About three times a year	119	23.8
About twice a year	79	15.8
Once a year	42	8.4
About 3 times in 2 years	8	1.6
Every 2 years	5	1.0
When there is urgent needs	3	0.6
Once in every in 3 years	1	0.2
Total	500	100.0

Source: IOM–ERCOF Survey, 2010.

2. Non-Monetary Transfers

The majority of the beneficiaries (86%) did not receive non-monetary items from their migrant family member abroad in the past two years.[10] Among those that received non-monetary items (14%), the most popular items were clothes (76%). Other items mentioned by a few were religious equipment, hand phones, toys, milk, cassette/VCD player, cooking equipment, the Koran, computer, watch, souvenir, and food items.

F. Survey Findings on Remittance Beneficiaries' Knowledge and Practice on Remittance Channels and Services

While the earlier sections discussed the demographic profiles, migration history, and the frequency and the amount of remittances, this section attempts to understand the level of knowledge and practice on remittance transfer channels and services among remittance beneficiary households. The

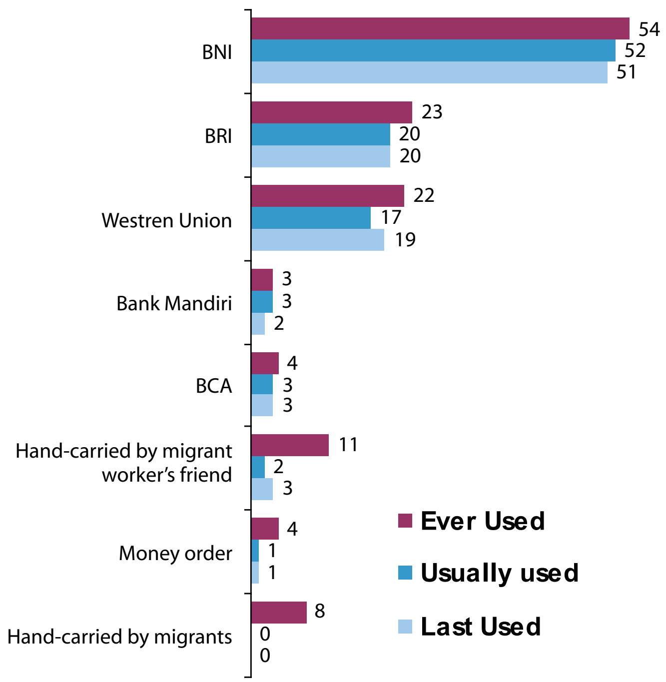
[10] In the case of migrants from the Philippines, the majority of migrants regularly sent home non-monetary items such as clothes, electronic items, and food items to families. Indonesian migrants do not exhibit this behaviour according to the survey findings.

information will enhance understanding of the overview of various modalities and channels used to remit and receive remittances in Indonesia.

1. Remittance Transfer Services Used

In terms of remittance services usage, the survey asked the remittance beneficiaries to provide the names of the service provider(s) they usually used (single answer), ever used (multiple answers allowed), and last used (single answer) in receiving their remittances. For usually used services, the finding reveals a high patronage of official banking channels such as BNI (52%), BRI (20%), and Western Union (17%) (see Figure 3). Only 3 per cent use Bank Mandiri (3%), Bank Central Asia (BCA, 3%), and the post office (1%). These findings highlight the important role the government banks (i.e. BNI, BRI, and Bank Mandiri) play in the remittance process. The only private bank that was mentioned was BCA. Although a substantial number of migrants had hand-carried the money home in the past, only a very small proportion of migrants still use this mode of remitting money back home.

Figure 3: Percentage usage of remittance services (base: 500)



Source: IOM–ERCOF Survey, 2010.
Note: "Usually used" and "last used" refer to a single answer while "ever used" includes multiple answers.

The service providers' share does not seem to vary significantly across various destination countries except in Saudi Arabia and other Middle Eastern countries, where Western Union seems to be the second most preferred remittance channel after BNI (see Table 24). Among technical/professional workers, BRI is the most used remittance channel. By source provinces of migrant workers, BNI is the preferred remittance channel in Banyumas, Blitar, Lombok, and Maros, while Western Union enjoys higher patronage in Indramayu (64%) and Sukabumi (44%), most probably because of BNI's relative accessibility (see Table 25).

Table 24: Preferred remittance channel by country

Base: (n)	Total 500	Percentage share							
		Malaysia 194	Saudi Arabia 216	Other Asian countries 58	Other Middle Eastern countries 30	Domestic helper 326	Labourer 122	Service worker 37	Technical/ Professional 15*
BNI	52	51	58	43	47	52	55	57	27
BRI	20	21	18	29	10	19	21	16	33
Western Union	17	14	19	10	37	21	11	8	13
Bank Mandiri	3	1	3	7	3	3	1	3	13
BCA	3	5	1	3	0	3	2	5	0
Hand-carried by friend	2	5	0	2	0	1	7	0	7
Money order	1	2	0	3	0	0	2	3	0

Source: IOM–ERCOF Survey, 2010.

Table 25: Preferred remittance channel by local origin

		Percentage share							
Base: (n)	**Total** 500	**Sukabami** 50	**Indramayu** 50	**Banyumas** 50	**Pemalang** 50	**Malang** 75	**Blitar** 50	**Lombok** 100	**Maros** 75
BNI	52	34	12	74	34	49	60	68	67
BRI	20	2	12	10	28	41	30	18	11
Western Union	17	44	64	12	14	9	0	13	0
Bank Mandiri	3	12	12	2	0	0	0	0	0
BCA	3	6	0	2	14	0	6	0	0
Hand-carried by friend	2	0	0	0	0	0	2	0	13
Money order	1	2	0	0	4	0	0	1	1

Source: IOM–ERCOF Survey, 2010.

Costs of Receiving Remittances

About a third of the respondents (36%) claimed they paid charges for receiving remittances. These costs were mainly transportation costs. Others claimed they paid administration costs (27%), tip money (16%), or spent money on a meal (7%), or cigarettes. This answer reveals there are hidden costs to remittance on top of what was paid by migrants at the point of transfer.

2. Decision Maker in Choosing Remittance Service Providers

The decision maker in the choice of the remittance channel is usually the overseas worker himself/herself (83%), followed by beneficiaries (12%), recruitment agency (3%), and employers (2%). The beneficiaries seem to have minimal or no influence in the choice of remittance channel to use. Only 10 per cent of the beneficiaries felt they have strong influence over the choice, while 42 per cent indicated they have minimal influence and 22 per cent cited no influence.

G. Utilization Pattern of Remittance and Dependency

1. Utilization of remittance on basic household expenditures

Migrant households rely on remittances to pay for their basic needs such as food and utilities, secondary needs such as education and health care, and tertiary expenditures such as special occasions, house repair, and purchase of equipment. The pattern of the utilization of remittances is analysed by dividing the surveyed households into those with no household income other than remittance (remittance-dependent households, 14.6% of total respondents) and those with other sources of household income (non-dependent households, 85.4%). The income sources of non-dependent households include family members' salaries (60%), occasional employment (34%), or income from own business (29%) (see Table 26).

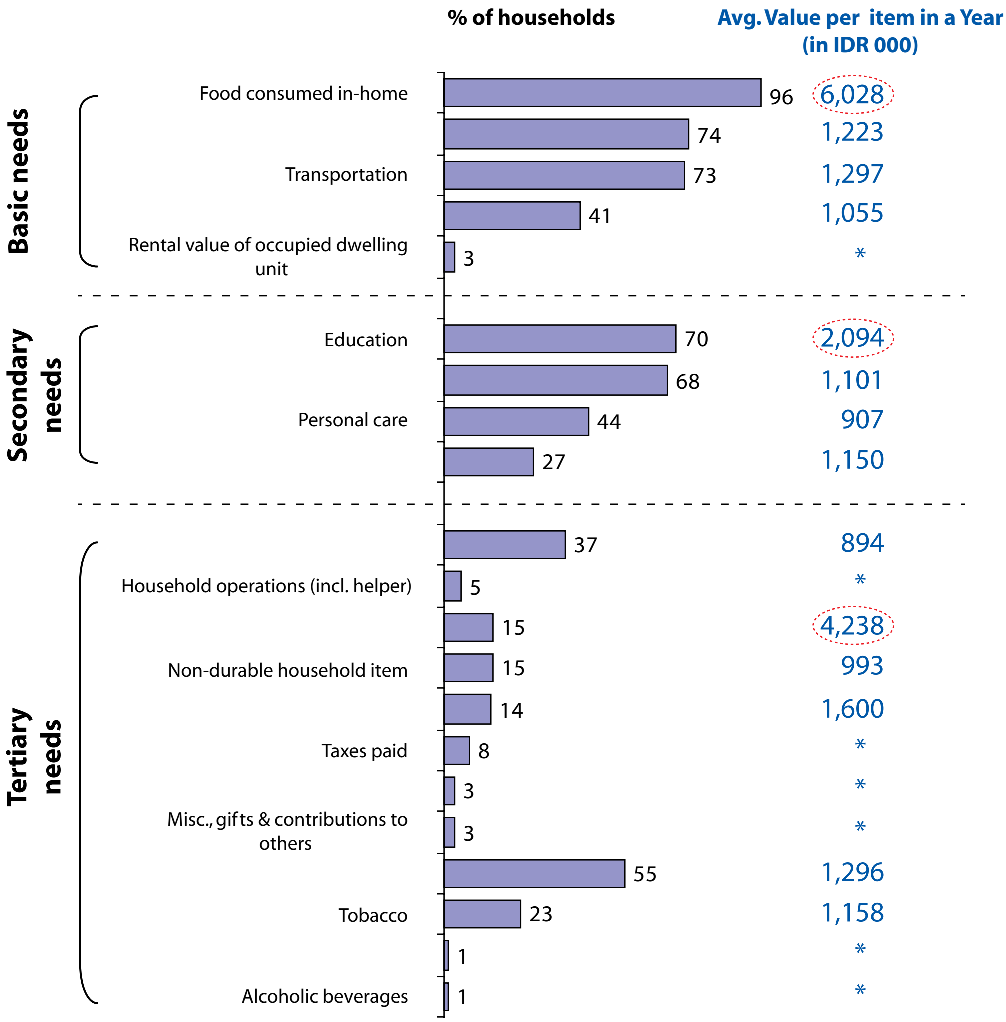
Table 26: Other sources of household income among those whose household income is not 100 per cent from remittances (base: 427)

	Number of HH %	Average amount in a YEAR (IDR)
Salaries of other family members	60	10,013,925
Occasional employment	34	4,623,026
Own business	29	10,151,449
Rental income	3	3,800,000
Interest/dividends	2	290,000
Other sources	2	10,333,333
Pension and retirement	0	12,000,000
Interest/dividends from other investments	0	-
Interest from loans	0	-
Cash gifts and other forms of assistance and gifts from relatives and friends in the Indonesia	0	-

Source: IOM–ERCOF Survey, 2010.
Note: Multiple answers.

Remittance-dependent households use remittances on consumption and basic needs like utilities and transportation. Almost all households (96%) said they use remittances to pay for food consumed at home (see Figure 4). Aside from these, remittances also go largely to expenditures on utilities (74%), transportation (73%), and communication (68%). Around 70 per cent of households have also used remittance for long-term benefit such as education. In terms of value per item, the largest expenditure is on in-home food consumption (IDR 6,028,000 or USD 608). This is followed by house improvement (IDR 4,238,000 or USD 428) and education (IDR 2,094,000 or USD 211).

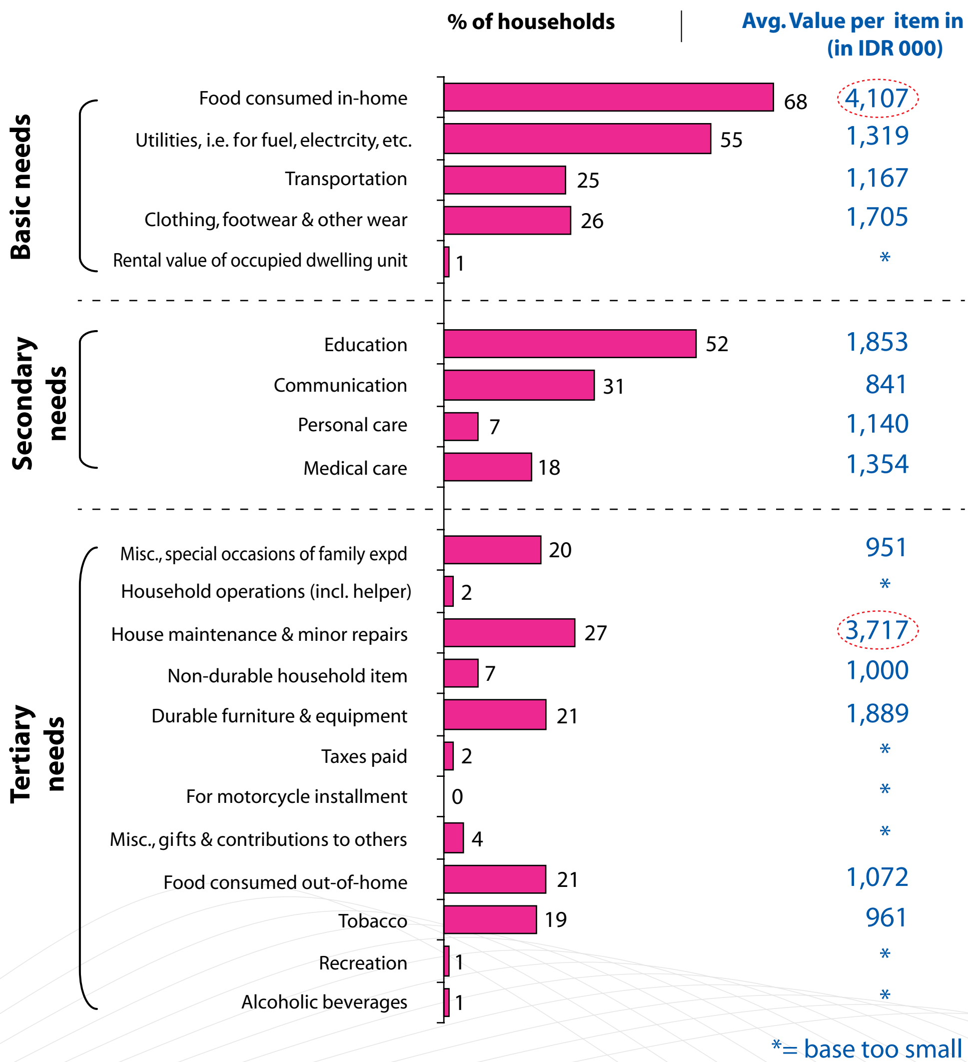
Figure 4: Usage of remittances and the average value in households with no income other than remittances



Source: IOM–ERCOF Survey, 2010.

Meanwhile, among households where remittance is a portion of household income, the common spending of remittance is typically on daily expenditure to run the household such as food (68% of households) and utilities (55%) (see Figure 5). More than half of households (52%) in this segment also commit remittances for education. The major difference in the expenditure allocation between dependent and non-dependent households is that non-dependent households exhibit more diversity in terms of how remittances are spent. In terms of the volume of expenditure, food items are the largest (IDR 4,107,000 or USD 414) followed by house maintenance and repair (IDR 3,717,000 or USD 375), furniture and equipment (IDR 1,889,000 or USD 190), and education (IDR 1,853,000 or USD 187).

Figure 5: Usage of remittances and the average value in households with incomes other than remittances

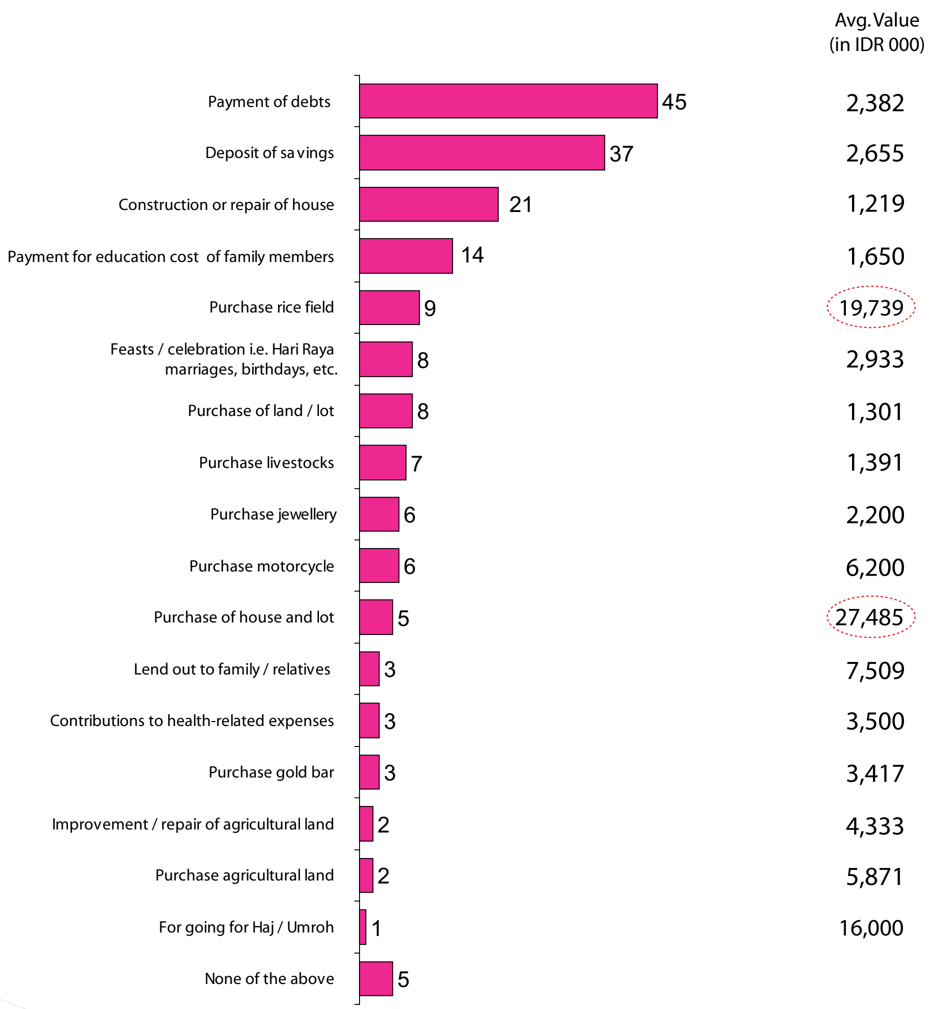


Source: IOM–ERCOF Survey, 2010.

2. *Utilization of Remittance on Other Items*

Other major expenditure items aside from basic, secondary, and tertiary needs were also surveyed among remittance-receiving households. The most common item for which remittance is used is the repayment of debt (45% of total respondents) with average annual expenditure of IDR 2,382,000 or USD 240 (see Figure 6). This is mostly to repay the loans incurred to finance initial migrant costs. Borrowing seems to be performed by the migrants' households than by the migrants themselves being the individual borrowers, as the repayment is made by the migrants' households. Other common items for which remittance is used include deposit to savings (37%; IDR 2.382,000 or USD 240) and construction or repair of houses (21%; IDR 1,219,000 or USD 123). In terms of monetary value, the largest amount of the remittance is spent on the purchase of a house and lot (IDR 27,485,000 or USD 2,775), followed by the purchase of agricultural land (IDR 19,739,000 or USD 1,993). Other types of investment-oriented expenditure such as the purchase of rice field and livestock were also noted in the survey.

Figure 6: Use of remittances for other purposes (base: 500)



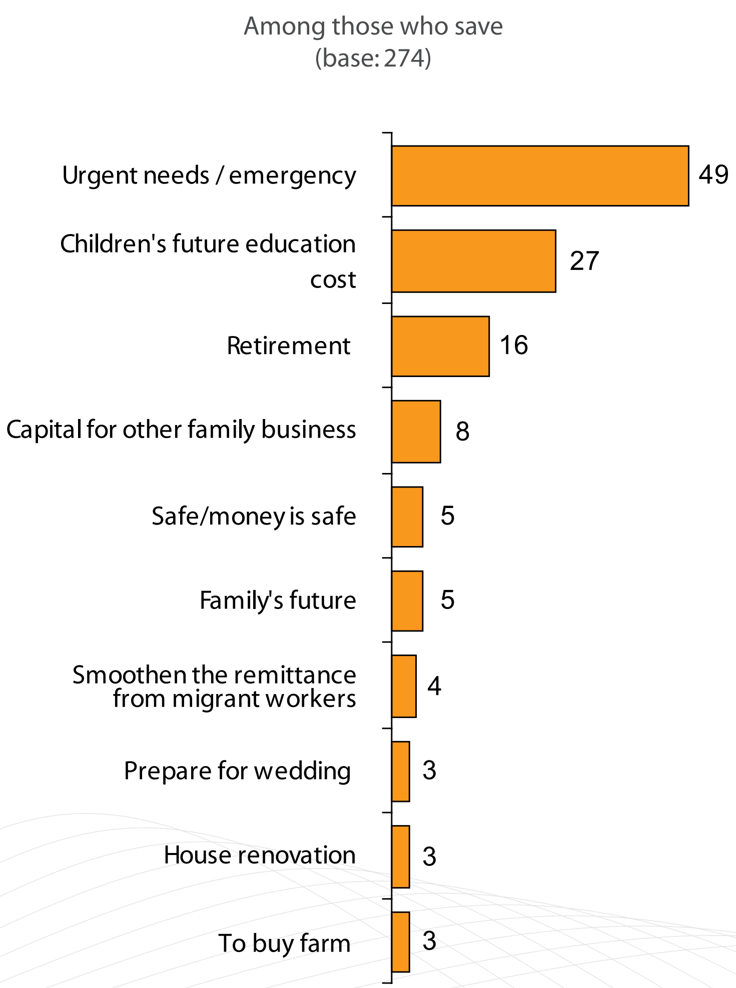
Source: IOM–ERCOF Survey, 2010.

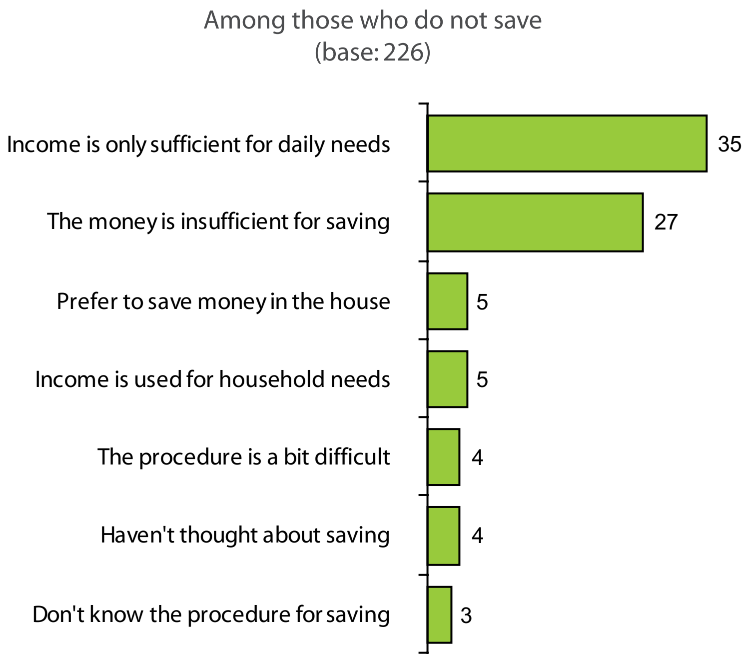
H. Savings, Investments, and Insurance

1. Saving Patterns among Remittance-Receiving Households

A little more than half of those surveyed (55%) have some form of savings; the rest do not have any (45%). Half of those who save (49%) want to be prepared in case of an emergency, or for any urgent need (see Figure 7). Others generally save for future expenses, such as children's education (27%), pension (16%), or in order to collect capital for business purposes (8%). A few save for wedding costs and for housing renovation. Those who do not have any savings claim their income is only sufficient for their daily needs.

Figure 7: Purposes for saving among remittance beneficiary households



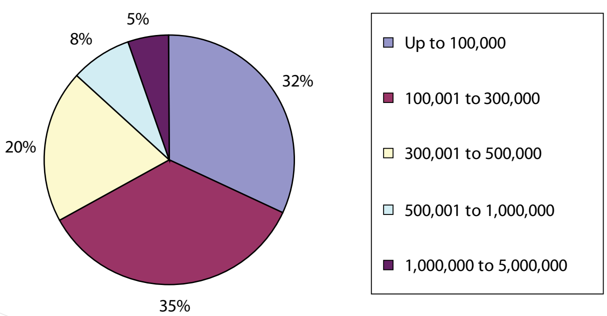


Source: IOM–ERCOF Survey, 2010.

Among those who save, the amount saved per month ranges from IDR 100,000 (USD 10) to IDR 5 million (USD 505), with a typical household saving of about IDR 374,000 (USD 37) per month (see Figure 8). Almost all of the households keep their savings in the bank except for a few (3%) who claim they save the money at home. BNI enjoys the highest patronage (35%), followed by BRI (29%). The survey did not investigate whether the savings are kept for a long duration and the total cumulative savings per household at the time of survey.

Figure 8: Amount of savings

Those who have savings
(base: 274)



	Total
	%
Bank BNI	35
Bank BRI	29
Bank (unsp)	23
Bank BCA	5
Bank Mandiri	4
At home	3
Bank Jatim	1

Source: IOM–ERCOF Survey, 2010.

2. Investment Pattern

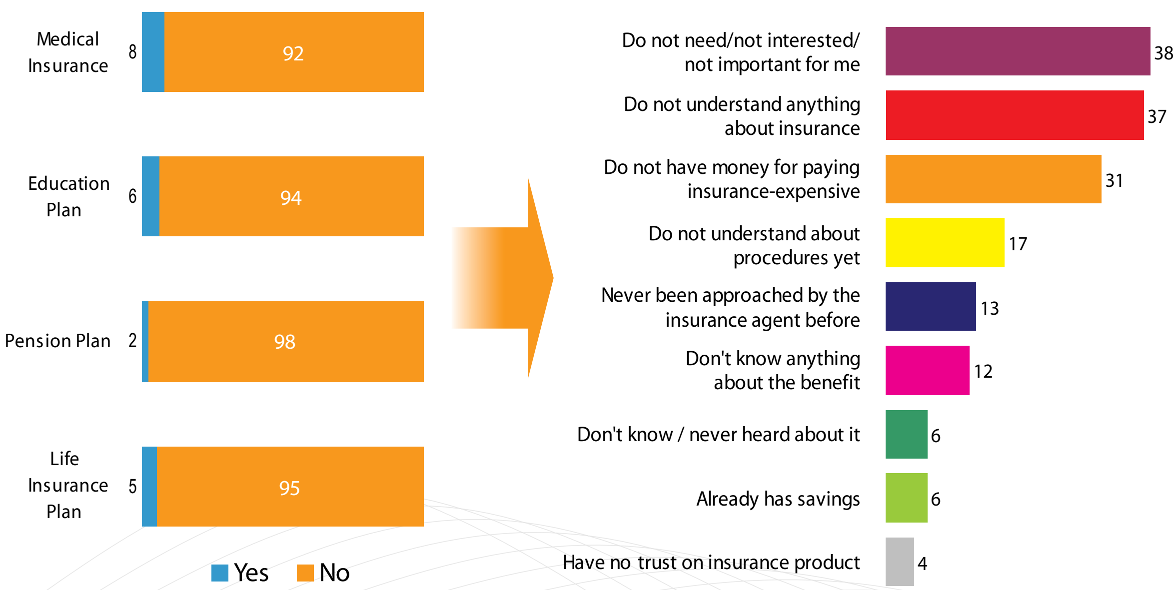
Only a few claim to have any form of investment (14%), and majority of them have invested their money to buy a farm (69%). Other methods of investments include opening small grocery shops (10%), building a house (6%; as noted earlier, 87.8% of migrants' households in Indonesia live in a house they own that is not mortgaged), buying jewellery (4%), saving (4%), land trading (3%), opening a vehicle workshop (3%), and renting a farm (3%).

3. Insurance

Very few households own any form of insurance. Ownership of medical insurance was only 8 per cent; educational plan, 6 per cent; pension plan; 2 per cent; and life insurance, 5 per cent. Many do not see its importance (38%), and some do not have the capacity to pay for insurance (31%). However, about a third claim they do not understand anything about insurance (37%), nor do they understand the procedures (17%) or the benefits (12%), and some have never even heard about it (6%) (see Figure 9).

There is an opportunity to increase insurance ownership among migrant households by making sure the migrants and their beneficiaries are made aware of the available insurance options and given an explanation of the benefits in a manner which is easy to understand, even by someone who has attained only a limited amount of education (elementary or high school level).

Figure 9: Insurance ownership among migrant households



Source: IOM–ERCOF Survey, 2010.

I. Involvement in Philanthropic Activity among Remittance Beneficiary Families

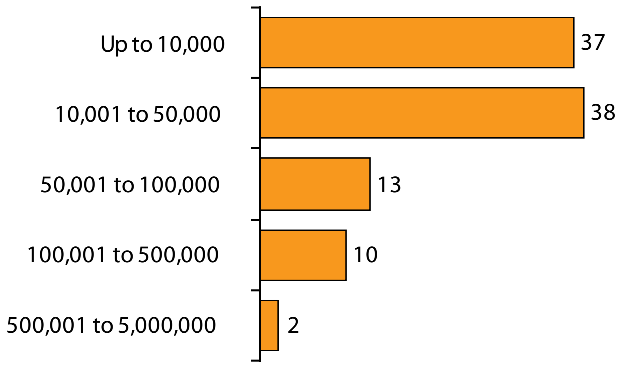
To understand whether remittance has contributed to social and communal causes, the survey asked respondents about their involvement in philanthropic activities. The findings on these sections may inform possible actions to channel remittance for community development and welfare promotion.

1. Participation in Voluntary Donations

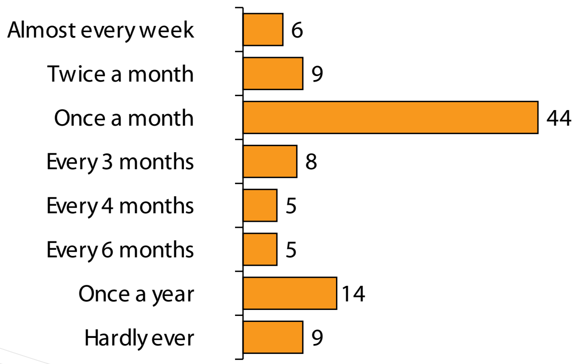
About a third of respondents claimed they participate in voluntary donation (34%) while 66 per cent do not. The donations are made about once a month (44%), and the average amount donated is IDR 101,401 (USD 10). Most donations are given to the mosque (58%) for the purpose of building a mosque or for other religious needs. Other donations are made for social and welfare purposes/needs (see Figure 10).

Figure 10: Philanthropic behaviour of remittance beneficiary households

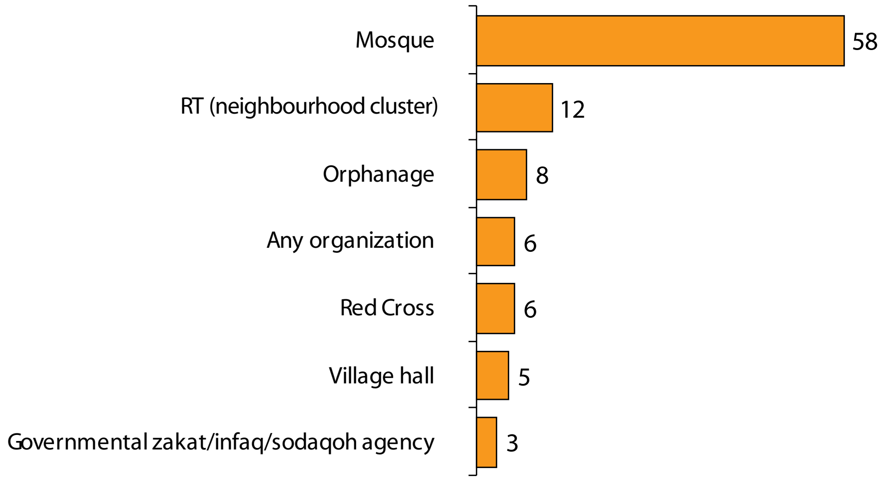
Average Donation – IDR 101,401
(Base: 168)



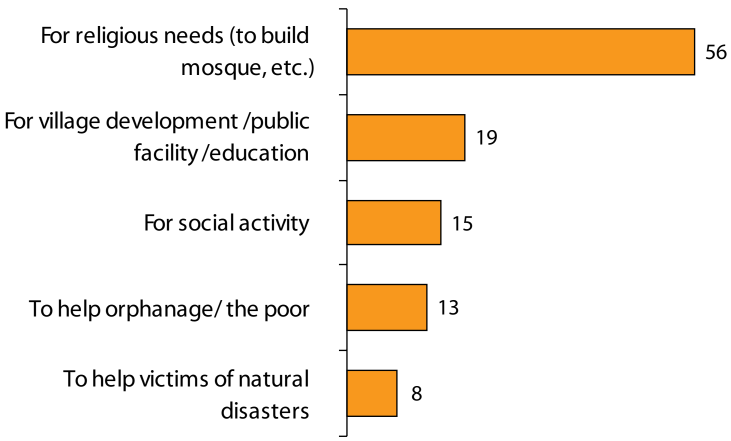
Frequency of Donation
(Base: 168)



Receiver of the Donation
(Base: 168)



Purpose of the Donation
(Base: 168)



Source: IOM–ERCOF Survey, 2010.

2. Level of Interest in Contributing to the Community Development in Indonesia

Aggregated results show there is more disinterest (48%) than interest (36%) among migrants' households to contribute to community development (see Table 27). However, this sentiment is not consistent across the different areas. Migrant households in Sukabumi, Indramayu, Blitar, and Maros appear to have a more positive interest toward contributing to community development, while those in Banyumas, Pemalang, Malang, and Lombok are not interested in this endeavour. This disinterest may be linked to the higher incidence of poor migrant families in these areas.

Those who do show an interest in contributing to the community mentioned they would like to contribute money for religious needs (30%), to help the poor (22%), for village development (13%), for social activities (13%), to help disaster victims (11%), and to develop facilities to improve public facilities, orphanages, and schools.

Table 27: Interest in community development activities, by locality of origin

		Percentage share							
Base: (n)	**Total** 500	**Sukabami** 50	**Indramayu** 50	**Banyumas** 50	**Pemalang** 50	**Malang** 75	**Blitar** 50	**Lombok** 100	**Maros** 75
Net negative reaction	48	24	14	54	58	87	34	65	20
Definitely not interested	8	0	0	4	4	36	8	1	4
Not interested	40	24	14	50	54	51	26	64	16
Neither	15	8	20	18	8	12	0	31	13
Net positive reaction	38	68	66	28	34	1	66	4	66
Interested	34	68	60	28	30	1	48	4	61
Very interested	4	0	6	0	4	0	18	0	5

Source: IOM–ERCOF Survey, 2010.

PART II

THE MALAYSIA–INDONESIA MIGRATION AND REMITTANCE CORRIDOR

VI. MIGRATION AND REMITTANCE FLOWS FROM INDONESIA TO MALAYSIA

Part II of the study takes a closer look at one of the major migration and remittance routes, the Malaysia–Indonesia corridor. Malaysia is the major destination country for Indonesian migrants because of its geographical, cultural, and religious proximity to Indonesia. Given the proximity, large numbers of irregular migrants and informal flows of remittance funds can be found in this particular corridor. This study has attempted to bring clarity to these migration and remittance flows through thorough research, including the implementation of surveys to obtain baseline data on the profile of Indonesian migrant workers/remitters in Malaysia of varied migrant and occupational status in order to better understand their remittance behaviour.

Indonesian migration to Malaysia reportedly dates back to the 1700s, when Indonesians from Java worked in Malaysian harbour towns as manual workers. Trade and agricultural work later became the driver of Indonesian entry to Malaysia, particularly from the beginning of the twentieth century, when large numbers of Javanese were recruited to work in rubber plantations during the boom. In the 1970s, much of Indonesian migration was concentrated on Malaysia's increased demand for labourers in the agricultural plantations. Strong demand for manufactured goods and real estate had also given rise to a shortage of workers in low- to medium-skilled occupations, primarily in their manufacturing and construction sectors.

Malaysia's favourable economic climate has also enabled the middle class to afford hiring domestic workers to relieve them of household chores. Malaysian households prefer workers from Indonesia due to its geographical, cultural and religious proximity to Malaysia.

A. Labour Migration to Malaysia

The Malaysian economy has consistently recorded impressive and sustained growth over the period 1990–1997. Malaysia has been able to weather the Asian financial crisis, and in the years that followed, all sectors, with the exception of agriculture, experienced positive growth. The strong growth in the economy resulted in labour shortages at all levels, including agriculture, construction, and services. Although strong economic growth contributed to stable labour market conditions in 2004, structural labour shortage emerged as a problem. A severe shortage of low-skilled labour and graduate unemployment were characteristic features of the Malaysian labour market in 2004/2005. While it was government policy to give employment priority to Malaysian citizens, there was also an evident skills mismatch in the national workforce. Despite skills upgrading programmes for the unemployed and retrenched, Malaysian workers simply were not attracted to work in sectors such as construction, manufacturing, plantations, and domestic household services. As a temporary measure to overcome labour shortages in these sectors, the government allowed the recruitment of migrant labour into these sectors in order not to disrupt economic growth (Kanapathy, 2006).

Malaysia's policies on the employment of foreign workers in 2005 focused on reducing the number of irregular migrant workers in the economy, improving the management of foreign labour, and reducing the reliance on low-skilled foreign labour. While foreign workers have evidently contributed to Malaysia's economic growth, their presence has also put stress on public amenities and services, such as public services and health and education facilities. To monitor and control the inflow of migrant workers, the Malaysian government signed bilateral agreements with migrant countries of origin to establish a framework to facilitate the recruitment and selection of migrant workers. These source countries were Indonesia, Bangladesh, China, Pakistan, Sri Lanka, Thailand, and Viet Nam. Recruitment procedures also involved the payment of levy charges in amounts that depended on sectors, as well as security deposits to the Immigration Department. Malaysia is known for enforcing strict labour migration control, which consists among others of regular deportations of irregular migrants through raids and tip-offs and the frequent closure and reopening of its labour migration schemes depending on its economic climate and diplomatic relations with the countries of origin.

1. Employment of Foreign Workers in Malaysia

The Ministry of Home Affairs and the umbrella organization of the Department of Immigration are the main institutions dealing with international migration to Malaysia. The Department of Immigration issues visas or work permits to the following five types of individuals/workers (Kanapathy 2008):

1) expatriates, which include all professional and technical workers earning a monthly salary of no less than RM[11] 3,000 (USD 852);
2) foreign skilled workers, which include professional and technical workers contracted to work for less than a year;
3) foreign students mostly enrolled in tertiary institutions;
4) foreigners under the Malaysia My Second Home Programme, who are allowed to stay for long indeterminate periods that could last up to 10 years; and
5) unskilled and semi-skilled workers.

Unskilled and semi-skilled workers are issued a visa called Visit Pass for Temporary Employment, which is valid initially for three years and extendible yearly thereafter for another two years. Their work permits are approved by a One-Stop Center under the Ministry of Home Affairs. The work permits for domestic workers are approved directly by the Department of Immigration. In Sabah and Sarawak, which are autonomous states, their respective departments issue the visas and work permits. Unskilled and semi-skilled migrant workers may only work in certain sectors and occupations.

As of the end of December 2008, out of a total of 2,062,596 foreign migrant workers in Malaysia, Indonesian workers constituted 52.6 per cent or a total of 1,085,658 persons, according to the Ministry of Home Affairs of Malaysia (see Table 28). Bangladeshi workers were the second largest group (15% of total or 316,401 workers). Other dominant migrant groups in Malaysia include Nepali, Myanmarese, Indians, and Vietnamese. The manufacturing sector employs the greatest number of migrants (728,867 or 35.34% of total), followed by plantation (333,900 or 16.19%), construction (306,873 or 14.88%), and domestic work (293,359 or 14.22%) (see Table 29).

[11] Exchange rate used for this study: USD 1=RM 3.52 (31 July 2009 monthly average of BNM exchange rate).

Table 28: Foreign workers in Malaysia as of end-Dec 2008

Origin Country	Population	%
Indonesia	1,085,658	52.6
Bangladesh	316,401	15.3
Nepal	201,997	9.8
Myanmar	144,612	7.0
India	130,265	6.3
Viet Nam	87,806	4.3
Others[1]	95,857	4.6
TOTAL	**2,062,596**	-

Source: Ministry of Home Affairs.

Table 29: Migrant workers by sector as of end-Dec 2008

Sectors	Population	%
Domestic work	293,359	14.22
Construction	306,873	14.88
Manufacturing	728,867	35.34
Services	212,630	10.31
Plantation	333,900	16.19
Agricultural	186,967	9.06
TOTAL	**2,062,596**	-

Source: Ministry of Home Affairs.

2. Indonesian Migrants in Malaysia

Indonesians are the largest migrant group in Malaysia with over a million workers (1,085,658 as of December 2008), which include only the documented ones. This large concentration can be explained by the geographical, linguistic, and religious proximity between Indonesia and Malaysia. Indonesian workers are more often found in certain occupation sectors such as domestic work (24.83%) and plantation work (25.33%), which they tend to dominate (see Table 30). For example, of all documented foreign domestic workers in Malaysia, 82.4 per cent of them are Indonesian. However, in the service and manufacturing sectors, Indonesian workers are underrepresented (only 19% and 26.4% of the total for each sector, respectively). For the past decade, the Malaysian government has made a conscious effort to reduce dependency on foreign workers from a particular source country by practicing diversification. Consequently, the share of Indonesian workers has dropped over the past years, for example, from 66.7 per cent in 2005 to 52.6 per cent in 2008 (Dairiam, 2006).

Table 30: Indonesian migrant workers by sector as of end-Dec 2008

Sectors	Population	%
Domestic helper	269,602	24.83
Construction	203,337	18.73
Manufacturing	192,814	17.76
Services	40,467	3.73
Plantation	274,978	25.33
Agricultural	104,460	9.62
TOTAL	**1,085,658**	-

Source: Ministry of Home Affairs.

3. Unauthorized Migration to Malaysia

As in other countries, whether origin or destination, reliable estimates of irregular migration are difficult to come by. Malaysia shares porous borders with Indonesia as well as with the Philippines where people come and go for occasional or seasonal work, petty trade, or personal and family visits. Moreover, citizens of ASEAN member countries are admitted without visa for tourism purpose, and are able to find employment without much difficulty, especially with employers desirous of hiring cheap labour quickly without the attendant procedures and expenses. Workers who were originally legally recruited but have overstayed, or remained after their work permits had expired or revoked for various reasons, also fall under an irregular status. In general, irregular migrants[12] number around 0.7 million in the Peninsula and 0.6 to 1.7 million in Sabah (Kanapathy, 2008).

With Malaysia, Indonesia has two agreements – one covering workers in the formal sector and another covering the recruitment and placement of domestic workers, both of which are currently on hold. From June 2009 to April 2010, negotiations were underway to revise the MOU covering domestic workers. However, a series of abuses committed by Malaysian employers to Indonesian domestic workers followed, which led the Indonesian government to impose a ban on the deployment of domestic workers to Malaysia. The new MOU is expected to include provisions entitling Indonesian domestic workers to higher salaries, one day off per week, and permission to hold their own passports.

B. Remittance Environment in the Corridor

Malaysia and Indonesia each have one dedicated regulatory body responsible for all remittances by both banks and remittance companies. BNM, Malaysia's central bank, is the country's primary and sole regulator of the financial sector. It monitors and records the inflow and outflow of money to and

[12] They include (a) those who have unauthorized entry or employment; (b) those who have authorized entry but unauthorized employment; (c) those who have authorized entry and employment but work permits invalidated; (d) refugees; and (e) children of irregular workers and refugees whose births were not registered by relevant authorities.

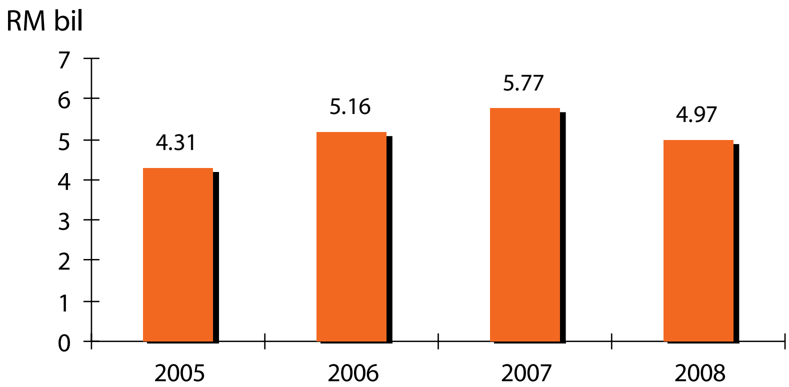
from the country, and in the process, oversees the remittance industry and regulates the entry and activities of banks and non-bank RSPs. It also promotes the use of formal channels, the curbing of money laundering and terrorist financing, and the introduction of measures and innovations to foster competition and increase financial inclusion (IOM, 2009). In Indonesia, BI has jurisdiction over the banking sector and, where allowed, over any company or agency involved in the remittance business in Indonesia (see Part A, Chapter IV, for more information on the work of BI and the main feature of the remittance environment in Indonesia).

1. The Remittance Flows and Regulatory Environment in the Corridor in Malaysia

Malaysia experiences large volumes of remittance flows, both entering and leaving the country. In terms of the inflow, a total of RM 4.98 billion (USD 1.41 billion) remittances was recorded, indicating some drop from the previous year according to the data of BNM (see Figure 11). The outflow of remittances for the same year was RM 8.61 billion or USD 2.44 billion, making the country a net exporter of remittances (see Figure 12). The top six countries of remittance destinations are Indonesia (11.9%), Singapore (9.8%), the United States (9.6%), Nepal (9.4%), the United Kingdom (8.1%), and Bangladesh (6.2%). Total remittance outflows indicated an increasing trend, which reflected the increase in the number of foreign workers and the entry of new RSPs in the market. The main channel of remittance outflow is through banks, but the market share has dropped from 93 per cent in 2005 to 77 per cent in 2008.

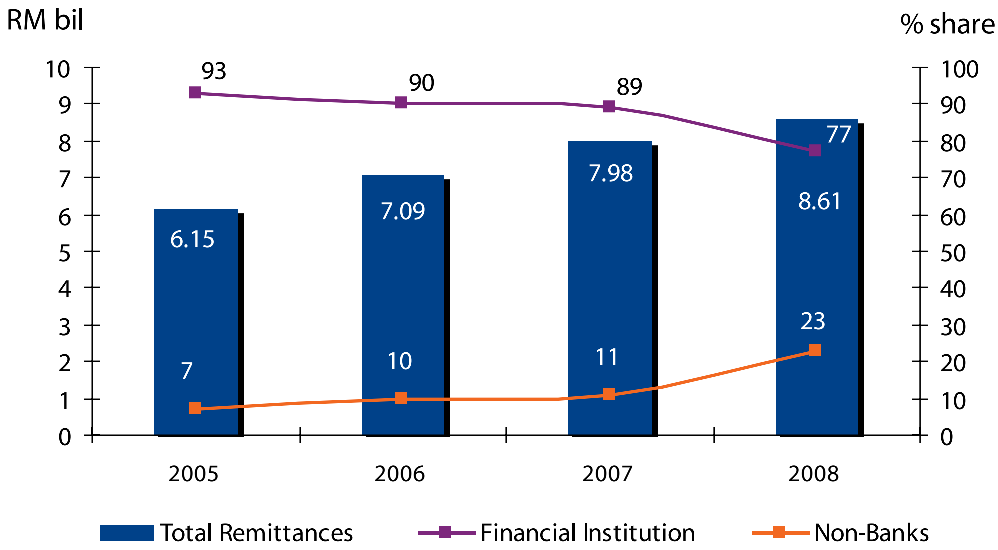
As of the end of 2008, there are three main RSPs in Indonesia: (1) 22 commercial banks and 17 Islamic Banks, with over 3,600 branches and ATM links; (2) two development financial institutions with over 450 branches; and (3) 35 non-bank RSPs, with over 800 branches.

Figure 11: Remittance inflow to Malaysia (2005–2008)



Source: BNM, 2009.

Figure 12: Remittance outflow from Malaysia and channels used (2005–2008)

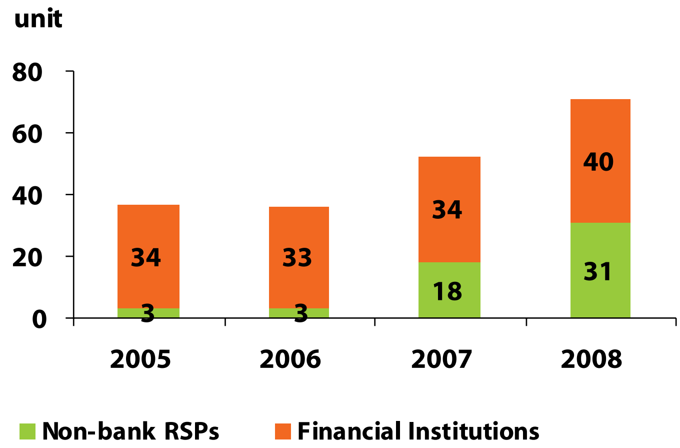


Source: BNM, 2009.

Prior to 2006, Malaysia and Indonesia have given licences only to banks to offer remittance services because they were the only institutions allowed to conduct wire transfers. Money transfer agents like Western Union or Money Gram were required to tie up with banks if they wanted to have a presence in both countries. BNM made an exception for Post Office Malaysia when it allowed Western Union to partner with it for money transfer services.

In developing the remittance industry in Malaysia, BNM stresses the importance of efforts to widen the access of migrant workers to remittance services by increasing the number of RSPs. A series of liberalization measures have been introduced by BNM including: (i) allowing qualified non-bank operators to provide remittance services; (ii) allowing banks to appoint local agents such as telecommunications companies, supermarkets, or convenience stores to collect and disburse funds for remittance; and (iii) supporting regional ATM initiatives. These measures have particularly given migrant remitters working in remote areas such as plantations greater access to formal channels. The number or RSPs has increased from 37 (34 financial institutions and 3 non-bank service providers) in 2005 to 71 (40 financial institutions and 31 non-bank providers) in 2008 (see Figure 13).

Figure 13: Number of remittance service providers in Malaysia (2005–2008)



Source: BNM.

More formal remittance players have led to greater competition, which in turn improved service levels in terms of cost and speed of delivery in Malaysia. A BNM survey of outward remittance fees and speed of delivery to Indonesia showed that banks charge between RM 12 and RM 32 (USD 3.4 to USD 9) per transaction, depending on the amount remitted, compared with non-bank RSP fees of RM 5 to RM 15 (USD 1.4 to USD 4.3) (see BNM presentation in IOM (2009). Banks commit to deliver remittances between three and five days, much longer than the 5–10 minutes offered by non-bank RSPs.

Table 31 shows the cost and transfer speed of several RSPs remitting money from Malaysia to Indonesia.

Table 31: Cost and speed of remitting USD 200 from Malaysia to Indonesia (first quarter 2009)

Remittance Service Provider (RSP)	RSP Type	Fees		Exchange Rate Margin (%)	Total Cost		Transfer Speed
		In RM	USD		In RM	USD	
POS Malaysia	Post office	11.00	3.64	2.85	28.25	9.34	6 days or more
Western Union	NTO	11.00	3.64	2.85	28.25	9.34	Next day
Money Gram	MTO	14.63	4.84	2.95	32.43	10.72	< 1 hour
IME – Malaysia	MTO	15.00	4.96	3.89	38.48	12.72	Same day
RHB Bank	Bank	12.00	3.97	5.91	47.80	15.80	2 days
CIMB Group	Bank	10.00	3.31	7.60	55.96	18.50	2 days
HSBC Bank Malaysia	Bank	30.00	9.92	6.64	70.18	23.20	3–5 days
HLB (Hong Leong Bank)	Bank	32.00	10.58	7.14	75.14	24.84	2 days

Source: Remittances Prices, www.worldbank.org.

Malaysian banks have also sought collaboration with banks in Indonesia to increase their share of the remittance business. Bank Muamalat Malaysia Bhd (BMMB), for instance, partnered with Bank Muamalat Indonesia (BMI) in 2007 to provide remittance services between the two countries. With this service, the money remitted is immediately credited to the beneficiary's account at BMI and both sender and beneficiary get a text message notifying them of the remittance. The money can then be withdrawn via ATM or be picked-up at the post offices in Indonesia. Each transaction costs only RM 10 (USD 2.84). BI has recently been trying to negotiate with the Malaysian government to allow the presence of Indonesian banks in Malaysia so they can better reach out to migrants. In 2009, Bank Mandiri opened its first branches in Malaysia after a long period of negotiation and preparation.

C. Remittances from Malaysia to Indonesia

Existing data on this particular remittance corridor from central banks do not reconcile well but serve to give some indication to understand the volume and scale. From the data of BNM, a total of RM 1,021.8 million (USD 290.2 million) were remitted to Indonesia in 2008. The Indonesian portion represents 11 per cent of the total outflow from Malaysia. For these remittances, 91.7 per cent were channeled through banks while the others (8.2%) through non-bank RSPs (see Table 32). This figure seems relatively low considering that Indonesians are the largest migrant group in Malaysia. The data from BI for the same year, on the other hand, indicate that as much as USD 2.3 billion were channeled to Indonesia from Malaysia (see Table 5 in Part I, Chapter IV) and Malaysia stands as the top remittance source country. This major data discrepancy stems from the varied data collection mechanisms whereby BNM collects data from the actual reports from RSPs while BI partly relies on estimates coming from the departure records of Indonesian migrants.

Table 32: Remittance to Indonesia from Malaysia, multiple-year remittances by number of banks/non-bank RSPs

Workers remittance (outward)	2004	2005	2006	2007	2008
	RM mil				
Indonesia	1,152.8	930.1	900.5	786.1	1,021.8
• Banks	1,152.8	918.0	884.6	769.1	937.8
• Non-bank RSPs	n.a.	12.1	15.9	17.0	84.0

Source: BNM.

1. Informal Remittances Channels in the Malaysia–Indonesia Corridor

The presence of informal remittance channels may also contribute to the abovementioned data discrepancy. Earlier studies point to a prevalence of informal channels of remittance particularly in the Malaysia–Indonesia Corridor (World Bank, 2008b). There seems to be several major contributing factors such as: (i) the prevalence of irregular migration; (ii) the issue of physical access to formal remittance channels; (iii) the role of traditional informal RSPs; and (iv) the low financial literacy among migrants. All of these make informal means of transfer more accessible, convenient, and attractive compared to formal transfers (see Table 33).

Table 33: Comparative analysis of incentives of remittance channels

	Bank	Postal (Money Order)	Money Transfer Organization	Money Changer	Informal Channels
Access without ID	No	No	No	Yes	Yes
Geographic coverage in Malaysia	Limited	Good	Limited	Unknown	Good
Relative price of fees	Variable	Inexpensive	Expensive	Inexpensive	Unknown
Speed	Moderate to slow	Slow	Fast	Fast	Variable
Language barrier	Variable	Variable	Variable	Variable	None
Minimal paperwork	No	No	No	Yes	Yes

Source: World Bank, 2008a.

It is a common practice among irregular migrant workers to remit their funds through informal channels since they do not have proper identification documents such as a passport or a valid worker's permit. Documented workers also experience access issues. For example, domestic workers who are in "live-in" arrangements with employers may not be able to freely go out of the house during banks' operating hours to remit money. Workers in plantation sectors are located in remote areas where there are no banks.

The strong presence of traditional informal RSPs[13] must be noted in the Malaysia–Indonesia remittance corridor, which are the foreign exchange houses operating even in very remote villages in Malaysia and Indonesia. While their primary business is to provide foreign exchange service, they offer informal remittance service free of documentation to their clients. Remittance through exchange houses does not involve the recorded transfer of funds, as the remittance will be delivered to beneficiaries through a call or SMS through an informal network of money changers in Malaysia and Indonesia. Unlike formal service providers, they have long and flexible opening hours, and offer competitive exchange rates. Formal RSPs struggle to compete with exchange houses, which are not required to meet various compliance measures.

[13] Exchange houses are not authorized or licensed to perform international fund transfers. The Foreign Exchange Act of Malaysia specifically prohibits foreign exchangers from operating a remittance service. BNM has made itself ready to issue licences if exchange houses establish a subsidiary to operate remittance services but only few have done so thus far (interview with BNM) (see Chapter IV for action taken by BI to register exchange houses).

2. Mobile Financial Services: A New Player

The advancement of technology and communications in Malaysia and Indonesia has led to the emergence of a new formal remittance mechanism – the mobile phone. As part of BNM's efforts to liberalize its remittance corridor, it allowed telecommunication companies to offer international remittance services to the country's migrant workers, including Indonesians. This business model was adopted from the electronic cash products offered by the Philippines' two leading telecommunication firms, Smart Communications and Globe Telecom.

Malaysia's Maxis Communications Bhd introduced mobile phone-to-bank remittance transfers for the Malaysia–Indonesia remittance corridor. This technology involves loading the mobile phone with electronic money (e-money) paid for in Malaysia, remitted via the Maxis remittance system, and distributed via SMS to a recipient bank (HSBC Bank) in Indonesia (Maxis, 2007). Another Malaysian telecom, DiGi Telecommunications, was named a remittance agent of Citibank Berhad to provide the mobile phone platform that would transfer funds from Malaysia to Indonesia. The service is available to DiGi's pre-paid and post-paid customers, who can register at 44 DiGi centres and DiGi service countries across Malaysia (Winn, 2008).

While awareness of mobile phone-enabled remittances still needs to grow, this type of remittance transfer offers migrants a convenient and safe way to remit funds back home without opening a bank account. However, the accessibility of the service may be a challenge for Indonesian migrant workers, particularly domestic workers, as they may have limited freedom of movement as a result of their employer keeping their passport and given their limited number of days off. Cash handling agents who can serve as e-money remittance payout centres must be within the reach of the migrants, particularly those who work in plantations in highly remote areas. Other factors to consider are the costs associated with the cash in/cash out process, consumer education, reliable physical/electronic outlets, and enhanced settlement services/international payment engines.

VII. SURVEY OF INDONESIAN MIGRANT WORKER REMITTERS IN MALAYSIA

To better understand the migration and remittance corridor between Malaysia and Indonesia, the study has also conducted a second survey among 300 Indonesian migrant remitters in Malaysia. Previous studies on remittances in Indonesia have collected information from returned migrants or the remittance beneficiary households in Indonesia, using focus-group discussions as a data collection method (World Bank, 2008b; MICRA, 2008; BI, 2009). This IOM–ERCOF survey has instead obtained baseline data by directly engaging migrants themselves in the destination country as information sources. It is therefore expected to elucidate more accurate and insightful information about the migrants' knowledge, attitudes, and practices on migration and remittances.

A. Survey Methodology: Migrant Remitter Survey in Malaysia

The survey of Indonesian migrant worker remitters in Malaysia was conducted in two provinces of Malaysia where a high concentration of Indonesian migrants can be found. These are Klang Valley (Kuala Lumpur and Selangor) and Sabah Estate (Kota Kinabalu and Tawau). Quota samples of 75 for each of the four locations were set for a total sample of 300 respondents (see Table 34 and Figure 14).

A sampling quota on migrants' occupations was also applied to understand the remittance behaviours of migrants in various job sectors. The quota was based on the official deployment statistics of Indonesia (professionals, 10%; technical workers, 10%; service workers, 10%; labourers, 50%; domestic workers, 10%). The labourers include unskilled workers in the plantation, construction, and agriculture industries. This occupation-based sampling model expects more samples of male workers who dominate the labourer sector. This approach complements previous studies by World Bank (2008b) and MICRA (2008) that have done much toward documenting the remittance behaviour of female domestic workers. In addition, the survey attempted to ensure that as much as 30 per cent of the surveyed population would be irregular workers.

The respondents were screened for sending remittances regularly to their family in Indonesia at least once in every four years. Questions asked in the survey include respondents' demographic profiles, history of migration to Malaysia, remittance behaviour and usage, remittance channels used, and amounts allocated for saving, investing, and donations. The survey also asked questions on the migrant's level of skills, educational attainment, and financial literacy levels including cultural or socio-economic practices that may influence remittance and migrant spending behaviour. All the data gathered from the surveys were processed using the SPSS software and data analysis was conducted from January to April 2009.

The findings and conclusions made from this remitter survey is to be distinguished and not directly compared to the survey findings presented in Part I (remittance beneficiary household survey in Indonesia, n=500) as the latter captures households with migrants working in various countries and not only in Malaysia. These two surveys, however, may be consulted simultaneously to identify some particular features of the Malaysia–Indonesia remittance corridor. For this reason, similar survey questions were used in both surveys to maintain consistency.

Figure 14: Survey locations in Malaysia

Source: CIA Factbook.

Table 34: Survey respondents in Malaysia, location, and number

Province	City	N
Klang Valley	Kuala Lumpur Selangor	75 75
Sabah	Kota Kinabalu Tawau	75 75

Source: IOM–ERCOF Survey, 2010.

B. Demographic Profile of Indonesian Migrants in Malaysia

1. Occupation, Legal Status, Gender, Age, and Marital Status

In accordance with the quota applied to survey samples in the areas of occupational categories and legal status, 55 per cent of the surveyed Indonesian migrants in Malaysia are employed as labourers in construction firms, plantations, and factories, among others (see Table 35). The survey was also able to closely achieve the 10 per cent quota applied to the other occupational groups, such as professionals (9.6%), technical workers (10.2%), service workers (9.6%), and domestic workers (9.9%). Again, following soft quotas, two thirds of migrants are documented workers while the rest admitted they are irregular migrants.

Reflective of the occupational distribution of migrants, whereby 55 per cent are employed as labourers (emphasizing the labourer sector as male-dominated), two thirds of the migrant remitters surveyed are male (66%) and 34 per cent are female (see Table 35). It is clear from the survey that migrants' occupations are highly gendered in most occupations. In addition to labourers, technical workers are mostly male (94%), while occupations such as service and domestic works are mostly occupied by female workers. The professional category is more gender balanced with 59 per cent male workers and 41 per cent female workers. The occupational groups surveyed are unevenly distributed in the four sample sites, with professional and technical workers concentrated in Kuala Lumpur (56.5% of all professionals and 55.3% of all technical workers), while the majority of labourers are found in Sabah (66.7% of total).

Table 35: Respondents' gender, age, occupation, and legal status

Base:	Total 303	Professional 29	Technical Field 31	Service workers 29	Domestic helpers 30	Labourers 167	Others 17*
		9.6%	10.2%	9.6%	10%	55.1%	5/6%
Gender	%						
Male	68	59	94	0	7	91	29
Female	32	41	6	100	93	9	71

Source: IOM–ERCOF Survey, 2010.

The majority of surveyed migrants fall in the age brackets of 18 to 34 years old (26%, 18–24; 24%, 25–29; 21%, 30–34). In addition, there was equal distribution of married respondents with children and single respondents (43% each) (see Table 36). The marital status distribution suggests that migration takes place at certain life cycle stages – either before or after getting married and having children.

Table 36: Marital status of respondents

Marital Status	N	%
Single	129	42.6
Married/Cohabiting with no children	30	9.9
Married/Cohabiting with children	129	42.6
Divorced/separated/widowed	15	5
Total	303	100

Source: IOM–ERCOF Survey, 2010.

2. Educational Attainment, Ethnic Origin, Religion, and Length of Stay in Malaysia

The level of educational attainment among the surveyed migrants is found to be very low. About 7 per cent of them claimed they have never attended school or did not finish elementary school, while a little over a third (32%) have only completed elementary school (see Table 37). Another third (36%) have only junior high school education and 12 per cent completed senior high school. Only 13 per cent of migrants completed tertiary-level education such as technical vocational school (3%), college (3%), university (4%), or postgraduate schools (3%). The educational attainment of the service workers is particularly low, as well as that of the domestic workers and labourers. Workers with no or little education tend to be more vulnerable and often find themselves disadvantaged when negotiating with middlemen and employers.

Table 37: Educational attainment of migrants by profession

Base: (n)	Total 303	Professional 29	Technical Field 31	Service workers 29	Domestic helpers 30	Labourers 167	Others 17*
	%	%	%	%	%	%	%
Education							
Never went to school/did not finish elementary	7	0	0	14	0	9	12
Elementary school	32	0	19	34	47	37	35
Junior high school	36	7	23	38	50	41	35
Senior high school	12	14	13	14	3	13	12
Technical	3	0	23	0	0	1	0
College	3	17	10	0	0	0	6
Undergraduate/University	4	34	3	0	0	0	0
Postgraduate	3	24	10	0	0	0	0
Doctor/PhD	0	3	0	0	0	0	0

Source: IOM–ERCOF Survey, 2010.
Note: The occupational category "others" includes those who work in restaurants/food courts, in housekeeping, as tailors and carpenters, at their own businesses, at a cleaning service or car wash – each accounts for one to two respondents.

Majority had been working in Malaysia for less than three years (one year or less, 8.9%; one to two years, 41%) while almost a quarter (27%) have spent three to five years in Malaysia. Less than 10 per cent of them have spent over 11 years working in Malaysia. This finding confirms the temporary contractual nature of migration to Malaysia from Indonesia (see Table 38). On average, Indonesian migrants in Selangor have been employed longer than migrants in other cities. In comparison, close to half of migrants in Kota Kinabalu just recently started working there. The ethnic origins of the surveyed migrants are diverse. Nearly half of them (46%) are Javanese, followed by the Bugis (27%). In terms of religious faith, almost all of them are Muslims (98%) and a small percentage (1.6%) are Christians.

Table 38: Number of years of stay in Malaysia

Number of years in Malaysia	N	%
Less than 1 year	27	8.9
1 to 2 years	125	41.2
3 to 5 years	82	27.1
6 to 8 years	28	9.3
9 to 10 years	11	3.7
11 to 15 years	17	5.6
15 to 20 years	10	3.3
More than 20 years	3	1.0
TOTAL	303	100.0

Source: IOM–ERCOF Survey, 2010.

C. Migration Decision-Making Process and Financing Migration

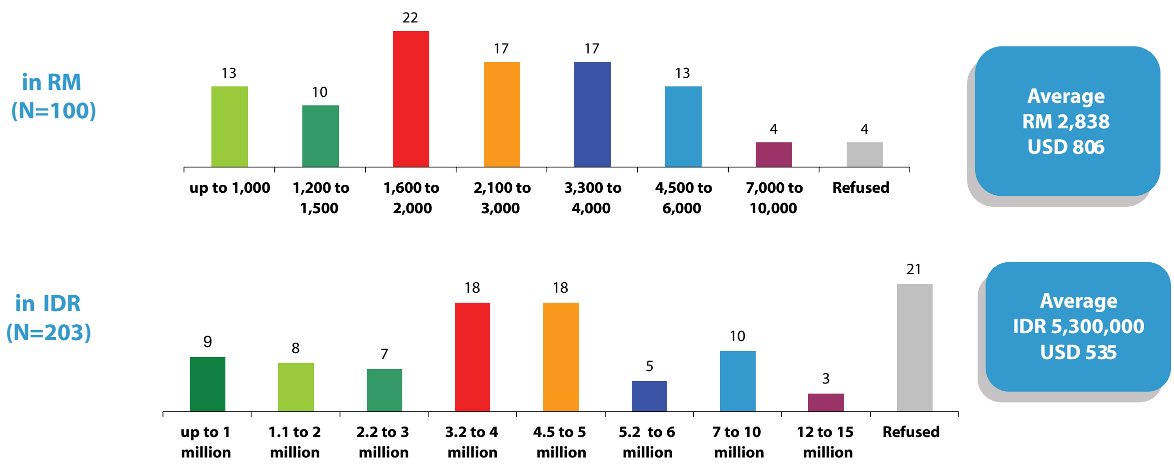
1. Reason for Working Overseas

Economic difficulties/incentives are the key drivers for seeking overseas employment. The migrants' reasons for leaving Indonesia were higher salary/better income abroad (27%), difficulty in finding a job in Indonesia (21%), lower salary in Indonesia (19%), and ease of finding work/many opportunities abroad (15%). Only a few (5%) went abroad to seek work experience.

2. Financing Initial Migration Costs

The surveyed migrants also related the total cost of migration they and their household paid before coming to work in Malaysia (see Figure 15). For those who paid in Indonesian rupiah, the total amount ranged widely from as small as IDR 1 million to up to IDR 15 million (USD 101 to USD 1,515). The average amount was IDR 5.3 million or USD 535. For those who paid in Malaysian ringgit, the total fee ranged from RM 1,000 to RM 10,000 (USD 284 to USD 2,840). The average total cost before departure in Malaysian ringgit was RM 2,838 (USD 806). The costs presented here are higher than the costs that were cited by the remittance beneficiary households presented in Part I of this study. The beneficiary survey reveals that the agency fee to Malaysia was roughly IDR 3.5 million (USD 353). This is most probably owing to the differences in sampling quota whereby the beneficiary survey had a much smaller percentage (3%) of skilled workers compared to this migrant remitter survey where their percentage is higher (10%). It is documented that skilled workers pay higher fees than the unskilled ones.

Figure 15: Average pre-departure cost before migrating to Malaysia



Source: IOM–ERCOF Survey, 2010.

3. Financing Migration Cost

To finance the initial migration costs, seven out of 10 migrant workers borrowed money from their own family to cover all the pre-departure expenses. Others borrowed from non-family members, such as recruitment agencies, either as loans or advance payments (3%), and from other sources (17%) (see Table 39). Some have their initial migration costs paid by their employers (14%), and these workers are mostly domestic helpers and technical workers. Compared to other types of occupations, service workers and domestic helpers (the two major occupations dominated by female workers) appear to rely more on other parties than their family members to finance their migration costs.

Table 39: Sources of funding for initial migration costs to Malaysia

	Total	Occupation				
	Total	Professional	Technical Field	Service workers	Domestic helpers	Labourers
Base:	303	29	31	29	30	167
	%	%	%	%	%	%
Household/family	70	86	74	48	50	73
Loan from others	17	0	13	31	20	18
Employer	14	0	16	10	23	16
Agency	3	3	0	17	10	0
Indonesian Embassy	1	14	0	0	0	0

Source: IOM–ERCOF Survey, 2010.

Majority (85%) of the migrants working in Malaysia, who paid their initial migration cost out of personal and family funds, funded all their departure expenses from their own savings or current account/ deposit (see Table 40). Other ways of financing included selling livestock, land, and jewellery. A total of four professional workers reported the Indonesian Embassy as a source. The survey could not, however, investigate further as to how the Embassy can lend money to migrants. Those who borrow from other people did so with an average loan amount of between IDR 6.5 million and IDR 7.5 million (USD 656 to USD 757).

Table 40: Sources of funding among those who financed their initial migration costs through personal and family sources

	Total	Professional	Technical Field	Service workers	Domestic helpers	Labourers	Others
Base:	212	25*	23*	14*	15*	122	13*
	%	%	%	%	%	%	%
From bank savings/deposit	85	96	96	71	87	82	92
Selling livestock	8	0	9	14	7	9	8
Selling land/rice field/ agriculture plant	4	0	0	0	7	6	0
Selling jewellery	3	0	0	21	0	2	0
Selling vehicle	1	0	0	0	0	2	0

Source: IOM–ERCOF Survey, 2010.
Note: *Small sample size.

4. *Wage and Income*

In terms of the average annual income earned, the survey revealed a large income disparity between various occupational categories. Professionals' annual salary is RM 26,032 (USD 7,395); technical workers', RM 19,219 (USD 5,459); service workers', RM 8,166 (USD 2,319); domestic workers', RM 4,172 (USD 1,185); labourers', RM 9,556 (USD 2,714); and others', RM 3,678 (USD 1,044) (see Table 41). Domestic workers' salary is the lowest, partly because many of the workers are provided with accommodation and food by their employers. However, the survey also revealed that many domestic workers earn less than the legally stipulated minimum wage of RM 500 per month. While domestic workers should earn an annual income of at least RM 6,000 (USD 1,704) per year, the respondents in this survey earned on average RM 4,172 (USD 1,185) or 30.5 per cent less than what they should.

Table 41: Average income in the past year of Indonesian migrants in Malaysia by occupation

	RM	USD
Total (n=292)	11,172	3,173
Professional (n=28)	26,032	7,395
Technical (n=31)	19,219	5,459
Service workers (n=28)	8,166	2,319
Domestic helpers (n=29)	4,172	1,185
Labourers (n=160)	9,556	2,714
Others (n=16)	3,678	1,044

Source: IOM–ERCOF Survey, 2010.

D. Remittance Amount, Frequency, and Fee

1. *Amount Remitted and Frequency*

The average amount of remittance sent per occasion ranged from RM 412 to 1,352 (USD 117 to USD 384) (see Table 42). Technical workers sent the highest amount with RM 1,352 (USD 384) followed by professionals (RM 1,070 or USD 303). The reason for the professional group not sending as much as technical workers can be attributed to the fact that many professionals bring their family members to Malaysia. Thus, the remittances they send are mostly for relatives other than immediate family members. The average amount remitted per occasion among all occupational groups is RM 593 (USD 168). As a means of verification, the amount the respondents sent home the last time was also asked, and these amounts were found to be mostly in a similar range to what they have claimed to send regularly. This is true for migrants in technical (RM 1,395 or USD 396), domestic (RM 333 or USD 94), and service (RM 459 or USD 130) sectors, but professionals sent significantly higher amounts (RM 1,423 or USD 404) than they earlier claimed. This was also observed, although to a lesser extent, among the labourers (RM 583 or USD 165). These variations may have been influenced partly by the timing of the survey which was carried out right after the religious holidays (Eid), but this finding will need further validation.

Table 42: Average amount of remittance by occupation

	Usual Amount of Remittance (Average)	
	RM	USD
Total (n=303)	593	168
Professional (n=29)	1,070	303
Technical field (n=31)	1,352	384
Service workers (n=29)	466	132
Domestic helpers (n=30)	338	96
Labourers (n=169)	455	129
Others (n=17)	412	117

Source: IOM–ERCOF Survey, 2010.

Domestic workers send a higher proportion of their salary as remittance, with as much as 13 per cent of them saying they remit 100 per cent of their salary. This is possible because many domestic workers have their basic living expenses covered by the employers. On the contrary, only 17 per cent of labourers send more than 80 per cent of their salary to Indonesia. The average proportion of remittance to salary was 58 per cent for all domestic workers, while the proportion for all other occupations was below 40 per cent, including service workers (36.5% on average) and labourers (37.2%).

When it comes to decision-making on how much to remit, almost all migrants mentioned affordability (91%), while only a few (5.6%) said they decide on the amount based on the need or expenses of the beneficiaries.

In terms of frequency, remittance is sent fairly frequently, with 33 per cent of migrants saying they send money monthly or every other month (24%) (see Table 43). About 23 per cent send it three to four times a year, while the rest send it less often than that. Those who are able to transfer on a monthly basis are typically the professionals (72% of all professionals), and also the domestic helpers (47%) but to a lesser extent. Meanwhile, those who work in other fields such as the technical and service sectors and as labourers tend to remit at a lesser frequency (two to three times a year). Some 13 per cent of the labourers send as infrequently as once a year.

Table 43: Frequency of sending remittances

Base:	Total	Professional	Technical Field	Service workers	Domestic helpers	Labourers	Others
	303	29	31	29	30	167	17*
	%	%	%	%	%	%	%
Weekly	0	0	0	0	0	0	6
Monthly	33	72	26	17	47	29	29
Every other month	24	7	16	34	20	29	18
Four times a year	11	7	6	14	13	11	12
Three times a year	12	3	26	14	10	10	29
Twice a year	8	3	23	17	7	5	0
Once a year	9	7	3	3	3	13	6
Three times in 2 years	0	0	0	0	0	1	0
Once every 2 years	1	0	0	0	0	2	0

Source: IOM–ERCOF Survey, 2010.
Note: *Small sample size.

When asked who actually sends the remittance, nearly all (92%) of the migrants said they send the funds themselves. A few ask the help of the agent (2%), their employer (3%), or their relatives (3%) to transfer the funds on their behalf.

2. Remitting Currency

About two thirds of the respondents send their money in Malaysian ringgit (65%), while the rest send it in Indonesian rupiah (33%). Very few send in Singapore dollars. It is possible, however, that some migrants, especially those in the professional and technical fields, alternatively send money in both currencies and take advantage of favourable foreign currency exchanges in better timing. BI acknowledges the increased demand for Indonesian rupiah abroad. This is practiced by many migrants even in other countries. For example, overseas Filipino workers (OFWs) in Italy send remittances in euros and Philippine pesos, indicating their knowledge of using currency to maximize earnings.

3. Occasional Remittance and Non-Monetary Transfer

Overseas Filipino workers are also known for sending significant amounts of so-called occasional remittance for random or specific events, such as holidays, birthdays, and other occasions, in addition to sending regular remittances. In the case of Indonesian workers in Malaysia, however, as much as 70 per cent of migrants claimed they never send remittances on an occasional basis. Of those who send occasional remittance (30%), the average amount per occasion is RM 736 (USD 209), and the occasions are mainly for Hari Raya celebration (40%), followed by health-related matters (illnesses/to go to doctor/to be hospitalized, etc.) at 21 per cent (see Table 44).

Table 44: Occasions when remittances are sent

Specific Occasions	
Base: Those who send on occasional basis (n=91)	%
Hari Raya / Festive seasons	40
For health / illness-related	21
For school fees	8
For family matter	8
Daily needs	4
No special reasons	3
For household grocery	3
For death of family member	2
Family ceremony	2
To build house	2

Source: IOM–ERCOF Survey, 2010.

As to whether any goods are sent home in addition to remittance, very few migrants (10%) send non-monetary items to their beneficiaries back home. This is again in contrast to the case of Filipino overseas migrants, the majority of whom send non-cash items home. For those Indonesian migrants who send some items home, some of the typical items they send home are clothes, kitchen items, food, and mobile phones.

4. Remittance Costs and Charges

When asked about the costs and charges incurred to transfer remittances, about 79 per cent of respondents know how much they pay, with the average charge around RM 15.9 (USD 4.5) although the figure ranged from RM 10 to 80 (USD 2.8 to USD 22.7) (see Table 45). Surprisingly, around 21 per cent of migrants are not aware of the service charge they pay on every remittance. In addition, majority of the migrants (85%) do not know the details of the remittance charges. Even the 15 per cent of respondents who are able to report the details only cited "service charges", "service tax", or "service delivery" without referring to specific charges such as communication costs.

Table 45: Remittance costs and charges (base: 238)

Remittance Charge (RM)	%
up to 10	41
11 to 15	17
16 to 20	32
25 to 30	5
50 to 80	2

Source: IOM–ERCOF Survey, 2010.

Some segments of the migrant population, such as labourers, domestic workers, and service workers, would benefit a great deal from learning about remittance transfer options and channels, as well as how to choose service providers wisely for their benefit. It can be expected that some migrants are being charged fees without their knowledge. This is applicable to both formal and informal service providers, which are, for example, making profits through exchange margins rather than through charging upright fees, making it more difficult for remitters to detect these fees.

E. Knowledge and Practice on Remittance Transfer

1. Awareness and Knowledge of Remittance Channels and Services

Migrants were asked to cite all the remittance service provider(s) they know. Some responded by providing the name of the provider (name of specific banks) while others provided generic channels (without referring to specific names of banks). Migrants were first asked to provide a name they could instantly remember (single answer) and then any others they know (multiple answers). The results were collated in accordance to how remittances are ferried by the migrants to assess their awareness level.

The finding reveals that banks, money exchangers (or foreign exchange outlets), and hand-carry are the most commonly used methods of remittance transfers. As for banks, BNI (14.9%) and Maybank (12.9%) were the two most common answers, while others mentioned BRI (4%) or simply banks (unspecified at 3.6%). Another formal service provider which was commonly cited was Western Union (12.9%), which may operate independently or tie up with banks. These bank and related services accounted for 52.1 per cent of the total channels mentioned (see Table 46).

Table 46: Awareness of various remittance channels (base: 303)

	Top-of-Mind (single answer)	Total awareness (multiple answer)
BNI	14.9	30
Maybank	12.9	40
BRI	4	13
Bank Mandiri	1.7	5
BCA	1	5
CIMB	0.7	1
Bank (unspecified)	3.6	13
Western Union	12.9	48
Money order/postal check	0.7	3
Money exchanger	28.1	63
Hand-carry (friends, family members, relatives)	10.6	21
Hand-carry - other people (not friends/family)	7.6	9
Hand- carry - self	1	8

Source: IOM–ERCOF Survey, 2010.

The most commonly mentioned channel after banks was the informal mode of transfer of hand-carry (19.2%) through friends, relatives, families, or others, reflecting the geographical proximity between Malaysia and Indonesia, where such an operation is done relatively easily. Money transfers through foreign exchange houses were another informal means of transfer that was commonly referred to by respondents (28.1%). While these entities sometimes openly conduct remittance services to its clients by exchanging money, they are not permitted to engage in remittance transfer funds according to Malaysian law [14] (see Chapter VI, Section C). Foreign exchangers are widely known to migrants as evident in the multiple-answer awareness where as much as 63 per cent of all the migrants are aware of money exchangers as a means of remittance transfer.

2. Sources of Information on Remittance Services

In terms of source of information and awareness among migrant remitters on the remittance channels and services they have used, word-of-mouth from friends (49%) and co-workers (35%) in Malaysia are the key sources (see Figure 16). If tapped wisely, these informal communication channels can be an effective means of promoting awareness of institutional financial products and services that could specifically benefit the migrants. The element of trust (friends/co-workers) could help in the early adoption.

[14] Unless they establish a separate licensed entity to provide such a service.

By occupational group, technical workers rely heavily on friends in Malaysia (77%), while domestic workers exhibited a reliance on information coming from friends (27%) and relatives (20%) in Indonesia. Banks, on the other hand, were seen to be the most reliable source of information among professionals (28%). Advertisement and recruitment agencies are not seen as major influencers in this field.

Figure 16: Source of awareness of remittance channels and services (base: 303)

Source: IOM–ERCOF Survey, 2010.

3. Remittance Channels and Services Used

Migrants were asked to indicate the remittance channels and services they use regularly (single answer), as well as the services they have used before (multiple answers). As a means of verification, they were also asked to cite the method of remittance transfer they used the last time they remitted funds home. The survey revealed a high proportion of migrants resorting to regular use of informal channels of remittance transfers. Foreign exchange houses recorded 34 per cent of patronage among all migrants, while 21 per cent said they regularly use the method of hand-carry through various people such as friends, co-workers, and family members (see Table 47). This means that more than half (55%) of the respondents use an informal means of transfer in the Malaysia–Indonesia remittance corridor.

Table 47: Remittance channels usually used, ever used, and last used

	Regularly/usually used	Ever used	Last used
Remittance Channel Usually Used	**%**	**%**	**%**
Maybank	13.9	15.5	13.9
BNI	11.9	12.2	11.2
BRI	2.3	2.6	2.3
Bank Mandiri	1.7	1.7	1.7
BCA	1.0	1.0	1.0
CIMB	0.7	0.6	0.7
Bank (unspecified)	2.3	3.0	2.3
Western Union	11.9	15.2	11.9
Money order/postal check	0.3	0.3	0.3
Hand-carry the money by migrant himself/herself when back to home	0.7	1.3	0.7
Hand-carry the money by friend/co-worker	7.6	10.2	8.3
Hand-carry the money by family or relatives	4.6	4.6	4.6
Hand-carry by other people	6.9	6.9	6.9
Foreign exchange	33.7	36.6	33.7

Source: IOM–ERCOF Survey, 2010.

Workers in the technical field (58% of total) and service workers (59% of total) exhibit a high patronage of foreign exchange remittance transfers, and to a certain extent, so do professionals (35%) and labourers (29%) (see Table 48). It is generally believed that educated and documented groups of migrants would record a higher usage of formal remittance services, but the survey findings do not confirm such a trend.

One would have assumed that the urban areas, such as Kuala Lumpur, will have good access to banks and other formal service providers and that they would thus yield a high level of patronage among the respondents. However, the survey found that Kuala Lumpur (59% of all surveyed in Kuala Lumpur) had the highest incidence of the use of foreign exchange houses among all four cities surveyed. Some 47 per cent of respondents in Selangor claimed to use exchange houses as their regular remittance channel and another 21 per cent stated they use Western Union – the highest patronage of Western Union in the survey. In Kota Kinabalu, only 26 per cent of respondents use exchange houses, whereas Maybank yielded as much as 35 per cent of the responses in the city. Only 1 per cent of respondents in Tawau stated that they use exchange houses, while over half (65%) use the hand-carry method.

Among the banks, Maybank (13.9%) and BNI (11.9%) are the major banks mentioned. Other banks such as BRI (2.3%), Bank Mandiri (1.7%), BCA (1%), and Commerce International Merchant Bankers Berhad

(CIMB) (0.7) are also mentioned by respondents. Western Union recorded 11.9 per cent of patronage roughly equal to those of major banks in Malaysia and Indonesia.

What is apparent when comparing the figures on the regular channels used with those of channels ever used is that many remitters are possibly quite loyal to the channel they regularly use and thus do not try other methods or means to transfer money. Western Union is the only exception, with nearly a 5 per cent difference between the two variables.

Table 48: Remittance service regularly used by occupational group

Base:	Total 303	Professional 29	Technical Field 31	Service workers 29	Domestic helpers 30	Labourers 167	Others 17*
	%	%	%	%	%	%	%
Foreign exchange	34	34	58	59	17	29	18
Maybank	14	17	10	0	7	15	41
BNI	12	7	10	14	17	12	12
Western Union	12	31	23	7	13	8	6
Hand-carry - friend	8	3	0	0	0	13	0
Hand-carry - other people (not friend/not family)	7	0	0	0	13	10	0
Other banks (BRI, Mandiri, BCA, CIMB)	6	3	0	10	13	5	0
Hand-carry - family members/relatives	5	0	0	7	3	5	12
Bank (unspecified)	2	0	0	3	13	1	0
Hand-carry - self	1	0	0	0	0	0	12

Source: IOM–ERCOF Survey, 2010.

4. *Criteria for Selecting Remittance Services*

The spontaneous (top-of-mind) decision factors considered by respondents in their choice of remittance channels and services were the following: safest (26%), most convenient (24.4%), cheapest (22.1%), and fastest (18.8%) (see Table 49). However, when asked to choose from a prompted list of criteria (multiple answers), other aspects such as exchange rate, service charge, and recommendation from others also appeared to be important factors considered by the respondents. This is an indication that promoting awareness on these factors may influence their future choices.

Table 49: Criteria for selecting remittance channels

Criterial for Selecting Remittance Channels	Top of Mind (single answer)		Total Aided (multiple answers)	
	N	%	N	%
This is the cheapest method for me	67	22.1	71	23.4
This is the fastest method for me	57	18.8	93	30.7
This is the safest method for me	79	26.1	88	29.0
This is the most convenient for me	74	24.4	115	38.0
This has the best exchange rate	9	3.0	71	23.3
This has the cheapest service charge	3	1.0	70	23.2
This was recommended to me by family, friends, relatives	2	0.7	61	20.2
None	5	1.7	7	2.3
Using for a long time	3	1.0	0	0
Managed by employer	3	1.0	2	.6
Information by money changer	1	.3	1	.3

Source: IOM–ERCOF Survey, 2010.

5. *Who Makes Decisions on Remittance Channels and Services*

About 59.4 per cent of respondents said they are influential and as much as 22.8 per cent described themselves very influential when asked how much influence they have in the choice of remittance channels and services to use (see Table 50). Consequently, 89 per cent of respondents said they themselves make the decision, indicating that the migrants are the main decision makers in the choice of remittance channel. To a small extent, other people such as beneficiaries in Indonesia (3%) and employers (4.3%) have some authority in deciding the mode of remittance, especially among domestic helpers and female migrants.

Table 50: Decision-making in sending remittances

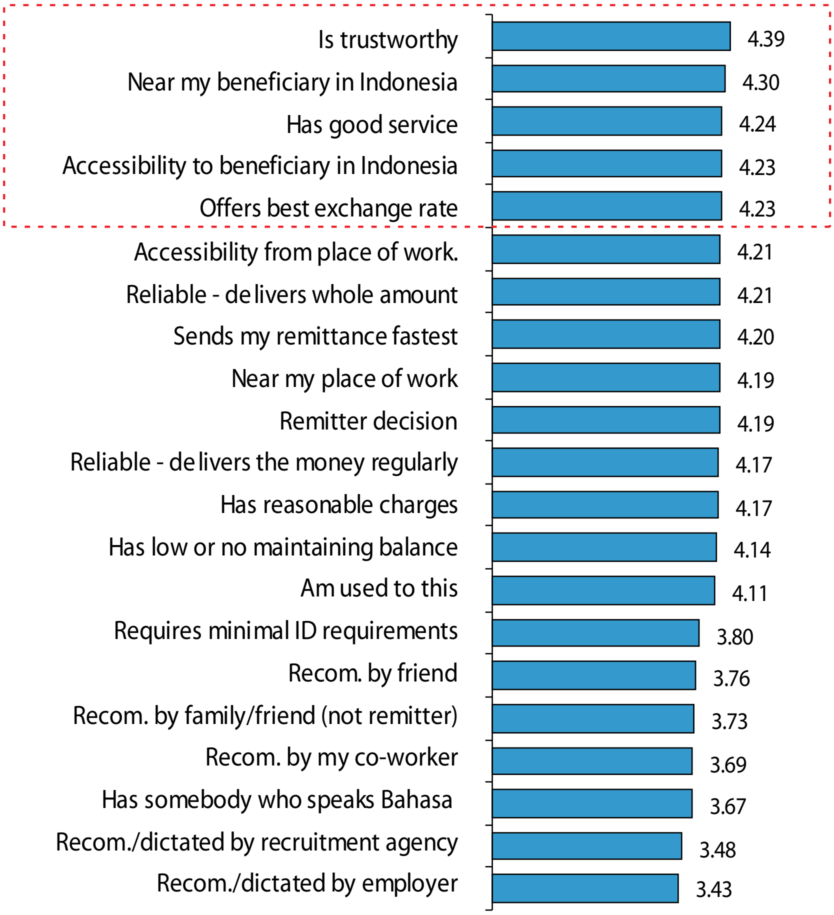
	RM	USD
How much influence do you have in the choice?		
No influence	10	3.3
Minimal influence	12	4.0
Neither	32	10.6
Influential	180	59.4
Very influential	69	22.8
Total	303	100.0
Who decides on the remittance channel?		
Myself	269	88.8
Beneficiaries in Indonesia	9	3.0
Employer	13	4.3
Recruitment agency	8	2.6
Husband	3	1.0
Aunt	1	.3

Source: IOM–ERCOF Survey, 2010.

6. Factors Considered When Deciding Remittance Channel

Migrants were also asked to rate factors influencing their selection of remittance channels in terms of the degree of importance of their usual remittance service provider using a five-point satisfaction scale (5=very important; 1=not important). Trustworthiness is the most important factor (rating of 4.39) followed by the geographical proximity to beneficiaries (rate of 4.3) (see Figure 17). Similarly, the accessibility of beneficiaries is also rated high (4.23). Other factors that rated high among the respondents are good service (4.24), offering the best exchange rate (4.23), accessibility or nearness to migrants' place of work (4.21), and reliability (delivering the whole amount at 4.21). The remittance fee level appears to be not a critical determinant (rating of 4.17).

Figure 17: Importance ratings of attributes that migrant workers look for in a remittance service



Source: IOM–ERCOF Survey, 2010.

7. Level of Satisfaction of Existing Remittance Services of their Choice

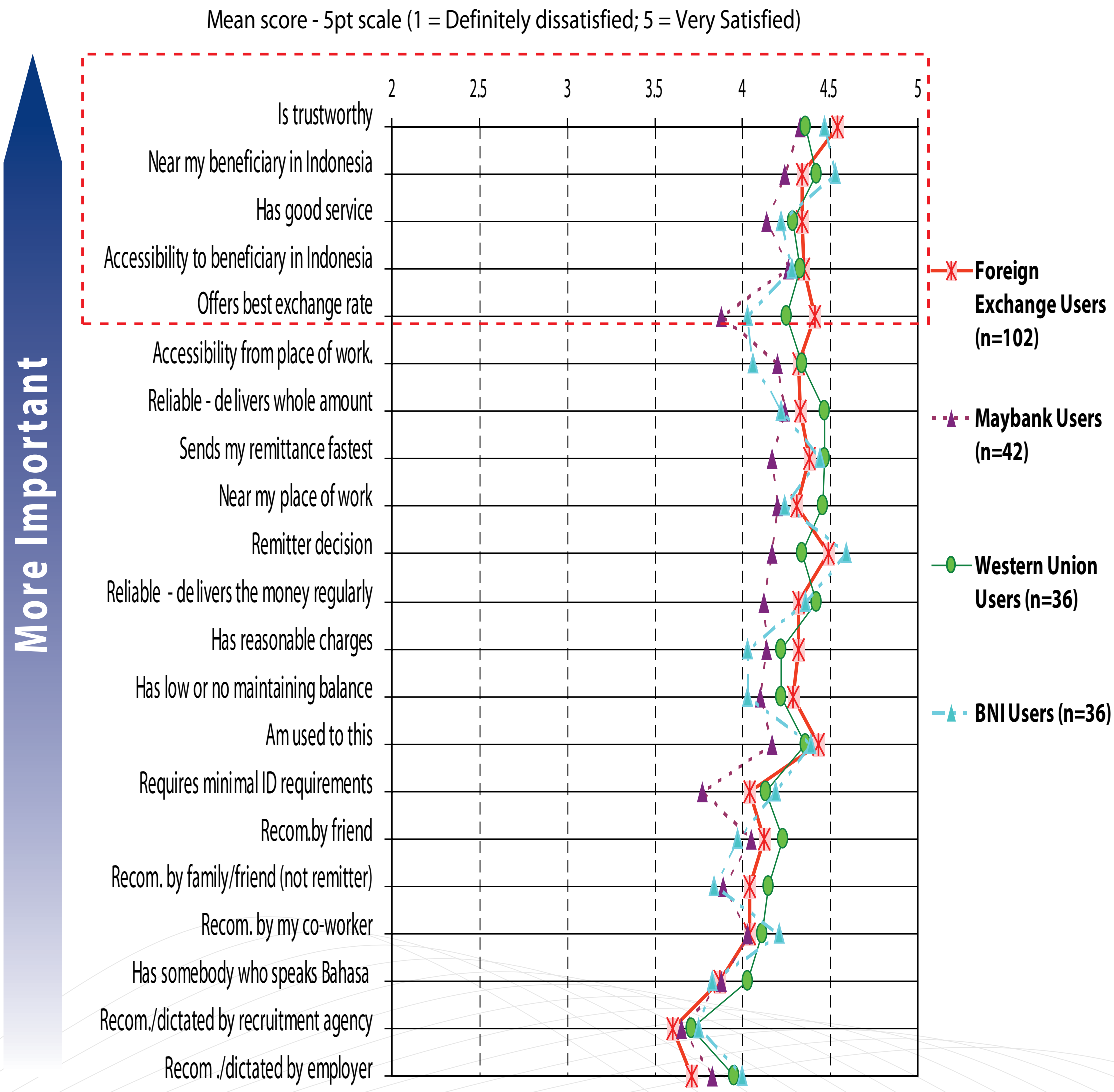
Respondents were also asked to rate the remittance channels of their choice against the same attributes asked in the previous question in terms of degree of satisfaction. Using the same five-point satisfaction scale (5=very satisfied; 1=very unsatisfied), the satisfaction mean scores were plotted to determine how they performed against the factors considered important (see Figure 18). The gap between the satisfaction and importance mean scores would indicate whether the service providers are delivering (or under-delivering) the expectations of migrants in each of the attributes. The rating is made for the four major service providers, foreign exchange houses, Maybank, Western Union, and BNI.

The result indicates that migrants have a very favourable impression of the foreign exchange houses as all the satisfaction scores are higher than most of the importance ratings given to the attributes.

Western Union, likewise, enjoys a very positive image among the migrant workers, and its key strengths are speed, accessibility (to the migrants and the beneficiary), and reliability.

BNI, on the other hand, enjoys a high level of trust, is near the beneficiaries in Indonesia, sends remittance fast, and is reliable. However, there are some important areas where its image lags behind, such as in terms of exchange rate, accessibility from the migrants' place of work, reasonable charges, and low maintaining balance. Maybank manages to deliver the migrants' expectations except on the key attributes of good service, nearness to the beneficiary in Indonesia, and best exchange.

Figure 18: Satisfaction toward current mode of receiving remittances



Source: IOM–ERCOF Survey, 2010.

F. Savings and Investment Pattern among Indonesian Migrant Workers in Malaysia

1. *Saving Patterns*

Less than half of the respondents (41%) have some forms of savings. The respondents plan to use this money to cover any urgent or current needs (22%), for future needs (17%), for retirement (14%), for the children (8%), and for other purposes (39%, such as current needs, safety, and marriage, among others). For those who save in Malaysian ringgit, their savings range from RM 10 to RM 6,000 (USD 2.8–1,704) and the average amount of total saving is RM 327.7 (USD 93). For those saving in Indonesian rupiah, the total amount of saving ranges from IDR 20,000 to IDR 7,000,000 (USD 2–707), with the average amount saved being IDR 1 million (USD 101) .

Of those who have savings, nearly half (48%) keep their funds at home; others (47%) keep their money in banks such as BNI (11%), Maybank (5%), and CIBM (1%). The survey shows that banks have not fully captured the bulk of potential migrant clients with savings. Migrants who do not save (59%) claim they do not have enough money to save (87%) or that all their money is spent on daily needs (5%).

Table 51: Amount saved

Savings in RM (base:107)	%	Savings in IDR (base 16)	%
10–100	47	20,000	6
150–350	40	50,000	6
400–700	9	300,000	6
1,000–6,000	5	500,000	31
		1,000,000	44
		7,000,000	6
Average RM 327.7		**Average IDR 1,000,000**	

Source: IOM–ERCOF Survey, 2010.

2. *Financial Investment Pattern*

Only three migrants, all of them belonging to the professional category of workers, have investments (financial or business) in Malaysia and only 3 per cent of all surveyed migrants said they have invested in Indonesia. Those who have investments in Indonesia are mostly professional migrants, and two to three workers each in the service, domestic, and labourer sectors. Asked of their reasons for not making any investment, most said they have no money to invest (50% for not investing in Malaysia and 67% for not investing in Indonesia), do not want to invest (12% each), or do not know how to invest (8% in Malaysia and 6% in Indonesia). The refusal to invest by some respondents could be perhaps simply due to their lack of information or knowledge about available investment options, especially ones that may be within their available budget.

3. Sources of Ideas in Managing Finance

Regarding the sources of ideas on which migrants base their financial decisions, it is typically the migrant himself/herself (33%) who determines what ideas would work best in terms of how to manage his/her finances. Other influential sources are family (23%) and friends (21%). Only a few (3%) mentioned banks. It is evident that Indonesian migrant workers only rely on their inner circles of friends/relatives when it comes to managing their financial matters.

When asked what kind of assistance they would need to better manage their finances, the migrants are looking for support to better understand the banking system (13%) or other financial services such as remittance management, savings, and investment (10% in total).

G. Attitude toward Community Development Activities and Services

To explore the possibility of migrants collectively channeling remittances for the development of home communities in Indonesia, the survey asked some questions in order to evaluate their current involvement and the level of interest in community development work.

1. Level of Interest in Contributing to the Home Community

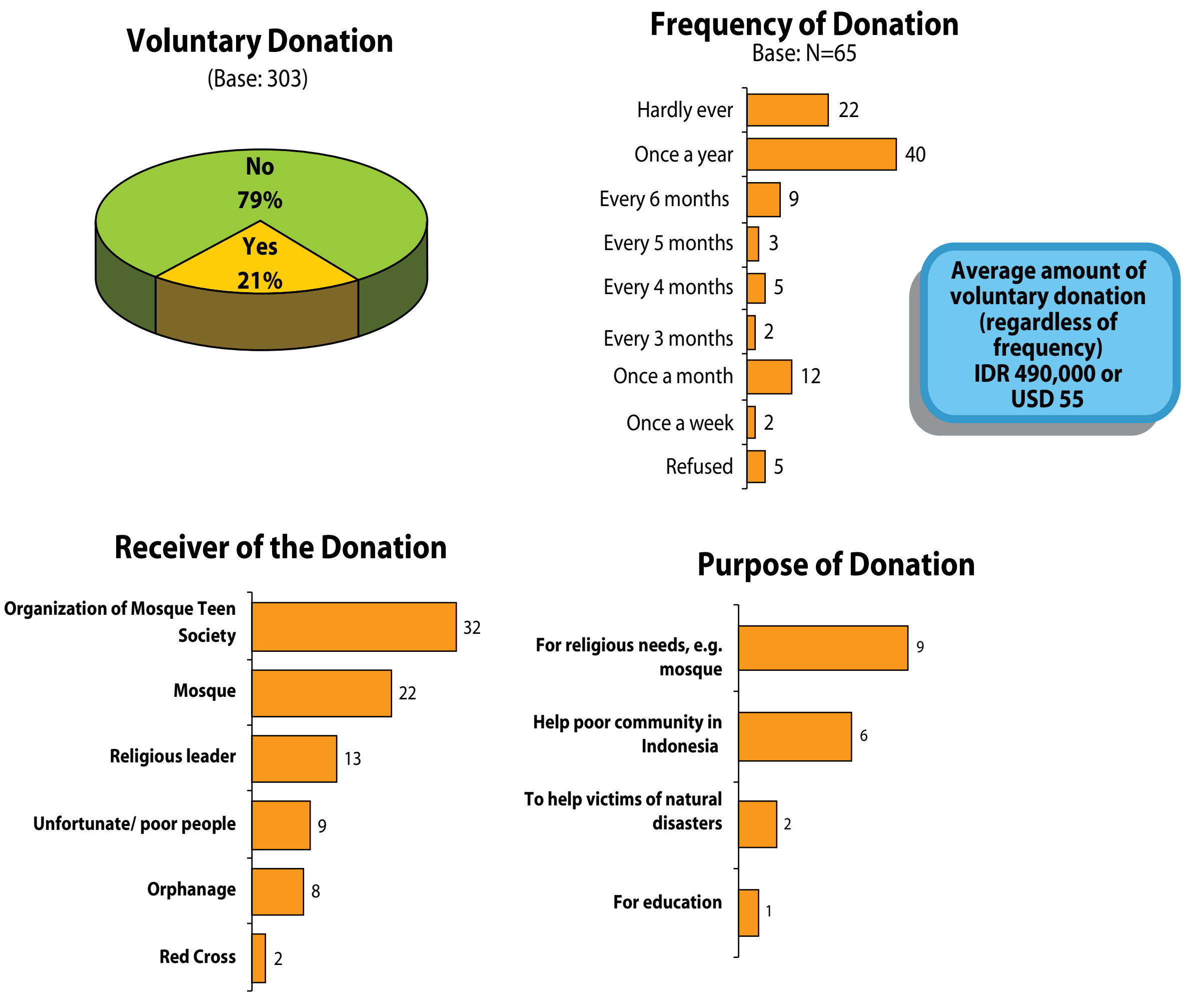
When asked if they are interested in contributing directly to help their community in Indonesia, about a third of the migrants (35%) expressed an interest in contributing to the community back home, with 26 per cent indicating they are interested and 9 per cent saying they are very interested. The remaining 61 per cent said they are not interested, with 30 per cent saying they are not interested and another 31 per cent indicating they are definitely not interested. Disinterest to supporting community work can partly be explained by the fact that many migrants are struggling to make ends meet in their own household.

Of those who are interested in contributing, many would like to help poor communities (52%) or contribute to religious needs (19%) and to victims of natural disasters (15%). Others would like to provide educational/social assistance (9%) or help in infrastructure development (8%). This finding indicates the potential benefit of further exploration by development agencies and organizations in Indonesia to facilitate the transfer of remittances to community development initiatives in the home country.

2. Current Involvement in Donation Activity

About a fifth of the surveyed migrants (21%) have participated in voluntary donations (see Figure 19). The frequency of donating varies from once a year to once a week, with once a year being mentioned by majority of those who gave voluntary donations (40%). The average amount across all donors is IDR 490,000 or USD 49. The beneficiaries of these donations are usually mosque youth groups (32%) and other religious organizations or leaders (35%). Some also help the poor (9%), the orphanages (8%), and the Red Cross (2%). None of the migrants take part in solicited donation.

Figure 19: Philanthropic behaviour of remittance senders



Source: IOM–ERCOF Survey, 2010.

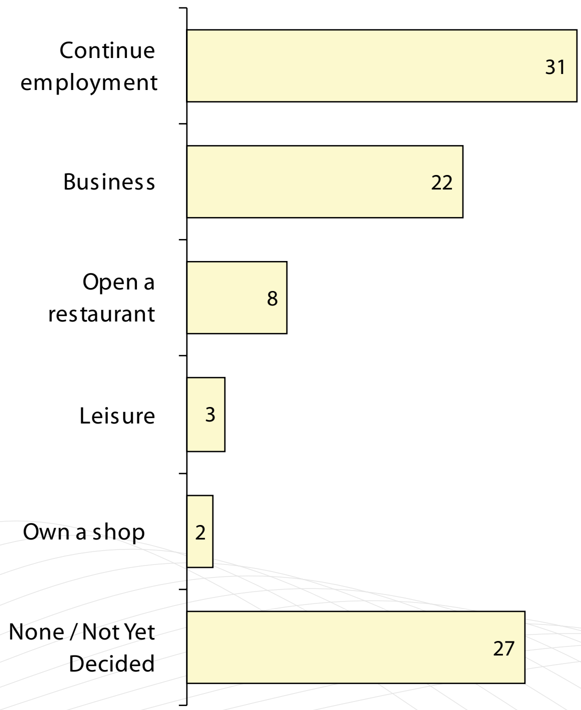
3. *Level of Organization among Migrants*

The surveyed migrants are hardly organized either as migrants or in other forms of other social units. None of the migrants are members of community associations in Indonesia and only 1 per cent of them are members of such in Malaysia. Only 4 per cent of migrants are members of government-initiated migrant worker groups, while only 1 per cent of them are members of migrant groups organized by non-governmental entities. This is an area that can be improved so that more peer protection and support can be offered to migrants abroad, many of whom face a number of difficulties.

H. Retirement Plans and Aspirations

When asked about their future or retirement plans, some 31 per cent foresee the continuation of their employment. About 27 per cent mentioned they have not decided and this could partly be due to the fact that they are still young. However, many are planning to return and retire in Indonesia (82%) and some would like to own a business (22%), a restaurant (8%), or a shop (2%) (see Figure 20). To support the smooth reintegration and retirement process of overseas Indonesian workers, there is a clear need for support in the areas of entrepreneurship and other business skills.

Figure 20: Retirement plan (%) (base: 303)



Source: IOM–ERCOF Survey, 2010.

PART III

CONCLUSIONS AND RECOMMENDATIONS

VIII. CONCLUSIONS AND RECOMMENDATIONS

For the past decade, Indonesia has deployed increasing numbers of migrant workers to other countries and benefited from migration in terms of reducing poverty, easing unemployment, and promoting growth. The government has instituted laws and regulations governing the administration of overseas employment by establishing agencies to enforce laws in areas such as deployment processes and licensing and monitoring recruitment and placement companies. In more recent years, a part of overseas employment administration has been devolved to local governments that can provide more direct services and supervision. In pursuit of its mandate to adequately protect its citizens overseas, the government has successfully negotiated MOUs with migrant destination countries and is also now finding new overseas labour markets needing skilled and semi-skilled workers who are able to access better pay and working environment. Some progress has been made to understand more about the volume and nature of the remittance flowing into the country. Surveys have revealed that remittances are indeed contributing to improving the quality of lives of migrants' households.

Nevertheless, there are various issues and challenges that have surfaced in this research that need to be urgently addressed so that migrant workers and the country as a whole can maximize the gains from migration and remittances for the development of Indonesia. The study recommends the following actions:

A. Protecting Workers and Bringing Transparency to the Migration and Recruitment Processes

Protecting migrants from abuse and exploitation is the most important mandate of origin countries. It is ideal that migrants are able to gainfully contribute to the development of their communities and countries, and this can happen if their rights and welfare in the destination countries are well protected.

The study found several aspects of migration and, in particular, the recruitment process in Indonesia that place migrants and potential migrants into particularly vulnerable situations where they are prone to abuses. One of these situations pertains to the layered recruitment and administrative procedures that overburden migrant workers with heavy costs or leave them in debt. This situation acts as an incentive to take illegal shortcuts toward landing an overseas job. A substantial majority of Indonesian migrant workers are female who work in low-skilled and low-salaried service occupations. Their working environment renders them vulnerable to abuse and oppressive work conditions, which again signify the need for specific measures of protection at every cycle of the migration phase. We have identified some measures or recommendations for the serious consideration of Indonesian policymakers, private sector, civil society, and other stakeholders.

1. Improving the Monitoring of Recruitment Service Providers

More effective oversight by authorities over formal and informal placement service providers could go a long way to contribute to the rationale of Law No. 39 that calls for providing overseas placement that is affordable, swift, simple, and safe. This can partly be achieved by clearly defining the roles and responsibilities of the recruitment agencies.

Further effort must be made to ensure that recruitment agencies are held accountable and penalized for their misconducts. One way to enforce this is to institute a mechanism where agencies are held responsible for all their misconducts, whether they are committed by agencies, middlemen, or by employers. This mechanism (joint and solidarity liability) has been instituted in countries such as the Philippines and has contributed to providing more responsible and quality service to migrant workers. Blacklisting of offenders and regular updating of the blacklist are also critical and these can be done both for agencies and the owners of these agencies to avoid re-application of the license under another company name.

To strengthen the monitoring mechanism, involving other entities such as unions and civil society, as it was done in the past in Indonesia to monitor the quality of services provided by the agencies, will supplement the work of government agencies. Opening a hotline for migrant workers will also provide an alternative venue for migrants to report cases against recruitment agencies.

2. Streamlining Recruitment Procedures

Presidential Instruction No. 6 issued in 2006 started the reform process of the placement and protection system of Indonesian migrant workers. According to the Instruction, national, provincial and district governments should work together with recruitment agencies to promote innovative actions such as enforcing public announcement of job vacancies and implementation of the job fair concept at the district level as an alternative recruitment mechanism.

Streamlining the administrative work required to prepare necessary documentation and obtain clearance for overseas employment should also be sought to minimize costs and scope for fraud. The One-Stop Center established in Mataram District of West Nusa Tenggara Province (see Annex 6) serves as a good example for other provincial and district offices to follow.

3. Addressing Irregular Migration

In addition to streamlining the recruitment and administrative processes, it will also be important to expand information campaigns targeting migrant source communities to inform them of the legal process of migration and the risks of irregular migration. Such campaigns should be formulated to cater to the needs of potential migrants, many of whom have low levels of education.

4. Workers' Empowerment and Skills Upgrading

The government should consider empowering migrant workers through skills enhancement opportunities as part of the efforts to enhance protection. Imparting skills such as language skills and other vocational skills may enable migrants to access better paying jobs with a more favourable working environment. It will be in the best interest of the country's migration strategy if the government reverses the skills composition. This can be attained by providing an environment for investments in better education or upgrading of skills, possibly through subsidies or incentives.

The current duration of pre-departure orientation (eight hours) is far too short to effectively share information that ranges from the culture of the destination countries, contents of labour contracts, to managing remittances and health issues. This should be extended for considerably longer duration depending on the varied information needs of migrants. The style of delivery, which is currently lecture-based, could also include a more participatory approach whereby migrants' active involvement, and thus better absorption of information, can be achieved. Orientations should be monitored regularly by a responsible agency, and providers not meeting standards should be disqualified from providing training. This initiative can be a joint collaborative effort among stakeholders such as recruitment agencies, civil society, banks, and other financial institutions, with the government taking the lead and ensuring the quality and content.

Another key aspect of empowerment is to create a mutual support mechanism of migrant workers through the formation of peer groups. Migrants in some destination countries are prohibited from organizing labour unions but are allowed to join existing unions. Forming informal support groups should not be viewed in the same light as forming labour unions. The survey on Indonesian migrant remitters in Malaysia found a very low level to a virtually non-existent level of membership in any type of organization or association in Malaysia or Indonesia. More effort can be made by organizations such as SBMI, an Indonesian migrants union (see Annex 9), and Indonesian labour attachés abroad to facilitate the formation of these peer groups.

5. Improving Data Collection

It is critical that migration-related data collected through agencies such as MMT, BNP2TKI, the local manpower offices, and the Central Bureau of Statistics be shared, consolidated, analysed, and made available in a timely manner for the policymaking process. There are many international organizations such as the IOM that assist countries to enhance the capacity of governments to collect reliable and comprehensive statistics and migration-related data.

6. Strengthening Inter-State Cooperation

The Indonesian government should be encouraged to continue engaging destination countries. MOUs on migrant labour issues are useful bilateral mechanisms for the management of migration and overseas deployment, as well as in providing guidelines and practices that are aimed at protecting migrant workers from abuse. The key task of the government is to ensure that the provisions of the MOUs are implemented both in Indonesia and in the destination countries. Indonesia should also continue sharing information and lessons learned with other origin countries of migrants through regional forum such as the Colombo Process.[15]

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[15] Regional Consultative Process on Overseas Employment and Contractual Labour for Countries of Origin in Asia.

B. Encouraging Formal Channels of Remittances through Deregulation, Innovation, and Competition

The efficiency of remittance channels generally depends on several factors. These may include the level of development and integrity of the banking and financial sector on both sides of the corridor, and the capacity and willingness of banking and financial regulators as well as of state parties to adapt measures and innovations to ensure inclusion of the financial players in the financial sector and improve access to formal financial institutions. Initiatives to ensure the transparency of financial transactions and practices for the benefit of consumers and the general public would also go a long way in upgrading financial literacy and access. To a great extent, efforts of regulators to provide greater financial inclusion are also influenced by the accessibility (in terms of geographical distance and familiarity) of both senders and recipients to the products and services of licensed financial service and money transfer providers.

This study has documented various measures that have been initiated by BI that were aimed at putting in place a mechanism to effectively monitor and regulate the remittance inflow while promoting competition. There are, however, still more challenges that must be addressed by the regulators and the stakeholders to strengthen the system in the areas of broadening access to formal remittance channels and promoting innovation and liberalization, while ensuring that due compliance to stringent anti-money laundering requirement is likewise followed. The challenges to regulators involve, among others, the design of a regulatory framework that is effective yet does not pose regulatory burdens and having adequate resources to supervise implementation of "know-your-customer (KYC)" requirements to a larger player base.

The study and the surveys on remittance beneficiary households in key migrant source provinces of Indonesia found that the overwhelming majority receive remittances though formal channels of remittance such as banks and non-bank service providers. While this is the general picture of all beneficiary households in Indonesia, some variations are likewise observed depending on the country where the migrants are working. The survey on Indonesian remitters in Malaysia reveals that more than half of them send their remittances through informal channels such as foreign exchange houses and the hand-carry method through people other than themselves. There is a great scope of work in this particular remittance corridor (Malaysia–Indonesia) to work toward encouraging the use of formal channels of remittances.

This research thus presents the following recommendations related to the banking and remittance environment in the Malaysia–Indonesia corridor:

1. Upscaling Pre-Departure Intervention on Remittance

There should be further provisions to allow migrant workers' bank accounts to remain open with low maintaining balance and retain its validity for one year regardless of inactivity. This is to address the realities that Indonesian migrant workers may not be able to remit earnings for the first five months of employment.

In relation to banking, more can be done at the pre-departure phase to familiarize migrants, many of whom have never used banking services, with the banking system. Orientation on what a bank is and what it can offer to migrants will help build trust.

Survey findings indicate a need to reach out to agencies and employers to inform them of formal remittance transfer channels with reasonable fee structures. The government can continue to encourage employers to use bank accounts as a channel for salary payments. This will enable the employer to only make one transfer of the salary to the bank account to reach both the worker and the beneficiaries (interview with MMT).

2. Formalizing Informal Service Providers

To address high incidence of the use of informal channels of remittance transfers particularly in the Malaysia–Indonesia remittance corridor, there is a need to regulate informal service providers at both ends (Malaysia and Indonesia) as well as to create an environment where formal RSPs can compete well. To do so, existing measures to formalize these service providers by registration must be enforced more strictly with specific timeline and with the introduction of grave sanctions and punitive measures for the offenders so as not to deprive migrants of viable remittance transfer options. At the same time, formal service providers such as banks also have to work harder to be seen by migrants as trusting and viable partners in making financial decisions.

3. Promoting Innovation and Competition

There is also an urgent need to draft an e-money regulatory framework in Indonesia to anticipate the advent and growth of new technologies, including mobile phone-enabled remittance systems. The importance and appropriateness of remittances made through mobile phones should not be understated in terms of their benefits to both remitters and beneficiaries in this corridor who do not have access to formal channels due to the remoteness of their locations and the incremental costs of transportation and opportunity. The low cost of mobile phones and mobile remittance transfers poses a lot of advantages for remitters and beneficiaries.

As a means of promoting fair competition among various RSPs, it is highly recommended to enforce the publication of remittance fees and charges on central bank websites similar to what is already being done by the Philippines' central bank. The survey reveals that migrants and beneficiaries have very little knowledge and understanding of the fee structure so consumer education in this area should also be undertaken. It is also important for BI to require RSPs to disclose information on their financial health so that migrants can make informed choices of service providers. Establishing a feedback mechanism, for example, a toll-free hotline where migrants can easily express their complaints, will contribute to protecting migrant consumers.

4. Addressing the Access of Irregular Migrants to Formal Channels of Remittance

New initiatives are recommended on seeking alternative forms of identification to facilitate the access of irregular migrants to formal remittance channels. This includes the possible use of KTP, an Indonesian national identity card based on biometric data. The Ministry of Home Affairs is currently piloting electronic single identity number in five districts throughout 2010. It will include some biometric data including fingerprints. The national single identity number is expected to be available in 2012.

5. Promoting Inter-State Cooperation and Dialogue

There should be continued effort between the central bank of Indonesia and the destination countries to continue dialogue and cooperation on the issue of remittances. This initiative can also be supported by international development agencies, as was the case for the bilateral discussion between Malaysia and Indonesia held under the sponsorship of the World Bank (2007).

In addition, MOUs on labour migration, a useful bilateral mechanism for the management of migration and overseas deployment, can also cover issues of remittance and related financial services to strengthen bilateral cooperation in this area.

6. Improving Data Capturing on Remittance

More research aimed at accurate data collection and innovative methodologies on data capture can be explored within Indonesia and with the central banks of destination countries. In particular, in conjunction with the ongoing initiative of an annual remittance survey conducted by BI, it will be particularly useful for agencies that have carried out relevant household surveys among migrants and migrants' households (MICRA, IOM, World Bank, etc.) to share their experiences and lessons learned so as to improve the research methodology to better understand remittance flows and the utilization patterns in Indonesia.

C. Providing Financial and Banking Services to Migrants and their Family Members

Reforming the migration process and the remittance environment will provide the basic infrastructure for an enabling environment for translating migration gains for the economic benefit of migrants and their beneficiaries. The benefits of migration are not distributed equally for two reasons. First, they benefit only the households that can absorb migration costs. Second, migrant earners have different levels of capacity and knowledge of wisely managing their resources through planning, savings, and investments. Some of them are unable to access information on basic services that could help them make informed decisions on remittance use. This points to the urgent need for programmes, in addition to financial reform, on financial literacy and building the capacities of migrant workers and their families to acquire skills and knowledge on how to leverage their earnings.

Access to financial services has been identified as a gap in the remittance environment. With the exception of a few, such as rural banks, financial institutions that engage in remittance services or offer banking or financial products or services are generally inaccessible to migrant workers. Establishing bank branches especially in remote areas is expensive in terms of setting up infrastructure and communications systems. This research, however, has identified the presence of institutions that actually have developed certain products and services, as well as practices, that are designed to address gaps in the remittance infrastructure. These institutions are able to respond to migrants' financial needs, especially pre-departure expenses, leverage earnings into savings and investment options, improve knowledge and skills on financial planning, and even encourage partnerships between banks and non-bank service providers.

Below are recommendations to increase access to finance and financial literacy. These two areas have the capacity to widen the development impact of migrants' remittances. It will provide insights into current developments and recommendations on the adoption of some emerging good practices in these two areas.

1. Migrant-Friendly Approach to Financial Education

It is important to review the financial literacy training modules and information campaign strategies of BI, government agencies, commercial banks, RSPs, and other stakeholders such as international organizations to determine if the appropriate medium is used to convey the message especially to migrants from rural areas who generally have a low level of education. Upon further trials of these materials, it will be good to come up with standardized modules catering to migrants of various categories and needs. Financial literacy activities should use a level of instruction that is simple and adaptable, disseminated possibly through IEC materials such as comics, local radio, or other culturally adaptable means, and done at the local level.

Furthermore, financial education should be provided both to migrant workers and the beneficiaries of remittances to increase the development impact of remittances. Financial education materials are currently missing for this group (beneficiaries) although the World Bank has started some initiatives to address this.

Local governments should ensure that financial literacy training programmes are provided in their localities within the public budget. Some provinces and districts such as Malang District of East Java, Mataram District in West Nusa Tenggara, and the Agency for Placement and Protection of Migrant Workers in Surabaya, East Java (see Annexes 4 to 6) have initiated some interventions in this area. These actions should be scaled up to more regular and widely available forms of interventions. Other provinces and districts with migrant source communities are also encouraged to follow suit.

Financial education could be administered with the participation of MFIs, cooperatives, rural banks, or other financial intermediaries at the village or sub-village levels. Regulators and remittance providers, being key stakeholders in the remittance industry, could lend their assistance possibly in terms of technical support, funding of resource persons, and provision of appropriate IEC materials.

The national government, local governments, and civil society organizations should provide close monitoring and assistance to the community in the area of financial literacy.

2. Encouraging Banks and Other Financial Service Providers to Better Serve Migrant Clients

Banks, in partnership with grassroots financial institutions, should consider developing more products and services that will cater to the needs of migrant workers and their families, such as micro businesses, agricultural and emergency loans, real estate and home improvement loans, and health and educational insurance. Technical support, capability-building, and human resource development targeting MFIs and cooperatives could be provided by financial institutions or even development agencies. A policy environment conducive to the promotion of savings and investments would also be critical.

The microfinance sector could pilot a "One-Stop Center" among a few strong MFIs and deliver a suite of meaningful products for migrant workers and their families, including the provision of financial literacy education. These MFIs could then serve as models for replication throughout Indonesia, with the support of partners such as the BNP2TKI, banks, and recruitment agencies and the assistance of development agencies.

The partnership between banks and MFIs can be strengthened to address the problem of the limited presence of branches and remittance distribution points of Indonesian banks and formal financial institutions in villages and remote areas in Indonesia. It could also provide a solution to the need for innovative products and services that are well suited to migrants' needs, something which big banks would have a difficulty in providing due to their inherent limitations as banking institutions. For instance, savings products linked with remittance transfers that include easy access at minimal cost would be a big help to migrants. MFIs (and even cooperatives) are able to reach out at the sub-village level, which is out of reach of commercial banks as they usually operate only at the district level. MFIs should be empowered through capacity-building and human resource development to be better equipped in rolling out financial products and services suited to migrants' needs.

To facilitate access among migrant workers to financial institutions in destination countries, it is recommended that they open a bank account in the destination countries, similar to what is being done in Indonesia where departing migrant workers are required to open an account in Indonesian banks with branches in Malaysia. The presence of Indonesian banks in key destination countries will greatly facilitate access for migrant workers. Before 2009, when Bank Mandiri started opening branches in Malaysia to provide remittance services, there were no Indonesian banks in Malaysia. BI and BNM should collaborate further to allow the greater presence of Indonesian banks in Malaysia so they could better reach out to migrants.

There appears to be a need for banks and their staff to understand better and continue to work toward meeting the specific needs and behaviour of migrant workers and their families who feel threatened by complicated banking procedures. To gain the trust of migrants, banks should give assistance to migrants and beneficiaries in opening special bank accounts. Orientation on bank procedures should also be made available at bank branches in the countryside.

3. Migration Loan

As an entry point to providing banking and other financial services to migrants, providing loans at reasonable rates to pay for initial migration costs can be further explored. Many migrant workers who cannot afford the costs required for overseas placement are forced to raise funds through loans from lenders, middlemen, sponsors, or their private placement agencies. Recruitment agencies provide these funds from their own portfolio, or borrow from commercial banks or rural banks. The formation of migrants' cooperatives could be another viable alternative in obtaining funds to defray placement expenses, apart from other services such as savings and money transfer.

BI is encouraged to continue negotiating with government and private banks in the origin and destination countries to provide credit facilities for deployment and financial assistance to migrant workers bound for various destinations.

4. Leveraging Workers' Remittances for Development

With more studies being done in recent years to collect baseline data to understand the inflow of remittances to Indonesia, a relevant next step would be to do a comprehensive documentation and assessment of the impact of remittances in the development of Indonesia. More studies should look closely at migrants' household expenditure and level of savings and investments, along with the development impact of migration and the inflow of remittances in the source community to further evaluate the impact and possibilities. Understanding migration and remittances from a development angle is a new area of work and an agenda for Indonesia and the suggested studies would help elucidate the future course of action.

Regional governments are encouraged to develop and strengthen entrepreneurship training for returned migrant workers in a form of reintegration programme that might include training on business skills, financial planning, and access to markets and credit and financial institutions such as commercial and rural banks, MFIs, and cooperatives. Given the long absence and possible alienation of the migrants from the local situation, it will be useful to include psychosocial counselling in the programme and to provide this both to the migrants and their families.

To support entrepreneurial endeavours, it is recommended to nurture village apparatuses to mobilize funds/credit facility from local governments and returned migrant workers, which can be tapped by returning migrant workers who wish to start a business. Local rural banks, cooperatives, and MFIs may play important roles in supporting such structures. The survey finds some level of interests among migrants and beneficiary households to take part in collective remittance for social causes, and some of them have been making regular donations to religious organizations. In the long run, the national or even local governments could provide incentives for remittance transfers and productive investments by creating a development fund where matching state-funds can be added to migrant workers' investments in their communities. The "Three for One" matching funds in Mexico can be a good example for this. However, care must be made not to exacerbate existing disparities in resource allocation by the national government in terms of poor areas without overseas migrant workers.

Lastly, as a way of instituting a policy framework and guidelines for all the above initiatives, it is highly recommended for Indonesian national and regional governments to work together with stakeholders to come up with a strategy to leverage gains from migration and remittances for development and for the inclusion of such strategy in planning for the Indonesian Medium-Term Development Plans for both national and regional levels.

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Annex 1: Key Informant Interviews

INDONESIA

Bank Indonesia (BI)

Bank Rakyat Indonesia (BRI)

CIMB NIAGA

Coordinating Ministry for Economic Affairs

Indonesian Employment Agency Association (IDEA)

Institute for Social and Economic Rights (ECOSOC)

Manpower and Transmigration Office (MTO), Malang District

Manpower and Transmigration Provincial Office, Mataram District, West Nusa Tenggara

Manpower and Transmigration Provincial Office, Surabaya

Microfinance Innovation Center for Resources and Alternatives (MICRA)

Microsoft

Ministry of Foreign Affairs (MFA)

Ministry of Manpower and Transmigration (MMT)

National Board for Placement and Protection of Indonesian Overseas Workers (BNP2TKI)

PERBARINDO (Association of BPRs/rural banks)

PT Bank Mandiri

Serikat Buruh Migran Indonesia (SBMI)

Tifa Foundation

World Bank Indonesia

MALAYSIA

Bank Negara Malaysia (BNM)

Maybank

Annex 2: Main/Salient Features of Law 39/2004 (Placement and Protection of Indonesian Workers Abroad)

1. Defines an Indonesian migrant worker as one who intends to work overseas for compensation and for a definite period, and who has met the minimum age (18 years), health, psychological, and education (junior high school or above) requirements to work overseas and is registered with the manpower agency of the District/Regency agency.

2. Defines a Private Worker Placement agency (recruitment agency or commonly referred to in Indonesian language as Pelaksana Penempatan Tenaga Kerja Indonesia Swasta or the acronym PPTKIS) as a legal entity that has fulfilled all the requirements under the laws and regulations, and therefore has been given a written permit called License to Deploy Indonesian Migrant Workers (commonly referred to Indonesian language as Surat Izin Pelaksana Penempatan Tenaga Kerja Indonesia or the acronym SIPPTKI) by the government to conduct worker placement. This includes deploying the worker to an overseas job matching his/her talents, interest and ability, and handling the entire process of recruitment, documentation, education and training, accommodation, pre-departure preparation, departure, and return from the country of work.

3. Sets out the respective duties, responsibilities, and obligations of the government to ensure worker protection, including the monitoring of worker placements, and use of diplomacy and appointment of labour attachés, in ensuring rights compliance, and the right to delegate part of its duties to local administration.

4. Lays out the duties, responsibilities, and obligations of the PPTKIS, and the parameters and limitations of its relationships with, and the qualifications of, its business partners and employers overseas. Responsibilities include, but are not limited to, providing training for the worker before departure, arranging life insurance, and certain duties in the case of death of a worker overseas, such as repatriation of the remains or burial, in accordance with worker's religion, ascertaining or investigating cause of death, safekeeping of belongings, and ensuring satisfaction of any claims or rights.

5. Describes in detail steps or procedures on placement, pre-placement activities, recruitment and selection, education and training, health and psychological requirements, document processing, contents and official requirements of working agreement, including extensions thereof, placement

periods, post-placement, fees chargeable to worker, including those that may be provided by subsequent decrees, dispute settlement between worker and agency, and reporting requirements of manpower agencies in provinces and districts.

6. Limits placement of workers only to destination countries with whom Indonesia has agreements on worker placement, or those which have regulations that provide protection for migrant workers (see Annex 3, List of Labour Agreements between Indonesia and Countries of Destination).

7. Establishes the National Agency for Worker Placement and Protection to implement legal provisions on worker placement and overseas protection, the examination of work agreements, monitoring of worker documentation, pre-departure training, conflict resolution, financing, and monitoring of development and welfare of worker and family, working conditions, and data gathering. The law also includes the establishment, whenever necessary, of placement and protection agencies at the provincial and/or district levels.

8. Establishes administrative sanctions for erring workers and private recruitment agencies, including criminal penalties for certain acts, and for agencies, the revocation of licenses or confiscation of bonds/deposits.

Annex 3: List of Indonesian Government Agencies Working on Migration Issues

Name of government Institution	Description	Roles and responsibilities
Ministry of Manpower and Transmigration	The Ministry of Manpower and Transmigration (MMT) is the agency that issues, through ministerial decrees, policies on worker's placement and protection. It issues written permits to private placement agencies authorizing them to engage in recruitment and placement of overseas workers. It also negotiates labour or recruitment agreements with governments of migrant destination countries and performs oversight and attends to problems or disputes that may occur in the implementation. To date, Indonesia has Memorandum of Agreement with nine countries.	Enacts a policy for placement and protection of IOWs Issues licencses to recruitment agencies
Agency for the Placement and Protection of Indonesian Overseas Workers(BNP2TKI)	Law No. 39/2004 and Presidential Regulation No. 81/2006 mandated the establishment of the National Board for Placement and Protection of Indonesian Overseas Workers (referred to in Indonesian language as Badan Penempatan dan Perlindungan Tenaga Kerja Indonesia) to implement legal provisions on worker placement and overseas protection, to examine work agreements, and to monitor worker documentation. It is also responsible for pre-departure training, conflict resolution, financing, data gathering, and monitoring of development and welfare of worker and family and working conditions. The law also includes the establishment, whenever necessary, of placement and protection agencies in the provincial and/or district levels.	Placement services for Indonesian overseas workers (IOWs) Provides protection for IOWs Promotes opportunities for Indonesians to work overseas Empowers IOWs Provides information sessions for IOWs prior to departing Provides services for returning IOWs

Name of government Institution	Description	Roles and responsibilities
Ministry of Foreign Affairs	The Directorate for the Protection of Indonesian Citizens and Legal Entities under the Ministry of Foreign Affairs (MFA) is charged with the protection of Indonesian workers overseas, on all legal matters or those in some form of legal distress, irrespective of their status. This is done through interventions by its consular officers in various posts and missions in destination countries. It is done in coordination with labour attachés in countries with large volumes of Indonesian migrant workers such as Saudi Arabia, Kuwait, the United Arab Emirates (UAE), Hong Kong Special Administrative Region (SAR), and Malaysia. The appointment of labour attachés was done only as recently as 2006 (Interview with MFA).	Protects all IOWs, especially as regards their legal matters
Coordinating Ministry for Economic Affairs	Presidential Instruction No.6 was issued in 2006 primarily to ensure the reform of placement and protection policy through the establishment of more effective coordination among key government agencies in addressing the challenges and improvement of placement and protection of Indonesian migrant workers. It also marked, perhaps for the first time, the official government's recognition of the needs of migrant workers and their families for financial assistance on placement costs, and orientation on products and services of financial institutions. Under this edict, three task forces or working groups, which were later reduced to two, were formed, with one group focusing on placement and protection, and the other on financial matters. The working group on financing is coordinated by the Deputy Coordinating Minister with the participation of the BNP2TKI, MMT, National Association of Rural Banks, commercial banks, recruitment agency associations and the Ministry of Finance. In collaboration with banks, it has developed a pre-departure orientation for migrants on financial literacy and banking products. These sessions, consisting typically of 150 to 200 participants, have been held several times in East and Central Java (Interview with MMT).	Coordinates all respective departments' activities for international migration issues, especially remittance issues

Name of government Institution	Description	Roles and responsibilities
Bank Indonesia	As per Bank Indonesia Regulation No. 8/28/PBI/2006 concerning corporate activities for money remittances, BI is the lead agency that regulates and monitors the flow of workers' remittances to Indonesia.	Regulator for remittances
Department for Social Affairs	n.a.	Assists overseas workers who were deported, and facilitate their return to home communities in Indonesia
Ministry of Health	n.a.	Assists migrants' health screening prior to overseas departure and upon arrival in host countries
Indonesian Police Hospital	n.a.	Recovery care for trafficked victims (medical, psychosocial, and legal assistance if needed) Collecting, processing, and reporting data of trafficked victims Financial support for in-patient trafficked victims Legal assistance, which may arise accordingly
Directorate of Immigration	n.a.	Issues passports and other exit permits facilitation for migrants
Ministry of Women Empowerment	n.a.	Issues passports and other exit permits facilitation for migrants
Coordinating Ministry for People's Welfare	n.a.	Head of anti-trafficking force; coordinates members of the task force on handling trafficking victims

Annex 4: Malang District, East Java

Malang, the second largest city in the province of East Java, has a population of 2.6 million people, with an estimated 4,000 to 5,000 migrant workers departing the district each year. Labour migration from Malang started about 15 years ago and at any given time, there could be some 10,000 migrant workers from Malang in destination countries. About 80 per cent of migrants are women, although there is a visible trend of decreasing number of women workers that could be attributed to stories of abuses and exploitative work conditions related by returned women workers. According to the District Office of Manpower and Transmigration, private placement agencies are licensed by the national office (MMT), while those who desire to recruit in the provinces must establish branches in the province. Private placement agencies must attend a semi-annual orientation conducted by the provincial/district office. Meanwhile, the agents working for private placement agencies have to register with their office and attend an orientation course before they are able to recruit workers within the area. Unauthorized recruitment carries stiff jail penalties. This registration process was devised to minimize, if not prevent, unauthorized recruitment and irregular migration out of Malang. According to Malang District officials, the effectiveness is validated by fewer incidences of deportations of Malang residents from Malaysia compared to other districts. In the meantime, the Provincial Manpower and Transmigration Office regularly organizes coordination meetings attended by district offices.

The District Manpower and Transmigration officials of Malang estimate that the district receives around USD 200,000 per month as remittances sent through official channels. However, they assert that the volume of actual remittances could be more based on estimates of BI that only about 20 per cent of remittances flow through formal channels. Anecdotally, informal channels were the most popular means of transferring money which is done through arrangement with money exchange dealers or hand-carried by the migrant worker himself/herself or by friends visiting or returning. Placement agencies are not known to be involved in remittance transfers. Likewise, postal transfers are not recorded by BI as remittances under the current reporting system.

The Malang Manpower and Transmigration Office reportedly organizes skills or business workshops four times a year for its returned migrant workers. These workshops are implemented by an officer designated for this purpose and held either at the regency office or in villages. Areas covered in past workshops included cattle raising, cooperatives, and small business. The agency notes the difficulty of mobilizing migrants to use their remittances productively due to the low level of savings or migrant income to begin with, and their tendency to prioritize basic needs such as food and other household expenses or for consumptive spending as opposed to starting a small business. The Office has worked with NGOs in the past and had supported a group of returned Malang migrants in setting up a cooperative. (Interview with Malang Manpower and Transmigration Office).

Annex 5: Agency for the Placement and Protection of Migrant Workers – Surabaya, East Java

While the training and placement functions of the MMT and the BNP2TKI were devolved when decentralization was decreed in 2000, the actual implementation has not been uniform among the provinces and districts. This might be illustrated in the case of the Agency for the Placement and Protection of Migrant Workers in Surabaya district, East Java. This agency is placed under the Manpower and Transmigration Office of the Province of East Java. It was previously a unit of the Regional office of the MMT implementing the central policy on local and overseas employment in East Java. When decentralization was implemented in 2000, and as a result of succeeding changes and merger of functions between the local Manpower and Transmigration office and the BNP2TKI, the current office that now refers to itself as Balai Pelayanan Penempatan dan Perlindungan Tenaga Kerja Indonesia (BP3TKI) East Java has been conducting training and placement services for Indonesian migrant workers.

This agency reports to the governor of the province, although the BNP2TKI (national office) can access its files any time through an online connection. It receives funds both from the provincial government and the BNP2TKI central office. Its administrative situation is quite unique and is not necessarily the case with other provinces.

This office conducts the mandatory pre-departure orientation and skills and language training. The subject of remittances is covered during the pre-departure seminar, with the participation of bank representatives who lecture on remittance-sending options. The office also issues migrant worker identification cards, but requires the opening of a bank account by the worker before the card is processed. It organizes an annual workshop for returned migrants in the areas of small business orientation, such as the running of small shops and snack making, in coordination with chambers of commerce and trade groups in Surabaya. Migration has been steady over the years, but with a trend of more skilled workers being deployed. This office also assists deported migrant workers brought to Surabaya by providing them transportation to their villages of origin (Interview with BP3TKI, Surabaya).

Annex 6: Mataram District, West Nusa Tenggara Province

Agriculture is the main industry in West Nusa Tenggara Province in south-central Indonesia. The province has a great potential for tourism, especially upon the completion of a new airport in Lombok scheduled to open in the second half of 2010.

According to documents provided by the District Manpower and Transmigration Office of West Nusa Tenggara, the province received remittances sent by its deployed workers from 2000 to 2008 totalling a yearly average of USD 28 million. While the total number of deployed workers per destination country was not made available for the nine-year period, deployments for 2007 showed Saudi Arabia and Malaysia as the predominant countries of destination, with almost 98 per cent of migrants to Malaysia composed of males working in plantations, and a similar percentage of females employed as domestic workers in Saudi Arabia. According to its staff, the most common remittance channels used by the migrants are account-to-account bank transfers, Western Union, the post office, and the hand-carry method. Use of remittances is a joint decision of migrant remitters and beneficiaries, typically through the use of shared ATM cards. Banks and MTOs are generally located at least 5 kms from villages. No public transportation is available to access banks and MTOs, except motorbikes for hire.

The Provincial Manpower and Transmigration Office of West Nusa Tenggara conducts its recruitment functions through a one-stop centre, where all recruitment processes, including document and contract verification, issuance of passports, and procurement of insurances, are done in one place. There are 325 recruitment agencies that are registered in the province, eight of which are of local origin. According to its staff, a one-stop centre was established on 17 December 2008 upon the suggestion of NGOs and recruitment agencies.

In Mataram, lack of employment and livelihood opportunities has pushed residents to seek employment overseas since the 1970s. Job opportunities abroad are dominated by plantation work in Malaysia for males and domestic work in Saudi Arabia for females. Due to the low salaries and inability to save, as well as low level of education and financial literacy, there are several cases of repeat employment overseas. Many migrants are forced to avail of loans to finance placement. The province introduced a revolving loan facility where pre-departure loans of up to USD 500 could be availed of. There are also MFIs, state and commercial banks, as well as cooperatives and Bank Perkreditan Rakyat (BPR) or people credit banks, which provide loans and other financial services to migrants and their families. Despite the challenge faced by the local Manpower and Transmigration Office to advocate for the productive use of remittances, it has reported a number of success stories of migrants who have used their savings to enter into entrepreneurial ventures and have never returned overseas for work. Unfortunately, success stories lacked documentation or were not available at the time of the interview.

Annex 7: Memoranda of Understanding between the Indonesian Government and Countries of Destination of Indonesian Overseas Workers

Number	Country/ies	Date / Year	Remarks
1	Malaysia	2004 2006	For informal sectors For formal sectors
2	Republic of Korea	9 September 2008	Government-to-government (valid/renew for/ after two years)
3	Taiwan Province of China	17 December 2004	Since Indonesia does not have diplomatic relations with Taiwan, the MoU was signed by trade representatives of both countries
4	Japan	19 May 2004	Government-to-government, valid/renew for/ after four years)
5	Jordan	2 May 2001	Valid for five years, automatically extended
6	Kuwait	30 May 1996	Valid for four years, automatically extended
7	United Arab Emirates	18 December 2007	Valid for four years, automatically extended
8	Qatar	7 January 2008	
9	Australia	11 August 2005	Government-to-private, valid for five years, automatically extended

Source: Ministry of Manpower and Transmigration.

Annex 8: Rural Banks

Rural banks have their origins dating back to the nineteenth century when the concept of a rural credit institution was implemented to protect farmers, employees, and labourers from the grip of money lenders who charge oppressive interest rates. When Indonesia gained its independence, these rural credit institutions, then known as market banks and village production banks, came into operation as small-scale, rural-based financial institutions, followed by Rural Funds and Credit Institutions established by local governments in the early 1970s. Presidential Decree No. 38 in 1988 established what has now become known as rural banks, with the promulgation of Act No. 7 of 1992 that provides the legal basis for them to be considered as a form of banks that are permitted to operate in addition to commercial banks.

There are many limitations to the operation of rural banks. They are permitted to mobilize funds in the form of time or savings deposits and to place funds in BI certificates, but they are not allowed to accept demand deposits or to participate in clearing payment services. They are also not permitted to conduct business in foreign currency other than as a money changer (if licensed) or to conduct an insurance business. Their operations are also restricted to one province.

There are, however, convincing reasons why rural banks could play a key role to benefit migrants and their families given that their mandate is to target primarily the service needs of small-scale business and members of rural communities. Rural banks are organized into a nationwide association composed of about 1,800 rural banks or People's Credit (BPR) located in 23 provinces. Some BPRs are cooperative banks owned by a village. The Rural Bank Association has a well-defined organizational structure composed of a national board, a regional board, branches, and members. The fact that these financial institutions are in the rural areas, many of which are origin communities of migrants, reflects a potential resource for migrants and their families that can assist them in improving their lives by harnessing the benefits of remittances.

According to the Association, some BPRs are already engaged in remittance services, although their authority is limited to processing inflows. Most if not all BPRs have partnered with Western Union, and many BPRs are already studying the application of SMS-based remittance transfers. Some BPRs already operate loan programmes for migrants. When interviewed, the secretary of the Association expressed an interest in initiating the creation of a database of migrants from among their existing or future clients by simply expanding their bank forms to include their migration history.

Annex 9: Serikat Buruh Migran Indonesia (SBMI)

SBMI is an Indonesian trade union formed by and composed of former and active Indonesian migrant workers. It pursues various advocacies, programmes, and activities that can be classified under the following areas: (1) protection of migrants' rights; (2) awareness-raising on migrants' concerns and issues; and (3) political, social and economic empowerment of migrants and their family members.

These programmes are pursued through direct interventions at both national and local levels through the district officers and dialogues with both national and local government agencies, in collaboration with international development agencies and regional and international migrants' rights networks. SBMI is organized at both national and district levels, with policies deliberated and formulated through a national congress. Current membership is estimated at about 25,000 and there are focal organizations in 15 provinces throughout Indonesia.

SBMI's core programmes are on migrants' rights protection and socio-economic empowerment and reintegration. These are carried out through direct interventions, paralegal training, initiation of dialogues and advocacies with the government through media campaigns, and collaborative activities. Some of its projects in the past have been supported by local government agencies such as in Malang and Yogyakarta, and by international development agencies such as the ILO. SBMI is a member of the Migrant Forum in Asia and has participated in many national, regional and international conferences as a resource organization on migrants' rights.

Furthermore, SBMI has engaged in organizing migrants' groups and linking them to programmes on entrepreneurship and financial services (in West Java, Sumbawa, Yogyakarta, West Nusa Tenggara, Jambi, Lampung, and Central Java), either with the private sector including MFIs (as in Banten) or in some cases to local government programmes that are often handled by the district or provincial social affairs office providing support or funding assistance (as in West Java, Central Java, Lampung, and East Java). Financial literacy is a priority for SBMI in Java and other districts experiencing heavy remittance inflows and where SBMI perceives there is a prevalence of excessive consumption instead of productive investment.

In 2008, SBMI was given technical assistance by IOM through a workshop for its district officers intended to improve its member information sheet in order to generate useful data regarding members and their needs.

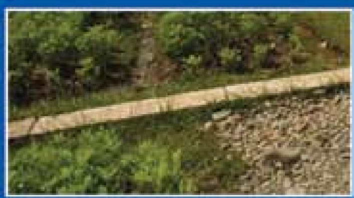
Annex 10: Philippine Experience with Overseas Labour Migration

Pre-Departure Orientation Seminar (PDOS). Government migration agencies could look at the Philippine experience on the advocacy for greater awareness on financial literacy and the cultivation of a culture of effective resource utilization among migrants and their families. Aside from the standard pre-departure orientation being conducted by Philippine deployment agencies on laws and practices in specific destination countries, orientation on general guidelines in opening bank accounts and other financial instruments have been gradually integrated into these pre-departure seminars, which are conducted with the help of banks, MTOs, cooperatives, MFIs, and NGOs. (www.poea.gov.ph).

The Right Time to Orient. While Filipino migrant workers undergo the mandatory PDOS a few days before their departure, an office called Public Employment Services Office (PESO) within local governments of most provinces have been tapped to orient intending overseas workers in the provinces on the realities, problem areas, challenges, and even the social costs arising out of overseas employment. This is based on the notion that the intending migrants must be oriented on these realities long before a decision to migrate is made, and not a few days before departure, when it is already too late for migrants to change their minds.

BSP Financial Literacy Activities. Bangko Sentral ng Pilipinas (BSP), the Philippine central banking authority, has been conducting financial literacy seminars in major Philippine cities for active and returned migrants and their families for the last two years. It has now brought these seminars overseas, starting with Hong Kong SAR and Singapore, and, in the future, Italy, the United Kingdom, and Saudi Arabia, in cooperation with Philippine embassies on site. In 2007, the BSP entered into a cooperation agreement with the Philippines' Department of Education to introduce financial literacy subjects at primary and secondary levels in Philippine schools. In anticipation of the actual introduction of the course, it will be training thousands of teachers on financial literacy using a Trainers' Manual developed for such purpose. (www.bsp.gov.ph).






IOM International Organization for Migration